Southern National Bancorp of Virginia Inc
Form 10-Q
August 09, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2018

Commission File No. 001-33037

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

(Exact name of registrant as specified in its charter)

Virginia	**20-1417448**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6830 Old Dominion Drive

McLean, Virginia 22101

(Address of principal executive offices) (zip code)

(703) 893-7400

(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO ¨

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ¨ No x

As of August 2, 2018, there were 24,048,453 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

FORM 10-Q

June 30, 2018

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Certifications

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except per share amounts)

	June 30, 2018 **(unaudited)**	December 31, 2017 **(audited)**
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 7,534	$ 7,937
Interest-bearing deposits in other financial institutions	40,834	15,815
Federal funds sold	3,795	1,711
Total cash and cash equivalents	52,163	25,463
Securities available for sale, at fair value	149,836	160,673
Securities held to maturity, at amortized cost (fair value of $92,492 and $97,597, respectively)	96,175	98,912
Total loans	2,154,892	2,062,328
Less allowance for loan losses	(11,000)	(9,397)
Net loans	2,143,892	2,052,931
Stock in Federal Reserve Bank and Federal Home Loan Bank	26,019	26,775
Equity investment in mortgage affiliate	4,597	4,723
Preferred investment in mortgage affiliate	3,305	3,305
Bank premises and equipment, net	33,808	35,788
Goodwill	101,954	100,606
Core deposit intangibles, net	9,331	10,054
FDIC indemnification asset	1,003	1,353
Bank-owned life insurance	63,183	50,790
Other real estate owned	5,560	7,577
Deferred tax assets, net	17,471	16,903
Other assets	17,438	18,399
Total assets	$ 2,725,735	$ 2,614,252
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 337,151	$ 319,189
Interest-bearing deposits:		
NOW accounts	322,184	329,878
Money market accounts	314,570	355,084

Savings accounts	162,511	161,947
Time deposits	844,287	699,058
Total interest-bearing deposits	1,643,552	1,545,967
Total deposits	1,980,703	1,865,156
Securities sold under agreements to repurchase - short term	20,289	15,468
Federal Home Loan Bank (FHLB) advances - short term	316,215	335,615
Junior subordinated debt - long term	9,559	9,534
Senior subordinated notes - long term	47,109	47,128
Other liabilities	17,410	18,579
Total liabilities	2,391,285	2,291,480
Commitments and contingencies (See Note 6)	-	-
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, $0.01 par value. Authorized 45,000,000 shares; 24,046,453 and 23,936,453 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	240	239
Additional paid in capital	305,460	304,932
Retained earnings	32,269	18,753
Accumulated other comprehensive loss	(3,519)	(1,152)
Total stockholders' equity	334,450	322,772
Total liabilities and stockholders' equity	$ 2,725,735	$ 2,614,252

See accompanying notes to unaudited consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(dollars in thousands, except per share amounts) (Unaudited)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2018	2017	2018	2017
Interest and dividend income:				
Interest and fees on loans	$ 27,697	$ 13,332	$ 53,602	$ 25,093
Interest and dividends on taxable securities	1,400	618	2,882	1,156
Interest and dividends on tax exempt securities	160	90	319	174
Interest and dividends on other earning assets	412	209	879	371
Interest on federal funds sold	14	-	21	-
Total interest and dividend income	29,683	14,249	57,703	26,794
Interest expense:				
Interest on deposits	3,810	2,258	7,080	4,418
Interest on repurchase agreements	24	1	46	1
Interest on junior subordinated debt	147	9	275	9
Interest on senior subordinated notes	712	442	1,423	771
Interest on other borrowings	1,816	334	3,205	499
Total interest expense	6,509	3,044	12,029	5,698
Net interest income	23,174	11,205	45,674	21,096
Provision for loan losses	1,050	1,050	2,650	1,600
Net interest income after provision for loan losses	22,124	10,155	43,024	19,496
Noninterest income:				
Account maintenance and deposit service fees	1,375	367	2,783	580
Income from bank-owned life insurance	563	163	870	326
Equity income (loss) from mortgage affiliate	191	112	(126)	(367)
Gain on sales of investment securities	-	257	-	257
Other	424	(17)	2,105	19
Total noninterest income	2,553	882	5,632	815
Noninterest expenses:				
Salaries and benefits	7,007	3,106	13,779	6,004
Occupancy expenses	1,656	844	3,306	1,635
Furniture and equipment expenses	712	247	1,509	494
Amortization of core deposit intangible	361	75	723	123
Virginia franchise tax expense	492	130	856	241

FDIC assessment	320	68	655	205
Data processing expense	464	210	930	418
Telephone and communication expense	501	183	1,095	345
Amortization of FDIC indemnification asset	177	176	350	367
Net (gain) loss on other real estate owned	(40)	266	160	319
Merger expenses	-	8,603	-	8,926
Other operating expenses	1,967	933	3,873	1,817
Total noninterest expenses	13,617	14,841	27,236	20,894
Income (loss) before income taxes	11,060	(3,804)	21,420	(583)
Income tax expense (benefit)	2,193	(962)	4,294	205
Net income (loss)	$ 8,867	$ (2,842)	$ 17,126	$ (788)
Other comprehensive loss:				
Unrealized loss on available for sale securities	$ (837)	$ (241)	$ (2,713)	$ 81
Realized amounts on securities sold, net	-	(257)	-	(257)
Accretion of amounts previously recorded upon transfer to held to maturity from available for sale	2	3	6	6
Net unrealized loss	(835)	(495)	(2,707)	(170)
Tax effect	175	168	569	58
Other comprehensive loss	(660)	(327)	(2,138)	(112)
Comprehensive income (loss)	$ 8,207	$ (3,169)	14,988	(900)
Earnings (loss) per share, basic	$ 0.37	$ (0.21)	$ 0.71	$ (0.06)
Earnings (loss) per share, diluted	$ 0.37	$ (0.21)	$ 0.71	$ (0.06)

See accompanying notes to unaudited consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED JUNE 30, 2018

(dollars in thousands, except per share amounts) (Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comphrensive Loss	Total
Balance - December 31, 2017	$ 239	$ 304,932	$ 18,753	$ (1,152)	$ 322,772
Comprehensive income:					
Net income	-	-	17,126	-	17,126
Changes in other comprehensive loss on Investment securities (net of tax, $569, and accretion of $6)	-	-	-	(2,138)	(2,138)
Dividends on common stock ($0.16 per share)	-	-	(3,839)	-	(3,839)
Issuance of common stock under Stock Incentive Plan (110,000 shares, net)	1	359	-	-	360
Reclassification adjustment from accumulated other comprehensive income to retained earnings	-	-	229	(229)	-
Stock-based compensation expense	-	169	-	-	169
Balance - June 30, 2018	$ 240	$ 305,460	$ 32,269	$ (3,519)	$ 334,450

See accompanying notes to unaudited consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE SIX MONTHS ENDED JUNE 30, 2018 AND 2017

(dollars in thousands) (Unaudited)

	2018	2017
Operating activities:		
Net income (loss)	$17,126	$(788)
Adjustments to reconcile net income (loss) to net cash and cash equivalents provided by operating activities:		
Depreciation	1,649	426
Amortization of core deposit intangible	723	123
Other amortization, net	1,360	110
Accretion of loan discount	(2,453)	(848)
Amortization of FDIC indemnification asset	350	367
Provision for loan losses	2,650	1,600
Earnings on bank-owned life insurance	(706)	(326)
Equity loss on mortgage affiliate	126	367
Stock-based compensation expense	169	101
Gain on sales of investment securities	-	(257)
Gain on bank-owned life insurance death benefit	(164)	-
Net loss on other real estate owned	160	319
Net decrease (increase) in other assets	1,230	(290)
Net decrease in other liabilities	(2,169)	(490)
Net cash and cash equivalents provided by operating activities	20,051	414
Investing activities:		
Proceeds from sales of investment securities	-	4,767
Purchases of held to maturity investment securities	-	(9,950)
Proceeds from paydowns, maturities and calls of available for sale investment securities	7,363	-
Proceeds from paydowns, maturities and calls of held to maturity investment securities	2,498	7,141
Loan originations and payments, net	(91,728)	(63,223)
Net decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	756	855
Purchase of bank-owned life insurance	(12,000)	-
Proceeds from bank-owned life insurance death benefit	477	-
Improvements on other real estate owned	52	-
Proceeds from sales of other real estate owned	1,805	383
Proceeds from sales of bank premise and equipment and assets held for sale	2,136	-
Purchases of bank premises and equipment	(1,805)	(339)
Acquisition of Eastern Virginia Bankshares, Inc.	-	(10)
Cash acquired in acquisition of Eastern Virginia Bankshares, Inc.	-	24,025
Net cash and cash equivalents used in investing activities	(90,446)	(36,351)

Financing activities:		
Net increase (decrease) in deposits	115,153	(40,742)
Cash dividends paid on common stock	(3,839)	(1,972)
Issuance of common stock for warrants exercised	-	449
Issuance of common stock under Stock Incentive Plan	360	335
Issuance of subordinated notes, net of cost	-	26,075
Net (decrease) increase in short-term borrowings	(14,579)	49,000
Net cash and cash equivalents provided by financing activities	97,095	33,145
Increase (decrease) in cash and cash equivalents	26,700	(2,792)
Cash and cash equivalents at beginning of period	25,463	47,392
Cash and cash equivalents at end of period	$52,163	$44,600
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	$11,663	$4,633
Income taxes	4,516	2,390
Supplemental schedule of noncash investing and financing activities		
Assets acquired, excluding cash and cash equivalents of $24,025	$-	$1,343,767
Liabilities assumed	-	1,257,533

See accompanying notes to unaudited consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2018

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. ("Southern National" or "SNBV" or the "Company") is a corporation that was formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank ("Sonabank" or the "Bank") a Virginia state-chartered bank which commenced operations on April 14, 2005. As of the close of business on June 23, 2017, SNBV completed its previously announced merger of Eastern Virginia Bankshares, Inc. ("EVBS") with and into SNBV and the completion of the merger of EVBS's wholly-owned subsidiary, EVB, with and into SNBV's wholly-owned subsidiary, Sonabank (see Note 2 - Business Combinations). This combination has brought together two banking companies with complementary business lines, creating one of the premier banking institutions headquartered in the Commonwealth of Virginia. EVBS was the holding company for EVB, a Virginia state-chartered bank which traced its beginnings to 1910. Sonabank provides a range of financial services to individuals and small and medium sized businesses. At June 30, 2018, Sonabank had thirty-eight full-service retail branches in Virginia, located in the counties of Chesterfield (2), Essex (2), Fairfax (Reston, McLean and Fairfax), Gloucester (2), Hanover (3), King William, Lancaster, Middlesex (3), New Kent, Northumberland (3), Southampton, Surry, Sussex, and in Charlottesville, Clifton Forge, Colonial Heights, Front Royal, Hampton, Haymarket, Leesburg, Middleburg, New Market, Newport News, Richmond, South Riding, Warrenton, and Williamsburg, and seven full-service retail branches in Maryland, located in Rockville, Shady Grove, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

The consolidated financial statements include the accounts of Southern National and its subsidiaries Sonabank and EVB Statutory Trust I (the "Trust"). Significant inter-company accounts and transactions have been eliminated in consolidation. Southern National consolidates subsidiaries in which it holds, directly or indirectly, more than 50 percent of the voting rights or where it exercises control. Entities where Southern National holds 20 to 50 percent of the voting rights, or has the ability to exercise significant influence, or both, are accounted for under the equity method. Southern National has an interest in one affiliate, Southern Trust Mortgage, LLC ("STM"), which it accounts for as an equity method investment. In addition, Southern National owns the Trust which is an unconsolidated subsidiary. The junior subordinated debt owed to the Trust is reported as a liability of Southern National.

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in Southern National's Form 10-K for the year ended December 31, 2017.

Revenue from Contracts with Customers

Southern National records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *"Revenue from Contracts with Customers" ("Topic 606").* Under Topic 606, we must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) we satisfy a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

Our primary sources of revenue are derived from financial instruments, namely loans, investment securities, and other financial instruments that are not within the scope of Topic 606. We have evaluated the nature of the Company's contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the Consolidated Statements of Income was not necessary. Southern National generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the carrying value of investment securities, other than temporary impairment of investment securities, the valuation of goodwill and intangible assets, the FDIC indemnification asset, other real estate owned (“OREO”), deferred tax assets, and fair value measurements related to assets acquired and liabilities assumed from business combinations.

Recent Accounting Pronouncements

Adoption of New Accounting Standards:

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue From Contracts With Customers (Topic 606).* These amendments affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The ASU allows for either full retrospective or modified retrospective adoption. The new guidance became effective for interim and annual reporting periods beginning after December 15, 2017. Our revenue is balanced between net interest income on financial assets and liabilities, which is explicitly excluded from the scope of the new standard, and noninterest income. The Company’s revenue recognition pattern for revenue streams within the scope of ASU 2014-09, include service charges on deposit accounts, investment services income and card interchange fees, which did not materially change from its prior practice. The Company adopted ASU No. 2014-09 on January 1, 2018 utilizing the modified retrospective approach.

