UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2019
or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission file number: 001-33037

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

(Exact name of registrant as specified in its charter)

Virginia **(State or other jurisdiction of incorporation or organization)**	**20-1417448** **(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)

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

Title of each class	Trading symbol	Name of each exchange on which registered
Common Stock, $0.01 par value	SONA	Nasdaq Global Market

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

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

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

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 ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically, every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See definitions 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 ☒ Smaller reporting company ☐ Emerging growth company ☐

Non-accelerated filer ☐

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 Act). Yes ☐ No ☒

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2019 was approximately $347.4 million based on the closing price of the common stock on such date.

The number of shares of common stock outstanding as of March 5, 2020 was 24,295,380.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in conjunction with the registrant's 2020 Annual Meeting of Shareholders are incorporated by reference into Part III, Items 10-14 of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements about future expectations, activities and events that constitute forward-looking statements within the meaning of, and subject to the protection of, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act and are intended to be covered by the safe harbor provided by the same. Forward-looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. These statements are not statements of historical fact. The words “believe,” “may,” “forecast,” “should,” “anticipate,” “estimate,” “expect,” “intend,” “continue,” “would,” “could,” “hope,” “might,” “assume,” “objective,” “seek,” “plan,” “strive” or similar words, or the negatives of these words, identify forward-looking statements.

Forward-looking statements involve risks and uncertainties that may 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 other factors discussed in the “Risk Factors” section of this Annual Report on Form 10-K, factors that could contribute to those differences include, but are not limited to:

- the effects of future economic, business and market conditions and disruptions in the credit and financial markets, domestic and foreign;
- changes in the local economies in our market areas which 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, as well as the adequacy of our cash flow from operations and borrowings to meet our short-term liquidity needs;
- 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 current or future acquisitions 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;
- failure to prevent a breach to our Internet-based system and online commerce security;
- 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;
- government intervention in the U.S. financial system, including the effects of legislative, tax, accounting and regulatory actions and reforms, including the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), the Jumpstart Our Business Startups Act, the Consumer Financial Protection Bureau, the capital ratios of Basel III as adopted by the federal banking authorities and the Tax Cuts and Jobs Act of 2017;
- uncertainty related to the transition away from or methods of calculating the London Inter-bank Offered Rate (“LIBOR”);
- 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 properties that we assume upon foreclosure;
- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;

- risks of current or future 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;
- 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;
- acts of God or of war or other conflicts, acts of terrorism, pandemics or other catastrophic events that may affect general economic conditions;
- changes in accounting policies, rules and practices and applications or determinations made thereunder;
- fraudulent and negligent acts by loan applicants, mortgage brokers and our employees;
- failure to maintain effective internal controls and procedures;
- 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;
- our ability to attract and retain qualified employees; and
- other factors and risks described under “Risk Factors” herein and in any of our subsequent reports that we file with the Securities and Exchange Commission (the “Commission” or “SEC”) under the Exchange Act.

Forward-looking statements are not guarantees of performance or results and should not be relied upon as representing management’s views as of any subsequent date. 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 refer to the risk factors and other cautionary statements in this Annual Report on Form 10-K and in our periodic and current reports filed with the SEC for specific factors that could cause our actual results to be different from those expressed or implied by our forward-looking statements. These statements speak only as of the date of this Annual Report on Form 10-K (or an earlier date to the extent applicable). Except as required by applicable law, we undertake no obligation to update publicly these statements in light of new information or future events.

PART I

Item 1. Business

Overview

Southern National Bancorp of Virginia, Inc. ("Southern National", "SNBV", "we" or "our") is the bank holding company for Sonabank ("Sonabank" or the "Bank"), a Virginia state-chartered bank which commenced operations on April 14, 2005. Sonabank provides a range of financial services to individuals and small and medium sized businesses. As of December 31, 2019, Southern National had $2.19 billion in total loans, $2.72 billion in total assets, $2.12 billion in total deposits and $377.2 million in total stockholders' equity. At December 31, 2019, Sonabank had forty-five full-service branches. Thirty-eight full-service retail branches are in Virginia, located in Ashland, Burgess, Callao, Central Garage, Charlottesville, Chester, Clifton Forge, Colonial Heights, Courtland, Deltaville, Fairfax, Front Royal, Gloucester, Gloucester Point, Hampton, Hartfield, Haymarket, Heathsville, Kilmarnock, Leesburg, McLean, Mechanicsville (2), Middleburg, Midlothian, New Market, Newport News, Quinton, Reston, Richmond, South Riding, Surry, Tappahannock (2), Urbanna, Warrenton, Waverly, and Williamsburg, and seven full-service retail branches in Maryland, located in Bethesda, Brandywine, Huntingtown, Owings, Rockville, Shady Grove, and Upper Marlboro.

While we offer a wide range of commercial banking services, we focus on making loans secured primarily by commercial real estate and other types of secured and unsecured commercial loans to small and medium-sized businesses in a number of industries, as well as loans to individuals for a variety of purposes, including 1-4 family residential loans. We are a leading Small Business Administration ("SBA") lender among Virginia community banks. We also invest in real estate-related securities, including collateralized mortgage obligations and agency mortgage backed securities. Our principal sources of funds for loans and investing in securities are deposits and, to a lesser extent, borrowings. We offer a broad range of deposit products, including checking (NOW), savings, money market accounts and certificates of deposit. We actively pursue business relationships by utilizing the business contacts of our senior management, other bank officers and our directors, thereby capitalizing on our knowledge of our local market areas.

Effective December 4, 2009, Sonabank assumed certain deposits and liabilities and acquired certain assets of Greater Atlantic Bank ("GAB") from the Federal Deposit Insurance Corporation ("FDIC"), as receiver for GAB, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on December 4, 2009. Covered loan losses are reimbursed in accordance with our FDIC loss sharing agreements. There were two agreements with the FDIC, one for single family assets which was a 10 year agreement that expired on December 31, 2019, and one for non-single family (commercial) assets which was a 5 year agreement that expired on December 31, 2014.

Effective April 27, 2012, Sonabank assumed substantially all of the deposits and liabilities and acquired substantially all of the assets of the HarVest Bank of Maryland from the FDIC as receiver.

The merger with Prince George's Federal Savings Bank ("PGFSB") was completed on August 1, 2014. Southern National acquired PGFSB in a cash and stock transaction.

On May 15, 2014, SNBV purchased a 44% equity investment and preferred stock of Southern Trust Mortgage, LLC ("STM"), a regional mortgage banking company headquartered in Virginia Beach, Virginia. On June 23, 2017, in connection with the Eastern Virginia Bankshares, Inc. ("EVBS") acquisition, we added 4.9% of additional equity investment and preferred stock in STM, bringing our total equity investment to 48.9%. As of December 31, 2019, our equity investment in STM totaled $5.0 million and our preferred stock investment in STM totaled $3.3 million. STM has mortgage banking originators in Delaware, Virginia, Maryland, North Carolina and South Carolina. STM only originates retail mortgages.

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.

Immediately following the completion of the sale of the SNBV Senior Subordinated Notes, Southern National injected $22.0 million of the proceeds into its subsidiary, Sonabank.

On June 23, 2017, SNBV completed its acquisition of EVBS, headquartered in Glen Allen, Virginia, and its subsidiaries, EVB Statutory Trust I (the "Trust") and EVB, a Virginia state-charted bank. 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 operated twenty-four retail branches in Virginia.

We primarily market our products and services to small and medium-sized businesses and to retail consumers. Our strategy is to provide superior service through our employees, who are relationship-oriented and committed to their respective customers. Through this strategy, we intend to grow our business, expand our customer base and improve our profitability. The key elements of our strategy are to:

- *Utilize the Strength of our Management Team*. The experience and market knowledge of our management team is one of our greatest strengths and competitive advantages. Our executive chairman of the board, Georgia S. Derrico, served as chairman of the board and chief executive officer of Southern National until our merger with EVBS on June 23, 2017. Our executive vice chairman of the board, R. Roderick Porter, served as president of Southern National until our merger with EVBS on June 23, 2017. Ms. Derrico and Mr. Porter each have over 50 years of banking experience. As part of the merger with EVBS on June 23, 2017, legacy EVBS president and chief executive officer, Joe A. Shearin, assumed the same role with Southern National. Mr. Shearin retired on February 19, 2020. The Company's board of directors appointed Mr. Dennis J. Zember Jr. as the new president and chief executive officer, effective February 19, 2020. Mr. Zember, currently our chief executive officer, has more than 23 years of financial experience in the banking industry. Ms. Derrico, Mr. Porter and Mr. Zember comprise our office of the chairman, which serves as the senior executive leadership of Southern National.
- *Leverage Our Existing Foundation for Additional Growth.* Based on our management's depth of experience and certain infrastructure investments, we believe that we will be able to take advantage of certain economies of scale typically enjoyed by larger organizations to expand our operations both organically and through strategic cost-effective branch or bank acquisitions. We believe that the investments we have made in our data processing, risk management infrastructure, staff and branch network will be able to support a much larger asset base. We are committed, however, to control any additional growth in a manner designed to minimize the risk and to maintain strong capital ratios.
- *Continue to Pursue Selective Acquisition Opportunities*. Historically, acquisitions have been a key part of our growth. We believe that we have demonstrated the skill sets and experience necessary to acquire and integrate successfully both bank and branch acquisitions, and that with our strong capital position, we are well-positioned to take advantage of acquisition opportunities as they may arise. We intend to focus on targets in our market areas or other attractive areas with significant core deposits and/or a potential customer base compatible with our growth strategy.
- *Focus on the Business Owner*. It is our goal to be the bank that business owners in our markets turn to first for commercial banking needs as a result of our superior personal service and the tailored products and services that we provide. To help achieve this goal, we:
  - have a standing credit committee that meets as often as necessary on a "when needed" basis to review completed loan applications, making extensive use of technology to facilitate our internal communications and thereby enabling us to respond to our customers promptly;
  - are an SBA approved "Preferred" lender, which permits us to make SBA loan decisions at Sonabank rather than waiting for SBA processing. We offer a number of different types of SBA loans designed for the small and medium-sized business owner and many of our SBA loan customers also have other relationships with Sonabank. This product group is complex and "paper intensive" and not well utilized by some of our competitors;

  - provide Internet business banking at *www.sonabank.com* which allows our business customers 24-hour web-based access to their accounts so they can confirm or transfer balances, pay bills, download statements and use our “Web Lockbox” or “Sona Cash Manager;”
  - provide our business customers with “Sona In-House,” a service that utilizes Check 21 technology to allow customers to make remote deposits from their business locations and gives them access to those funds within 24 to 48 hours; and
  - provide our business customers with access to SABL, our state-of-the-art asset-based lending system. Unlike most asset-based lending systems, which are based on manual processes or software that certifies a company’s borrowing base periodically, SABL provides a real time capability to analyze and adjust borrowing availability based on actual collateral levels. SABL is predicated on a link between any kind of accounting software used by the customer and Sonabank’s server.
- *Maintain Local Decision-Making and Accountability*. We believe that we have a competitive advantage over larger national and regional financial institutions by providing superior customer service with experienced, knowledgeable management, localized decision-making capabilities and prompt credit decisions. We believe that our customers want to deal directly with the people who make the credit decisions.
- *Focus on Asset Quality and Strong Underwriting*. We consider asset quality to be of primary importance and have taken measures in an effort to ensure that, despite the growth in our loan portfolio, we maintain strong asset quality through strong underwriting standards.
- *Build a Stable Core Deposit Base*. We intend to continue to grow a stable core deposit base of business and retail customers. To the extent that our asset growth outpaces this local deposit funding source, we plan to continue to borrow and raise deposits in the national market using deposit intermediaries. We intend to continue our practice of developing a deposit relationship with each of our loan customers.

General

Our principal business is the acquisition of deposits from the general public through our branch offices and deposit intermediaries and the use of these deposits to fund our loan and investment security portfolios. We seek to be a full service community bank that provides a wide variety of financial services to our middle market corporate clients as well as to our retail clients. We are an active commercial lender, have been designated as a “Preferred SBA Lender” and participate in the Virginia Small Business Financing Authority lending program. In addition, we are an active commercial real estate lender. We also invest funds in mortgage-backed securities, collateralized mortgage obligations, securities issued by agencies of the federal government, obligations of states and political subdivisions and pooled trust preferred securities.

The principal sources of funds for our lending and investment activities are deposits, repayment of loans, prepayments from mortgage-backed securities, repayments of maturing investment securities, Federal Home Loan Bank (“FHLB”) advances and other borrowed money.

Principal sources of revenue are interest and fees on loans and investment securities, as well as fee income derived from the maintenance of deposit accounts and income from bank-owned life insurance policies. Our principal expenses include interest paid on deposits, advances from the FHLB of Atlanta, junior subordinated debt, senior subordinated notes and other borrowings, and operating expenses.

Available Information

Southern National files annual, quarterly, periodic and other reports under the Securities Exchange Act of 1934, as amended, with the SEC. These reports are posted and are available at no cost on our website, *www.sonabank.com*, through the Investor Relations link, as soon as reasonably practicable after we file such documents with the SEC. Our filings are also available through the SEC’s website at *www.sec.gov*.

Lending Activities

Our primary strategic objective is to serve small to medium-sized businesses in our market with a variety of unique and useful services, including a full array of commercial mortgage and non-mortgage loans. These loans include commercial real estate loans, construction and permanent loans, development and builder loans, accounts receivable financing, lines of credit, equipment and vehicle loans, leasing, and commercial overdraft protection. We strive to do business in the areas served by our branches, which is also where our marketing is focused, and the vast majority of our loan customers are located in existing market areas. Substantially all of our loans are with borrowers in Virginia, Maryland, West Virginia, and Washington, D.C. The SBA may from time to time come to us because of our reputation and expertise as an SBA lender and ask us to review a loan outside of our core counties but within our market area. Prior to making a loan, we obtain loan applications to determine a borrower's ability to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements and confirmations.

The following is a discussion of each of the major types of lending in which we engage. For more information on our lending activities, see "Item 7. Management's Discussion and Analysis of Financial Condition."

Commercial Real Estate Lending

Permanent. Commercial real estate lending includes loans for permanent financing. Commercial real estate lending typically involves higher loan principal amounts and the repayment of loans is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. As a general practice, we require our commercial real estate loans to be secured by well-managed income producing properties with adequate margins and to be guaranteed by responsible parties. We look for opportunities where cash flow from the collateral properties provides adequate debt service coverage and the guarantor's net worth is strong. At December 31, 2019, our commercial real estate loans for permanent financing, including multi-family residential loans and loans secured by farmland, totaled $1.07 billion. Owner occupied commercial real estate loans totaled $414.5 million.

Our underwriting guidelines for commercial real estate loans reflect all relevant credit factors, including, among other things, the income generated from the underlying property to adequately service the debt, the availability of secondary sources of repayment and the overall creditworthiness of the borrower. In addition, we look to the value of the collateral, while maintaining the level of equity invested by the borrower.

All valuations on property which will secure loans over $250 thousand are performed by independent outside appraisers who are reviewed by our executive vice president of credit risk management and/or our appraisal reviewer. We retain a valid lien on real estate and obtain a title insurance policy (on first trust loans only) that insures the property is free of encumbrances. In addition, we do title searches on all loans secured by real estate.

Construction. We recognize that construction loans for commercial, multifamily and other non-residential properties can involve risk due to the length of time it may take to bring a finished real estate product to market. As a result, we will only make these types of loans when pre-leasing or pre-sales or other credit factors suggest that the borrower can carry the debt if the anticipated market and property cash flow projections change during the construction phase.

Income producing property loans are supported by evidence of the borrower's capacity to service the debt. All of our commercial construction loans are guaranteed by the principals or general partners. At December 31, 2019, we had $150.8 million of construction and land development loans.

Construction loan borrowers are generally pre-qualified for the permanent loan by us or a third party. We obtain a copy of the contract with the general contractor who must be acceptable to us. All plans, specifications and surveys must include proposed improvements. We review feasibility studies and risk analyses showing sensitivity of the project to variables such as interest rates, vacancy rates, lease rates and operating expenses.

Commercial Business Lending

These loans consist of lines of credit, revolving credit facilities, demand loans, term loans, equipment loans, SBA loans, stand-by letters of credit and unsecured loans. Commercial business loans are generally secured by accounts receivable, equipment, inventory and other collateral, such as readily marketable stocks and bonds with adequate margins, cash value in life insurance policies and savings and time deposits at Sonabank. At December 31, 2019, our commercial business loans totaled $221.4 million.

In general, commercial business loans involve more credit risk than residential mortgage loans and real estate-backed commercial loans and, therefore, usually yield a higher return to us. The increased risk for commercial business loans is due to the type of collateral securing these loans. The increased risk also derives from the expectation that commercial loans will be serviced principally from the operations of the business, which may not be successful. Historical trends have shown that these types of loans have higher delinquencies than mortgage loans. Because of this, we often utilize the SBA 7(a) program (which guarantees the repayment of up to 90% of the principal and accrued interest to us) to reduce the inherent risk associated with commercial business lending.

Another way that we reduce risk in the commercial loan portfolio is by taking accounts receivable as collateral using our SABL system. Our accounts receivable financing facilities, which provide a relatively high yield with considerable collateral control, are lines of credit under which a company can borrow up to the amount of a borrowing base which covers a certain percentage of the company's receivables. From our customer's point of view, accounts receivable financing is an efficient way to finance expanding operations because borrowing capacity expands as sales increase. Customers can borrow from 75% to 90% of qualified receivables. In most cases, the borrower's customers pay us directly. For borrowers with a good track record for earnings and quality receivables, we will consider pricing based on an increment above the prime rate for transactions in which we lend up to a percentage of qualified outstanding receivables based on reported aging of the receivables portfolio.