In January 2016, the FASB issued ASU 2016-1, *Financial Instruments Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-01: (a) require equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplify the impairment assessment of equity securities without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (d) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (e) require an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (f) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements; and (g) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available for sale securities in combination with the entity’s other deferred tax assets. The amendments in this ASU became effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The adoption of ASU 2016-01 on January 1, 2018 did not have a material impact on the Company's consolidated financial statements. In accordance with (d) above, the Company measured fair value of its net loans, certificates of deposits, junior subordinated debt, and senior subordinated notes as of June 30, 2018 using an exit price notion (see Note 8 *Fair Value*).

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In August 2016, the FASB issued ASU 2016-15, *Classification of Certain Cash Receipts and Cash Payments*. Before ASU 2016-15 GAAP was unclear or did not include specific guidance on how to classify certain transactions in the statement of cash flows. This ASU reduced diversity in practice in how eight particular transactions are classified in the statement of cash flows. ASU No. 2016-15 became effective for interim and annual reporting periods beginning after December 15, 2017. Entities are required to apply the guidance retrospectively. If it is impracticable to apply the guidance retrospectively for an issue, the amendments related to that issue would be applied prospectively. The Company adopted ASU 2016-15 on January 1, 2018. ASU 2016-15 did not have a material impact on the Company’s consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09, *Compensation - Stock Compensation (Topic 718)*, *Scope of Modification Accounting*. These amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The guidance is effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2017. The Company adopted ASU 2017-09 on January 1, 2018 and it did not have a material impact of the Company’s consolidated financial statements.

In February 2018, the FASB issued ASU 2018-02, *Income Statement — Reporting Comprehensive Income (Topic 220); Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The amendments in this ASU require a reclassification from/to accumulated other comprehensive income and to/from retained earnings for stranded tax effects resulting from the change in the newly enacted federal corporate income tax rate. Consequently, the amendments in this ASU eliminates the stranded tax effects associated with the change in the federal corporate income tax rate in the Tax Cuts and Jobs Act of 2017. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2018 with early adoption allowed. Southern National adopted this ASU 2018-02 during the first quarter of 2018. The effect of the adoption of this ASU increased accumulated other comprehensive loss by $229 thousand with the offset to retained earnings as recorded in the statement of changes in stockholders’ equity. This represents the difference between the historical federal corporate income tax rate and the newly enacted 21 percent federal corporate income tax rate.

New Accounting Standards Not Yet Adopted:

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU 2018-10, *Codification Improvements to Topic 842, Leases,* which updates narrow aspects of the guidance issued in ASU 2016-02. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. Management currently anticipates recognizing a right-of-use asset and a lease liability associated with its long-term operating leases and is in the process of inventorying and categorizing its lease agreements.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which sets forth a “current expected credit loss” ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Southern National is currently assessing the impact of the adoption of this ASU on its consolidated financial statements and is collecting data that will be needed to produce historical inputs into any models created as a result of adopting this ASU.

In January 2017, the FASB issued ASU 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*, which is intended to provide guidance in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses in order to provide stakeholders with more detailed reporting and less cost to analyze transactions. This ASU provides a screen to determine when a set of assets is not a business. It requires that when substantially all fair value of gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set of assets is not a business. If the screen is not met, the amendments in this update provide a framework to assist entities in evaluating whether both an input and a substantive process are present for the set to be a business. ASU 2017-01 is effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. No disclosures are required at transition and early adoption is permitted. The Company is evaluating the impact of adopting the new guidance on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment* ("ASU 2017-04"), which eliminates the second step of the previous FASB guidance for testing goodwill for impairment and is intended to reduce cost and complexity of goodwill impairment testing. The amendments in this ASU modify the concept of impairment from the condition that exists when the carrying amount of goodwill exceeds its implied fair value to the condition that exists when the carrying amount of a reporting unit exceeds its fair value. After determining if the carrying amount of a reporting unit exceeds its fair value, the entity should take an impairment charge of the same amount to the goodwill for that reporting unit, not to exceed the total goodwill amount for that reporting unit. ASU 2017-04 is effective for annual periods beginning after December 15, 2019, including interim periods within those annual periods. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. Southern National is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In March 2017, the FASB issued ASU 2017-08, *Receivables – Nonrefundable Fees and Other Costs (Subtopic 310-20), Premium Amortization on Purchased Callable Debt Securities,* which shorten the amortization period for certain callable debt securities held at a premium. Specifically, the amendments require the premium to be amortized to the earliest call date. The amendments do not require an accounting change for securities held at a discount; the discount continues to be amortized to maturity. ASU 2017-08 is effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. Southern National is currently reviewing its portfolio of debt securities to determine the impact that this ASU will have on its consolidated financial statements.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements*. This ASU makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 will be effective for the Company for fiscal years beginning after December 15, 2018. Southern National expects to adopt ASU 2018-09 in the first quarter of 2019 and is evaluating the impact of the standard, but does not expect the guidance to have a material effect on its financial statements.

2. BUSINESS COMBINATIONS

On June 23, 2017, SNBV completed its acquisition of EVBS and its subsidiaries, the Trust and EVB. Pursuant to the Agreement and Plan of Merger, dated December 13, 2016, as amended, holders of EVBS common stock received 0.6313 shares of SNBV common stock for each outstanding share of EVBS common stock held immediately prior to the effective time of the Merger and holders of Non-Voting Mandatorily Convertible Non-Cumulative Preferred Stock, Series B of EVBS ("EVBS Series B Preferred Stock") received 0.6313 shares of SNBV common stock for each share of EVBS Series B Preferred Stock held immediately prior to the effective time of the Merger, which totaled approximately $198.9 million based on SNBV's closing common stock price on June 23, 2017 of $17.21 per share. EVBS was a bank holding company organized and chartered under the laws of the Commonwealth of Virginia on September 5, 1997, commenced operations on December 29, 1997 and was headquartered in Glen Allen, Virginia. EVBS operated twenty-four retail branches, which served diverse markets that primarily are in the counties of Essex, Gloucester, Hanover, Henrico, King and Queen, King William, Lancaster, Middlesex, New Kent, Northumberland, Southampton, Surry, Sussex and the cities of Colonial Heights, Hampton, Newport News, Richmond and Williamsburg.

SNBV accounted for the acquisition using the acquisition method of accounting in accordance with FASB Accounting Standards Codification ("ASC") 805, *"Business Combinations."* Under the acquisition method of accounting, the assets and liabilities of EVBS were recorded at their respective acquisition date fair values. Determining the fair value of assets and liabilities, particularly related to the loan portfolio, is a complicated process involving significant judgment regarding methods and assumptions used to calculate the estimated fair values. After recognition of all measurement period adjustments, SNBV recognized goodwill of $91.5 million in connection with the acquisition, none of which is deductible for income tax purposes.

The following table details the total consideration paid by SNBV on June 23, 2017 in connection with the acquisition of EVBS, the fair values of the assets acquired and liabilities assumed, and the resulting goodwill.

(dollars in thousands) (unaudited)	As Recorded by EVBS	Fair Value Adjustments	As Recorded by the Company
Consideration paid:			
Cash			$ 10
SNBV common stock			198,909
Total consideration paid			$ 198,919
Identifiable assets acquired:			
Cash and due from banks	$ 4,350	$ -	$ 4,350
Interest bearing deposits with banks	18,993	-	18,993
Federal funds sold	682	-	682
Securities available for sale, at fair value	163,029	(150)	162,879
Securities held to maturity, at carrying value	19,036	508	19,544
Restricted securities, at cost	6,734	-	6,734
Loans	1,045,600	(14,188)	1,031,412
Loans held for sale	19,689	-	19,689
Deferred income taxes	15,735	4,912	20,647
Bank premises and equipment	24,242	4,158	28,400
Assets held for sale	2,970	(884)	2,086
Accrued interest receivable	4,272	-	4,272
Other real estate owned	563	(1)	562
Core deposit intangible	435	9,590	10,025
Bank owned life insurance	26,035	-	26,035
Other assets	10,004	-	10,004
Total identifiable assets acquired	1,362,369	3,945	1,366,314
Identifiable liabilities assumed:			
Noninterest-bearing demand accounts	226,637	-	226,637
Interest-bearing deposits	920,743	1,182	921,925
Federal funds purchased and repurchase agreements	7,598	-	7,598
Federal Home Loan Bank advances	57,475	-	57,475
Junior subordinated debt	10,310	(801)	9,509

Senior subordinated notes	19,175	1,876	21,051
Accrued interest payable	902	-	902
Other liabilities	12,748	1,000	13,748
Total identifiable liabilities assumed	1,255,588	3,257	1,258,845
Net identifiable assets acquired	$ 106,781	$ 688	$ 107,469
Goodwill resulting from acquisition			$ 91,450

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The net effect of the amortization and accretion of premiums and discounts associated with the Company’s acquisition accounting adjustments to assets acquired and liabilities assumed from EVBS had the following impact on the consolidating statements of income during the six months ended June 30, 2018:

(dollars in thousands)	For the Six Months Ended June 30, 2018		
Loans (1)	$	1,707	
Time deposits (2)		394	
Junior and senior subordinated debt (3)		42	
Core deposit intangible (4)		(627	)
Net impact to income before income taxes	$	1,516	

(1) Loan discount accretion is included in the “Interest and fees on loans” section of “Interest and dividend income” in the Consolidated Statements of Income.

(2) Time deposit premium amortization is included in the "Interest on deposits" section of "Interest expense" in the Consolidated Statements of Income.

(3) The junior subordinated debt discount accretion and senior subordinated notes premium amortization are included in the “Interest on junior subordinated debt” and “Interest on senior subordinated notes” section of “Interest expense”, respectively, in the Consolidated Statements of Income.

(4) Core deposit intangible premium amortization is included in the "Amortization of core deposit intangible" section of "Noninterest expenses" in the Consolidated Statements of Income.

Fair values of the major categories of assets acquired and liabilities assumed were determined as follows:

Loans: The acquired loans were recorded at fair value at the acquisition date of $1.03 billion without carryover of EVBS’s allowance for loan losses. The unpaid principal balance and discount at the merger date were $1.05 billion and $21.4 million, respectively. Where loans exhibited characteristics of performance, fair value was determined based on a discounted cash flow analysis which included default estimates; loans without such characteristics, fair value was determined based on the estimated values of the underlying collateral. While estimating the amount and timing of both principal and interest cash flows expected to be collected, a market-based discount rate was applied. In this regard, the acquired loans were segregated into pools based on loan type and credit risk. Loan type was determined based on collateral type and purpose, industry segment and loan structure. Credit risk characteristics included risk rating groups pass, special mention and substandard and lien position. For valuation purposes, these pools were further disaggregated by maturity and pricing characteristics (e.g., fixed-rate, adjustable-rate, balloon maturities).

Included in the $1.05 billion of acquired loans were certain loans acquired with deteriorating credit quality, or purchased credit impaired loans. The table below summarizes the purchased credit impaired loans acquired in the EVBS acquisition on June 23, 2017 (in thousands):

	Purchased Credit Impaired Loans
Contractually required principal and interest at acquisition	$ 17,970
Contractual cash flows not expected to be collected (nonaccretable difference)	(6,243)
Expected cash flows at acquisition	11,727
Accretable difference	398
Basis in acquired loans at acquisition - estimated fair value	$ 11,329

Loans Held for Sale: The $19.7 million of acquired loans held for sale were recorded at fair value at the acquisition date. Acquired loans held for sale represent the potentially credit-impaired loans that were moved out of the held for investment portfolio and marked to fair value by EVBS just prior to the closing of the merger. Fair value was determined using quoted prices from an independent, third party buyer. Subsequent to the acquisition date, acquired loans held for sale were sold to an independent third party.

Premises and Equipment and Assets Held for Sale: The fair value of EVBS's premises, including land, buildings and improvements, was determined based upon appraisal by licensed appraisers or sales contracts. These appraisals were based upon the best and highest use of the property with final values determined based upon an analysis of the cost, sales comparison and income capitalization approaches for each property appraised. The fair value of bank-owned real estate resulted in a net premium of $3.3 million. Land is not depreciated.

Core Deposit Intangible: The fair value of the core deposit intangible (“CDI”) was determined based on a combined discounted economic benefit and market approach. The economic benefit was calculated as the cost savings between maintaining the core deposit base and using an alternate funding source, such as FHLB advances. The life of the deposit base and projected deposit attrition rates was determined using EVBS's historical deposit data. The CDI was estimated at $10.0 million or 0.9% of total deposits. The CDI is being amortized over a weighted average life of 96 months using the straight-line method.

Time Deposits: The fair value of time deposits was determined based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The resulting estimated fair value adjustment of time deposits is a $1.2 million premium and is being amortized over the weighted average remaining life of approximately 18 months using the straight-line method.

FHLB Advances: The fair value of FHLB advances was considered to be equivalent to EVBS’s recorded book balance as the advances mature in 90 days or less.

Junior Subordinated Debt and Senior Subordinated Notes: The fair value of the junior subordinated debt and senior subordinated notes were based on discounted cash flows using rates for securities with similar terms. The resulting estimated fair value adjustment of junior subordinated debt is a $801 thousand discount and is being accreted over the remaining life of approximately 195 months using the straight-line method. The resulting estimated fair value adjustment of senior subordinated notes is a $1.1 million premium and is being amortized over the remaining life of approximately 95 months using the straight-line method.