We also actively pursue for our customers equipment lease financing opportunities. We provide financing and use a third party to service the leases. Payment is derived from the cash flow of the borrower, so credit quality may not be any lower than it would be in the case of an unsecured loan for a similar amount and term.

SBA Lending

We have developed an expertise in the federally guaranteed SBA program. The SBA program is an economic development program which finances the expansion of small businesses. We are a Preferred Lender in the Washington, D.C. and Richmond, Virginia Districts of the SBA. As an SBA Preferred Lender, our pre-approved status allows us to quickly respond to customers' needs. Under the SBA program, we originate and fund SBA 7(a) loans which qualify for guarantees up to 90% of principal and accrued interest. We also originate 504 chapter loans in which we generally provide 50% of the financing, taking a first lien on the real property as collateral.

We provide SBA loans to potential borrowers who are proposing a business venture, often with existing cash flow and a reasonable chance of success. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and, except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process.

Residential Mortgage Lending

Permanent. Our business model generally does not include originating permanent residential mortgage loans. We originate such loans solely on a case-by-case basis. In the case of conventional loans, we typically lend up to 80% of the appraised value of single-family residences and require mortgage insurance for loans exceeding that amount. We have no sub-prime loans.

Sonabank has established with STM underwriting guidelines under which it will purchase residential construction only, construction loans that convert to permanent, and permanent loans primarily in its Virginia and Maryland footprint from STM. These are largely loans that do not conform to FNMA or FHLMC standards because of size or acreage. We purchased loans in an aggregate amount of $152.2 million from STM during 2019.

We retain a valid lien on real estate and obtain a title insurance policy that ensures that the property is free of encumbrances. We also require hazard insurance and flood insurance for all loans secured by real property if the real property is in a flood plain as designated by the Department of Housing and Urban Development. We also require most borrowers to advance funds on a monthly basis from which we make disbursements for items such as real estate taxes, private mortgage insurance and hazard insurance.

Home Equity Lines of Credit ("HELOC"). Sonabank rarely originated HELOCs prior to our merger with EVBS. Since our merger with EVBS, HELOC's are now a regular part of our business model. At December 31, 2019, we had outstanding HELOC balances totaling $109.0 million.

Consumer Lending

We offer various types of secured and unsecured consumer loans. We make consumer loans primarily for personal, family or household purposes as a convenience to our customer base since these loans are not the focus of our lending activities. As a general guideline, a consumer's debt service should not exceed 40% of gross income or 45% of net income. For purposes of this calculation, debt includes house payment or rent, fixed installment payments, the estimated payment for the loan being requested and the minimum required payment on any revolving debt. At December 31, 2019, we had $26.3 million of consumer loans outstanding.

Credit Approval and Collection Policies

Because future loan losses are so closely intertwined with our underwriting policy, we have instituted what management believes is a stringent loan underwriting policy. Our underwriting guidelines are tailored for particular credit types, including lines of credit, revolving credit facilities, demand loans, term loans, equipment loans, real estate loans, SBA loans, stand-by letters of credit and unsecured loans. We will make extensions of credit based, among other factors, on the potential borrower's creditworthiness, likelihood of repayment and proximity to market areas served.

We have a standing Credit Committee comprised of certain officers, each of whom has a defined lending authority in combination with other officers. These individual lending authorities are determined by our Executive Chairman and Chief Risk Officer and are based on the individual's technical ability and experience. These lending authorities are approved by our board of directors. Our Credit Committee is comprised of three levels of members, based on experience: regular, senior, and executive. Our Senior Executive members are Ms. Derrico, Mr. Porter and Mr. Zember. Our Junior Executive members are Ms. Leibson and Mr. Brockwell. Mr. Stevens, Chief Risk Officer, must approve risk ratings for loans over $1.5 million, as well as exceptions to the Credit Policy. Mr. Tabor, Commercial Credit Team Lead must approve exceptions to Credit Policy for loans less than $1.5 million. Generally, group credits over $10 million must be approved by the Credit Committee and full Board of Directors or the Credit Committee plus two outside directors. Under our loan approval process, the sponsoring loan officer's approval is required on all credit submissions. This approval must be included in or added to the individual and joining authorities outlined below. The sponsoring loan officer is primarily responsible for the customer's relationship with us, including, among other things, obtaining and maintaining adequate credit file information. We require each loan officer to maintain loan files in an order and detail that would enable a disinterested third party to review the file and determine the current status and quality of the credit.

In addition to the approval of the sponsoring loan officer, we require approvals from one or more members of the Credit Committee on all loans. The approvals required differ based on the size of the borrowing relationship. At least one regular and one senior or executive member must approve loans up to $500 thousand. One regular, one senior and one executive member of the committee must approve all loans between $500 thousand and $1.0 million. One regular, one senior and two executive members must approve loans between $1.0 million and $6.0 million. All five executive members must approve loans over $6.0 million. Regardless of the number of approvals needed, we encourage each member not to rely on another member's approval as a basis for approval and to treat his approval as if it were the only approval necessary to approve the loan. Our legal lending limit to one borrower is 15% of our unimpaired capital and surplus plus the allowance for loan losses. As of December 31, 2019, our legal lending limit was approximately $48.5 million. Our largest group credit as of December 31, 2019, was approximately $42.5 million.

The following collection actions are the minimal procedures which management believes are necessary to properly monitor past due loans and leases. When a borrower fails to make a payment, we contact the borrower in person, in writing or on the telephone. At a minimum, all borrowers are notified by mail when payments of principal and/or interest are 10 days past due. Real estate and commercial loan borrowers are assessed a late charge when payments are 10-15 days past due. Customers are contacted by a loan officer before the loan becomes 60 days delinquent. After 90 days, if the loan has not been brought current or an acceptable arrangement is not worked out with the borrower, we will institute measures to remedy the default, including commencing foreclosure action with respect to mortgage loans and repossessions of collateral in the case of consumer loans.

If foreclosure is effected, the property is sold at a public auction in which we may participate as a bidder. If we are the successful bidder, we include the acquired real estate property in our real estate owned ("OREO") account until it is sold. These assets are initially recorded at fair value net of estimated selling costs. To the extent there is a subsequent decline in fair value, that amount is charged to operating expense. At December 31, 2019, we had OREO totaling $6.2 million.

Special Products and Services

To complement our array of loans, we also provide the following special products and services to our commercial customers:

Cash Management Services

Cash Management services are offered that enable the Bank's business customers to maximize the efficiency of their cash management. Specific products offered in our Cash Management services program include the following:

- Investment/sweep accounts
- Wire Transfer services
- Employer Services/Payroll processing services
- Zero balance accounts
- Night depository services
- Lockbox services
- Depository transfers
- Merchant services (third party)
- ACH originations
- Business debit cards
- Controlled disbursement accounts
- SONA 24/7 (Check 21 processing)
- Sonabank asset based lending (SABL)
- Mobiliti, a mobile banking application for personal and business accounts

Some of the products listed above are described in-depth below.

- **SONA 24/7/Check 21:** SONA 24/7 is ideal for landlords, property managers, medical professionals, and any other businesses that accept checks. SONA 24/7 allows customers of Sonabank to have total control over how, when, and where their checks will be deposited. SONA 24/7 uses the Check Truncation technology outlined by the "Check Clearing for the 21st Century Act", passed in October 2004 ("Check 21"). With Check Truncation, paper checks can be converted to electronic images and processed between participating banks, vastly speeding up the check clearing process. SONA In-House passes on the benefits of Check Truncation directly to Sonabank's business customers.

- **Lockbox Services:** Sonabank will open a lockbox, retrieve and scan incoming checks, and deposit them directly into the customer's account. The images of the checks will then be available to view online. This makes bookkeeping for the customer fast and easy, and because Sonabank is checking the lockbox daily, funds will often be available sooner. Big businesses have been using lockboxes for decades as a cash management tool. Sonabank makes this service cost effective for all small and medium sized businesses as well.

- **Employer Services:** Sonabank will provide its business clients with software that allows them to generate ACH payroll transactions to their employees' accounts.

- **SABL:** Asset Based Lending is a form of "collateral-based" lending. It is a combination of secured lending and short-term business lending. It is a specialized form of financing that allows a bank's commercial customers to pledge their working assets, typically accounts receivable and, to a lesser extent, inventory, as collateral to secure financing. Asset Based Lending borrowers are typically in the service, manufacturing or distribution fields.

  SABL is an Asset Based Lending software system built by Sonabank that allows the Bank to monitor the collateral of its commercial borrowers who have pledged their working assets (accounts receivables and other qualifying assets such as inventory) as collateral. SABL has the ability to track other offsets (liabilities, e.g. other loans the customer has with the Bank) to the line of credit. SABL serves to provide the more stringent controls and supervision that this type of lending requires.

  One control that is typical of Asset Based Lending is that the commercial borrower is required to have its customers remit invoice payments to a bank controlled lockbox. The bank retrieves these payments and the bank applies them directly to any outstanding balance on the line. SABL allows for this and can combine that service with remote capture (Check 21) if warranted.

  Most Asset Based Lending systems are manual processes or software that certifies the borrowing base periodically. These certifications are usually provided in the form of manually created borrowing bases backed up with field exams. SABL provides a real time capability to analyze and adjust borrowing availability based on the levels of collateral at the moment.

  SABL also offers an automated collateral upload, taking receivable information directly from the clients accounting system. SABL also offers discretionary borrowings and pay offs, allowing clients to borrow on or pay down their line at their discretion, as long as they are compliant with the SABL system. Lastly, SABL offers superior reporting, offering reports to bank officers that provide certain information they need to monitor risk. Customized reports can also be built for clients.

- **Mobiliti:** Sona Mobile is perfect for customers on the go, as it is available on a large variety of devices and networks. Sona Mobile offers easy access to account balances, transactions and internal transfers. Mobile Deposit allows customers to save time by eliminating the need to visit a branch. The customer can deposit a check through Sona Mobile by using their certified device (up to $2,500).

  Sona Business Mobile can help business customers manage their finances faster than ever. Customers have access to their information via a wide range of devices and networks. The shared user credentials and security settings between online and mobile banking make access more efficient for the business customer. Sona Business Mobile offers standard online banking features, along with enhanced features such as ACH & Wire transfer processing, including granting approvals to users to complete those processes. Mobile deposit is a time saving tool that allows business customers to deposit checks through Sona Business Mobile from their certified device (up to $5,000).

- **Other Consumer/Retail Products and Services.** Other products and services that are offered by the Bank are primarily directed toward the individual customer and include the following:

  - Debit cards
  - ATM services
  - Travelers Checks
  - Notary service in some branches
  - Wire transfers
  - Online banking with bill payment services
  - Credit Cards
  - Kasasa - rewards program

Competition

The banking business is highly competitive, and our profitability depends principally on our ability to compete in the market areas in which our banking operations are located. We experience substantial competition in attracting and retaining savings deposits and in lending funds. The primary factors we encounter in competing for savings deposits are convenient office locations and rates offered. Direct competition for savings deposits comes from other commercial bank and thrift institutions, money market mutual funds and corporate and government securities which may offer more attractive rates than insured depository institutions are willing to pay. The primary factors we encounter in competing for loans include, among others, interest rate and loan origination fees and the range of services offered. Competition for origination of loans normally comes from other commercial banks, thrift institutions, mortgage bankers, mortgage brokers, insurance companies and fintech or digital lending companies. We have been able to compete effectively with other financial institutions by:

- emphasizing customer service and technology;
- establishing long-term customer relationships and building customer loyalty; and
- providing products and services designed to address the specific needs of our customers.

Employees

At December 31, 2019, we had 350 full-time equivalent employees. Management of Southern National and Sonabank considers its relations with its employees to be good. Neither Southern National nor Sonabank are a party to any collective bargaining agreement.

SUPERVISION AND REGULATION

Bank holding companies and banks are extensively regulated under federal and state law. This discussion is a summary and is qualified in its entirety by reference to the particular statutory and regulatory provisions described below, and is not intended to be an exhaustive description of the statutes or regulations applicable to Southern National or the Bank. The business of Southern National and the Bank is subject to extensive regulation and supervision under federal and state law, including oversight by the Board of Governors of the Federal Reserve System (“Federal Reserve”) and the Virginia Bureau of Financial Institutions (“VBFI”), a regulatory division of the Virginia State Corporation Commission.

Changes in laws and regulations may alter the structure, regulation and competitive relationships of financial institutions. In addition, bank regulatory agencies may issue enforcement actions, policy statements, interpretive letters and similar written guidance applicable to us or the Bank. It cannot be predicted whether and in what form new laws and regulations, or interpretations thereof, may be adopted or the extent to which the business of Southern National and the Bank may be affected thereby, but they may have a material adverse effect on our business, operations, and earnings.

Violations of laws and regulations, or other unsafe and unsound practices, may result in regulatory agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company. Under federal and state laws and regulations pertaining to the safety and soundness of insured depository institutions, federal and state banking regulators have the authority to compel or restrict certain actions on our part if they determine that we have insufficient capital or other resources, or are otherwise operating in a manner that may be deemed to be inconsistent with safe and sound banking practices. Under this authority, our bank regulators can require us or our subsidiaries to enter into informal or formal supervisory agreements, including board resolutions, memoranda of understanding, written agreements and consent or cease and desist orders, pursuant to which we would be required to take identified corrective actions to address cited concerns and to refrain from taking certain actions.

If we become subject to and are unable to comply with the terms of any future regulatory actions or directives, supervisory agreements, or orders, then we could become subject to additional, heightened supervisory actions and orders, possibly including consent orders, prompt corrective action restrictions and/or other regulatory actions, including prohibitions on the payment of dividends on our common stock and preferred stock. If our regulators were to take such additional supervisory actions, then we could, among other things, become subject to significant restrictions on our ability to develop any new business, as well as restrictions on our existing business, and we could be required to raise additional capital, dispose of certain assets and liabilities within a prescribed period of time, or both. The terms of any such supervisory action could have a material negative effect on our business, reputation, operating flexibility, financial condition, and the value of our common stock and preferred stock.

Supervision, regulation, and examination of Southern National, the Bank, and our respective subsidiaries by the appropriate regulatory agencies, as described herein, are intended primarily for the protection of consumers, bank depositors and the Deposit Insurance Fund ("DIF") of the FDIC, and the U.S. banking and financial system, rather than holders of our capital stock.

Bank Holding Company Regulation

Southern National is subject to extensive supervision and regulation by the Federal Reserve System pursuant to the Bank Holding Company Act of 1956, as amended (the "Bank Holding Company Act"). We are required to file with the Federal Reserve periodic reports and such other information as the Federal Reserve may request. Ongoing supervision is provided through regular examinations by the Federal Reserve and other means that allow the regulators to gauge management's ability to identify, assess and control risk in all areas of operations in a safe and sound manner and to ensure compliance with laws and regulations. In addition to regulation by the Federal Reserve as a bank holding company, Southern National is subject to supervision and regulation by the VBFI under the banking and general business corporation laws of the Commonwealth of Virginia.

Activity Limitations. Southern National is registered with the Federal Reserve as a bank holding company. Bank holding companies generally are limited to the business of banking, managing or controlling banks, and other activities that the Federal Reserve determines to be closely related to banking, or managing or controlling banks as to be a proper incident thereto. Bank holding companies are prohibited from acquiring or obtaining control of more than five percent (5%) of the outstanding voting interests of any company that engages in activities other than those activities permissible for bank holding companies. Examples of activities that the Federal Reserve has determined to be permissible are making, acquiring, brokering, or servicing loans; leasing personal property; providing certain investment or financial advice; performing certain data processing services; acting as agent or broker in selling credit life insurance and other insurance products in certain locations; and performing certain insurance underwriting activities. The Bank Holding Company Act does not place geographic limits on permissible non-banking activities of bank holding companies. Even with respect to permissible activities, however, the Federal Reserve has the power to order a holding company or its subsidiaries to terminate any activity or its control of any subsidiary when the Federal Reserve has reasonable cause to believe that continuation of such activity or control of such subsidiary would pose a serious risk to the financial safety, soundness or stability of any bank subsidiary of that holding company.

Source of Strength Obligations. A bank holding company is required to act as a source of financial and managerial strength to its subsidiary bank. The term "source of financial strength" means the ability of a company, such as us, that directly or indirectly owns or controls an insured depository institution, such as the Bank, to provide financial assistance to such insured depository institution in the event of financial distress. The appropriate federal banking agency for the depository institution (in the case of the Bank, this agency is the Federal Reserve) may require reports from us to assess our ability to serve as a source of strength and to enforce compliance with the source of strength requirements by requiring us to provide financial assistance to the Bank in the event of financial distress. If we were to enter bankruptcy or become subject to the orderly liquidation process established by the Dodd-Frank Act, any commitment by us to a federal bank regulatory agency to maintain the capital of the Bank would be assumed by the bankruptcy trustee or the FDIC, as appropriate, and entitled to a priority of payment. In addition, the FDIC provides that any insured depository institution generally will be liable for any loss incurred by the FDIC in connection with the default of, or any assistance provided by the FDIC to, a commonly controlled insured depository institution. The Bank is an FDIC-insured depository institution and thus subject to these requirements.

Acquisitions. The Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve or waiver of such prior approval before it (1) acquires ownership or control of any voting shares of any bank if, after such acquisition, such bank holding company will own or control more than five percent (5%) of the voting shares of such bank, (2) acquires all of the assets of a bank, or (3) merges with any other bank holding company. In reviewing a proposed covered acquisition, among other factors, the Federal Reserve considers (1) the financial and managerial resources of the companies involved, including pro forma capital ratios; (2) the risk to the stability of the United States banking or financial system; (3) the convenience and needs of the communities to be served, including performance under the CRA; and (4) the effectiveness of the companies in combatting money laundering. The Federal Reserve also reviews any indebtedness to be incurred by a bank holding company in connection with a proposed acquisition to ensure that the bank holding company can service such indebtedness without adversely affecting its ability to serve as a source of strength to its bank subsidiaries. Well capitalized and well managed bank holding companies are permitted to acquire control of banks in any state, subject to federal regulatory approval, without regard to whether such a transaction is prohibited by the laws of any state. However, a bank holding company may not, following an interstate acquisition, control more than 10% of nationwide insured deposits or 30% of deposits within any state in which the acquiring bank operates.

Change in Control. Federal law restricts the amount of voting stock of a bank holding company or a bank that a person (including an entity) may acquire without the prior approval of banking regulators. Under the federal Change in Bank Control Act and the regulations thereunder, a person or group must give advance notice to and obtain approval from the Federal Reserve before acquiring control of any bank holding company, such as Southern National. The Change in Bank Control Act creates a rebuttable presumption of control if a member or group acquires a certain percentage or more of a bank holding company's voting stock, or if one or more other control factors are present. As a result, a person or group generally must provide prior notice to the Federal Reserve before acquiring the power to vote 10% or more of our outstanding common stock. The overall effect of such laws is to make it more difficult to acquire a bank holding company and a bank by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of the Company may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control of other companies. Investors should be aware of these requirements when acquiring shares of our stock.

Virginia Law. Certain state corporation laws may have an anti-takeover affect. Virginia law restricts transactions between a Virginia corporation and its affiliates and potential acquirers. The following discussion summarizes the two Virginia statutes that may discourage an attempt to acquire control of Southern National.

Virginia Code Sections 13.1-725 – 727.1 govern "Affiliated Transactions." These provisions, with several exceptions discussed below, require approval by the holders of at least two-thirds of the remaining voting shares of material acquisition transactions between a Virginia corporation and any holder of more than 10% of any class of its outstanding voting shares. Affiliated Transactions include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of an interested shareholder, or any reclassification, including a reverse stock split, recapitalization, or merger of the corporation with its subsidiaries which increases the percentage of voting shares owned beneficially by any 10% shareholder by more than 5%.

These provisions were designed to deter certain takeovers of Virginia corporations. In addition, the statute provides that, by affirmative vote of a majority of the voting shares other than shares owned by any 10% shareholder, a corporation can adopt an amendment to its articles of incorporation or bylaws providing that the Affiliated Transactions provisions shall not apply to the corporation. Southern National "opted out" of the Affiliated Transactions provisions when it incorporated.

Virginia law also provides that shares acquired in a transaction that would cause the acquiring person's voting strength to meet or exceed any of the three thresholds (20%, 33 $^{1/3}$% or 50%) have no voting rights for those shares exceeding that threshold, unless granted by a majority vote of shares not owned by the acquiring person. This provision empowers an acquiring person to require the Virginia corporation to hold a special meeting of shareholders to consider the matter within 50 days of the request. Southern National also "opted out" of this provision at the time of its incorporation.

Governance and Financial Reporting Obligations. We are required to comply with various corporate governance and financial reporting requirements under the Sarbanes-Oxley Act of 2002, as well as rules and regulations adopted by the SEC, the Public Company Accounting Oversight Board, and NASDAQ. In particular, we are required to include management and independent registered public accounting firm reports on internal controls as part of our Annual

Report on Form 10-K in order to comply with Section 404 of the Sarbanes-Oxley Act. We have evaluated our controls, including compliance with the SEC rules on internal controls, and have and expect to continue to spend significant amounts of time and money on compliance with these rules. Our failure to comply with these internal control rules may materially adversely affect our reputation, ability to obtain the necessary certifications to financial statements, and the values of our securities.

Corporate Governance. The Dodd-Frank Act addresses many investor protections, corporate governance, and executive compensation matters that will affect most U.S. publicly traded companies. The Dodd-Frank Act (1) grants shareholders of U.S. publicly traded companies an advisory vote on executive compensation; (2) enhances independence requirements for Compensation Committee members; and (3) requires companies listed on national securities exchanges to adopt incentive-based compensation claw-back policies for executive officers.

Incentive Compensation. The Dodd-Frank Act required the banking agencies and the SEC to establish joint rules or guidelines for financial institutions with more than $1.0 billion in assets, such as Southern National and the Bank, which prohibit incentive compensation arrangements that the agencies determine to encourage inappropriate risks by the institution. The banking agencies issued proposed rules in 2011 and previously issued guidance on sound incentive compensation policies. In 2016, the Federal Reserve also proposed rules that would, depending upon the assets of the institution, directly regulate incentive compensation arrangements and would require enhanced oversight and recordkeeping. As of December 31, 2019, these rules have not been implemented. We and Sonabank have undertaken efforts to ensure that our incentive compensation plans do not encourage inappropriate risks, consistent with three key principles—that incentive compensation arrangements should appropriately balance risk and financial rewards, be compatible with effective controls and risk management, and be supported by strong corporate governance.

Shareholder Say-On-Pay Votes. The Dodd-Frank Act requires public companies to take shareholders' votes on proposals addressing compensation (known as say-on-pay), the frequency of a say-on-pay vote, and the golden parachutes available to executives in connection with change-in-control transactions. Public companies must give shareholders the opportunity to vote on the compensation at least every three years and the opportunity to vote on frequency at least every six years, indicating whether the say-on-pay vote should be held annually, biennially, or triennially.

Anti-tying rules. A bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with extensions of credit, leases or sales of property, or furnishing of services.

Capital Requirements

The Bank is required under federal law to maintain certain minimum capital levels based on ratios of capital to total assets and capital to risk-weighted assets. The required capital ratios are minimums, and the federal banking agencies may determine that a banking organization, based on its size, complexity or risk profile, must maintain a higher level of capital in order to operate in a safe and sound manner. Risks such as concentration of credit risks and the risk arising from non-traditional activities, as well as the institution's exposure to a decline in the economic value of its capital due to changes in interest rates, and an institution's ability to manage those risks are important factors that are to be taken into account by the federal banking agencies in assessing an institution's overall capital adequacy. The following is a brief description of the relevant provisions of these capital rules and their potential impact on our capital levels.

The Bank is subject to the following risk-based capital ratios: a common equity Tier 1 ("CET1") risk-based capital ratio, a Tier 1 risk-based capital ratio, which includes CET1 and additional Tier 1 capital, and a total capital ratio, which includes Tier 1 and Tier 2 capital. CET1 is primarily comprised of the sum of common stock instruments and related surplus net of treasury stock, retained earnings, and certain qualifying minority interests, less certain adjustments and deductions, including with respect to goodwill, intangible assets, mortgage servicing assets and deferred tax assets subject to temporary timing differences. Additional Tier 1 capital is primarily comprised of noncumulative perpetual preferred stock, tier 1 minority interests and grandfathered trust preferred securities. Tier 2 capital consists of instruments disqualified from Tier 1 capital, including qualifying subordinated debt, other preferred stock and certain hybrid capital instruments, and a limited amount of loan loss reserves up to a maximum of 1.25% of risk-weighted assets, subject to certain eligibility criteria. The capital rules also define the risk-weights assigned to assets and off-balance sheet items to determine the risk-weighted asset components of the risk-based capital rules, including, for example, certain “high volatility” commercial real estate, past due assets, structured securities and equity holdings.

The leverage capital ratio, which serves as a minimum capital standard, is the ratio of Tier 1 capital to quarterly average assets net of goodwill, certain other intangible assets, and certain required deduction items. The required minimum leverage ratio for all banks is 4%.

In addition, effective January 1, 2019, the capital rules require a capital conservation buffer of CET1 of 2.5% above each of the minimum capital ratio requirements (CET1, Tier 1, and total risk-based capital), which is designed to absorb losses during periods of economic stress. These buffer requirements must be met for a bank to be able to pay dividends, engage in share buybacks or make discretionary bonus payments to executive management without restriction.

Failure to be well-capitalized or to meet minimum capital requirements could result in certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have an adverse material effect on our operations or financial condition. Failure to meet minimum capital requirements could also result in restrictions on the Bank’s ability to pay dividends or otherwise distribute capital or to receive regulatory approval of applications or other restrictions on its growth.

The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), among other things, requires the federal bank regulatory agencies to take “prompt corrective action” regarding depository institutions that do not meet minimum capital requirements. FDICIA establishes five regulatory capital tiers: “well capitalized”, “adequately capitalized”, “undercapitalized”, “significantly undercapitalized”, and “critically undercapitalized”. A depository institution’s capital tier will depend upon how its capital levels compare to various relevant capital measures and certain other factors, as established by regulation. FDICIA generally prohibits a depository institution from making any capital distribution (including payment of a dividend) or paying any management fee to its holding company if the depository institution would thereafter be undercapitalized. The FDICIA imposes progressively more restrictive restraints on operations, management and capital distributions, depending on the category in which an institution is classified. Undercapitalized depository institutions are subject to restrictions on borrowing from the Federal Reserve System. In addition, undercapitalized depository institutions may not accept brokered deposits absent a waiver from the FDIC, are subject to growth limitations and are required to submit capital restoration plans for regulatory approval. A depository institution's holding company must guarantee any required capital restoration plan, up to an amount equal to the lesser of 5 percent of the depository institution's assets at the time it becomes undercapitalized or the amount of the capital deficiency when the institution fails to comply with the plan. Federal banking agencies may not accept a capital plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. If a depository institution fails to submit an acceptable plan, it is treated as if it is significantly undercapitalized. All of the federal bank regulatory agencies have adopted regulations establishing relevant capital measures and relevant capital levels for federally insured depository institutions. The Bank was well capitalized at December 31, 2019, and brokered deposits are not restricted.

To be well-capitalized, the Bank must maintain at least the following capital ratios:

- 6.5% CET1 to risk-weighted assets;
- 8.0% Tier 1 capital to risk-weighted assets;
- 10.0% Total capital to risk-weighted assets; and
- 5.0% leverage ratio.

The Bank’s regulatory capital ratios were above the applicable well-capitalized standards and met the then-applicable capital conservation buffer. Based on current estimates, we believe that the Bank will continue to exceed all applicable well-capitalized regulatory capital requirements and the capital conservation buffer in 2020.

The Economic Growth, Regulatory Relief, and Consumer Protection Act (the “Economic Growth Act”) signed into law in May 2018 scaled back certain requirements of the Dodd-Frank Act and provided other regulatory relief. Among the provisions of the Economic Growth Act was a requirement that the Federal Reserve raise the asset threshold for those bank holding companies subject to the Federal Reserve’s Small Bank Holding Company Policy Statement (“Policy

Statement") to $3.0 billion. As a result, as of the effective date of that change in 2018, Southern National was no longer required to comply with the risk-based capital rules applicable to the Bank as described above. The Federal Reserve may however, require smaller bank holding companies subject to the Policy Statement to maintain certain minimum capital levels, depending upon general economic conditions and a bank holding company's particular condition, risk profile and growth plans.

On December 21, 2018, federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the CECL accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. In June 2016, the FASB issued ASU 2016-13, which introduced CECL as the methodology to replace the current "incurred loss" methodology for financial assets measured at amortized cost, and changed the approaches for recognizing and recording credit losses on available-for-sale debt securities and purchased credit impaired financial assets. Under the incurred loss methodology, credit losses are recognized only when the losses are probable or have been incurred; under CECL, companies are required to recognize the full amount of expected credit losses for the lifetime of the financial assets, based on historical experience, current conditions and reasonable and supportable forecasts. This change will result in earlier recognition of credit losses that the Company deems expected but not yet probable. For SEC reporting companies that do not meet the definition of a smaller reporting company and with December 31 calendar year ends, such as the Company, CECL became effective January 1, 2020.

Payment of Dividends

Southern National is a legal entity separate and distinct from the Bank and other subsidiaries. Its primary source of cash, other than securities offerings, is dividends from the Bank. Under the Federal Deposit Insurance Act, no dividends may be paid by an insured bank if the bank is in arrears in the payment of any insurance assessment due to the FDIC. The payment of dividends by the Bank may also be affected by other regulatory requirements and policies, such as the maintenance of adequate capital. If, in the opinion of the applicable regulatory authority, a bank under its jurisdiction is engaged in, or is about to engage in, an unsafe or unsound practice (which, depending on the financial condition of the bank, could include the payment of dividends), such authority may require, after notice and hearing, that such bank cease and desist from such practice. The Federal Reserve has formal and informal policies which provide that insured banks should generally pay dividends only out of current operating earnings.

Under a Federal Reserve policy adopted in 2009, the board of directors of a bank holding company must consider certain factors to ensure that its dividend level is prudent relative to maintaining a strong financial position, and is not based on overly optimistic earnings scenarios, such as potential events that could affect its ability to pay, while still maintaining a strong financial position. As a general matter, the Federal Reserve has indicated that the board of directors of a bank holding company should consult with the Federal Reserve and eliminate, defer or significantly reduce the bank holding company's dividends if:

- its net income available to shareholders for the past four quarters, net of dividends previously paid during that period, is not sufficient to fully fund the dividends;
- its prospective rate of earnings retention is not consistent with its capital needs and overall current and prospective financial condition; or
- it will not meet, or is in danger of not meeting, its minimum regulatory capital adequacy ratios.

Bank Regulation

The operation of the Bank is subject to state and federal statutes applicable to state banks and the regulations of the Federal Reserve, the FDIC and the Consumer Financial Protection Bureau ("CFPB"). The operations of the Bank may also be subject to applicable Office of the Comptroller of the Currency ("OCC") regulation to the extent state banks are granted parity with national banks. Such statutes and regulations relate to, among other things, required reserves, investments, loans, mergers and consolidations, issuances of securities, payments of dividends, establishment of branches, consumer protection and other aspects of the Bank's operations. Violations of laws and regulations, or other unsafe and unsound practices, may result in these agencies imposing fines or penalties, cease and desist orders, or taking other enforcement actions. Under certain circumstances, these agencies may enforce these remedies directly against officers, directors, employees and other parties participating in the affairs of a bank or bank holding company.

Safety and Soundness. The Federal Deposit Insurance Act requires the federal prudential bank regulatory agencies, such as the Federal Reserve, to prescribe, by regulation or guideline, operational and managerial standards for all insured depository institutions relating to: (1) internal controls; (2) information systems and audit systems; (3) loan documentation; (4) credit underwriting; (5) interest rate risk exposure; and (6) asset quality. The agencies also must prescribe standards for asset quality, earnings, and stock valuation, as well as standards for compensation, fees and benefits. The federal banking agencies have adopted regulations and Interagency Guidelines Establishing Standards for Safety and Soundness to implement these required standards. These guidelines set forth the safety and soundness standards used to identify and address problems at insured depository institutions before capital becomes impaired. Under the regulations, if a regulator determines that a bank fails to meet any standards prescribed by the guidelines, the regulator may require the bank to submit an acceptable plan to achieve compliance, consistent with deadlines for the submission and review of such safety and soundness compliance plans.

Examinations. The Bank is subject to regulation, reporting, and periodic examinations by the Federal Reserve and the VBFI. These regulatory authorities routinely examine the Bank's reserves, loan and investment quality, consumer compliance, management policies, procedures and practices and other aspects of operations. The Federal Reserve has adopted the Federal Financial Institutions Examination Council's ("FFIEC") rating system and assigns each financial institution a confidential composite rating based on an evaluation and rating of six essential components of an institution's financial condition and operations, including Capital Adequacy, Asset Quality, Management, Earnings, Liquidity and Sensitivity to Market Risk, as well as the quality of risk management practices.

Consumer Protection. The Dodd-Frank Act established the CFPB, an independent regulatory authority housed within the Federal Reserve having centralized authority, including examination and enforcement authority, for consumer protection in the banking industry. The CFPB has rule writing, examination, and enforcement authority with regard to the Bank's (and the Company's) compliance with a wide array of consumer financial protection laws, including the Truth in Lending Act, the Real Estate Settlement Procedures Act, the Truth in Savings Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, the Home Mortgage Disclosure Act, the S.A.F.E. Mortgage Licensing Act, the Fair Credit Reporting Act (except Sections 615(e) and 628), the Fair Debt Collection Practices Act, and the Gramm-Leach-Bliley Act (sections 502 through 509 relating to privacy), among others. The CFPB has broad authority to enforce a prohibition on unfair, deceptive, or abusive acts and practices. In addition, the Dodd-Frank Act permits states to adopt consumer protection laws and regulations that are stricter than those regulations promulgated by the CFPB, and state attorneys general are permitted to enforce consumer protection rules adopted by the CFPB against certain institutions.

Deposit Insurance Assessments. The Deposit Insurance Fund ("DIF") of the FDIC insures the deposits of the Bank generally up to a maximum of $250,000 per depositor, per insured bank, for each account ownership category. The FDIC charges insured depository institutions quarterly premiums to maintain the DIF. Deposit insurance assessments are based on average total consolidated assets minus its average tangible equity, and take into account certain risk-based financial ratios and other factors. The assessment rate schedule can change from time to time, at the discretion of the FDIC, subject to certain limits. In addition, in 2019 the Bank was subject to quarterly assessments by the FDIC to pay interest on Financing Corporation ("FICO") bonds, ending in the first quarter of 2019.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by a bank's federal regulatory agency. In addition, the Federal Deposit Insurance Act provides that, in the event of the liquidation or other resolution of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution, including those of the parent bank holding company.