Deferred Income Taxes: Certain deferred tax assets and liabilities were carried over to SNBV from EVBS based on the Company’s ability to utilize them in the future. Additionally, deferred tax assets and liabilities were established for acquisition accounting fair value adjustments as the future amortization/accretion of these adjustments represent temporary differences between book income and taxable income.

3. STOCK-BASED COMPENSATION

In 2004, the Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. The 2010 Stock Awards and Incentive Plan (the “2010 Plan”) was approved by the Board of Directors in January 2010 and approved by the stockholders at the Annual Meeting in April 2010. The 2010 Plan authorized the reservation of an additional 700,000 shares of common stock for the granting of stock awards. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employ of Southern National and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in Southern National's future success. Under the plan, the option's price cannot be less than the fair market value of the stock on the grant date. The maximum term of the options is ten years and options granted may be subject to a graded vesting schedule. At the June 21, 2017 Annual Meeting of Stockholders of Southern National, the 2017 Equity Compensation Plan (the "2017 Plan") was approved as recommended by the Board of Directors. The 2017 Plan replaces the 2010 Plan and has a maximum number of 750,000 shares reserved for issuance. The purpose of the 2017 Plan is to promote the success of the Company by providing greater incentive to employees, non-employee directors, consultants and advisors to associate their personal interests with the long-term financial success of the Company, including its subsidiaries, and with growth in stockholder value, consistent with the Company's risk management practices. Because the 2017 Plan was approved, shares under the 2004 stock-option plan or 2010 Plan will no longer be awarded.

A total of 52,700 stock options were exercised during the first six months of 2018. Southern National granted 58,000 shares of restricted stock during the first six months of 2018. A total of 700 shares of restricted stock issued in 2017 were forfeited during the first quarter of 2018 due to the employee who was granted the restricted shares leaving the Company before the shares had vested.

For the three and six months ended June 30, 2018, stock-based compensation expense was $94 thousand and $169 thousand, respectively. That compares to $41 thousand and $101 thousand for the same periods in 2017, respectively. As of June 30, 2018, unrecognized compensation expense associated with the stock options was $136 thousand, which is expected to be recognized over a weighted average period of 1.9 years.

A summary of the activity in the stock option plan during the six months ended June 30, 2018 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding, beginning of period	714,967	$ 9.83		
Granted	-	-		
Forfeited	-	-		
Exercised	(52,700)	7.37		
Options outstanding, end of period	662,267	$ 10.03	5.4	$ 5,280
Exercisable at end of period	431,567	$ 9.05	4.3	$ 3,167

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4. INVESTMENT SECURITIES

The amortized cost and fair value of available for sale investment securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows (in thousands):

June 30, 2018	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 29,498	$ -	$ (919)	$ 28,579
Obligations of states and political subdivisions	18,443	29	(357)	18,115
Corporate securities	2,010	-	(4)	2,006
Trust preferred securities	2,590	208	(64)	2,734
Residential government-sponsored collateralized mortgage obligations	47,729	1	(1,617)	46,113
Government-sponsored agency securities	3,247	-	(141)	3,106
Agency commercial mortgage-backed securities	28,178	-	(1,029)	27,149
SBA pool securities	22,372	5	(343)	22,034
Total	$ 154,067	$ 243	$ (4,474)	$ 149,836

December 31, 2017	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 31,145	$ 3	$ (284)	$ 30,864
Obligations of states and political subdivisions	18,581	187	(41)	18,727
Corporate securities	2,013	2	-	2,015
Trust preferred securities	2,590	-	(202)	2,388
Residential government-sponsored collateralized mortgage obligations	51,521	1	(756)	50,766
Government-sponsored agency securities	3,247	-	(21)	3,226
Agency commercial mortgage-backed securities	28,263	-	(365)	27,898
SBA pool securities	24,829	68	(108)	24,789
Total	$ 162,189	$ 261	$ (1,777)	$ 160,673

The amortized cost, unrecognized gains and losses, and fair value of investment securities held to maturity were as follows (in thousands):

June 30, 2018	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 10,459	$ 3	$ (294)	$ 10,168
Obligations of states and political subdivisions	22,656	95	(192)	22,559
Trust preferred securities	3,054	172	(15)	3,211
Residential government-sponsored collateralized mortgage obligations	7,353	-	(136)	7,217
Government-sponsored agency securities	52,653	-	(3,316)	49,337
Total	$ 96,175	$ 270	$ (3,953)	$ 92,492

December 31, 2017	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 11,500	$ 23	$ (77)	$ 11,446
Obligations of states and political subdivisions	22,830	169	(56)	22,943
Trust preferred securities	3,205	165	(17)	3,353
Residential government-sponsored collateralized mortgage obligations	8,727	-	(99)	8,628
Government-sponsored agency securities	52,650	25	(1,448)	51,227
Total	$ 98,912	$ 382	$ (1,697)	$ 97,597

The amortized cost amounts are net of recognized other than temporary impairment.

The fair value and carrying amount, if different, of debt investment securities as of June 30, 2018, by contractual maturity were as follows (in thousands). Investment securities not due at a single maturity date are shown separately.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one to five years	$5,367	$ 5,348	$3,402	$ 3,317
Due in five to ten years	20,096	19,165	5,365	5,314
Due after ten years	52,900	50,594	17,523	17,330
Residential government-sponsored mortgage-backed securities	10,459	10,168	29,498	28,579
Residential government-sponsored collateralized mortgage obligations	7,353	7,217	47,729	46,113
Agency commercial mortgage-backed securities	-	-	28,178	27,149
SBA pool securities	-	-	22,372	22,034
Total	$96,175	$ 92,492	$154,067	$ 149,836

Investment securities with a carrying amount of approximately $163.9 million and $173.4 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits, certain other deposits, a line of credit for advances from the Federal Home Loan Bank of Atlanta ("FHLB"), and repurchase agreements.

Southern National monitors the portfolio for indicators of other than temporary impairment. At June 30, 2018 and December 31, 2017, certain investment securities' fair values were below cost. As outlined in the table below, there were investment securities with fair values totaling approximately $222.3 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at June 30, 2018. Because the decline in fair value is attributable to changes in interest rates and market illiquidity, and not credit quality, and because we do not have the intent to sell these investment securities and it is likely that we will not be required to sell the investment securities before their anticipated recovery, management does not consider these investment securities to be other than temporarily impaired as of June 30, 2018.

The following tables present information regarding investment securities in a continuous unrealized loss position as of June 30, 2018 and December 31, 2017 by duration of time in a loss position (in thousands):

June 30, 2018	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Residential government-sponsored mortgage-backed securities	$21,281	$(793)	$7,136	$(126)	$28,417	$(919)
Obligations of states and political subdivisions	16,264	(357)	-	-	16,264	(357)
Corporate securities	1,006	(4)	-	-	1,006	(4)
Trust preferred securities	-	-	1,035	(64)	1,035	(64)
Residential government-sponsored collateralized mortgage obligations	41,339	(1,486)	4,444	(131)	45,783	(1,617)
Government-sponsored agency securities	3,106	(141)	-	-	3,106	(141)
Agency commercial mortgage-backed securities	27,149	(1,029)	-	-	27,149	(1,029)
SBA pool securities	13,254	(247)	5,608	(96)	18,862	(343)
Total	$123,399	$(4,057)	$18,223	$(417)	$141,622	$(4,474)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$7,021	$(178)	$2,599	$(116)	$9,620	$(294)
Obligations of states and political subdivisions	10,965	(99)	3,311	(93)	14,276	(192)
Trust preferred securities	-	-	238	(15)	238	(15)
Residential government-sponsored collateralized mortgage obligations	1,076	(26)	6,141	(110)	7,217	(136)
Government-sponsored agency securities	13,253	(422)	36,085	(2,894)	49,338	(3,316)
Total	$32,315	$(725)	$48,374	$(3,228)	$80,689	$(3,953)

December 31, 2017

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Residential government-sponsored mortgage-backed securities	$30,336	$(284)	$-	$-	$30,336	$(284)
Obligations of states and political subdivisions	4,642	(41)	-	-	4,642	(41)
Trust preferred securities	1,473	(18)	915	(184)	2,388	(202)
Residential government-sponsored collateralized mortgage obligations	50,555	(756)	-	-	50,555	(756)
Government-sponsored agency securities	1,726	(21)	-	-	1,726	(21)

Agency commercial mortgage-backed securities	27,898	(365)	-	-	27,898	(365)
SBA pool securities	15,156	(108)	-	-	15,156	(108)
Total	$131,786	$ (1,593)	$915	$ (184)	$132,701	$ (1,777)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$3,409	$ (26)	$2,986	$ (51)	$6,395	$ (77)
Obligations of states and political subdivisions	7,918	(34)	1,782	(22)	9,700	(56)
Trust preferred securities	-	-	240	(17)	240	(17)
Residential government-sponsored collateralized mortgage obligations	7,112	(46)	1,516	(53)	8,628	(99)
Government-sponsored agency securities	1,719	(2)	37,532	(1,446)	39,251	(1,448)
Total	$20,158	$ (108)	$44,056	$ (1,589)	$64,214	$ (1,697)

As of June 30, 2018, we owned pooled trust preferred securities as follows:

Security	Tranche Level	Ratings When Purchased Moody's	Fitch	Current Ratings Moody's	Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)
						(in thousands)				
Held to Maturity										
ALESCO VII A1B	Senior	Aaa	AAA	Aa2	AA	$3,026	$2,801	$ 2,973	18 %	$ 219
MMCF III B	Senior Sub	A3	A-	Ba1	BBB	257	253	238	32 %	4
						3,283	3,054	3,211		$ 223
										Cumulative OTTI Related to Credit Loss (2)
Available for Sale Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	1,099	1,035	26 %	$ 400
ALESCO V C1	Mezzanine	A2	A	Caa1	C	2,150	1,491	1,699	14 %	660
						3,650	2,590	2,734		$ 1,060
Total						$6,933	$5,644	$ 5,945		

(1) Pre-tax, and represents unrealized losses at date of transfer from available-for-sale to held-to-maturity, net of accretion

(2) Pre-tax

Each of these investment securities has been evaluated for other than temporary impairment. In performing a detailed cash flow analysis of each investment security, Sonabank works with independent third parties to estimate expected cash flows and assist with the evaluation of other than temporary impairment. The cash flow analyses performed included the following assumptions:

- 0.5% of the remaining performing collateral will default or defer per annum.
- Recoveries of 9% with a two year lag on all defaults and deferrals.
- No prepayments for 10 years and then 1% per annum for the remaining life of the investment security.
- Our investment securities have been modeled using the above assumptions by independent third parties using the forward LIBOR curve to discount projected cash flows to present values.

We recognized no other than temporary impairment charges during the six months ended June 30, 2018 and 2017, respectively.

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Changes in accumulated other comprehensive loss by component for the three and six months ended June 30, 2018 and 2017 are shown in the tables below. All amounts are net of tax (in thousands).

For the three months ended June 30, 2018	Unrealized Holding Losses on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (2,680)	$ (179)	$(2,859)
Other comprehensive (loss) income before reclassifications	(662)	2	(660)
Ending balance	$ (3,342)	$ (177)	$(3,519)

For the three months ended June 30, 2017	Unrealized Holding Losses on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (414)	$ (160)	$(574)
Other comprehensive (loss) income before reclassifications	(331)	4	(327)
Ending balance	$ (745)	$ (156)	$(901)

For the six months ended June 30, 2018	Unrealized Holding Losses on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (999)	$ (153)	$(1,152)
Other comprehensive (loss) income before reclassifications	(2,144)	6	(2,138)
Reclassification adjustment	(199)	(30)	(229)
Ending balance	$ (3,342)	$ (177)	$(3,519)

For the six months ended June 30, 2017	Unrealized Holding Losses on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (627)	$ (162)	$(789)
Other comprehensive (loss) income before reclassifications	(118)	6	(112)
Ending balance	$ (745)	$ (156)	$(901)

5. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Loans secured by real estate:		
Commercial real estate - owner occupied	$ 402,839	$ 401,847
Commercial real estate - non-owner occupied	477,032	440,700
Secured by farmland	21,347	23,038
Construction and land loans	190,399	197,972
Residential 1-4 family	546,648	483,006
Multi- family residential	83,471	70,892
Home equity lines of credit	136,820	152,829
Total real estate loans	1,858,556	1,770,284
Commercial loans	261,487	253,258
Consumer loans	35,000	39,374
Gross loans	2,155,043	2,062,916
Less deferred fees on loans	(151)	(588)
Loans, net of deferred fees	$ 2,154,892	$ 2,062,328

Accounting policy related to the allowance for loan losses is considered a critical policy given the level of estimation, judgment, and uncertainty in the levels of the allowance required to account for the inherent probable losses in the loan portfolio and the material effect such estimation, judgment, and uncertainty can have on the consolidated financial results.

On June 23, 2017, in connection with the merger with EVBS, SNBV acquired loans held for sale with a fair value, after recognition of certain measurement period adjustments, of $19.7 million and loans held for investment with an unpaid principal balance of $1.05 billion and an estimated fair value, after recognition of certain measurement period adjustments, of $1.03 billion, which created an accretable discount of $14.2 million at acquisition. As of June 30, 2018, outstanding loans acquired in the merger with EVBS totaled $819 million.

As part of the Greater Atlantic Bank acquisition, the Bank and the FDIC entered into loss sharing agreements on approximately $143.4 million (contractual basis) of Greater Atlantic Bank’s assets. There were two agreements with the FDIC: one for single family loans which is a 10-year agreement expiring in December 2019, and one for non-single family (commercial) assets which was a 5-year agreement which expired in December 2014. The Bank will share in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreements; we refer to these assets collectively as “covered assets.” Loans that are not covered in the loss sharing agreement are referred to as “non-covered loans”. Covered loans totaled $19.9 million and $23.3 million at June 30, 2018 and December 31, 2017, respectively.

Accretable discount on the acquired EVBS, Greater Atlantic Bank (“GAB”), Prince George’s Federal Savings Bank (“PGFSB”), and the HarVest Bank (“HarVest”) loans totaled $15.5 million and $17.5 million at June 30, 2018 and December 31, 2017, respectively.

For the three acquisitions subsequent to the Greater Atlantic Bank acquisition noted above, management sold the majority of the purchased credit impaired loans immediately after closing of the acquisition.

Impaired loans for the covered and non-covered portfolios were as follows (in thousands):

June 30, 2018	Total Loans Recorded Investment (1)	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Commercial real estate - owner occupied	$665	$665	$ -
Commercial real estate - non-owner occupied (2)	191	296	-
Construction and land development	-	-	-
Commercial loans	4,044	11,388	-
Residential 1-4 family (3)	2,665	2,719	-
Other consumer loans	22	22	-
Total	$7,587	$15,090	$ -
With an allowance recorded			
Commercial real estate - owner occupied	$-	$-	$ -
Commercial real estate - non-owner occupied (2)	-	-	-
Construction and land development	-	-	-
Commercial loans	-	-	-
Residential 1-4 family (3)	-	-	-
Other consumer loans	-	-	-
Total	$-	$-	$ -
Grand total	$7,587	$15,090	$ -

(1) Includes $4.0 million in SBA guarantees.

(2) Includes loans secured by farmland and multi-family loans.

(3) Includes home equity lines of credit.

December 31, 2017	Total Loans Recorded Investment (1)	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Commercial real estate - owner occupied	$767	$781	$ -
Commercial real estate - non-owner occupied (2)	766	830	-
Construction and land development	9,969	9,984	-
Commercial loans	6,035	12,847	-
Residential 1-4 family (3)	3,160	3,430	-

Other consumer loans	-	-	-
Total	$20,697	$27,872	$ -
With an allowance recorded			
Commercial real estate - owner occupied	$-	$-	$ -
Commercial real estate - non-owner occupied (2)	-	-	-
Construction and land development	-	-	-
Commercial loans	-	-	-
Residential 1-4 family (3)	-	-	-
Other consumer loans	-	-	-
Total	$-	$-	$ -
Grand total	$20,697	$27,872	$ -

(1) Includes $5.0 million in SBA guarantees.
(2) Includes loans secured by farmland and multi-family loans.
(3) Includes home equity lines of credit.

The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three and six months ended June 30, 2018 and 2017 (in thousands):

	Total Loans	
Three Months Ended June 30, 2018	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$668	$ 9
Commercial real estate - non-owner occupied (1)	193	5
Construction and land development	-	-
Commercial loans	5,109	10
Residential 1-4 family (2)	2,894	14
Other consumer loans	21	-
Total	$8,885	$ 38
With an allowance recorded		
Commercial real estate - owner occupied	$-	$ -
Commercial real estate - non-owner occupied (1)	-	-
Construction and land development	-	-
Commercial loans	-	-
Residential 1-4 family (2)	-	-
Other consumer loans	-	-
Total	$-	$ -
Grand total	$8,885	$ 38

(1) Includes loans secured by farmland and multi-family loans.
(2) Includes home equity lines of credit.

	Total Loans	
Three Months Ended June 30, 2017	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$-	$ -
Commercial real estate - non-owner occupied (1)	-	-
Construction and land development	-	-
Commercial loans	2,052	-
Residential 1-4 family (2)	1,287	9
Other consumer loans	-	-

Total	$3,339	$ 9
With an allowance recorded		
Commercial real estate - owner occupied	$1,271	$ 8
Commercial real estate - non-owner occupied (1)	-	-
Construction and land development	-	-
Commercial loans	-	-
Residential 1-4 family (2)	430	-
Other consumer loans	-	-
Total	$1,701	$ 8
Grand total	$5,040	$ 17

(1) Includes loans secured by farmland and multi-family loans.

(2) Includes home equity lines of credit.

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Six Months Ended June 30, 2018	Total Loans Average Recorded Investment	Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$670	$ 17
Commercial real estate - non-owner occupied (1)	194	10
Construction and land development	-	-
Commercial loans	5,032	25
Residential 1-4 family (2)	2,733	49
Other consumer loans	21	-
Total	$8,650	$ 101
With an allowance recorded		
Commercial real estate - owner occupied	$-	$ -
Commercial real estate - non-owner occupied (1)	-	-
Construction and land development	-	-
Commercial loans	-	-
Residential 1-4 family (2)	-	-
Other consumer loans	-	-
Total	$-	$ -
Grand total	$8,650	$ 101

(1) Includes loans secured by farmland and multi-family loans.
(2) Includes home equity lines of credit.

Six Months Ended June 30, 2017	Total Loans Average Recorded Investment	Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$-	$ -
Commercial real estate - non-owner occupied (1)	-	-
Construction and land development	-	-
Commercial loans	2,085	-
Residential 1-4 family (2)	1,288	17
Other consumer loans	-	-
Total	$3,373	$ 17
With an allowance recorded		
Commercial real estate - owner occupied	$1,297	$ 16
Commercial real estate - non-owner occupied (1)	-	-

Construction and land development	-	-
Commercial loans	-	-
Residential 1-4 family (2)	336	-
Other consumer loans	-	-
Total	$1,633	$ 16
Grand total	$5,006	$ 33

(1) Includes loans secured by farmland and multi-family loans.
(2) Includes home equity lines of credit.

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2018 and December 31, 2017 (in thousands):

June 30, 2018	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Total loans:							
Commercial real estate - owner occupied	$ 954	$ -	$ -	$ 954	$ -	$401,885	$402,839
Commercial real estate - non-owner occupied (1)	44	-	-	44	-	581,806	581,850
Construction and land development	44	114	-	158	-	190,241	190,399
Commercial loans	296	22	-	318	3,699	257,470	261,487
Residential 1-4 family (2)	2,836	1,192	-	4,028	2,061	677,379	683,468
Other consumer loans	25	54	-	79	21	34,900	35,000
Total	$ 4,199	$ 1,382	$ -	$ 5,581	$ 5,781	$2,143,681	$2,155,043

December 31, 2017	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Total loans:							
Commercial real estate - owner occupied	$ 687	$ -	$ -	$ 687	$ -	$401,160	$401,847
Commercial real estate - non-owner occupied (1)	138	50	-	188	-	534,442	534,630
Construction and land development	1,134	44	-	1,178	9,969	186,825	197,972
Commercial loans	496	-	-	496	5,664	247,098	253,258
Residential 1-4 family (2)	2,926	361	-	3,287	2,392	630,156	635,835
Other consumer loans	57	1	-	58	-	39,316	39,374
Total	$ 5,438	$ 456	$ -	$ 5,894	$ 18,025	$2,038,997	$2,062,916

(1) Includes loans secured by farmland and multi-family loans.
(2) Includes home equity lines of credit.

Activity in the allowance for non-covered loan and lease losses for the three and six months ended June 30, 2018 and 2017 is summarized below (in thousands):

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Un-allocated	Total
Three Months Ended June 30, 2018								
Allowance for loan losses:								
Beginning balance	$ 859	$ 1,550	$ 804	$ 5,272	$ 1,450	$ 820	$ -	$ 10,755
Charge offs	-	-	-	(707)	(95)	(91)	-	(893)
Recoveries	4	-	-	32	25	27	-	88
Provision	(113)	(257)	69	1,709	199	(557)	-	1,050
Ending balance	$ 750	$ 1,293	$ 873	$ 6,306	$ 1,579	$ 199	$ -	$ 11,000
Three Months Ended June 30, 2017								
Allowance for loan losses:								
Beginning balance	$ 1,188	$ 1,546	$ 801	$ 3,007	$ 1,254	$ 74	$ 808	$ 8,678
Charge offs	-	(100)	-	(467)	(307)	(5)	-	(879)
Recoveries	11	299	-	36	2	-	-	348
Provision	(261)	45	295	115	474	15	367	1,050
Ending balance	$ 938	$ 1,790	$ 1,096	$ 2,691	$ 1,423	$ 84	$ 1,175	$ 9,197

(1) Includes loans secured by farmland and multi-family loans.

(2) Includes home equity lines of credit.

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Un-allocated	Total

Six Months Ended June 30, 2018								
Allowance for loan losses:								
Beginning balance	$ 690	$ 1,321	$ 692	$ 4,496	$ 1,586	$ 612	$ -	$ 9,397
Charge offs	-	-	-	(937)	(261)	(182)	-	(1,380)
Recoveries	7	-	-	207	89	30	-	333
Provision	53	(28)	181	2,540	165	(261)	-	2,650
Ending balance	$ 750	$ 1,293	$ 873	$ 6,306	$ 1,579	$ 199	$ -	$ 11,000
Six Months Ended June 30, 2017								
Allowance for loan losses:								
Beginning balance	$ 905	$ 1,484	$ 752	$ 3,366	$ 1,279	$ 78	$ 746	$ 8,610
Charge offs	-	(100)	-	(967)	(319)	(5)	-	(1,391)
Recoveries	21	299	-	51	5	2	-	378
Provision	12	107	344	241	458	9	429	1,600
Ending balance	$ 938	$ 1,790	$ 1,096	$ 2,691	$ 1,423	$ 84	$ 1,175	$ 9,197

(1) Includes loans secured by farmland and multi-family loans.

(2) Includes home equity lines of credit.

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The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of June 30, 2018 and December 31, 2017 (in thousands):

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Un-allocated	Total
June 30, 2018								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	750	1,293	873	6,306	1,579	199	-	11,000
Total ending allowance	$ 750	$ 1,293	$ 873	$ 6,306	$ 1,579	$ 199	$ -	$ 11,000
Loans:								
Individually evaluated for impairment	$ 665	$ 191	$ -	$ 4,044	$ 2,665	$ 22	$ -	$ 7,587
Collectively evaluated for impairment	402,174	581,659	190,399	257,443	680,803	34,978	-	2,147,456
Total ending loan balances	$ 402,839	$ 581,850	$ 190,399	$ 261,487	$ 683,468	$ 35,000	$ -	$ 2,155,043
December 31, 2017								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	690	1,321	692	4,496	1,586	612	-	9,397
Total ending allowance	$ 690	$ 1,321	$ 692	$ 4,496	$ 1,586	$ 612	$ -	$ 9,397
Loans:								
Individually evaluated for impairment	$ 767	$ 766	$ 9,969	$ 6,035	$ 3,160	$ -	$ -	$ 20,697
	401,080	533,864	188,003	247,223	632,675	39,374	-	2,042,219

Collectively evaluated for impairment								
Total ending loan balances	$ 401,847	$ 534,630	$ 197,972	$ 253,258	$ 635,835	$ 39,374	$ -	$ 2,062,916

(1) Includes loans secured by farmland and multi-family loans.
(2) Includes home equity lines of credit.

Troubled Debt Restructurings

A modification is classified as a troubled debt restructuring ("TDR") if both of the following exist: (1) the borrower is experiencing financial difficulty and (2) the Bank has granted a concession to the borrower. The Bank determines that a borrower may be experiencing financial difficulty if the borrower is currently delinquent on any of its debt, or if the Bank is concerned that the borrower may not be able to perform in accordance with the current terms of the loan agreement in the foreseeable future. Many aspects of the borrower's financial situation are assessed when determining whether they are experiencing financial difficulty, particularly as it relates to commercial borrowers due to the complex nature of the loan structure, business/industry risk and borrower/guarantor structures. Concessions may include the reduction of an interest rate at a rate lower than current market rate for a new loan with similar risk, extension of the maturity date, reduction of accrued interest, or principal forgiveness. When evaluating whether a concession has been granted, the Bank also considers whether the borrower has provided additional collateral or guarantors and whether such additions adequately compensate the Bank for the restructured terms, or if the revised terms are consistent with those currently being offered to new loan customers. The assessments of whether a borrower is experiencing (or is likely to experience) financial difficulty and whether a concession has been granted is subjective in nature and management's judgment is required when determining whether a modification is a TDR.

Although each occurrence is unique to the borrower and is evaluated separately, for all portfolio segments, TDRs are typically modified through reduction in interest rates, reductions in payments, changing the payment terms from principal and interest to interest only, and/or extensions in term maturity.

During the six months ending June 30, 2018 and June 30, 2017, there were no loans modified in TDRs. One TDR which had been modified in 2013 defaulted during the second quarter of 2015. This loan, in the amount of $665 thousand, was current as of June 30, 2018.

Credit Quality Indicator

Through its system of internal controls, Southern National evaluates and segments loan portfolio credit quality on a quarterly basis using regulatory definitions for Special Mention, Substandard and Doubtful. Special Mention loans are considered to be criticized. Substandard and Doubtful loans are considered to be classified.