Insider Transactions. In addition to regulating capital, the Federal Reserve has broad authority to prevent the development or continuance of unsafe or unsound banking practices. Pursuant to this authority, the Federal Reserve has adopted regulations that restrict preferential loans and loan amounts to "affiliates" and "insiders" of banks, require banks to keep information on loans to major shareholders and executive officers and bar certain director and officer interlocks between financial institutions.

Reserves. The Bank is subject to Federal Reserve regulations that require the Bank to maintain reserves against transaction accounts (primarily checking accounts). These reserve requirements are subject to annual adjustment by the Federal Reserve.

Anti-Money Laundering. Under the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism ("USA PATRIOT") Act of 2001, financial institutions are subject to prohibitions against specified financial transactions and account relationships as well as enhanced due diligence and "know your customer" standards in their dealings with foreign financial institutions and foreign customers. The USA PATRIOT Act requires financial institutions to establish anti-money laundering programs with minimum standards that include:

- the development of internal policies, procedures, and controls;
- the designation of a compliance officer;
- an ongoing employee training program; and
- an independent audit function to test the programs.

Bank regulators routinely examine institutions for compliance with these anti-money laundering obligations and recently have been active in imposing "cease and desist" and other regulatory orders and money penalty sanctions against institutions found to be in violation of these requirements. In addition, the Financial Crimes Enforcement Network has adopted new regulations that became effective on May 11, 2018, that require, subject to certain exclusions and exemptions, covered financial institutions to identify and verify the identity of beneficial owners of legal entity customers.

Economic Sanctions. The Office of Foreign Assets Control ("OFAC") is responsible for helping to ensure that U.S. entities do not engage in transactions with certain prohibited parties, as defined by various Executive Orders and acts of Congress. OFAC publishes, and routinely updates, lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts, including the Specially Designated Nationals and Blocked Persons List. If we find a name on any transaction, account or wire transfer that is on an OFAC list, we must undertake certain specified activities, which could include blocking or freezing the account or transaction requested, and we must notify the appropriate authorities.

Concentrations in Lending. During 2006, the federal bank regulatory agencies released guidance on "Concentrations in Commercial Real Estate Lending" (the "Guidance") and advised financial institutions of the risks posed by CRE lending concentrations. The Guidance requires that appropriate processes be in place to identify, monitor and control risks associated with real estate lending concentrations. Higher allowances for loan losses and capital levels may also be required. The Guidance is triggered when CRE loan concentrations exceed either:

- Total reported loans for construction, land development, and other land of 100% or more of a bank's total risk based capital; or
- Total reported loans secured by multifamily and nonfarm nonresidential properties and loans for construction, land development, and other land of 300% or more of a bank's total risk based capital.

The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type. The Guidance also applies when a bank has a sharp increase in CRE loans or has significant concentrations of CRE secured by a particular property type.

Community Reinvestment Act. The Bank is subject to the provisions of the CRA, which imposes a continuing and affirmative obligation, consistent with their safe and sound operation, to help meet the credit needs of entire communities where the bank accepts deposits, including low- and moderate-income neighborhoods. The Federal Reserve's assessment of the Bank's CRA record is made available to the public. Further, a less than satisfactory CRA rating will slow, if not preclude, expansion of banking activities and prevent a company from becoming or remaining a financial holding company. Federal CRA regulations require, among other things, that evidence of discrimination against applicants on a prohibited basis, and illegal or abusive lending practices be considered in the CRA evaluation. The Bank has a rating of "Satisfactory" in its most recent CRA evaluation.

Consumer Regulation. Activities of the Bank are subject to a variety of statutes and regulations designed to protect consumers. These laws and regulations include, among numerous other things, provisions that:

- limit the interest and other charges collected or contracted for by the Bank, including rules respecting the terms of credit cards and of debit card overdrafts;
- govern the Bank's disclosures of credit terms to consumer borrowers;
- require the Bank to provide information to enable the public and public officials to determine whether it is fulfilling its obligation to help meet the housing needs of the community it serves;
- prohibit the Bank from discriminating on the basis of race, creed or other prohibited factors when it makes decisions to extend credit;
- govern the manner in which the Bank may collect consumer debts; and
- prohibit unfair, deceptive or abusive acts or practices in the provision of consumer financial products and services.

Mortgage Rules. Pursuant to rules adopted by the CFPB, banks that make residential mortgage loans are required to make a good faith determination that a borrower has the ability to repay a mortgage loan prior to extending such credit, require that certain mortgage loans contain escrow payments, obtain new appraisals under certain circumstances, comply with integrated mortgage disclosure rules, and follow specific rules regarding the compensation of loan originators and the servicing of residential mortgage loans.

Transactions with affiliates. There are various restrictions that limit the ability of the Bank to finance, pay dividends or otherwise supply funds to the Company or other affiliates. In addition, banks are subject to certain restrictions under Section 23A and B of the Federal Reserve Act on certain transactions, including any extension of credit to its bank holding company or any of its other affiliates, on investments in the securities thereof, and on the taking of such securities as collateral for loans to any borrower.

Privacy and Cybersecurity. The Bank is subject to federal and state banking regulations that limit its ability to disclose non-public information about consumers to non-affiliated third parties. These limitations require us to periodically disclose our privacy policies to consumers and allow consumers to prevent disclosure of certain personal information to a non-affiliated third party under certain circumstances. Consumers also have the option to direct banks and other financial institutions not to share information about transactions and experiences with affiliated companies for the purpose of marketing products or services. Banking institutions are required to implement a comprehensive information security program that includes administrative, technical, and physical safeguards to ensure the security and confidentiality of customer records and information. These security and privacy policies and procedures for the protection of confidential and personal information are in effect across our lines of business. Furthermore, the federal banking regulators regularly issue guidance regarding cybersecurity intended to enhance cyber risk management. A financial institution is expected to implement multiple lines of defense against cyber attacks and ensure that their risk management procedures address the risk posed by potential cyber threats. A financial institution is further expected to maintain procedures to effectively respond to a cyber attack and resume operations following any such attack. The Company has adopted and implemented policies and procedures to comply with these privacy, information security, and cybersecurity requirements.

Audit Reports. Insured institutions with total assets of $500 million or more must submit annual audit reports prepared by independent auditors to federal and state regulators. In some instances, the audit report of the institution's holding company can be used to satisfy this requirement. Independent auditors must receive examination reports, supervisory agreements and reports of enforcement actions. For insured institutions with total assets of $1.0 billion or more, financial statements prepared in accordance with U.S. GAAP, management's certifications concerning responsibility for the financial statements, internal controls and compliance with legal requirements designated by the FDIC, and an attestation by the independent auditor regarding the statements of management relating to the internal controls must be submitted.

For insured institutions with total assets of more than $3.0 billion, independent auditors may be required to review quarterly financial statements. The FDICIA requires that institutions with total assets of $1.0 billion or more have independent audit committees, consisting of outside directors only. The committees of insured institutions with total assets of $3.0 billion or more must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

The foregoing is only a brief summary of certain statutes, rules, and regulations that may affect Southern National and the Bank. Numerous other statutes and regulations also will have an impact on the operations of Southern National and the Bank. Supervision, regulation and examination of banks by the regulatory agencies are intended primarily for the protection of depositors, not shareholders.

Item 1A. Risk Factors

An investment in our common stock involves risks. The following is a description of the material risks and uncertainties that Southern National believes affect its business and should be considered before making an investment in our common stock. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of the risks described in this Annual Report on Form 10-K were to actually occur, our financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of our common stock could decline significantly and you could lose part or all of your investment.

General market conditions and economic trends could have a material adverse effect on our business, financial condition and results of operations.

The state of the economy and various economic factors, including inflation, recession, unemployment, interest rates, declining oil prices and the level of U.S. debt, as well as governmental action and uncertainty resulting from U.S. and global political trends, may directly or indirectly, have a destabilizing effect on our financial condition and results of operations. An unfavorable or uncertain national or regional political or economic environment could drive losses beyond those which are provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power.

Any of the foregoing could adversely affect our financial condition and results of operations. While economic conditions in the Commonwealth of Virginia and the U.S. are stable, there can be no assurance that the economy will remain stable.

The Bank is also directly affected by government monetary and fiscal policy and by regulatory measures affecting the banking industry and the economy in general. The actions of the Federal Reserve Bank ("FRB") as the nation's central bank can directly affect the money supply and, in general, affect the lending activities of banks by increasing or decreasing the cost and availability of funds. An important function of the FRB is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the FRB to implement this objective are open market operations in United States government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits, and interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future; however, the effects of the various FRB policies on our future business and earnings cannot be predicted.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition, results of operations and cash flows.

Liquidity is essential to our business. Our ability to implement our business strategy will depend on our ability to obtain funding for loan originations, working capital, possible acquisitions and other general corporate purposes. An inability to raise funds through deposits, borrowings, securities sold under agreements to repurchase, the sale of loans and other sources could have a substantial negative effect on our liquidity. We do not anticipate that our retail and commercial deposits will be sufficient to meet our funding needs in the foreseeable future. We therefore rely on deposits obtained through intermediaries, FHLB advances, and other wholesale funding sources to obtain the funds necessary to implement our growth strategy.

Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general, including a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. To the extent we are not successful in obtaining such funding, we will be unable to implement our strategy as planned which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems provided both internally and externally to conduct our business. Any failure, interruption or breach in security of these systems (such as a spike in transaction volume, a cyber-attack or other unforeseen events) could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures and service level agreements designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. While we maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems, we cannot assure shareholders that this policy would be sufficient to cover all related financial losses and damages should we experience any one or more of our or a third party's systems failing or experiencing a cyber-attack. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, including remediation costs and increased protection costs, any of which could have a material adverse effect on our financial condition and results of operations.

We face significant cyber and data security risk that could result in the disclosure of confidential information, adversely affect our business or reputation and expose us to significant liabilities.

As a financial institution, we are under threat of loss due to hacking and cyber-attacks. This risk has increased in recent years, and continues to increase, as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. The attempts to breach sensitive customer data, such as account numbers and social security numbers, are less frequent but would present significant reputational, legal and/or regulatory costs to us if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers. While we have not experienced any material losses relating to cyber-attacks or other information security breaches since 2017, we have been subject of hacking and cyber-attack and there can be no assurance that we will not suffer additional losses in the future.

The occurrence of any cyber-attack or information security breach could result in material adverse consequences to us including damage to our reputation and the loss of customers. We also could face litigation or additional regulatory scrutiny. Litigation or regulatory actions in turn could lead to significant liability or other sanctions, including fines and penalties or reimbursement of customers adversely affected by security breach. Even if we do not suffer any material adverse consequences as a result of other future events, successful attacks or systems failures at the Bank or at other financial institutions could lead to a general loss of customer confidence in financial institutions including the Bank.

Our ability to mitigate the adverse consequences of occurrences is in part dependent on the quality of our information security procedures and contracts and our ability to anticipate the timing and nature of any such event that occurs. In recent years, we have incurred significant expense towards improving the reliability of our systems and their security from attack. Nonetheless, there remains the risk that we may be materially harmed by cyber-attack and information security breach or others in the future. Methods used to attack information systems change frequently (with generally increasing sophistication), often are not recognized until launched against a target, may be supported by foreign governments or other well-financed entities, and may originate from less regulated and remote areas around the world. As a result, we may be unable to address these methods in advance of attacks, including by implementing adequate preventive measures. If such an attack or breach does occur, we might not be able to fix it timely or adequately. To the extent that such an attack or breach relates to products or services provided by others, we seek to engage in due diligence and monitoring to limit the risk. In addition, as the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

We must respond to rapid technological changes and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly and in order to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

If our nonperforming assets increase, our earnings will suffer.

At December 31, 2019, our non-covered nonperforming assets (which consist of non-covered nonaccrual loans, loans past due 90 days and accruing and OREO) totaled $15.1 million, or 0.69% of total non-covered loans and OREO, which is an increase of $3.3 million, or 30.0%, compared with non-covered nonperforming assets of $11.8 million, or 0.54% of total non-covered loans and OREO at December 31, 2018. At December 31, 2017, our non-covered nonperforming assets were $24.5 million, or 1.20% of total non-covered loans and OREO.

Although economic and market conditions are stable, and our non-covered nonperforming assets as a percentage of total non-covered loans and OREO has improved, we may incur losses if there is a continued increase in non-covered nonperforming assets in the future. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO, thereby adversely affecting our net interest income, and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then fair value of the collateral, which may ultimately result in a loss. We must reserve for probable losses, which is established through a current period charge to the provision for loan losses as well as from time to time, as appropriate, a write down of the value of properties in our OREO portfolio to reflect changing market values. Additionally, there are legal fees associated with the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our OREO. Further, the resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity. Finally, an increase in the level of nonperforming assets increases our regulatory risk profile. There can be no assurance that we will not experience future increases in nonperforming assets.

A significant amount of our loans are secured by real estate and any declines in real estate values in our primary markets could be detrimental to our financial condition and results of operations.

Real estate lending (including commercial, construction, land development, and residential loans) is a large portion of our loan portfolio, constituting $1.94 billion, or approximately 88.7% of our total loan portfolio, as of December 31, 2019. Although residential and commercial real estate values are strong in our market area, such values may not remain elevated. If loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the full value of the collateral that we anticipated at the time of originating the loan, which could require us to increase our provision for loan losses and adversely affect our financial condition and results of operations.

As of December 31, 2019, $713.8 million, or approximately 32.7% of our total loans, were secured by single-family residential real estate. This includes $604.8 million in residential 1-4 family loans and $109.0 million in home equity lines of credit. Total single-family residential real estate loans covered under the FDIC loss sharing agreement amount to $13.5 million as of December 31, 2019. If housing markets in our market areas do not remain strong or deteriorate, we may experience an increase in nonperforming loans, provision for loan losses and charge-offs.

If the value of real estate in our market areas were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on our asset quality, capital structure and profitability.

As of December 31, 2019, a significant portion of our loan portfolio was comprised of loans secured by commercial real estate. In the majority of these loans, real estate was the primary collateral component. In some cases we take real estate as security for a loan even when it is not the primary component of collateral. The real estate collateral that provides the primary or an alternate source of repayment in the event of default may deteriorate in value during the term of the loan as a result of changes in economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax and other laws and acts of nature. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. We are subject to increased lending risks in the form of loan defaults as a result of the high concentration of real estate lending in our loan portfolio. A weak real estate market in our primary market areas could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, the value of real estate and other collateral securing the loans and the value of real estate owned by us. If real estate values decline, it is also more likely that we would be required to increase our allowance for loan losses, which could adversely affect our financial condition and results of operations.

A new accounting standard will result in a significant change in how we recognize credit losses and may have a material impact on our financial condition or results of operations.

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-13, *Financial Instruments-Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, which -replaces the current “incurred loss” model for recognizing credit losses with an “expected loss” model referred to as the Current Expected Credit Loss (“CECL”) model. Under the CECL model, we will be required to present certain financial assets carried at amortized cost, such as loans held for investment and held-to-maturity debt securities, at the net amount expected to be collected. The measurement of expected credit losses is to be based on information about past events, including historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amount. This measurement will take place at the time the financial asset is first added to the balance sheet and periodically thereafter. This differs significantly from the “incurred loss” model required under current U.S. GAAP, which delays recognition until it is probable a loss has been incurred. Accordingly, we expect that the adoption of the CECL model will materially affect how we determine our allowance for loan losses and could require us to significantly increase our allowance. Moreover, the CECL model may create more volatility in the level of our allowance for loan losses. If we are required to materially increase our level of allowance for loan losses for any reason, such increase could adversely affect our business, financial condition and results of operations.

For SEC reporting companies that do not meet the definition of a smaller reporting company and with December 31 calendar year ends, such as Southern National, CECL became effective January 1, 2020. On December 21, 2018, the federal banking agencies issued a joint final rule to revise their regulatory capital rules to (i) address the upcoming implementation of the CECL accounting standard under GAAP; (ii) provide an optional three-year phase-in period for the day-one adverse regulatory capital effects that banking organizations are expected to experience upon adopting CECL; and (iii) require the use of CECL in stress tests beginning with the 2020 capital planning and stress testing cycle for certain banking organizations. We plan to elect the federal banking agencies' rule providing for an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. We are currently evaluating the impact the CECL model will have on our accounting, but we expect to recognize a one-time cumulative-effect adjustment to our allowance for loan losses as of January 1, 2020, consistent with regulatory expectations set forth in interagency guidance issued at the end of 2016. We currently expect the adoption of this ASU will result in an increase of approximately $10.0 million to $15.0 million in our allowance for loan losses, including transfers of non-accretable discount on purchased credit-impaired loans. We do not expect this ASU to have a material impact on our investment securities portfolio at implementation.

Failure to maintain an effective system of disclosure controls and procedures could have a material adverse effect on our business, results of operations and financial condition and could impact the price of our common stock.

Failure to maintain an effective internal control environment could result in us not being able to accurately report our financial results, prevent or detect fraud, or provide timely and reliable financial information pursuant to our reporting obligations, which could have a material adverse effect on our business, financial condition, and results of operations. Further, it could cause our investors to lose confidence in the financial information we report, which could affect the trading price of our common stock.

Management regularly reviews and updates our disclosure controls and procedures, including our internal control over financial reporting. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

If our allowance for loan losses is not adequate to cover actual loan losses, our earnings will decrease.

As a lender, we are exposed to the risk that our borrowers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to ensure repayment. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of the borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses to cover any probable inherent loan losses in the loan portfolio. In determining the size of the allowance, we rely on a periodic analysis of our loan portfolio, our historical loss experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect or if we experience significant loan losses, our current allowance may not be sufficient to cover actual loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. A material addition to the allowance for loan losses could cause our earnings to decrease. Due to the relatively unseasoned nature of our loan portfolio, we may experience an increase in delinquencies and losses as these loans continue to mature.

In addition, federal regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further charge-offs, based on judgments different than those of our management. Any significant increase in our allowance for loan losses or charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

The majority of our assets and liabilities are monetary in nature and subject us to significant risk from changes in interest rates. Fluctuations in interest rates are not predictable or controllable. Like most financial institutions, changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities, which is the difference between interest earned from interest-earning assets, such as loans and investment securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets.

Based on our analysis of the interest rate sensitivity of our assets, an increase in the general level of interest rates may negatively affect the market value of the portfolio equity, but will positively affect our net interest income since most of our assets have floating rates of interest that adjust fairly quickly to changes in market rates of interest. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan and mortgage-backed securities portfolios, and our overall results. Although our asset liability management strategy is designed to control our risk from changes in market interest rates, it may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition.

We are dependent on key personnel and the loss of one or more of those key personnel could impair our relationship with our customers and adversely affect our business.

Many community banks attract customers based on the personal relationships that the banks’ officers and customers establish with each other and the confidence that the customers have in the officers. We significantly depend on the continued service and performance of our key management personnel. We also believe our management team’s depth and breadth of experience in the banking industry is integral to executing our business plan. The loss of the services of members of our senior management team or other key employees or the inability to attract additional qualified personnel as needed could have a material adverse effect on our business.

Our profitability depends significantly on local economic conditions in the areas where our operations and loans are concentrated.

We operate in a mixed market environment with influences from both rural and urban areas. Our profitability depends on the general economic conditions in our market areas of Northern Virginia, Maryland, Washington, D.C., Charlottesville and Clifton Forge (Alleghany County), Front Royal, New Market, Northern Neck, Middle Peninsula, Richmond, Hampton Roads and the surrounding areas. Unlike larger banks that are more geographically diversified, we provide banking and financial services to clients primarily in these market areas. As of December 31, 2019, substantially all of our commercial real estate, real estate construction and residential real estate loans were made to borrowers in our market area. The local economic conditions in this area have a significant impact on our commercial, real estate and construction and consumer loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. In addition, if the population or income growth in these market areas slows, stops or declines, income levels, deposits and housing starts could be adversely affected and could result in the curtailment of our expansion, growth and profitability.

Additionally, political conditions could impact our earnings. For example, political debate over the budget, taxes and the potential for reduced government spending may adversely impact the economy, and more specifically local economic conditions given the concentration of Federal workers and government contractors in our market. Acts or threats of war, terrorism, an outbreak of hostilities or other international or domestic calamities, or other factors beyond our control could impact these local economic conditions and could negatively affect the financial results of our banking operations.

We rely on third-party vendors to provide key components of our business infrastructure.

Third-party vendors provide key components of our business operations such as data processing, recording and monitoring transactions, online banking interfaces and services, Internet connections and network access. We have selected these third-party vendors carefully and have conducted the due diligence consistent with regulatory guidance and best practices. While we have ongoing programs to review third-party vendors and assess risk, we do not control their actions. Any problems caused by these third parties, including those resulting from disruptions in communication services provided by a vendor, failure of a vendor to handle current or higher volumes, cyber-attacks and security breaches at a vendor, failure of a vendor to provide services for any reason or poor performance of services, could adversely affect our ability to deliver products and services to our customers and otherwise conduct our business. Financial or operational difficulties of a third-party vendor could also hurt our operations if those difficulties interfere with the vendor's ability to serve us. Furthermore, our vendors could also be sources of operational and information security risk to us, including from breakdowns or failures of their own systems or capacity constraints. Replacing these third-party vendors could also create significant delay and expense. Accordingly, use of such third parties creates an unavoidable inherent risk to our business operations.

Declines in asset values may result in impairment charges and adversely affect the value of our investment securities, financial performance and capital.

We maintain an investment securities portfolio that includes, but is not limited to, collateralized mortgage obligations, agency mortgage-backed securities and pooled trust preferred securities. The market value of investment securities may be affected by factors other than the underlying performance of the issuer or composition of the bonds themselves, such as ratings downgrades, adverse changes in the business climate and a lack of liquidity for resales of certain investment securities. At each reporting period, we evaluate investment securities and other assets for impairment indicators. We may be required to record additional impairment charges if our investment securities suffer a decline in value that is considered other-than-temporary. During the years ended December 31, 2019, 2018 and 2017, we incurred no other-than-temporary impairment charges related to credit losses or sales of securities. If in future periods we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur.

Our pooled trust preferred securities are particularly vulnerable to the performance of the issuer of the subordinated debentures that are collateral for the trust preferred securities. Deterioration of these trust preferred securities can occur because of defaults by the issuer of the collateral or because of deferrals of dividend payments on the securities. Numerous financial institutions have failed subsequent to their issuance of trust preferred securities, and their parent bank holding companies have filed for bankruptcy, which has led to defaults in the subordinated debentures that collateralize the trust preferred securities. Further, increased regulatory pressure has been placed on financial institutions to maintain capital ratios above the required minimum to be well-capitalized, which often results in restrictions on dividends, and leads to deferrals of dividend payments on the trust preferred securities. More specifically, the FRB has stated that a bank holding company should eliminate, defer or significantly reduce dividends if (i) its net income available to shareholders for the past four quarters, net of dividends paid, is not sufficient to fully fund the dividends, (ii) its prospective rate of earnings retention is not consistent with its capital needs or (iii) it is in danger of not meeting its minimum regulatory capital adequacy ratios. In addition, although interest deferrals are permitted under the terms of the instruments governing the trust preferred securities, such deferrals are typically limited to 20 consecutive quarterly periods. As a result, many financial institutions that commenced deferral periods in 2009 are no longer permitted to defer interest payments, which could result in increased defaults on trust preferred securities. Additional defaults in the underlying collateral or deferrals of dividend payments for these securities could lead to additional charges on these securities and/or other-than-temporary impairment charges on other trust preferred securities we own. Finally, proposed or future changes in the regulatory treatment of both issuers and holders of trust preferred securities could have a negative impact on the value of the pooled trust preferred securities held in our portfolio.

We are subject to risks related to our concentration of construction and land development and commercial real estate loans.

As of December 31, 2019, we had $150.8 million of construction and land development loans. Construction and land development loans are subject to risks during the construction phase that are not present in standard residential real estate and commercial real estate loans. These risks include:

- the viability of the contractor;
- the contractor's ability to successfully complete the project, to meet deadlines and time schedules and to stay within cost estimates; and
- concentrations of such loans with a single contractor and its affiliates.

Real estate construction and land development loans may involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan and also present risks of default in the event of declines in property values or volatility in the real estate market during the construction phase. Our practice, in the majority of instances, is to secure the personal guaranty of individuals in support of our real estate construction and land development loans which provides us with an additional source of repayment. As of December 31, 2019, we did not have any nonperforming construction and land development loans and had $2.9 million of assets that have been foreclosed. If one or more of our larger borrowers were to default on their construction and land development loans, and we did not have alternative sources of repayment through personal guarantees or other sources, or if any of the aforementioned risks were to occur, we could incur significant losses.

As of December 31, 2019, we had $1.07 billion of commercial real estate loans, including multi-family residential loans and loans secured by farmland, none of which is covered by the FDIC loss sharing agreement. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loan to cover operating expenses and debt service.

In addition, the Dodd-Frank Act contains provisions that may impact the Bank's business by reducing the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act and its implementing rules require, among other things, that a loan originator or a securitizer of asset-backed securities retain a percentage of the credit risk of securitized assets. In addition, with higher levels of commercial real estate loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for loan losses and capital levels as a result of commercial real estate lending growth and exposures. The Bank's commercial real estate loans are below the thresholds identified as significant by the regulatory guidance. If there is deterioration in our commercial real estate portfolio or if regulatory authorities conclude that we have not implemented appropriate risk management policies and practices, it could adversely affect our business and result in a requirement of increased capital levels, and such capital may not be available at that time.

We are subject to credit quality risks and our credit policies may not be sufficient to avoid losses.

We are subject to the risk of losses resulting from the failure of borrowers, guarantors and related parties to pay interest and principal amounts on their loans. Although we maintain credit policies and credit underwriting, monitoring and collection procedures, these policies and procedures may not prevent losses, particularly during periods in which the local, regional or national economy suffers a general decline. If borrowers fail to repay their loans, our financial condition and results of operations would be adversely affected.

Our business strategy includes strategic growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We completed the merger with EVBS on June 23, 2017, the acquisition of PGFSB on August 1, 2014, the acquisition of the HarVest Bank of Maryland on April 27, 2012, the acquisition and assumption of certain assets and liabilities of GAB from the FDIC on December 4, 2009.

We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies such as the continuing need for infrastructure and personnel, the time and costs inherent in integrating a series of different operations and the ongoing expense of acquiring and staffing new banks or branches. We may not be able to expand our presence in our existing markets or successfully enter new markets and any expansion could adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth.

Although there can be no assurance of success or the availability of branch or bank acquisitions in the future we may seek to supplement our internal growth through attractive acquisitions. We cannot predict the number, size or timing of acquisitions, or whether any such acquisition will occur at all. Our acquisition efforts have traditionally focused on targeted banking entities in markets in which we currently operate and markets in which we believe we can compete effectively. However, as consolidation of the financial services industry continues, the competition for suitable acquisition candidates may increase and, as the number of appropriate targets decreases, the prices for potential acquisitions could increase which could reduce our potential returns, and reduce the attractiveness of these opportunities to us. We may compete with other financial services companies for acquisition opportunities, and many of these competitors have greater financial resources than we do and may be able to pay more for an acquisition than we are able or willing to pay.

We may not be able to successfully integrate our acquisitions or to realize the anticipated benefits of them.

A successful integration of each acquired bank with ours will depend substantially on our ability to successfully consolidate operations, corporate cultures, systems and procedures and to eliminate redundancies and costs. While we have substantial experience in successfully integrating institutions we have acquired, we may encounter difficulties during integration, such as:

- the loss of key employees;
- the disruption of operations and businesses;
- loan and deposit attrition, customer loss and revenue loss;
- possible inconsistencies in standards, control procedures and policies;
- unexpected issues with expected branch closures; and/or
- unexpected issues with costs, operations, personnel, technology and credit;

all of which could divert resources from regular banking operations. Additionally, general market and economic conditions or governmental actions affecting the financial industry generally may inhibit our successful merger integrations.

Further, we acquire banks with the expectation that these mergers will result in various benefits including, among other things, benefits relating to enhanced revenues, a strengthened market position for the combined company, cross selling opportunities, technology, cost savings and operating efficiencies. Achieving the anticipated benefits of these mergers is subject to a number of uncertainties, including whether we integrate these institutions in an efficient and effective manner, and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in a reduction in the price of our shares as well as in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially and adversely affect our business, financial condition and operating results.

Future growth or operating results may require us to raise additional capital, but that capital may not be available, be available on unfavorable terms or may be dilutive.

Sonabank is required by the FRB to maintain adequate levels of capital to support our operations. In the event that our future operating results erode capital, if the Bank is required to maintain capital in excess of well-capitalized standards, or if we elect to expand through loan growth or acquisitions, we may be required to raise additional capital. Our ability to raise capital will depend on conditions in the capital markets, which are outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital on favorable terms when needed, or at all. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These outcomes could negatively impact our ability to operate or further expand our operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our financial condition and results of operations. In addition, in order to raise additional capital, we may need to issue shares of our common stock that would dilute the book value of our common stock and reduce our current shareholders' percentage ownership interest to the extent they do not participate in future offerings.

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;
- recommendations by securities analysts;
- operating and stock price performance of other companies that investors deem comparable to us;
- news reports relating to trends, concerns and other issues in the financial services industry;
- perceptions in the marketplace regarding us and/or our competitors;
- new technology used, or services offered, by competitors;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;
- failure to integrate acquisitions or realize anticipated benefits from acquisitions;
- changes in government regulations; and
- geopolitical conditions such as acts or threats of terrorism, military conflicts or pandemics.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

The small to medium-sized businesses we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower's ability to repay a loan to us that could materially harm our operating results.

We make loans to professional firms and privately owned businesses that are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower's ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay our loan. Economic downturns in our target markets could cause us to incur substantial loan losses that could materially harm our operating results.

We are heavily regulated by federal and state agencies; changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our operations and our financial results.

We and the Bank are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and the Bank, and our respective operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations or the powers, authority and operations of the Bank, which could have a material adverse effect on our financial condition and results of operations.

Further, bank regulatory authorities have the authority to bring enforcement actions against banks and their holding companies for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate bank regulatory agency or any written agreement with the agency. Possible enforcement actions against us could include the issuance of a cease-and-desist order that could be judicially enforced, the imposition of civil monetary penalties, the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, the appointment of a conservator or receiver, the termination of insurance on deposits, the issuance of removal and prohibition orders against institution-affiliated parties, and the enforcement of such actions through injunctions or restraining orders. The exercise of this regulatory discretion and power may have a negative impact on us.

As a regulated entity, Sonabank must maintain certain required levels of regulatory capital that may limit our operations and potential growth.

As further described above under Supervision and Regulation—Capital Requirements, the Bank is subject to various regulatory capital requirements administered by the FRB.

Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional, discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's and our consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance sheet commitments as calculated under these regulations.

As of December 31, 2019, the Bank exceeded the amounts required to be well capitalized with respect to all four required capital ratios. As of December 31, 2019, the Bank's leverage, CET1 risk-based capital, Tier 1 risk-based capital and Total risk-based capital ratios were 12.07%, 14.81%, 14.81% and 15.29%, respectively.

Many factors affect the calculation of the Bank's risk-based assets and its ability to maintain the level of capital required to achieve acceptable capital ratios. For example, changes in risk weightings of assets relative to capital and other factors may combine to increase the amount of risk-weighted assets in the Tier 1 risk-based capital ratio and the Total risk-based capital ratio. Any increases in its risk-weighted assets will require a corresponding increase in its capital to maintain the applicable ratios. In addition, recognized loan losses in excess of amounts reserved for such losses, loan impairments, impairment losses on investment securities and other factors will decrease the Bank's capital, thereby reducing the level of the applicable ratios.

The Bank's failure to remain well capitalized for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on our capital stock, our ability to make acquisitions, and on our business, results of operations and financial condition. Under FRB rules, if the Bank ceases to be a well capitalized institution for bank regulatory purposes, the interest rates that it pays on deposits and its ability to accept, renew or rollover brokered deposits may be restricted. As of December 31, 2019, we had $114.1 million of brokered deposits, which represented 5.4% of our total deposits.

We may not be able to successfully compete with others for business.

The metropolitan statistical areas in which we operate are considered highly attractive from an economic and demographic viewpoint, and are highly competitive banking markets. We compete for loans, deposits and investment dollars with numerous regional and national banks, online divisions of out-of-market banks and other community banking institutions, as well as other kinds of financial institutions and enterprises, such as securities firms, insurance companies, savings associations, credit unions, mortgage brokers and private lenders. Many competitors have substantially greater resources than us, and operate under less stringent regulatory environments and may accordingly have greater flexibility in competing for business. Over time, certain sectors of the financial services industry have become more concentrated, as institutions involved in a broad range of financial services have been acquired by other firms. These developments could result in our competitors gaining greater capital and other resources, or being able to offer a broader range of products and services with more geographic range. The differences in resources and regulations may make it harder for us to compete profitably, reduce the rates that we can earn on loans and investments, increase the rates we must offer on deposits and other funds and adversely affect our overall financial condition and earnings.

We are subject to transaction risk, which could adversely affect our business, financial condition and results of operations.

We, like all businesses, are subject to transaction risk, which is the risk of loss resulting from human error, fraud or unauthorized transactions due to inadequate or failed internal processes and systems, and external events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages). Transaction risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards. Although we seek to mitigate transaction risk through a system of internal controls, there can be no assurance that we will not suffer losses from transaction risks in the future that may be material in amount. Any losses resulting from transaction risk could take the form of explicit charges, increased operational costs, litigation costs, harm to reputation or forgone opportunities, any and all of which could have a material adverse effect on business, financial condition and results of operations.

The soundness of other financial institutions could adversely affect us.

Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with a variety of counterparties in the financial services industry. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral we hold cannot be sold at prices that are sufficient for us to recover the full amount of our exposure. Any such losses could materially and adversely affect our financial condition and results of operations.

If the goodwill that we record in connection with business acquisitions becomes impaired, it could have a negative impact on our profitability.

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquire in the purchase of another entity. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. Examples of those events or circumstances include the following:

- significant adverse changes in business climate;
- significant changes in credit quality;
- significant unanticipated loss of customers;
- significant loss of deposits or loans; or
- significant reductions in profitability.

As of December 31, 2019, our goodwill totaled $101.9 million and is primarily related to the 2017 acquisition of EVBS, which increased goodwill by $91.5 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

Changes to government guaranteed loan programs could affect our SBA business.

The Bank relies on originating government guaranteed loans, in particular those guaranteed by the SBA. As of December 31, 2019, the Bank had $70.6 million of SBA loans, $45.1 million of which were guaranteed and $25.5 million were non-guaranteed. We can provide no assurance that the Bank will be able to continue originating these loans or that it will be able to sell the loans in the secondary market if market conditions are favorable.