Special Mention loans are loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position.

Substandard loans may be inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Southern National had no loans classified as Doubtful at June 30, 2018 or December 31, 2017.

As of June 30, 2018 and December 31, 2017, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Total Loans			
June 30, 2018	Special Mention	Substandard (3)	Pass	Total
Commercial real estate - owner occupied	$6,775	$ 1,551	$394,513	$402,839
Commercial real estate - non-owner occupied (1)	5,280	191	576,379	581,850
Construction and land development	83	-	190,316	190,399
Commercial loans	6,678	4,044	250,765	261,487
Residential 1-4 family (2)	1,017	3,379	679,072	683,468
Other consumer loans	152	22	34,826	35,000
Total	$19,985	$ 9,187	$2,125,871	$2,155,043

	Total Loans			
December 31, 2017	Special Mention	Substandard (3)	Pass	Total
Commercial real estate - owner occupied	$4,178	$ 1,678	$395,991	$401,847
Commercial real estate - non-owner occupied (1)	5,705	830	528,095	534,630
Construction and land development	128	9,969	187,875	197,972
Commercial loans	5,936	6,035	241,287	253,258
Residential 1-4 family (2)	1,323	3,935	630,577	635,835
Other consumer loans	162	-	39,212	39,374
Total	$17,432	$ 22,447	$2,023,037	$2,062,916

(1) Includes loans secured by farmland and multi-family residential loans.

(2) Includes home equity lines of credit.

(3) Includes SBA guarantees of $4.0 million and $5.0 million as of June 30, 2018 and December 31, 2017, respectively.

The amount of foreclosed residential real estate property held at June 30, 2018 and December 31, 2017 was $1.4 million and $3.3 million, respectively. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $83 thousand and $939 thousand at June 30, 2018 and December 31, 2017, respectively.

6. <u>FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK</u>

Southern National is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and guarantees of credit card accounts sold by EVBS premerger. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by Southern National to 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 loans to customers. We had letters of credit outstanding totaling $15.7 million and $15.2 million as of June 30, 2018 and December 31, 2017, respectively.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit is based on the contractual amount of these instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Unless noted otherwise, we do not require collateral or other security to support financial instruments with credit risk.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments are made predominately for adjustable rate loans, and generally have fixed expiration dates of up to three months or other termination clauses and usually require payment of a fee. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis.

At June 30, 2018 and December 31, 2017, we had unfunded lines of credit and undisbursed construction loan funds totaling $326.8 million and $361.7 million, respectively. Virtually all of our unfunded lines of credit and undisbursed construction loan funds are variable rate.

Pre-merger, EVBS sold its credit card portfolio. With that sale, EVBS guaranteed the credit card accounts of certain customers to the bank that issues the cards. In connection with the merger with EVBS, Southern National now is the guarantor. The fair value of guarantees of credit card accounts previously sold is based on the estimated cost to settle the obligations with the counterparty and are not considered significant as of June 30, 2018.

7. Earnings Per Share

The following is a reconciliation of the denominators of the basic and diluted earnings per share (“EPS”) computations (dollars in thousands, except per share data):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended June 30, 2018			
Basic EPS	$ 8,867	$ 24,038	$ 0.37
Effect of dilutive stock options and warrants	-	292	-
Diluted EPS	$ 8,867	$ 24,330	$ 0.37
For the three months ended June 30, 2017			
Basic EPS	$ (2,842)	$ 13,231	$ (0.21)
Effect of dilutive stock options and warrants	-	-	-
Diluted EPS	$ (2,842)	$ 13,231	$ (0.21)
For the six months ended June 30, 2018			
Basic EPS	$ 17,126	$ 24,000	$ 0.71
Effect of dilutive stock options and warrants	-	282	-
Diluted EPS	$ 17,126	$ 24,282	$ 0.71
For the six months ended June 30, 2017			
Basic EPS	$ (788)	$ 12,772	$ (0.06)
Effect of dilutive stock options and warrants	-	-	-
Diluted EPS	$ (788)	$ 12,772	$ (0.06)

There were 422,789 and 432,713 anti-dilutive options outstanding for the three and six months ended June 30, 2018. There were 466,655 and 172,819 anti-dilutive options and warrants outstanding for the three and six months ended June 30, 2017, respectively.

8. FAIR VALUE

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

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

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

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

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Investment Securities Available for Sale

Where quoted prices are available in an active market, investment securities are classified within Level 1 of the valuation hierarchy. Level 1 investment securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of investment securities with similar characteristics or discounted cash flow. Level 2 investment securities would include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, investment securities are classified within Level 3 of the valuation hierarchy. Currently, all of Southern National's available for sale debt investment securities are considered to be Level 2 investment securities.

Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements Using		
(dollars in thousands)	Total at June 30, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities				
Residential government-sponsored mortgage-backed securities	$ 28,579	$ -	$ 28,579	$ -
Obligations of states and political subdivisions	18,115	-	18,115	-
Corporate securities	2,006	-	2,006	-
Trust preferred securities	2,734	-	2,734	-
Residential government-sponsored collateralized mortgage obligations	46,113	-	46,113	-
Government-sponsored agency securities	3,106	-	3,106	-

Agency commercial mortgage-backed securities	27,149	-	27,149	-
SBA pool securities	22,034	-	22,034	-
Total	$ 149,836	$ -	$ 149,836	$ -

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(dollars in thousands)	Total at December 31, 2017	(Level 1)	(Level 2)	(Level 3)
Financial assets:				
Available for sale securities				
Residential government-sponsored mortgage-backed securities	$ 30,864	$ -	$ 30,864	$ -
Obligations of states and political subdivisions	18,727	-	18,727	-
Corporate securities	2,015	-	2,015	-
Trust preferred securities	2,388	-	2,388	-
Residential government-sponsored collateralized mortgage obligations	50,766	-	50,766	-
Government-sponsored agency securities	3,226	-	3,226	-
Agency commercial mortgage-backed securities	27,898	-	27,898	-
SBA pool securities	24,789	-	24,789	-
Total	$ 160,673	$ -	$ 160,673	$ -

Assets and Liabilities Measured on a Non-recurring Basis:

Impaired Loans

Generally, we measure the impairment for impaired loans considering the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral is determined by an independent appraisal or evaluation less estimated costs related to selling the collateral. In some cases appraised value is net of costs to sell. Estimated selling costs range from 6% to 10% of collateral valuation at June 30, 2018 and December 31, 2017. For loans who fair values are not measured based on the fair value of the collateral, impairment is measured based on the present value of the expected future cash flows discounted at the loan's effective interest rate. Fair value is classified as Level 3 in the fair value hierarchy. Loans identified as impaired totaled $7.6 million (including SBA guarantees of $4.0 million) as of June 30, 2018 with no allocation made to the allowance for loan losses compared to a carrying amount of $20.7 million (including SBA guarantees of $5.0 million) with $0 allocated allowance for loan losses at December 31, 2017.

Assets held for sale

In connection with the merger with EVBS, SNBV acquired four properties that were either former EVBS administrative locations or previously anticipated to be future EVBS administrative locations. Assets held for sale are measured at fair value less cost to sell, based on appraisals conducted by an independent, licensed appraiser outside of the Company using observable market data. If the fair value is significantly adjusted due to differences in the comparable properties, or is discounted by the Company because of marketability, then the fair value is considered Level 3. Assets held for sale are measured at fair value on a non-recurring basis. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense on the consolidated statements of income.

Other Real Estate Owned ("OREO")

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or evaluation less cost to sell. In some cases appraised value is net of costs to sell. Selling costs have been in the range from 5.0% to 7.6% of collateral valuation at June 30, 2018 and December 31, 2017. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At June 30, 2018 and December 31, 2017 total OREO was $5.6 million and $7.6 million, respectively.

Assets measured at fair value on a non-recurring basis are summarized below:

(dollars in thousands)	Total at June 30, 2018	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate - owner occupied	$ 665	$ -	$ -	$ 665
Commercial real estate - non-owner occupied (1)	191	-	-	191
Commercial loans	4,044	-	-	4,044
Residential 1-4 family (2)	2,665	-	-	2,665
Consumer	22	-	-	22
Assets held for sale	600	-	-	600
Other real estate owned:				
Commercial real estate - owner occupied (1)	1,008	-	-	1,008
Construction and land development	3,185	-	-	3,185
Residential 1-4 family (2)	1,367	-	-	1,367

(dollars in thousands)	Total at December 31, 2017	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans:				
Commercial real estate - owner occupied	$ 767	$ -	$ -	$ 767
Commercial real estate - non-owner occupied (1)	766	-	-	766
Construction and land development	9,969	-	-	9,969
Commercial loans	6,035	-	-	6,035
Residential 1-4 family (2)	3,160	-	-	3,160
Assets held for sale	1,927	-	-	1,927

Other real estate owned:				
Commercial real estate - owner occupied (1)	1,060	-	-	1,060
Construction and land development	3,229	-	-	3,229
Residential 1-4 family (2)	3,288	-	-	3,288

(1) Includes loans secured by farmland and multi-family residential loans.

(2) Includes home equity lines of credit.

Fair Value of Financial Instruments

The carrying amount, estimated fair values and fair value hierarchy levels (previously defined) of financial instruments were as follows (in thousands):

		June 30, 2018		December 31, 2017	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$52,163	$52,163	$25,463	$25,463
Securities available for sale	Level 2	149,836	149,836	160,673	160,673
Securities held to maturity	Level 2	96,175	92,492	98,912	97,597
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	26,019	n/a	26,775	n/a
Equity investment in mortgage affiliate	Level 3	4,597	4,597	4,723	4,723
Preferred investment in mortgage affiliate	Level 3	3,305	3,305	3,305	3,305
Net loans	Level 3	2,143,892	2,141,499	2,052,931	2,058,779
Accrued interest receivable	Level 2 & Level 3	8,162	8,162	8,073	8,073
FDIC indemnification asset	Level 3	1,003	309	1,353	309
Financial liabilities:					
Demand deposits	Level 1	$659,335	659,335	$649,067	$649,067
Money market and savings accounts	Level 1	477,081	477,081	517,031	517,031
Certificates of deposit	Level 3	844,287	841,742	699,058	694,368
Securities sold under agreements to repurchase	Level 1	20,289	20,289	15,468	15,468
FHLB short term advances	Level 1	316,215	316,215	335,615	335,615
Junior subordinated debt	Level 2	9,559	9,854	9,534	12,043
Senior subordinated notes	Level 2	47,109	47,065	47,128	58,163
Accrued interest payable	Level 1 & Level 3	2,639	2,639	2,273	2,273

Carrying amount is the estimated fair value for cash and cash equivalents, equity investment in mortgage affiliate, preferred investment in mortgage affiliate, accrued interest receivable and payable, demand deposits, savings accounts, money market accounts, securities sold under agreements to repurchase, and short-term debt (FHLB short-term advances and securities sold under agreements to repurchase). Fair value of long-term debt is based on current rates for similar financing. It was not practicable to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to restrictions placed on its transferability. The fair value of the FDIC indemnification asset was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium and represents the present value of our current expectation for recoveries from the FDIC on covered loans. The fair value of off-balance-sheet items is not considered material.

At June 30, 2018 fair value of net loans, certificates of deposits, junior subordinated debt, and senior subordinated notes are measured using the exit-price notion in accordance with the adoption of ASU 2016-01. At December 31, 2017 the fair value of net loans and certificates of deposits are based on discounted cash flows using current market rates applied to the estimated life of the asset.

9. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

Other short-term borrowings can consist of Federal Home Loan Bank ("FHLB") overnight advances, other FHLB advances maturing within one year, federal funds purchased and securities sold under agreements to repurchase ("repo") that mature within one year, which are secured transactions with customers.

In the second quarter of 2016, the Company discontinued offering repo accounts. However, repo accounts totaling $7.6 million were assumed on June 23, 2017 in the merger with EVBS. During the third quarter of 2017 the Company determined that it will continue to offer repo accounts and the balance at June 30, 2018 and December 31, 2017 was $20.3 million and $15.5 million, respectively.

10. JUNIOR SUBORDINATED DEBT AND SENIOR SUBORDINATED NOTES

In connection with our merger with EVBS, the Company assumed $10.3 million of trust preferred securities that were issued on September 17, 2003 and placed through the Trust in a pooled underwriting totaling approximately $650 million. The trust issuer has invested the total proceeds from the sale of the trust preferred securities in Floating Rate Junior Subordinated Deferrable Interest Debentures ("Junior Subordinated Debt") issued by EVBS. The trust preferred securities pay cumulative cash distributions quarterly at a variable rate per annum, reset quarterly, equal to the three-month LIBOR plus 2.95%. As of June 30, 2018 and December 31, 2017, the interest rate was 5.28% and 4.55%, respectively. The dividends paid to holders of the trust preferred securities, which are recorded as interest expense, are deductible for income tax purposes. The trust preferred securities have a mandatory redemption date of September 17, 2033, and became subject to varying call provisions beginning September 17, 2008. The Company has fully and unconditionally guaranteed the trust preferred securities through the combined operation of the Junior Subordinated Debt and other related documents. The Company's obligation under the guarantee is unsecured and subordinate to senior and subordinated indebtedness of the Company.

The trust preferred securities may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. At June 30, 2018, all of the trust preferred securities qualified as Tier 1 capital.

Subject to certain exceptions and limitations, the Company is permitted to elect from time to time to defer regularly scheduled interest payments on its outstanding Junior Subordinated Debt relating to its trust preferred securities. If the Company defers interest payments on the Junior Subordinated Debt for more than 20 consecutive quarters, the Company would be in default under the governing agreements for such notes and the amount due under such agreements would be immediately due and payable.

On January 20, 2017, Southern National completed the sale of $27.0 million of its fixed-to-floating rate Subordinated Notes due 2027 (the "SNBV Senior Subordinated Notes"). The SNBV Senior Subordinated Notes will initially bear interest at 5.875% per annum until January 31, 2022; thereafter, the SNBV Senior Subordinated Notes will be payable at an annual floating rate equal to three-month LIBOR plus a spread of 3.95% until maturity or early redemption. At June 30, 2018, all of the SNBV Senior Subordinated Notes qualified as Tier 2 capital. At June 30, 2018, the remaining unamortized debt issuance costs related to the SNBV Senior Subordinated Notes totaled $807 thousand.

Also in connection with our merger with EVBS, the Company assumed the Senior Subordinated Note Purchase Agreement previously entered into by EVBS on April 22, 2015 with certain institutional accredited investors pursuant to which EVBS sold $20.0 million in aggregate principal amount of its 6.50% Fixed-to-Floating Rate Subordinated Notes due 2025 (the "EVBS Senior Subordinated Notes") to the investors at a price equal to 100% of the aggregate principal amount of the EVBS Senior Subordinated Notes. The EVBS Senior Subordinated Notes bear interest at an annual rate of 6.50%, payable semi-annually in arrears on May 1 and November 1 of each year ending on May 1, 2020. From and including May 1, 2020 to, but excluding, the maturity date, the EVBS Senior Subordinated Notes will bear interest at an annual rate, reset quarterly, equal to LIBOR determined on the determination date of the applicable interest period plus 502 basis points, payable quarterly in arrears on February 1, May 1, August 1 and November 1 of each year, beginning on August 1, 2020. The Company may, at its option, redeem, in whole or in part, the EVBS Senior Subordinated Notes as early as May 1, 2020, and any partial redemption would be made pro rata among all of the holders. At June 30, 2018 all of the EVBS Senior Subordinated Notes qualified as Tier 2 capital.

ITEM 2 - MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management’s discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of SNBV. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2017. Results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of results that may be attained for any other period.

FORWARD-LOOKING STATEMENTS

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond our control. The words “believe,” “may,” “should,” “anticipate,” “estimate,” “expect,” “intend,” “continue,” “would,” “could,” “hope,” “might,” “assume,” “objective,” “seek,” “p
similar words, or the negatives of these words, are intended to identify forward-looking statements.

Many possible events or factors could affect our future financial results and performance and could cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the Risk Factor contained in this Quarterly Report on Form 10-Q, as well as the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2017, factors that could contribute to those differences include, but are not limited to:

- the effects of future economic, business and market conditions and changes, domestic and foreign;
- changes in the local economies in our market areas adversely affect our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- a deterioration or downgrade in the credit quality and credit agency ratings of the investment securities in our investment securities portfolio;
- impairment concerns and risks related to our investment securities portfolio of collateralized mortgage obligations, agency mortgage-backed securities, obligations of states and political subdivisions and pooled trust preferred securities;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;
-

increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of our total loan portfolio;

- the concentration of our loan portfolio in loans collateralized by real estate;
- our level of construction and land development and commercial real estate loans;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- the failure of assumptions and estimates underlying the establishment of and provisions made to the allowance for loan losses;
- our ability to expand and grow our business and operations, including the establishment of additional branches and acquisition of additional branches and banks, and our ability to realize the cost savings and revenue enhancements we expect from such activities;
- changes in governmental monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System, or changes in interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
- increased competition for deposits and loans adversely affecting rates and terms;
- the continued service of key management personnel;
- the potential payment of interest on demand deposit accounts to effectively compete for customers;
- potential environmental liability risk associated with lending activities;

- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- risks of mergers and acquisitions, including the related time and cost of implementing transactions and the potential failure to achieve expected gains, revenue growth or expense savings;
- legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, including those associated with the Dodd Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverage;
- increases in regulatory capital requirements for banking organizations generally, which may adversely affect our ability to expand our business or could cause us to shrink our business;
- the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions;
- changes in accounting policies, rules and practices and applications or determinations made thereunder;
- the risk that our deferred tax assets could be reduced if future taxable income is less than currently estimated, if corporate tax rates in the future are less than current rates, or if sales of our capital stock trigger limitations on the amount of net operating loss carryforwards that we may utilize for income tax purposes;
- unanticipated effects from the Tax Act may limit its benefits or adversely impact our business, which could include decreased demand for borrowing by our middle market customers or increased price competition that offsets the benefits of decreased federal income tax expense.
- factors that adversely affect our business initiatives, including, without limitation, changes in the economic or business conditions in SNBV's markets; and
- other factors and risks described under "Risk Factors" herein and in any of our subsequent reports that we make with the Securities and Exchange Commission (the "Commission" or "SEC") under the Exchange Act.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q. These statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we undertake no obligation to update publicly these statements in light of new information or future events.

OVERVIEW

SNBV is a corporation that was formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank a Virginia state-chartered bank which commenced operations on April 14, 2005. As of the close of business on June 23, 2017, SNBV completed its previously announced merger of EVBS with and into SNBV and the completion of the merger of EVBS's wholly-owned subsidiary, EVB, with and into SNBV's wholly-owned subsidiary, Sonabank. This combination has brought together two banking companies with complementary business lines, creating one of the premier banking institutions headquartered in the Commonwealth of Virginia. EVBS was the holding company for EVB, a Virginia state-chartered bank which traced its beginnings to

1910. Sonabank provides a range of financial services to individuals and small and medium sized businesses. At June 30,2018, Sonabank had thirty-eight full-service retail branches in Virginia, located in the counties of Chesterfield (2), Essex (2), Fairfax (Reston, McLean and Fairfax), Gloucester (2), Hanover (3), King William, Lancaster, Middlesex (3), New Kent, Northumberland (3), Southampton, Surry, Sussex, and in Charlottesville, Clifton Forge, Colonial Heights, Front Royal, Hampton, Haymarket, Leesburg, Middleburg, New Market, Newport News, Richmond, South Riding, Warrenton, and Williamsburg, and seven full-service retail branches in Maryland, in Rockville, Shady Grove, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

We have administrative offices in Warrenton and Glen Allen, Virginia, and executive offices in Georgetown, Washington, D.C. and Glen Allen, Virginia where senior management is located. During 2018 and forward, we plan to continue to focus our efforts on realizing cost savings, maximizing revenue enhancement opportunities from the merger of EVBS, while conservatively and prudently growing the balance sheet.

RESULTS OF OPERATIONS

Net Income

Net income for the three months ended June 30, 2018 was $8.9 million or $0.37 per basic and diluted earnings per share and $17.1 million or $0.71 per basic and diluted earnings per share or the first half of 2018. That compares to a net loss of ($2.8) million, or ($0.21) basic and diluted earnings per share for the three months ended June 30, 2017 and a loss of ($788) thousand for the six months ended June 30, 2017. When comparing SNBV's results for the six months ended June 30, 2018 to the same six months in 2017, note that most categories increased due to the merger with EVBS on June 23, 2017.

During the second quarter of 2018, the following affected net income positively:

- $1.2 million of accretion income from the acquired loan discounts;
- $732 thousand of interest income recognized on the payout of a $9.9 million nonaccrual loan; and
- $250 thousand of other noninterest income from recoveries of legacy investment securities and loans charged off by EVBS before Southern National merged with EVBS in June of 2017.

For the first six months of 2018, the following affected net income positively:

- $2.5 million of accretion income from the acquired loan discounts;
- $1.7 million of other noninterest income from recoveries of legacy investment securities and loans charged off by EVBS before Southern National merged with EVBS in June of 2017; and
- the reduced effective income tax rate of 21% from 34% due to the enactment of the Tax Cuts and Jobs Act of 2017, which became effective on January 1, 2018.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest and dividend income on interest-earning assets such as loans and investments, and interest expense on interest-bearing liabilities such as deposits and borrowings.

Three-Month Comparison. Net interest income was $23.2 million for the quarter ended June 30, 2018 compared to $11.2 million during the same period last year. Southern National's net interest margin was 3.79% in the second quarter of 2018 compared to 3.72% during the second quarter of 2017. Total income on interest-earning assets was $30.0 million and $14.2 million for the three months ended June 30, 2018 and 2017, respectively. The yield on average interest-earning assets was 4.86% and 4.73% for the second quarters of 2018 and 2017, respectively. Interest and fees on loans totaled $27.7 million and $13.3 million for the second quarters of 2018 and 2017, respectively. The accretion of the discount on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince Georges Federal Savings Bank contributed $1.2 million to interest income on loans for the quarter ended June 30, 2018 compared to $630 thousand during the second quarter of 2017. Average loans during the second quarter of 2018 were $2.14 billion compared to $1.07 billion during the same period last year. The increase in average loans was mainly attributable to the acquisition of EVBS in June of 2017.

Total interest expense was $6.5 million and $3.0 million for the three months ended June 30, 2018 and 2017, respectively. Interest on deposits were $3.8 million and $2.3 million for the three months ended June 30, 2018 and 2017, respectively. Total average interest-bearing deposits for the second quarters of 2018 and 2017 were $1.56 billion and $865.6 million, respectively. The increase in total average interest-bearing deposits was mainly attributable to the acquisition of EVBS in June of 2017. The yield on total average interest-bearing deposits was 0.98% and 1.05% for the quarters ended June 30, 2018 and 2017, respectively. Interest expense on total average borrowings, which include securities sold under agreements to repurchase, FHLB advances, junior subordinated debt, and senior subordinated notes, was $2.7 million and $786 thousand for the three months ended June 30, 2018 and 2017, respectively. Total average borrowings were $451.9 million and $113.8 million for the three months ended June 30, 2018 and 2017, respectively.

The following table details average balances of interest-earning assets and interest-bearing liabilities, the amount of interest earned/paid on such assets and liabilities, and the yield/rate for the periods indicated:

	Average Balance Sheets and Net Interest Analysis For the Three Months Ended					
	June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollar amounts in thousands)					
Assets						
Interest-earning assets:						
Loans, net of deferred fees (1) (2)	$2,141,966	$27,697	5.19 %	$1,071,508	$13,332	4.99 %
Investment securities	250,573	1,560	2.50 %	107,079	708	2.65 %
Other earning assets	58,517	426	2.92 %	29,241	209	2.87 %
Total earning assets	2,451,056	29,683	4.86 %	1,207,828	14,249	4.73 %
Allowance for loan losses	(11,172)			(8,966)		
Total non-earning assets	262,974			94,757		
Total assets	$2,702,858			$1,293,619		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW and other demand accounts	$327,459	336	0.41 %	$64,579	44	0.27 %
Money market accounts	330,214	619	0.75 %	152,517	183	0.48 %
Savings accounts	164,421	132	0.32 %	65,526	89	0.54 %
Time deposits	739,673	2,722	1.48 %	582,878	1,942	1.34 %
Total interest-bearing deposits	1,561,767	3,810	0.98 %	865,500	2,258	1.05 %
Borrowings	451,919	2,699	2.40 %	113,784	786	2.77 %
Total interest-bearing liabilities	2,013,686	6,509	1.30 %	979,284	3,044	1.25 %
Noninterest-bearing liabilities:						
Demand deposits	336,849			129,311		
Other liabilities	19,248			10,379		
Total liabilities	2,369,783			1,118,974		
Stockholders' equity	333,075			174,645		
Total liabilities and stockholders' equity	$2,702,858			$1,293,619		
Net interest income		$23,174			$11,205	
Interest rate spread			3.56 %			3.48 %
Net interest margin			3.79 %			3.72 %

(1) Includes loan fees in both interest income and the calculation of the yield on loans.

(2) Calculations include non-accruing loans in average loan amounts outstanding.

Six-Month Comparison. Net interest income was $45.7 million for the six months ended June 30, 2018 compared to $21.1 million during the same period last year. Southern National's net interest margin was 3.80% for the first six months of 2018 compared to 3.72% during the same period of 2017. Total income on interest-earning assets was $57.7 million and $26.8 million for the six months ended June 30, 2018 and 2017, respectively. The yield on average interest-earning assets was 4.81% and 4.73% for the first six months of 2018 and 2017, respectively. Interest and fees on loans totaled $53.6 million and $25.1 million for the six months ended June 30, 2018 and 2017, respectively. The accretion of the discount on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince Georges Federal Savings Bank contributed $2.5 million to interest income on loans for the six months ended June 30, 2018 compared to $1.1 million for the six months ended June 30, 2017. Average loans during the first half of 2018 were $2.11 billion compared to $1.01 billion during the same period last year. The increase in average loans was mainly attributable to the acquisition of EVBS in June of 2017. Total interest expense was $12.0 million and $5.7 million for the six months ended June 30, 2018 and 2017, respectively. Interest on deposits were $7.1 million and $4.4 million for the six months ended June 30, 2018 and 2017, respectively. Total average interest-bearing deposits for the first halves of 2018 and 2017 were $1.55 billion and $840.2 million, respectively. The increase in total average interest-bearing deposits was mainly attributable to the acquisition of EVBS in June of 2017. The yield on total average interest-bearing deposits was 0.92% and 1.06% for the six months ended June 30, 2018 and 2017, respectively. Interest expense on total average borrowings, which include securities sold under agreements to repurchase, FHLB advances, junior subordinated debt, and senior subordinated notes, was $4.9 million and $1.3 million for the six months ended June 30, 2018 and 2017, respectively. Total average borrowings were $439.0 million and $94.5 million for the three months ended June 30, 2018 and 2017, respectively.