SBA lending is a federal government created and administered program. As such, legislative and regulatory developments can affect the availability and funding of the program. This dependence on legislative funding and regulatory restrictions from time to time causes limitations and uncertainties with regard to the continued funding of such loans, with a resulting potential adverse financial impact on our business. Currently, the maximum limit on individual 7(a) loans which the SBA will permit is $5.0 million. Any reduction in this level could adversely affect the volume of our business. The periodic uncertainty of the SBA program relative to availability, amounts of funding and the waiver of associated fees creates greater risk for our business than do more stable aspects of our business.

The federal government presently guarantees up to 85% of the principal amount of loans up to $150,000, 75% for loans greater than $150,000 and up to 90% of the principal amount for certain programs under the 7(a) program. SBA Express loans can be guaranteed by the federal government up to 50%. We can provide no assurance that the federal government will maintain the SBA program, or if it does, that such guaranteed portion will remain at its current funding level. Furthermore, it is possible that the Bank could lose its preferred lender status which, subject to certain limitations, allows it to approve and fund SBA loans without the necessity of having the loan approved in advance by the SBA. It is also possible the federal government could reduce the amount of loans which it guarantees. In addition, we are dependent on the expertise of our personnel who make SBA loans in order to continue to originate and service SBA loans. If we are unable to retain qualified employees in the future, our income from the origination of SBA loans could be substantially reduced.

We depend on the accuracy and completeness of information from customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

Changes in U.S. tax laws and other laws and regulations could have unforeseen effects on our financial condition and results of operations.

Corporate tax rates affect our profitability and capital levels. The U.S. corporate tax code may be further reformed by the U.S. Congress and additional guidance may be issued by the U.S. Department of the Treasury relevant to the Tax Cuts and Jobs Act (Tax Act) enacted during 2017. Any adverse amendments to the Tax Act or other related legislation could have an adverse impact on our financial condition and results of operations.

As a result of the limitation on the deductibility of business interest included in the Tax Cuts and Jobs Act, we may have the right to redeem our currently outstanding subordinated debt.

On January 20, 2017, we issued $27.0 million in aggregate principal amount of 5.875% Fixed-to-Floating Rate Subordinated Notes due January 31, 2027 (the “SNBV Senior Subordinated Notes”). The SNBV Senior Subordinated Notes are generally not redeemable by us until January 20, 2022. However, we are permitted to redeem these notes earlier upon the occurrence of a “tax event”, which is generally defined as a material risk that the interest paid on the Company Notes would not be deductible by us, in whole or in part, for federal income tax purposes. Provisions of the Tax Cuts and Jobs Act impose a limit on the amount of business interest which is deductible, capping that interest deduction at the sum of (i) the taxpayer’s business interest income for the tax year plus (ii) 30% of the taxpayer’s adjusted taxable income for the tax year. As a consequence, in the event the interest payments on the Company Notes exceed the total amount of permitted deductible business interest under the Tax Cuts and Jobs Act, such occurrence could constitute a “tax event” under the Company Notes due to the limitation on the deductibility of our interest payments on the Company Notes and thus permit us to redeem the SNBV Senior Subordinated Notes prior to 2022.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this “Risk Factors” section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

We may issue a new series of preferred stock or debt securities, which would be senior to our common stock and may cause the market price of our common stock to decline.

We have issued $27.0 million in aggregate principal amount of 5.875% Fixed-to-Floating Rate Subordinated Notes due January 31, 2027. In the future, we may increase our capital resources by making additional offerings of debt or equity securities, which may include senior or additional subordinated notes, classes of preferred shares and/or common shares. Holders of our common stock are not entitled to preemptive rights or other protections against dilution. Preferred shares and debt, if issued, have a preference on liquidating distributions or a preference on dividend or interest payments that could limit our ability to make a distribution to the holders of our common stock. Future issuances and sales of parity preferred stock, or the perception that such issuances and sales could occur, may also cause prevailing market price for our common stock to decline and may adversely affect our ability to raise additional capital in the financial markets at times and prices favorable to us. Further issuances of our common stock could be dilutive to holders of our common stock.

We may be adversely impacted by the transition from LIBOR as a reference rate.

In July 2017, the Financial Conduct Authority (the authority that regulates LIBOR) announced it intends to stop compelling banks to submit rates for the calculation of LIBOR after 2021. The Alternative Reference Rates Committee (“ARRC”) has proposed that the Secured Overnight Financing Rate (“SOFR”) is the rate that represents best practice as the alternative to USD-LIBOR for use in derivatives and other financial contracts that are currently indexed to USD-LIBOR. ARRC has proposed a paced market transition plan to SOFR from USD-LIBOR and organizations are currently considering industry wide and company-specific transition plans as it relates to derivatives and cash markets exposed to USD-LIBOR. We have contracts that are indexed to USD-LIBOR and are currently evaluating what the ultimate impact of the transition from LIBOR will be and address related risks.

If LIBOR ceases to exist or if the methods of calculating LIBOR change from current methods for any reason, interest rates on our floating rate obligations, loans, deposits and other financial instruments tied to LIBOR rates, as well as the revenue and expenses associated with those financial instruments, may be adversely affected. Any uncertainty regarding the continued use and reliability of LIBOR as a benchmark interest rate could adversely affect the value of our floating rate obligations, loans, deposits and other financial instruments tied to LIBOR rates.

A portion of our variable rate loans are tied to LIBOR. While many of these loans contain “fallback” provisions providing for alternative rate calculations in the event LIBOR is unavailable, not all of our loans contain these “fallback” provisions and existing “fallback” provisions may not adequately address the actual changes to LIBOR or successor rates. We may not be able to successfully amend these loans to provide for alternative rate calculations and such amendments could prove costly. Even with “fallback” provisions, changes to or the discontinuance of LIBOR could result in customer uncertainty and disputes around how variable rates should be calculated. All of this could result in damage to our reputation, loss of customers and additional costs to us.

The properties that we own and our foreclosed real estate assets could subject us to environmental risks and associated costs.

There is a risk that hazardous substances or wastes, contaminants, pollutants or other environmentally restricted substances could be discovered on our properties or our foreclosed assets (particularly in the case of real estate loans). In this event, we might be required to remove the substances from the affected properties or to engage in abatement procedures at our sole cost and expense. Besides being liable under applicable federal and state statutes for our own conduct, we may also be held liable under certain circumstances for actions of borrowers or other third parties on property that collateralizes one or more of our loans or on property that we own. Potential environmental liability could include the cost of remediation and also damages for any injuries caused to third-parties. We cannot assure you that the cost of removal or abatement would not substantially exceed the value of the affected properties or the loans secured by those properties, that we would have adequate remedies against prior owners or other responsible parties or that we would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. Any environmental damages on a property would substantially reduce the value of such property as collateral and, as a result, we may suffer a loss upon collection of the loan.

The implementation of other new lines of business or new products and services may subject us to additional risk.

We continuously evaluate our service offerings and may implement new lines of business or offer new products and services within existing lines of business in the future. There are substantial risks and uncertainties associated with these efforts. In developing and marketing new lines of business and/or new products and services, we undergo a new product process to assess the risks of the initiative, and invest significant time and resources to build internal controls, policies and procedures to mitigate those risks, including hiring experienced management to oversee the implementation of the initiative. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives, and shifting market preferences, may also impact the successful implementation of a new line of business and/or a new product or service. Furthermore, any new line of business and/or new product or service could require the establishment of new key and other controls and have a significant impact on our existing system of internal controls. In addition, the financial services market, including banking services, is undergoing rapid changes with frequent introductions of new technology-driven products and services. Our future success may depend, in part, on our ability to use technology competitively to offer products and services that provide convenience to customers and create additional efficiencies in our operations. The widespread adoption of new technologies has and will continue to require us to make substantial capital expenditures to modify or adapt our systems to remain competitive and offer new products and services. Our ability to effectively implement new technologies to improve our operations and systems will impact our competitive position in the financial services industry. Furthermore, we may not be successful in introducing new products and services in response to industry trends or developments in technology, or those new products may not be accepted by customers. Failure to successfully manage these risks in the development and implementation of new lines of business and/or new products or services could have a material adverse effect on our business and, in turn, our financial condition and results of operations.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Further, clients may choose to conduct business with other market participants who engage in business or offer products in areas we deem speculative or risky, such as cryptocurrencies. Increased competition may negatively affect our earnings by creating pressure to lower prices or credit standards on our products and services requiring additional investment to improve the quality and delivery of our technology and/or reducing our market share, or affecting the willingness of our clients to do business with us.

In addition, the widespread adoption of new technologies, including internet services, cryptocurrencies and payment systems, could require substantial expenditures to modify or adapt our existing products and services as we grow and develop our internet banking and mobile banking channel strategies in addition to remote connectivity solutions. We might not be successful in developing or introducing new products and services, integrating new products or services into our existing offerings, responding or adapting to changes in consumer behavior, preferences, spending, investing and/or saving habits, achieving market acceptance of our products and services, reducing costs in response to pressures to deliver products and services at lower prices or sufficiently developing and maintaining loyal customers.

Provisions of our articles of incorporation and bylaws, as well as state and federal banking regulations, could delay or prevent a takeover of us by a third party.

Our articles of incorporation and bylaws could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our common stock.

Any individual, acting alone or with other individuals, who are seeking to acquire, directly or indirectly, 10.0% or more of our outstanding common stock must comply with the Change in Bank Control Act, which requires prior notice to the FRB for any acquisition. Additionally, any bank holding company that wants to acquire 5.0% or more of our outstanding common stock, or otherwise control us, may need to obtain the prior approval of the FRB under the BHCA of 1956, as amended. As a result, prospective investors in our common stock need to be aware of and comply with those requirements, to the extent applicable. The overall effect of such laws is to make it more difficult to acquire a bank holding company by tender offer or similar means than it might be to acquire control of another type of corporation. Consequently, shareholders of Southern National may be less likely to benefit from the rapid increases in stock prices that may result from tender offers or similar efforts to acquire control. Investors should be aware of these restrictions when acquiring shares of our stock.

Employee misconduct could expose us to significant legal liability and reputational harm.

We are vulnerable to reputational harm because we operate in an industry in which integrity and the confidence of our customers are of critical importance. Our employees could engage in fraudulent, illegal, wrongful or suspicious activities, and/or activities resulting in consumer harm that adversely affects our customers and/or our business. The precautions we take to detect and prevent such misconduct may not always be effective and regulatory sanctions and/or penalties, serious harm to our reputation, financial condition, customer relationships and ability to attract new customers. In addition, improper use or disclosure of confidential information by our employees, even if inadvertent, could result in serious harm to our reputation, financial condition and current and future business relationships. The precautions we take to detect and prevent such misconduct may not always be effective.

We currently intend to pay dividends on our common stock; however, our future ability to pay dividends is subject to restrictions.

We declared the first cash dividend on our common stock in February 2012, and each quarter thereafter through 2019. There are a number of restrictions on our ability to pay dividends. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company’s ability to serve as a source of strength to its banking subsidiaries.

Our principal source of funds to pay dividends on our common stock is cash dividends that we receive from the Bank. The payment of dividends by the Bank to us is subject to certain restrictions imposed by federal banking laws, regulations and authorities. The federal banking statutes prohibit federally insured banks from making any capital distributions (including a dividend payment) if, after making the distribution, the institution would be "under capitalized" as defined by statute. In addition, the relevant federal regulatory agencies have authority to prohibit an insured bank from engaging in an unsafe or unsound practice, as determined by the agency, in conducting an activity. The payment of dividends could be deemed to constitute such an unsafe or unsound practice, depending on the financial condition of the Bank. Regulatory authorities could impose administratively stricter limitations on the ability of the Bank to pay dividends to us if such limits were deemed appropriate to preserve certain capital adequacy requirements.

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on the NASDAQ Global Market, the trading volume is low, and you are not assured liquidity with respect to transactions in our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

Severe weather, natural disasters, climate change, acts of war or terrorism, health emergencies or pandemics and other adverse external events could significantly impact our business.

Severe weather, natural disasters, climate change, acts of war or terrorism, health emergencies or pandemics and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Such events could also result in significant market volatility and could adversely affect the U.S. or global economies. Although management has established disaster recovery policies and procedures, there can be no assurance of the effectiveness of such policies and procedures, and the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments

Southern National does not have any unresolved staff comments from the SEC to report for the year ended December 31, 2019.

Item 2. Properties

Southern National's principal office is located at 6830 Old Dominion Drive, McLean, Virginia. Southern National and Sonabank also have executive offices located at 1002 Wisconsin Avenue, N.W., Washington, DC and 10900 Nuckols Road, Suite 325, Glen Allen, Virginia. Including these main locations, our bank owns 29 properties and leases 25 properties, all of which are used as branch locations or for housing operational units in Maryland and Virginia. At December 31, 2019, Sonabank had forty-five full-service branches. Thirty-eight full-service retail branches are in Virginia, located in Ashland, Burgess, Callao, Central Garage, Charlottesville, Chester, Clifton Forge, Colonial Heights, Courtland, Deltaville, Fairfax, Front Royal, Gloucester, Gloucester Point, Hampton, Hartfield, Haymarket, Heathsville, Kilmarnock, Leesburg, McLean, Mechanicsville (2), Middleburg, Midlothian, New Market, Newport News, Quinton, Reston, Richmond, South Riding, Surry, Tappahannock (2), Urbanna, Warrenton, Waverly, and Williamsburg, and seven full-service retail branches in Maryland, located in Bethesda, Brandywine, Huntingtown, Owings, Rockville, Shady Grove, and Upper Marlboro.

Southern National believes its facilities are in good operating condition, are suitable and adequate for its operational needs and are adequately insured.

Item 3. Legal Proceedings

Southern National and Sonabank are from time to time a party, as both plaintiff and defendant, to various claims and proceedings arising in the ordinary course of the Bank's business, including administrative and/or legal proceedings that may include employment-related claims, as well as claims of lender liability, breach of contract, and other similar lending-related claims. While the ultimate resolution of these matters cannot be determined at this time, the Bank's management presently believes that such matters, individually and in the aggregate, will not have a material adverse effect on the Bank's financial condition or results of operations.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common Stock Market Prices

Southern National's common stock is traded on the Nasdaq Global Market under the symbol "SONA". There were 24,295,380 shares of our common stock outstanding at the close of business on March 5, 2020, which were held by 1,371 shareholders of record. As of that date, the closing price of our common stock on the NASDAQ Global Market was $14.07.

Recent Sales of Unregistered Securities

None.

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2019, Southern National had outstanding stock options granted under the 2010 Stock Awards and Incentive Plan (the "2010 Plan") and the 2017 Equity Compensation Plan (the "2017 Plan"), which were approved by its shareholders. The following table provides information as of December 31, 2019 regarding Southern National's equity compensation plans under which our equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options A	Weighted average exercise price of outstanding options B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C
Equity compensation plans approved by security holders	555,750	$ 10.02	643,600
Equity compensation plans not approved by security holders	—	—	—
Total	555,750	$ 10.02	643,600

Issuer Purchases of Equity Securities
None.

Performance Graph

The following chart compares the cumulative total shareholder return on Southern National common stock during the five years ended December 31, 2019, with the cumulative total return of the Russell 2000 Index and the SNL Bank and Thrift Index for the same period. Dividend reinvestment has been assumed. This comparison assumes $100 invested on December 31, 2014 in Southern National common stock, the Russell 2000 Index and the SNL Bank and Thrift Index.

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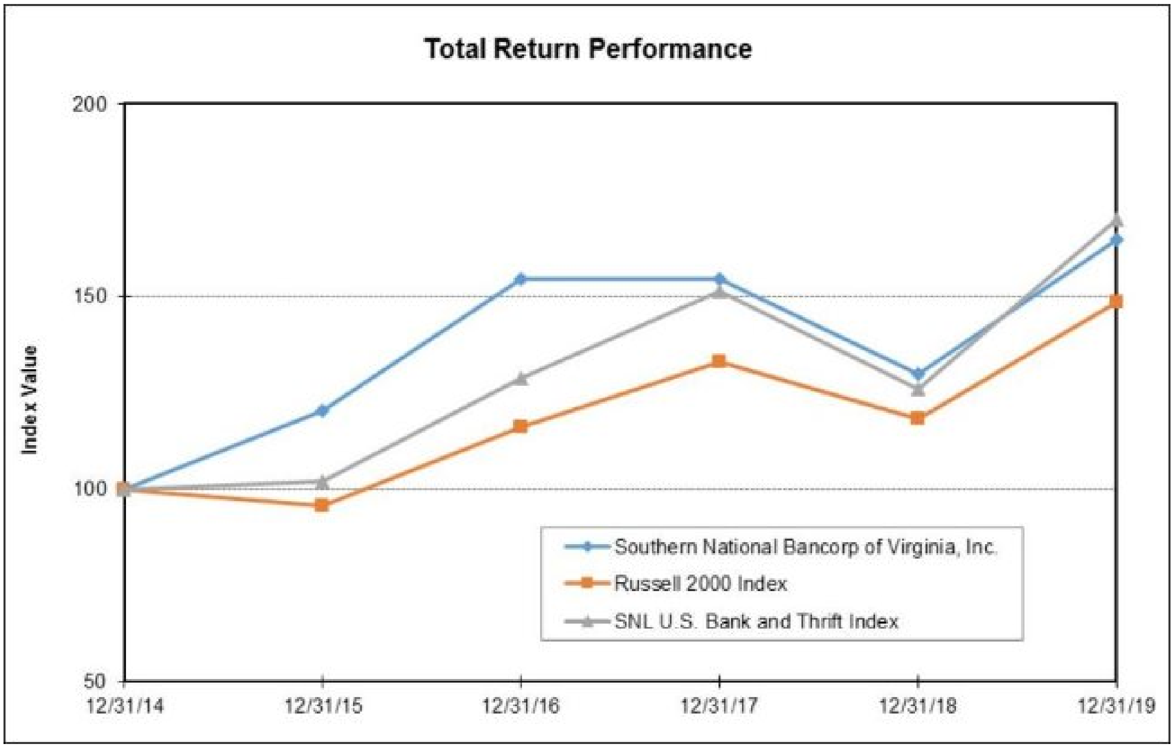
The historical stock price performance for Southern National common stock shown on the graph below is not necessarily indicative of future stock performance.



	2014	2015	2016	2017	2018	2019
Southern National Bancorp of Virginia, Inc.	100.00	120.45	154.54	154.57	129.98	164.58
Russell 2000 Index	100.00	95.59	115.95	132.94	118.30	148.49
SNL Bank and Thrift Index	100.00	102.02	128.80	151.45	125.81	170.04

Item 6. Selected Financial Data

The following table sets forth selected financial data for Southern National as of and for the years ended December 31, 2019, 2018, 2017, 2016 and 2015:

	2019	2018	2017	2016	2015
	(in thousands, except per share amounts)				
Results of Operations:					
Interest income	$ 120,524	$ 118,907	$ 83,570	$ 48,947	$ 43,701
Interest expense	36,924	27,841	15,653	8,633	7,077
Net interest income	83,600	91,066	67,917	40,314	36,624
Provision for loan losses	350	4,200	8,625	4,912	3,171
Net interest income after provision for loan losses	83,250	86,866	59,292	35,402	33,453
Noninterest income	12,586	10,199	5,429	2,820	3,781
Noninterest expenses	56,592	53,760	49,149	22,815	23,278
Income before income taxes	39,244	43,305	15,572	15,407	13,956
Income tax expense	6,077	9,614	13,147	5,095	4,667
Net income	$ 33,167	$ 33,691	$ 2,425	$ 10,312	$ 9,289
Per Share Data:					
Earnings per share - Basic	$ 1.38	$ 1.40	$ 0.13	$ 0.84	$ 0.76
Earnings per share - Diluted	$ 1.36	$ 1.39	$ 0.13	$ 0.83	$ 0.75
Cash dividends paid per share	$ 0.36	$ 0.32	$ 0.32	$ 0.32	$ 0.52
Book value per share	$ 15.60	$ 14.48	$ 13.48	$ 10.30	$ 9.78
Dividend payout ratio	26.09 %	22.86 %	246.15 %	38.10 %	68.42 %
Weighted average shares outstanding - Basic	24,050,037	24,012,437	18,390,810	12,251,804	12,224,494
Weighted average shares outstanding - Diluted	24,325,182	24,272,617	18,671,392	12,426,783	12,330,431
Shares issued and outstanding at end of period	24,181,534	24,052,253	23,936,453	12,263,643	12,234,443
Selected Performance Ratios and Other Data:					
Return on average assets	1.22 %	1.25 %	0.13 %	0.95 %	0.95 %
Return on average equity	9.13 %	9.99 %	1.02 %	8.37 %	7.87 %
Yield on earning assets	4.88 %	4.86 %	4.76 %	4.84 %	4.85 %
Cost of funds	1.58 %	1.19 %	0.94 %	0.91 %	0.91 %
Net interest margin	3.39 %	3.72 %	3.87 %	3.99 %	4.07 %
Net charge-offs to average loans	0.11 %	0.06 %	0.51 %	0.53 %	0.28 %
Allowance for loan losses to total non-covered loans	0.47 %	0.57 %	0.46 %	0.95 %	1.06 %
Stockholders' equity to total assets	13.86 %	12.89 %	12.35 %	11.06 %	11.55 %
Financial Condition:					
Total assets	$ 2,722,170	$ 2,701,295	$ 2,614,252	$ 1,142,443	$ 1,036,107
Total loans	2,186,047	2,178,824	2,062,328	930,415	829,425
Total deposits	2,124,718	2,097,600	1,865,156	912,982	825,294
Stockholders' equity	377,241	348,290	322,772	126,344	119,636

Item 7. 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 Southern National. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report.

CRITICAL ACCOUNTING POLICIES

Our accounting policies are in accordance with U.S. GAAP and with general practices within the banking industry. Management makes a number of estimates and assumptions relating to reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during periods presented. Different assumptions in the application of these methods or policies could result in material changes in our financial statements. As such, the following policies are considered "critical accounting policies" for us.

Allowance for Loan and Lease Losses ("ALLL")

The allowance for loan and lease losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collection of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on a three year historical average net loss experience for each portfolio segment, except consumer loans that are tracked on a two year basis, adjusted for current industry and economic conditions (referred to as "current factors") and estimates of their effect on loan collectability. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component provides for estimated losses in unimpaired loans and is based on historical loss experience adjusted for current factors.

A loan is considered impaired when, based on current information and events, it is probable that Southern National will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan documentation. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due, among other considerations. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. Individual consumer and residential loans are evaluated for impairment based on the aforementioned criteria as well as regulatory guidelines.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual net loss history experienced by Southern National over the most recent three years. This actual loss experience is adjusted for current factors based on the risks present for each portfolio segment. These current factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: owner occupied commercial real estate, non-owner occupied commercial real estate, construction and land development, commercial loans, residential 1-4 family, multi-family residential, loans secured by farmland, HELOC and consumer. While underwriting practices in today's environment are more stringent, the Bank estimates the effect of internal factors on future net loss experience to be negligible. Management's estimate of the effect of current external economic environmental conditions on future net loss experience is significant in all loan segments and particularly on loans secured by real estate including single family 1-4, non-owner occupied commercial real estate and construction and land development loans. These factors include excess inventory, generally less demand driven in part by fewer qualified borrowers and buyers. These considerations have played a significant role in management's estimate of the adequacy of the allowance for loan and lease losses.

Accounting for the FDIC Indemnification Asset and Acquired Loans

Southern National acquired loan portfolios through its acquisitions of GAB in 2009, HarVest Bank of Maryland in 2012, PGFSB in 2014 and EVBS in 2017. The single family residential loans acquired in the GAB transaction are referred to as "covered loans" because of loss protection provided by the FDIC pursuant to a loss sharing agreement which expired in December 2019. The loss sharing agreement with the FDIC related to non-single family (commercial) loans expired in December 2014. The loans acquired in the EVBS, HarVest Bank of Maryland, and PGFSB transactions are not covered by an FDIC loss sharing agreement.

Loans acquired with evidence of credit deterioration since inception and for which it is probable that all contractual payments will not be received are accounted for under Accounting Standards Codification ("ASC") Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). These loans are recorded at fair value at the time of acquisition, with no carryover of the related allowance for loan losses. Fair value of acquired loans is determined using a discounted cash flow methodology based on assumptions about the amount and timing of principal and interest payments, principal prepayments and principal defaults and losses, and current market rates. In recording the acquisition date fair values of acquired impaired loans, management calculates a non-accretable difference (the credit component of the purchased loans) and an accretable difference (the yield component of the purchased loans).

Over the life of the acquired loans, we continue to estimate cash flows expected to be collected on pools of loans sharing common risk characteristics, which are treated in the aggregate when applying various valuation techniques. We evaluate at each balance sheet date whether the present value of our pools of loans determined using the effective interest rates has decreased significantly and if so, recognize a provision for loan losses in our consolidated statement of income. For any significant increases in cash flows expected to be collected, we adjust the amount of accretable yield recognized on a prospective basis over the pool's remaining life.

These cash flow evaluations are inherently subjective as they require management to make estimates about expected cash flows, market conditions and other future events that are highly subjective in nature and subject to change. Changes in these factors, as well as changing economic conditions will likely impact the carrying value of these acquired loans.

Business Combinations, Goodwill and Other Intangible Assets

Southern National accounts for all business combinations under the purchase method of accounting. Tangible and intangible assets and liabilities of the acquired entity are recorded at fair value. The determination of fair values is based on valuations using management's assumptions of future growth rates, future attrition, discount rates, multiples of earnings or other relevant factors. Changes in these factors, as well as downturns in economic or business conditions, could have a significant adverse impact on the carrying values of goodwill or intangible assets and could result in impairment losses affecting our financials as a whole and our banking subsidiary in which the goodwill or intangibles resides.

Intangible assets with finite useful lives represent the future benefit associated with the acquisition of the core deposits and are amortized over their estimated useful lives utilizing a method that approximates the expected attrition of the deposits. Under FASB ASC 350, *Intangibles – Goodwill and Other*, goodwill is not amortized, but rather tested annually for impairment. Southern National evaluates goodwill for impairment each year as of September 30. Goodwill totaled $101.9 million at December 31, 2019. There was no impairment recorded for the years ended December 31, 2019, 2018 and 2017.

Other-Than-Temporary-Impairment ("OTTI") of Investment Securities

Management evaluates investment securities for OTTI on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For investment securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, an investment security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt investment securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity investment securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, Southern National compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Other Real Estate Owned ("OREO")

Real estate acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the collateral at the date of foreclosure based on estimates, including some obtained from third parties, less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of cost or fair value, less estimated costs to sell. Significant property improvements that enhance the salability of the property are capitalized to the extent that the carrying value does not exceed the estimated realizable value. Legal fees, maintenance and other direct costs of foreclosed properties are expensed as incurred.

Due to the judgment involved in estimating fair value of the properties, accounting for OREO is regarded as a critical accounting policy. Estimates of value of OREO properties at the date of foreclosure are typically based on real estate appraisals performed by independent appraisers. These values are generally updated as appraisals become available.

Valuation of Deferred Tax Asset

The provision for income taxes reflects the tax effects of the transactions reported in the consolidated financial statements, including taxes currently due as well as changes in deferred taxes. Deferred tax assets and liabilities represent estimates of the future tax return consequences of temporary differences between carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are computed by using currently enacted income tax rates and applying those rates to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. As of December 31, 2019 and 2018, management concluded that it is more likely than not that Southern National will generate sufficient taxable income to fully utilize our deferred tax assets.

OVERVIEW

Southern National 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. Sonabank provides a range of financial services to individuals and small and medium sized businesses.

On June 23, 2017, SNBV completed its merger with EVBS and 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.

Southern National acquired PGFSB in a cash and stock transaction on August 1, 2014. PGFSB was founded in 1931 and was headquartered in Upper Marlboro, which is the County Seat of Prince George's County, Maryland.

We completed the acquisition of the HarVest Bank of Maryland on April 27, 2012 and the acquisition and assumption of certain assets and liabilities of GAB from the FDIC on December 4, 2009. As part of the GAB acquisition, the Bank and the FDIC entered into a loss sharing agreement (the "loss sharing agreement") on approximately $143.4 million (cost basis) of GAB's assets. The Bank shared the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreement; we refer to these assets collectively as "covered assets."

At December 31, 2019, Sonabank had forty-five full-service branches. Thirty-eight full-service retail branches are in Virginia, located in Ashland, Burgess, Callao, Central Garage, Charlottesville, Chester, Clifton Forge, Colonial Heights, Courtland, Deltaville, Fairfax, Front Royal, Gloucester, Gloucester Point, Hampton, Hartfield, Haymarket, Heathsville, Kilmarnock, Leesburg, McLean, Mechanicsville (2), Middleburg, Midlothian, New Market, Newport News, Quinton, Reston, Richmond, South Riding, Surry, Tappahannock (2), Urbanna, Warrenton, Waverly, and Williamsburg, and seven full-service retail branches in Maryland, located in Bethesda, Brandywine, Huntingtown, Owings, Rockville, Shady Grove, and Upper Marlboro. 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.

While we offer a wide range of commercial banking services, we focus on making loans secured primarily by commercial real estate and other types of secured and unsecured commercial loans to small and medium-sized businesses in a number of industries, as well as loans to individuals for a variety of purposes. We are a leading SBA lender among Virginia community banks. We also invest in real estate-related investment securities, including collateralized mortgage obligations and agency mortgage backed securities. Our principal sources of funds for loans and investing in securities are deposits and, to a lesser extent, borrowings. We offer a broad range of deposit products, including checking ("NOW"), savings, money market accounts and certificates of deposit. We actively pursue business relationships by utilizing the business contacts of our senior management, other bank officers and our directors, thereby capitalizing on our knowledge of our local market areas.

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2019 was $33.2 million, compared to $33.7 million for the year ended December 31, 2018.

The decrease in net income during the year ended December 31, 2019 compared to the year ended December 31, 2018 was primarily driven by a nonrecurring other loss of $2.5 million and related legal expense of $397 thousand, net of taxes. The decrease was partially offset by an income tax benefit in the second quarter of 2019 due to the formal assessment and rebooking of $1.2 million deferred tax asset stemming from a $5.5 million acquired net operating loss carryforward.

Net income increased $31.3 million during the year ended December 31, 2018 compared to the year ended December 31, 2017. Southern National's results for the year ended December 31, 2018 was impacted by $4.5 million of acquired loan discount accretion on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince George Federal Savings Bank. For the year ended December 31, 2018, other noninterest income benefited from $2.5 million of recoveries of legacy investment securities and loans charged off by EVBS before Southern National merged with EVBS during the late second quarter of 2017. Net income was also impacted by the reduced statutory federal tax rate applicable to the Company from 34% to 21% due to the enactment of the Tax Cuts and Jobs Act of 2017, which became effective on December 22, 2017. We recognized an additional income tax expense totaling $7.2 million in 2017 from the revaluation of net deferred tax asset as a result of the reduction in the corporate tax rate. For the year ended December 31, 2018, there was no material net tax expense resulting from a finalization of the calculations in 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.

Net interest income was $83.6 million during the year ended December 31, 2019, compared to $91.0 million during the year ended December 31, 2018, which was a direct result of the rising interest rate environment during 2018, competition for deposits and a decreasing rate environment during the second half of 2019. Southern National's net interest margin was 3.39% during the year ended December 31, 2019 compared to 3.72% during the year ended December 31, 2018. The yield on average interest-earning assets increased 2 basis points to 4.88% during the year ended December 31, 2019 when comparing to the 4.86% yield on average interest-earning assets during 2018. The cost of average interest-bearing liabilities increased 45 basis points to 1.84% during the year ended December 31, 2019 when comparing to the 1.39% cost on average interest-bearing liabilities during 2018. The accretion of the discount on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince Georges Federal Savings Bank contributed $3.9 million and $4.5 million to net interest income in the years ended December 31, 2019 and 2018, respectively. The decrease in accretion was due to the slowdown in the volume of acquired loan prepayments and payoffs. Average loans during the year ended December 31, 2019 were $2.16 billion compared to $2.14 billion during 2018.

Net interest income was $91.0 million during the year ended December 31, 2018, compared to $67.9 million during the year ended December 31, 2017. Average loans during the year ended December 31, 2018 were $2.14 billion compared to $1.53 billion during 2017, with the increase mostly attributable to the acquisition of EVBS in June of 2017. Southern National's net interest margin was 3.72% during the year ended December 31, 2018 compared to 3.87% during the year ended December 31, 2017. The yield on average interest-earning assets increased 10 basis points to 4.86% during the year ended December 31, 2018 when comparing to the 4.76% yield on average interest-earning assets during 2017. The cost of average interest-bearing liabilities increased 31 basis points to 1.39% during the year ended December 31, 2018 when comparing to the 1.08% cost on average interest-bearing liabilities during 2017. The loan discount accretion on our acquisitions were $4.5 million and $3.8 million in the years ended December 31, 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 Year Ended								
	2019			2018			2017		
	Average Balance	Interest Income/ Expense	Yield/ Rate	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)	$ 2,159,681	$ 112,181	5.19 %	$ 2,138,845	$ 110,213	5.15 %	$ 1,528,081	$ 77,764	5.09 %
Investment securities	241,800	6,224	2.57 %	247,182	6,386	2.58 %	182,464	4,569	2.50 %
Other earning assets	66,582	2,119	3.18 %	59,594	2,308	3.87 %	44,546	1,237	2.78 %
Total earning assets	2,468,063	120,524	4.88 %	2,445,621	118,907	4.86 %	1,755,091	83,570	4.76 %
Allowance for loan losses	(11,852)			(11,292)			(9,831)		
Total non-earning assets	264,265			260,348			177,357		
Total assets	$ 2,720,475			$ 2,694,677			$ 1,922,617		
Liabilities and stockholders' equity									
Interest-bearing liabilities:									
NOW and other demand accounts	$ 360,254	$ 2,989	0.83 %	$ 324,797	$ 1,478	0.46 %	$ 192,789	$ 704	0.36 %
Money market accounts	439,097	7,745	1.76 %	328,142	3,060	0.93 %	256,746	1,582	0.62 %
Savings accounts	145,855	461	0.32 %	159,865	512	0.32 %	112,868	442	0.39 %
Time deposits	868,420	19,407	2.23 %	808,718	13,185	1.63 %	668,566	8,265	1.24 %
Total interest-bearing deposits	1,813,626	30,602	1.69 %	1,621,521	18,235	1.12 %	1,230,969	10,993	0.89 %
Borrowings	188,647	6,322	3.35 %	380,822	9,606	2.52 %	218,581	4,660	2.13 %
Total interest-bearing liabilities	2,002,273	36,924	1.84 %	2,002,343	27,841	1.39 %	1,449,550	15,653	1.08 %
Noninterest-bearing liabilities:									
Demand deposits	332,924			336,380			219,107		
Other liabilities	22,115			18,646			15,694		
Total liabilities	2,357,312			2,357,370			1,684,351		
Stockholders' equity	363,163			337,307			238,266		
Total liabilities and stockholders' equity	$ 2,720,475			$ 2,694,677			$ 1,922,617		
Net interest income		$ 83,600			$ 91,066			$ 67,917	
Interest rate spread			3.04 %			3.47 %			3.68 %
Net interest margin			3.39 %			3.72 %			3.87 %

(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.