The following table details average balances of interest-earning assets and interest-bearing liabilities, the amount of interest earned/paid on such assets and liabilities, and the yield/rate for the periods indicated:

	Average Balance Sheets and Net Interest Analysis For the Six Months Ended					
	June 30, 2018			June 30, 2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollar amounts in thousands)					
Assets						
Interest-earning assets:						
Loans, net of deferred fees (1) (2)	$2,109,109	53,602	5.13 %	$1,014,829	25,093	4.99 %
Investment securities	254,083	3,201	2.54 %	99,022	1,330	2.71 %
Other earning assets	58,401	900	3.11 %	29,517	371	2.53 %
Total earning assets	2,421,593	57,703	4.81 %	1,143,368	26,794	4.73 %
Allowance for loan losses	(10,781)			(8,934)		
Total non-earning assets	259,038			82,778		
Total assets	$2,669,850			$1,217,212		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW and other demand accounts	$327,427	652	0.40 %	$50,719	61	0.24 %
Money market accounts	336,425	1,179	0.71 %	140,743	315	0.45 %
Savings accounts	163,786	260	0.32 %	59,440	169	0.57 %
Time deposits	719,453	4,989	1.40 %	589,256	3,873	1.33 %
Total interest-bearing deposits	1,547,091	7,080	0.92 %	840,158	4,418	1.06 %
Borrowings	439,022	4,949	2.27 %	94,460	1,280	2.73 %
Total interest-bearing liabilities	1,986,113	12,029	1.22 %	934,618	5,698	1.23 %
Noninterest-bearing liabilities:						
Demand deposits	333,095			113,687		
Other liabilities	18,861			9,043		
Total liabilities	2,338,069			1,057,348		
Stockholders' equity	331,781			159,864		
Total liabilities and stockholders' equity	$2,669,850			$1,217,212		
Net interest income		45,674			21,096	
Interest rate spread			3.58 %			3.50 %
Net interest margin			3.80 %			3.72 %

(1) Includes loan fees in both interest income and the calculation of the yield on loans.
(2) Calculations include non-accruing loans in average loan amounts outstanding.

Provision for Loan Losses

The provision for loan losses is a current charge to earnings made in order to increase the allowance for loan losses to a level for inherent probable losses in the loan portfolio based on an evaluation of the loan portfolio, current economic conditions, changes in the nature and volume of lending, historical loan experience and other known internal and external factors affecting loan collectability. Our loan loss allowance is calculated by segmenting the loan portfolio by loan type and applying risk factors to each segment. The risk factors are determined by considering historical loss data, peer data, as well as applying management's judgment.

The provision for loan loss for the quarters ended June 30, 2018 and June 30, 2017 was $1.1 million. For the six months ended June 30, 2018, the loan loss provision was $2.7 million compared to $1.6 million for the same period last year. Net charge offs for the three months and six months ended June 30, 2018 was $804 thousand and $1.0 million respectively. That compares to net charges offs of $531 thousand and $1.0 million for the three and six months ended June 30, 2017, respectively.

Noninterest Income

The following table presents the major categories of noninterest income for the three months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		
(dollars in thousands)	2018	2017	Change
Account maintenance and deposit service fees	$ 1,375	$ 367	$ 1,008
Income from bank-owned life insurance	563	163	400
Equity income from mortgage affiliate	191	112	79
Gain on sales of investment securities	-	257	(257)
Other	424	(17)	441
Total noninterest income	$ 2,553	$ 882	$ 1,671

During the second quarter of 2018, Southern National had noninterest income of $2.6 million compared to $882 thousand during the second quarter of 2017. Account maintenance and deposit service fees, which totaled $1.4 million for the second quarter of 2018, increased $1.0 million when compared to the same quarter last year. The increase in account maintenance and deposit service fees was primarily driven by the additional fees made on the retail deposits acquired in the merger with EVBS on June 23, 2017. Income from bank-owned life insurance, which totaled $563 thousand for the second quarter of 2018, increased $400 thousand when compared to $163 thousand of income in second quarter of 2017. The second quarter increase was driven by $164 thousand of bank-owned life insurance income recognized from a death benefit payout in the second quarter of 2018 as well as the income from the purchase of an additional $12.0 million in bank-owned life insurance early in the second quarter of 2018. Income from the investment in STM totaled $191 thousand compared to the $112 thousand during the same quarter last year. Other noninterest income, which totaled $424 thousand for the second quarter of 2018, increased $441 thousand when compared to the same quarter last year.

The following table presents the major categories of noninterest income for the six months ended June 30, 2018 and 2017:

	For the Six Months Ended June 30,		
(dollars in thousands)	2018	2017	Change
Account maintenance and deposit service fees	$ 2,783	$ 580	$ 2,203
Income from bank-owned life insurance	870	326	544
Equity loss from mortgage affiliate	(126)	(367)	241
Gain on sales of investment securities	-	257	(257)
Other	2,105	19	2,086
Total noninterest income	$ 5,632	$ 815	$ 4,817

Noninterest income increased to $5.6 million in the first six months of 2018 from $815 thousand in the first six months of 2017. The $4.8 million increase was primarily driven by an increase of $2.2 million increase in account maintenance and deposit fees and an increase $2.1 million in other noninterest income which was primarily driven by $1.7 million of income due to recoveries of premerger charged off loans and securities by EVBS. The increase in account maintenance and deposit service fees was primarily driven by the additional fees made on the retail deposits acquired in the merger with EVBS on June 23, 2017. Income from bank-owned life insurance, which totaled $870 thousand for the first half of 2018, increased $544 thousand when compared to $326 thousand of income in first half of 2017. The increase was driven by $164 thousand of bank-owned life insurance income recognized from a death benefit payout in the second quarter of 2018 as well as the income from the increase in BOLI associated with the EVBS merger as well as the purchase of an additional $12.0 million in bank-owned life insurance early in the second quarter of 2018. The Company recognized a $257 thousand gain on the sale of securities in the second quarter of 2017 while no securities were sold in the first half of 2018.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three and six months ended June 30, 2018 and 2017:

	For the Three Months Ended June 30,		
(dollars in thousands)	2018	2017	**Change**
Salaries and benefits	$7,007	$3,106	$3,901
Occupancy expenses	1,656	844	812
Furniture and equipment expenses	712	247	465
Amortization of core deposit intangible	361	75	286
Virginia franchise tax expense	492	130	362
FDIC assessment	320	68	252
Data processing expense	464	210	254
Telephone and communication expense	501	183	318
Amortization of FDIC indemnification asset	177	176	1
Net (gain) loss on other real estate owned	(40)	266	(306)
Merger expenses	-	8,603	(8,603)
Other operating expenses	1,967	933	1,034
Total noninterest expenses	$13,617	$14,841	$(1,224)

	For the Six Months Ended June 30,		
(dollars in thousands)	2018	2017	Change
Salaries and benefits	$13,779	$6,004	$7,775
Occupancy expenses	3,306	1,635	1,671
Furniture and equipment expenses	1,509	494	1,015
Amortization of core deposit intangible	723	123	600
Virginia franchise tax expense	856	241	615
FDIC assessment	655	205	450
Data processing expense	930	418	512
Telephone and communication expense	1,095	345	750
Amortization of FDIC indemnification asset	350	367	(17)
Net loss on other real estate owned	160	319	(159)
Merger expenses	-	8,926	(8,926)
Other operating expenses	3,873	1,817	2,056
Total noninterest expenses	$27,236	$20,894	$6,342

Noninterest expense was $13.6 million and $27.2 million during the second quarter and first half of 2018, respectively, compared to $14.8 million and $20.9 million of noninterest expense during the same periods in 2017, respectively, as most noninterest expense categories increased year-over-year due to the merger with EVBS on June 23, 2017. The increases in noninterest expenses associated with the EVBS merger are in-line with Management's pre-merger expectations. Second quarter 2018 expenses remain relatively level when compared to the first quarter of 2018 and Management expects noninterest expense to remain level or perform slightly better during the remainder of 2018. Employee compensation and benefits expense totaled $7.0 million and $13.8 million for the second quarter and first half of 2018, respectively, as compared to $3.1 million and $6.0 million in the same periods of 2017, respectively. Occupancy expenses and Furniture and equipment expenses totaled $2.4 million for the three months ended June 30, 2018 compared to $1.1 million for the three months ended June 30, 2017. The Company recognized a $40 thousand net gain on other real estate owned ("OREO") during the second quarter of 2018, driven by a $190 thousand gain on the sale of one of its OREO properties, but offset by a $150 thousand write-down of another OREO property. A $200 thousand loss on OREO was recorded for the first quarter of 2018. No merger expenses were recorded for 2018 year to date, versus $8.6 million and $8.9 million of merger expenses recorded for the three and six months ended June 30, 2017, respectively. Other expenses totaled $2.0 million and $3.8 million for three and six months ended June 30, 2018, respectively.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $2.73 billion as of June 30, 2018 compared to $2.61 billion as of December 31, 2017. Total loans increased 4.49%, from $2.06 billion at the end of 2017 to $2.15 billion at June 30, 2018, primarily due to organic loan growth. Total deposits were $1.98 billion at June 30, 2018 compared to $1.87 billion at December 31, 2017 and total equity was $334.5 million and $322.8 million at June 30, 2018 and December 31, 2017, respectively.

Loan Portfolio

Loan demand remains elevated in the Company's markets. Net loan growth in the first half of 2018 was $92.6 million, or 4.49%, bringing loans receivable, net of deferred fees to $2.15 billion at June 30, 2018.

The composition of our loan portfolio consisted of the following at June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Loans secured by real estate:		
Commercial real estate - owner occupied	$ 402,839	$ 401,847
Commercial real estate - non-owner occupied	477,032	440,700
Secured by farmland	21,347	23,038
Construction and land loans	190,399	197,972
Residential 1-4 family	546,648	483,006
Multi- family residential	83,471	70,892
Home equity lines of credit	136,820	152,829
Total real estate loans	1,858,556	1,770,284
Commercial loans	261,487	253,258
Consumer loans	35,000	39,374
Gross loans	2,155,043	2,062,916
Less deferred fees on loans	(151)	(588)
Loans, net of deferred fees	$ 2,154,892	$ 2,062,328

As of June 30, 2018 and December 31, 2017, substantially all of our loans were to customers located in Virginia and Maryland. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

Asset Quality

Asset quality remained high during the first half of 2018. We will generally place a loan on nonaccrual status when it becomes 90 days past due. Loans will also be placed on nonaccrual status in cases where we are uncertain whether the borrower can satisfy the contractual terms of the loan agreement. Cash payments received while a loan is categorized as nonaccrual will be recorded as a reduction of principal as long as doubt exists as to future collections.

We maintain appraisals on loans secured by real estate, particularly those categorized as nonperforming loans and potential problem loans. In instances where appraisals reflect reduced collateral values, we make an evaluation of the borrower’s overall financial condition to determine the need, if any, for impairment or write-down to their fair values. If foreclosure occurs, we record OREO at the lower of our recorded investment in the loan or fair value less our estimated costs to sell.

Our loss and delinquency experience on our loan portfolio has been limited by a number of factors, including our underwriting standards and the relatively short period of time since the loans were originated. Whether our loss and delinquency experience in the area of our portfolio will increase significantly depends upon the value of the real estate securing loans and economic factors such as the overall economy of the region.

Other real estate owned ("OREO") at June 30, 2018 was $5.6 million compared to $7.6 million at December 31, 2017. The Bank sold one OREO property with a book balance of $1.5 million in the second quarter of 2018 and realized a gain of $189 thousand, while another OREO property was written down $150 thousand in the same period.

Non-covered nonaccrual loans were $1.3 million (excluding $3.7 million of loans fully covered by SBA guarantees) at June 30, 2018 compared to $12.3 million (excluding $4.7 million of loans fully covered by SBA guarantees) as of December 31, 2017. During the second quarter of 2018, a $9.9 million loan, that had been on nonaccrual status since the third quarter of 2017, was fully paid off, including $732 thousand of interest which was recognized in the second quarter of 2018. The ratio of non-covered nonperforming assets (excluding the SBA guaranteed loans) to total non-covered assets decreased from 0.77% at the end of 2017 to 0.25% at June 30, 2018.

Southern National's allowance for loan losses as a percentage of total non-covered loans at June 30, 2018 was 0.52%, compared to 0.46% at the end of 2017. The allowance for loan losses as a percentage of non-covered non-acquired loans was 0.85% and 0.89% at June 30, 2018 and December 31, 2017, respectively.

We have an internal loan review and a loan committee, both of which provide on-going monitoring to identify and address issues with problem loans. The loan loss provision is determined after consideration of all known relevant internal and external factors affecting loan collectability to maintain the allowance for loan and lease losses at a level necessary to absorb estimated credit losses.

The following table presents a comparison of non-covered nonperforming assets as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Nonaccrual loans	$4,953	$ 16,931
Loans past due 90 days and accruing interest	-	-
Total nonperforming loans	4,953	16,931
Other real estate owned	5,560	7,577
Total non-covered nonperforming assets	$10,513	$ 24,508

Troubled debt restructurings	$665	$ 672
SBA guaranteed amounts included in nonaccrual loans	$3,652	$ 4,664
Allowance for loan losses to nonperforming loans	222.11 %	55.50 %
Allowance for loan losses to total non-covered loans	0.52 %	0.46 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	0.25 %	0.77 %

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Investment Securities

Investment securities, available for sale and held to maturity, totaled $246.0 million at June 30, 2018 down from $259.6 million at December 31, 2017.

Investment securities in our portfolio as of June 30, 2018 were as follows:

- residential government-sponsored collateralized mortgage obligations in the amount of $53.5 million;
- agency residential mortgage-backed securities in the amount $39.0 million;
- corporate bonds in the amount of $2.0 million;
- commercial mortgage-backed securities in the amount of $27.1 million;
- SBA loan pool securities in the amount of $22.0 million;
- callable agency securities in the amount of $55.8 million;
- trust preferred securities in the amount of $5.8 million; and
- municipal bonds in the amount of $40.7 million with a taxable equivalent yield of 3.07% and ratings as of June 30, 2018 as follows:

Moody's Rating	Amount (in thousands)	Standard & Poor's Rating	Amount (in thousands)
Aaa	$ 5,774	AAA	$ 6,405
Aa1	11,758	AA+	9,087
Aa2	4,346	AA	12,185
Aa3	1,860	AA-	1,761
A1	1,880	A+	1,045
A2	1,549	A	832
Baa1	1,037	BBB+	1,037
NA	12,469	NA	8,321
Total	$ 40,673	Total	$ 40,673

No investment securities were purchased or sold during the first half of 2018.

At June 30, 2018, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)
						(in thousands)				
Held to Maturity										
ALESCO VII A1B	Senior	Aaa	AAA	Aa2	AA	$3,026	$2,801	$ 2,973	18 %	$ 219
MMCF III B	Senior Sub	A3	A-	Ba1	BBB	257	253	238	32 %	4
						3,283	3,054	3,211		$ 223
										Cumulative OTTI Related to Credit Loss (2)
Available for Sale Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	1,099	1,035	26 %	$ 400
ALESCO V C1	Mezzanine	A2	A	Caa1	C	2,150	1,491	1,699	14 %	660
						3,650	2,590	2,734		$ 1,060
Total						$6,933	$5,644	$ 5,945		

(1) Pre-tax, and represents unrealized losses at date of transfer from available-for-sale to held-to-maturity, net of accretion

(2) Pre-tax

Each of these investment securities has been evaluated for potential impairment under accounting guidelines. In performing a detailed cash flow analysis of each investment security, Sonabank works with independent third parties to identify the most reflective estimate of the cash flow estimated to be collected. If this estimate results in a present value of expected cash flows that is less than the amortized cost basis of an investment security (that is, credit loss exists), an other than temporary impairment is considered to have occurred. If there is no credit loss, any impairment is considered temporary.

We recognized no other than temporary impairment charges during the six months ended June 30, 2018 and 2017, respectively.

Liquidity and Funds Management

The objective of our liquidity management is to assure the ability to meet our financial obligations. These obligations include the payment of deposits on demand or at maturity, the repayment of borrowings at maturity and the ability to fund commitments and other new business opportunities. We obtain funding from a variety of sources, including customer deposit accounts, customer certificates of deposit and payments on our loans and investments. Historically, our level of core deposits has been insufficient to fully fund our lending activities. As a result, we have sought funding from additional sources, including institutional certificates of deposit and the sale of available for sale investment securities. In addition, we maintain lines of credit with the FHLB of Atlanta, federal funds lines of credit with three correspondent banks and utilize securities sold under agreements to repurchase and reverse repurchase agreement borrowings from approved securities dealers.

We prepare a cash flow forecast for one year with the first three months prepared on a weekly basis and on a monthly basis thereafter. The projections incorporate expected cash flows on loans, investment securities, and deposits based on data used to prepare our interest rate risk analyses. To estimate loan growth over the one year period, the projection incorporates the scheduled loan closings in the Loan Pipeline Report along with other management estimates.

During the six months ended June 30, 2018, we funded our financial obligations with deposits, borrowings from the FHLB of Atlanta and the issuance of the SNBV Senior Subordinated Notes in January 2017. At June 30, 2018, we had $326.8 million of unfunded lines of credit and undisbursed construction loan funds. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

The following table provides a comparison of our leverage and risk-weighted capital ratios and the leverage and risk-weighted capital ratios of the Bank at the dates indicated to the minimum and well-capitalized regulatory standards (dollars in thousands):

	Actual		Required for Capital Adequacy Purposes (1)		To Be Categorized as Well Capitalized (2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
June 30, 2018						
Southern National						
Common equity tier 1 capital ratio	$222,839	10.79%	$ 92,953	4.50 %	n/a	n/a
Tier 1 risk-based capital ratio	232,839	11.27%	123,937	6.00 %	n/a	n/a
Total risk-based capital ratio	290,840	14.08%	165,250	8.00 %	n/a	n/a
Leverage ratio	232,839	9.00 %	82,625	4.00 %	n/a	n/a
Sonabank						
Common equity tier 1 capital ratio	$270,004	13.07%	$ 92,996	4.50 %	$ 134,327	6.50 %
Tier 1 risk-based capital ratio	270,004	13.07%	123,994	6.00 %	165,325	8.00 %
Total risk-based capital ratio	281,004	13.60%	165,325	8.00 %	206,657	10.00 %
Leverage ratio	270,004	10.43%	103,539	4.00 %	129,423	5.00 %
December 31, 2017						
Southern National						
Common equity tier 1 capital ratio	$211,399	10.53%	$ 90,300	4.50 %	n/a	n/a
Tier 1 risk-based capital ratio	220,430	10.98%	120,399	6.00 %	n/a	n/a
Total risk-based capital ratio	276,827	13.80%	160,533	8.00 %	n/a	n/a
Leverage ratio	220,430	8.82 %	100,022	4.00 %	n/a	n/a
Sonabank						
Common equity tier 1 capital ratio	$256,615	12.79%	$ 90,282	4.50 %	$ 130,407	6.50 %
Tier 1 risk-based capital ratio	256,615	12.79%	120,375	6.00 %	160,500	8.00 %
Total risk-based capital ratio	266,012	13.26%	160,500	8.00 %	200,626	10.00 %
Leverage ratio	256,615	10.26%	100,040	4.00 %	125,051	5.00 %

(1) When fully phased-in on January 1, 2019, the Basel III capital rules include a capital conservation buffer of 2.5% that is added on top of each of the minimum risk-based capital ratios noted above. Implementation began on

January 1, 2016 at the 0.625% level and will increase each subsequent January 1, until it reaches 2.5% on January 1, 2019.

(2) Prompt corrective action provisions are not applicable at the bank holding company level.

The most recent regulatory notification categorized Sonabank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed Sonabank's category.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are engaged primarily in the business of investing funds obtained from deposits and borrowings into interest-earning loans and investments. Consequently, our earnings depend to a significant extent on our net interest income, which is the difference between the interest income on loans and other investments and the interest expense on deposits and borrowings. To the extent that our interest-bearing liabilities do not reprice or mature at the same time as our interest-earning assets, we are subject to interest rate risk and corresponding fluctuations in net interest income. We have employed asset/liability management policies that seek to manage our net interest income, without having to incur unacceptable levels of credit or investment risk.

We use simulation modeling to manage our interest rate risk, and we review quarterly interest sensitivity reports prepared for us by FTN Financial using the Sendero ALM Analysis System. This approach uses a model which generates estimates of the change in our economic value of equity ("EVE") over a range of interest rate scenarios. EVE is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts using assumptions about estimated loan prepayment rates, reinvestment rates and deposit decay rates.

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in EVE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of June 30, 2018 and as of December 31, 2017. All changes are within our Asset/Liability Risk Management Policy guidelines except for the change resulting from the 200 basis point decrease in interest rates at June 30, 2018 and December 31, 2017.

Sensitivity of Economic Value of Equity
As of June 30, 2018

	Economic Value of Equity			Economic Value of Equity as a % of	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	% Change From Base	Total Assets	Equity Book Value
	(dollar amounts in thousands)				
Up 400	$503,619	$40,992	8.86 %	18.48 %	150.58 %
Up 300	499,160	36,533	7.90 %	18.32 %	149.25 %
Up 200	492,651	30,024	6.49 %	18.08 %	147.30 %
Up 100	480,627	18,000	3.89 %	17.64 %	143.71 %
Base	462,627	-	0.00 %	16.98 %	138.32 %
Down 100	425,402	(37,225)	-8.05 %	15.61 %	127.19 %
Down 200	363,814	(98,813)	-21.36 %	13.35 %	108.78 %

Sensitivity of Economic Value of Equity
As of December 31, 2017

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Economic Value of Equity as a % of Equity Book Value
	(dollar amounts in thousands)				
Up 400	$509,991	$48,765	10.57 %	19.51 %	158.00 %
Up 300	505,504	44,278	9.60 %	19.34 %	156.61 %
Up 200	497,373	36,147	7.84 %	19.03 %	154.09 %
Up 100	485,450	24,224	5.25 %	18.57 %	150.40 %
Base	461,226	-	0.00 %	17.64 %	142.90 %
Down 100	399,221	(62,005)	-13.44 %	15.27 %	123.69 %
Down 200	324,959	(136,267)	-29.54 %	12.43 %	100.68 %

Our interest rate sensitivity is also monitored by management through the use of a model run by FTN Financial that generates estimates of the change in the net interest income ("NII") over a range of interest rate scenarios. NII depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. In this regard, the model assumes that the composition of our interest sensitive assets and liabilities existing at June 30, 2018 and December 31, 2017 remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. All changes are within our Asset/Liability Risk Management Policy guidelines at June 30, 2018 and December 31, 2017.

	Sensitivity of Net Interest Income As of June 30, 2018			
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$104,880	$ 13,621	4.14 %	0.46 %
Up 300	101,615	10,356	4.03 %	0.35 %
Up 200	98,287	7,028	3.92 %	0.24 %
Up 100	94,740	3,481	3.80 %	0.12 %
Base	91,259	-	3.68 %	0.00 %
Down 100	87,598	(3,661)	3.55 %	-0.13 %
Down 200	85,071	(6,188)	3.45 %	-0.23 %

	Sensitivity of Net Interest Income As of December 31, 2017			
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$97,308	$ 10,749	4.06 %	0.41 %
Up 300	94,909	8,350	3.97 %	0.32 %
Up 200	92,404	5,845	3.87 %	0.22 %
Up 100	89,684	3,125	3.77 %	0.12 %
Base	86,559	-	3.65 %	0.00 %
Down 100	86,688	129	3.65 %	0.00 %
Down 200	86,868	309	3.66 %	0.01 %

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE requires the making of certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. Accordingly, although the EVE tables and NII tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net worth and NII. Sensitivity of EVE and NII are modeled using different assumptions and approaches. In the low interest rate environment that currently exists, limitations on downward adjustments for interest rates, particularly as they apply to deposits, can and do result in anomalies in scenarios that are unlikely to occur due to the current low interest rate environment.

ITEM 4 – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this quarterly report on Form 10-Q, under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(c) under the Securities Exchange Act of 1934). Based upon that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

(b) Changes in Internal Control over Financial Reporting. There have been no changes in Southern National's internal control over financial reporting that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Southern National and Sonabank may, from time to time, be a party to various legal proceedings arising in the ordinary course of business. There are no proceedings pending, or to management's knowledge, threatened, that represent a significant risk against Southern National or Sonabank as of June 30, 2018.

ITEM 1A – RISK FACTORS

As of June 30, 2018 there have been no material changes to the risk factors faced by Southern National from those previously disclosed on our Annual Report on Form 10-K for the year ended December 31, 2017.

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

Not applicable

Item 3 – Defaults Upon Senior Securities

Not applicable

Item 4 – MINE SAFETY DISCLOSURES

Not applicable

Item 5 – Other Information

Not applicable

ITEM 6 - EXHIBITS

(a) Exhibits.

Exhibit No.	**Description**
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following materials from Southern National Bancorp of Virginia, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2018, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Income and Comprehensive Income (unaudited), (iii) Consolidated Statement of Changes in Stockholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements (unaudited).

*Filed with this Quarterly Report on Form 10-Q
**Furnished with this Quarterly Report on Form 10-Q

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	Southern National Bancorp of Virginia, Inc. (Registrant)
August 9, 2018 (Date)	/s/ Joe A. Shearin **Joe A. Shearin,** Chief Executive Officer **(Principal Executive Officer)**
August 9, 2018 (Date)	/s/ Joseph D. Pennington **Joseph D. Pennington,** **Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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