The following table summarizes changes in net interest income attributable to changes in the volume of interest-earning assets and interest-bearing liabilities compared to changes in interest rates. The change in interest, due to both rate and volume, has been proportionately allocated between rate and volume.

	Year Ended December 31, 2019 vs. 2018 Increase (Decrease) Due to Change in:			Year Ended December 31, 2018 vs. 2017 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands)					
Interest-earning assets:						
Loans, net of deferred fees	$ 1,172	$ 796	$ 1,968	$ 31,476	$ 973	$ 32,449
Investment securities	(129)	(33)	(162)	1,669	148	1,817
Other earning assets	365	(553)	(188)	496	575	1,071
Total interest-earning assets	1,408	210	1,618	33,641	1,696	35,337
Interest-bearing liabilities:						
NOW and other demand accounts	176	1,335	1,511	556	218	775
Money market accounts	1,304	3,380	4,684	532	946	1,478
Savings accounts	(50)	—	(50)	124	(54)	70
Time deposits	1,074	5,148	6,222	1,982	2,938	4,920
Total interest-bearing deposits	2,504	9,863	12,367	3,194	4,048	7,243
Borrowings	(9,391)	6,108	(3,283)	3,962	984	4,946
Total interest-bearing liabilities	(6,887)	15,971	9,084	7,156	5,032	12,189
Change in net interest income	$ 8,295	$ (15,761)	$ (7,466)	$ 26,485	$ (3,337)	$ 23,148

Provision for Loan Losses

The provision for loan losses is a current charge to earnings made in order to increase or decrease 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 losses for the years ended December 31, 2019, 2018 and 2017 was $350 thousand, $4.2 million and $8.6 million, respectively. We had charge-offs totaling $3.3 million during 2019, $3.1 million during 2018 and $8.8 million during 2017. There were recoveries totaling $906 thousand during 2019, $1.8 million during 2018 and $991 thousand during 2017. The provision for loan losses decreased $3.9 million for the year ended December 31, 2019 compared to the year ended December 31, 2018 due to improved credit quality, lower loan volume, lower delinquencies and favorable loss history in 2019. The primary driver of the decreased level of recoveries during the year ended December 31, 2019, as compared to 2018, was $1.3 million in recoveries on commercial loans in 2018 that did not recur.

The Financial Condition Section of Management's Discussion and Analysis provides information on our loan portfolio, past due loans, nonperforming assets and the allowance for loan losses.

Noninterest Income

The following tables present the major categories of noninterest income for the years ended December 31, 2019, 2018 and 2017 (in thousands):

(dollars in thousands)	2019	2018	Change
Account maintenance and deposit service fees	$ 7,159	$ 5,959	$ 1,200
Income from bank-owned life insurance	1,699	1,983	(284)
Equity income (loss) from mortgage affiliate	1,191	(894)	2,085
Recoveries related to acquired charged-off loans and investment securities	1,537	2,610	(1,073)
Other	1,000	541	459
Total noninterest income	$ 12,586	$ 10,199	$ 2,387

(dollars in thousands)	2018	2017	Change
Account maintenance and deposit service fees	$ 5,959	$ 3,564	$ 2,395
Income from bank-owned life insurance	1,983	929	1,054
Equity loss from mortgage affiliate	(894)	(345)	(549)
Gain on sales of investment securities	—	255	(255)
Recoveries related to acquired charged-off loans and investment securities	2,610	757	1,853
Other	541	269	272
Total noninterest income	$ 10,199	$ 5,429	$ 4,770

Noninterest income increased 24% to $12.6 million in the year ended December 31, 2019 from $10.2 million in 2018. The $2.4 million increase was primarily driven by an increase of $1.2 million increase in account maintenance and deposit fees and $2.1 million increase in equity income from mortgage affiliate, partially offset by $1.1 million decrease in recoveries related to acquired charged-off loans and investment securities. Income improved on account maintenance and deposit services fee in the current year compared to the prior year. Income from the investment in STM totaled $1.2 million during the year ended December 31, 2019 compared to a loss of $894 thousand during the year ended December 31, 2018. The increase was primarily driven by strengthened management and operational improvements within STM. For the year ended December 31, 2019, recoveries related to acquired charged-off loans and investment securities was $1.5 million compared to $2.6 million for the year ended December 31, 2018. Other noninterest income benefitted from a $337 thousand gain on sale of the last remaining fixed asset premises held for sale during 2019.

Noninterest income increased 89% to $10.2 million in the year ended December 31, 2018 from $5.4 million in 2017. The increase was mainly due to the $2.4 million increase in account maintenance and deposit service fees primarily driven by the additional fees charged on the retail deposits acquired in the merger with EVBS. The increase in noninterest income was also driven by $1.9 million of higher income from recoveries of premerger charged off loans and securities by EVBS. Income from bank-owned life insurance (BOLI), which totaled $1.9 million for the year ended December 31, 2018, increased $1.0 million when compared to 2017. The increase was driven by $350 thousand of BOLI income recognized from death benefit payouts in 2018, income from the purchase of an additional $12.0 million in BOLI in 2018 as well as increases in BOLI associated with the EVBS merger. Partially offsetting these increases was a $549 thousand increase in losses from the investment in STM, mainly attributable to rising interest rates and operational changes within STM.

Noninterest Expense

The following tables present the major categories of noninterest expense for the years ended December 31, 2019, 2018 and 2017 (in thousands):

(dollars in thousands)	2019	2018	Change
Salaries and benefits	$ 26,261	$ 27,706	$ (1,445)
Occupancy expenses	6,204	6,628	(424)
Furniture and equipment expenses	2,719	2,795	(76)
Amortization of core deposit intangible	1,418	1,445	(27)
Virginia franchise tax expense	2,251	1,839	412
Data processing expense	2,381	1,885	496
Telephone and communication expense	1,615	2,035	(420)
Net (gain) loss on other real estate owned	(38)	360	(398)
Professional fees	3,612	1,644	1,968
Other operating expenses	10,169	7,423	2,746
Total noninterest expenses	$ 56,592	$ 53,760	$ 2,832

(dollars in thousands)	2018	2017	Change
Salaries and benefits	$ 27,706	$ 20,285	$ 7,421
Occupancy expenses	6,628	4,809	1,819
Furniture and equipment expenses	2,795	2,228	567
Amortization of core deposit intangible	1,445	845	600
Virginia franchise tax expense	1,839	969	870
Data processing expense	1,885	1,140	745
Telephone and communication expense	2,035	1,422	613
Net loss on other real estate owned	360	520	(160)
Professional fees	1,644	1,798	(154)
Merger expenses	—	9,426	(9,426)
Other operating expenses	7,423	5,707	1,716
Total noninterest expenses	$ 53,760	$ 49,149	$ 4,611

Noninterest expenses were $56.6 million during the year ended December 31, 2019, compared to $53.7 million during the year ended December 31, 2018. The year-over-year increase of 5.3% in noninterest expenses was primarily due to an increase in other operating expenses driven by a nonrecurring loss of $3.2 million with related legal expense of $502 thousand during the first quarter of 2019. Professional fees increased $2.0 million for the year ended December 31, 2019, when compared to the year ended December 21, 2018 mainly due to costs incurred as part of our implementation efforts for the 2020 adoption of the Current Expected Credit Losses ("CECL") accounting standard, enhancements to our compliance and Bank Secrecy Act programs, and general legal expense for corporate matters in 2019. Employee compensation and benefits expense totaled $26.3 million and $27.7 million for the year ended December 31, 2019 and 2018, respectively. The decrease was due to a reduction in staffing in 2019.

Noninterest expenses were $53.7 million during the year ended December 31, 2018, compared to $49.1 million during the year ended December 31, 2017. The year-over-year increase of 9.4% in noninterest expenses was mainly driven by increased salaries and benefits of $7.4 million in 2018 compared to 2017 due to additional staff added in the EVBS acquisition. Occupancy expenses and furniture and equipment expenses increased $1.8 million and $567 thousand, respectively, year-over-year to $6.6 million and $2.8 million, respectively, for the year ended December 31, 2018 primarily associated with the EVBS merger. The increases in noninterest expenses associated with the EVBS merger were in-line with management's pre-merger expectations. Other operating expenses increased $1.2 million for the year ended December 31, 2018, when compared to the year ended December 31, 2017. Merger expenses associated with the EVBS acquisition was $9.4 million for the year ended December 31, 2017, which did not recur during 2018.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $2.72 billion as of December 31, 2019 and $2.70 billion as of December 31, 2018. Total loans increased 0.3%, from $2.18 billion at December 31, 2018 to $2.19 billion at December 31, 2019, primarily due to loan growth of $262.5 million during 2019, partially offset by unanticipated large loan payoffs or paydowns of $98.2 million in 2019. Total deposits were $2.12 billion at December 31, 2019 compared to $2.09 billion at December 31, 2018 and total equity was $377.2 million and $348.3 million at December 31, 2019 and December 31, 2018, respectively.

Loans

Total loans, net of deferred fees were $2.19 billion and $2.18 billion at December 31, 2019 and 2018, respectively. The $7.2 million increase in total loans, net of deferred fees during 2019 has primarily been the result of loan growth, partially offset by unanticipated pay downs or payoffs of loans two million and greater in size during the year. New loans originated in 2019 totaled $262.5 million. Loans two million and greater in size, that have been paid off or paid down in 2019, included $52.3 million due to the sale of the customer's property, $24.1 million in loans that refinanced elsewhere for unacceptable rate or structure, $13.7 million were projects that transitioned to government financing, and $8.1 million was due to cyclical fluctuation in credit line activity. Additionally, in the first quarter of 2019, $33.9 million of commercial loans were reclassified into loans secured by real estate, upon review and validation of collateral and Call Report codes.

As of December 31, 2019 and 2018, 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.

The following table summarizes the composition of our loans, net of unearned income, at December 31 for the years indicated (in thousands):

	2019		2018		2017		2016		2015	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Loans secured by real estate:										
Commercial real estate - owner occupied	$ 414,479	19.0 %	$ 407,031	18.7 %	$ 401,847	19.5 %	$ 154,807	16.6 %	$ 141,521	17.0 %
Commercial real estate - non-owner occupied	559,195	25.6 %	540,698	24.8 %	440,700	21.4 %	279,634	29.9 %	256,513	30.8 %
Secured by farmland	17,622	0.8 %	20,966	1.0 %	23,038	1.1 %	541	0.1 %	578	0.1 %
Construction and land development	150,750	6.9 %	146,654	6.7 %	197,972	9.6 %	91,067	9.8 %	67,832	8.2 %
Residential 1-4 family (1)	604,777	27.7 %	565,083	25.9 %	483,006	23.4 %	230,810	24.8 %	178,071	21.4 %
Multi- family residential	82,055	3.8 %	82,516	3.8 %	70,892	3.4 %	30,021	3.2 %	25,501	3.1 %
Home equity lines of credit (1)	109,006	5.0 %	128,225	5.9 %	152,829	7.4 %	29,203	3.1 %	35,177	4.2 %
Total real estate loans	1,937,884	88.7 %	1,891,173	86.8 %	1,770,284	85.8 %	816,083	87.5 %	705,193	84.8 %
Commercial loans	221,447	10.1 %	255,441	11.7 %	253,258	12.3 %	115,365	12.4 %	124,985	15.0 %
Consumer loans	26,304	1.2 %	32,347	1.5 %	39,374	1.9 %	856	0.1 %	1,366	0.2 %
Gross loans	2,185,635	100 %	2,178,961	100 %	2,062,916	100 %	932,304	100 %	831,544	100 %
Plus (less) deferred costs (fees) on loans	412		(137)		(588)		(1,889)		(2,119)	
Loans, net of deferred fees	$ 2,186,047		$ 2,178,824		$ 2,062,328		$ 930,415		$ 829,425	
Covered loans included above in residential 1-4 family and home equity lines of credit (1)	$ 13,527		$ 18,252		$ 23,339		$ 28,180		$ 34,373	

(1) Includes loans acquired in the GAB transaction covered under an FDIC loss-share agreement which expired on December 31, 2019.

The following table sets forth the contractual maturity ranges of the construction and land development and commercial loan portfolios and the amount of those loans with fixed and floating interest rates in each maturity range as of December 31, 2019 (in thousands):

		After 1 Year Through 5 Years		After 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Construction and land development	$ 99,185	$ 25,654	$ 11,057	$ 5,103	$ 9,751	$ 150,750
Commercial	110,189	54,492	14,407	6,890	35,469	221,447
Total	$ 209,374	$ 80,146	$ 25,464	$ 11,993	$ 45,220	$ 372,197

Asset Quality; Past Due Loans and Nonperforming Assets

Asset quality remained high during 2019. 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.

The following table presents a comparison of non-covered nonperforming assets as of December 31, for the years indicated (in thousands):

	2019	2018	2017	2016	2015
Nonaccrual loans	$ 8,900	$ 6,709	$ 16,931	$ 3,795	$ 4,173
Loans past due 90 days and accruing interest	—	—	—	—	—
Total nonperforming loans	8,900	6,709	16,931	3,795	4,173
Other real estate owned	6,224	5,077	7,577	8,617	10,096
Total non-covered nonperforming assets	$ 15,124	$ 11,786	$ 24,508	$ 12,412	$ 14,269
Troubled debt restructurings	$ 697	$ 692	$ 672	$ 688	$ 699
SBA guaranteed amounts included in nonaccrual loans	$ 4,129	$ 3,391	$ 4,664	$ 2,173	$ 3,541
Allowance for loan losses to nonperforming loans	115.30 %	207.63 %	55.50 %	226.88 %	201.80 %
Allowance for loan losses to total non-covered loans	0.47 %	0.57 %	0.46 %	0.95 %	1.06 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	0.41 %	0.28 %	0.77 %	0.92 %	1.07 %

Covered nonperforming assets are not included in the table above because the carrying value includes a component for credit losses (the nonaccretable yield).

OREO at December 31, 2019 was $6.2 million compared to $5.1 million at December 31, 2018. Increase in OREO was driven by foreclosure of three small commercial properties and one residential property in 2019.

Non-covered nonaccrual loans were $4.8 million (excluding $4.1 million of loans fully covered by SBA guarantees) at December 31, 2019 compared to $3.3 million (excluding $3.4 million of loans fully covered by SBA guarantees) at December 31, 2018. The ratio of non-covered nonperforming assets (excluding the SBA guaranteed loans) to total non-covered assets decreased from 0.28% at December 31, 2018 to 0.41% at December 31, 2019.

At December 31, 2019, our total substandard loans (covered and non-covered) totaled $10.5 million. Included in the total substandard loans were SBA guarantees of $0.3 million and covered loans of $0.9 million. Special mention loans totaled $12.2 million at December 31, 2019.

As of December 31, 2019, we had three TDR loans, totaling $697 thousand. One loan was modified as a TDR during each of the years ending December 31, 2019 and 2018. One TDR which had been modified in 2013 defaulted in 2015. This loan, in the amount of $645 thousand, was current as of December 31, 2019.

It is the Bank's practice to concurrently charge off collateral-dependent loans at the time loan impairment is recognized. We had $245 thousand charge-offs on loans individually evaluated for impairment as of December 31, 2019.

We identify potential problem loans based on loan portfolio credit quality. We define our potential problem loans as our non-covered classified/criticized loans less total non-covered nonperforming loans noted above. At December 31, 2019 and 2018, our potential problem loans totaled $0.7 million and $0.2 million, respectively.

Allowance for Loan and Lease Losses

We are very focused on the asset quality of our loan portfolio, both before and after the loan is made. We have established underwriting standards that we believe are effective in maintaining high credit quality in our loan portfolio. We have experienced loan officers who take personal responsibility for the loans they underwrite, a standing credit committee that reviews each loan application carefully, and a requirement that loans over $6,000,000 must be approved by all five executive members of our standing credit committee and loans over $10,000,000 must be approved by the full board of directors or two outside directors.

Our allowance for loan and lease losses is established through charges to earnings in the form of a provision for loan losses. Management evaluates the allowance at least quarterly. In addition, on a quarterly basis our board of directors reviews our loan portfolio, evaluates credit quality, reviews the loan loss provision and the allowance for loan and lease losses and makes changes as may be required. In evaluating the allowance, management and the board of directors consider the growth, composition and industry diversification of the loan portfolio, historical loan loss experience, current delinquency levels and all other known factors affecting loan collectability.

The allowance for loan and lease losses represents management's estimate of an amount appropriate to provide for probable incurred losses in the loan portfolio in the normal course of business. This estimate is based on average historical losses within the various loan types that compose our portfolio as well as an estimate of the effect that other known factors such as the economic environment within our market area will have on net losses. The allowance is also subject to regulatory examinations and determination by the regulatory agencies as to the appropriate level of the allowance.

Our loan review program is administrated by the Chief Risk Officer who reports results directly to the Audit Committee of the Board of Directors. The Bank's credit policy specifies that "Internal Loan review is responsible for performing a full scope review and written report of loans with a total dollar commitment amount equal to 30% of commercial loans outstanding at the previous year-end including Construction and Development, Nonfarm Nonresidential (CRE) and Commercial and Industrial loans." In 2019, internal loan review performed loan reviews on loans and commitments totaling 25.3% of this loan portfolio outstanding as of December 31, 2018. External loan review is responsible for reviewing 50% of the same portfolio at previous year end. An independent third party consultant performed loan reviews on 59.1% of this portfolio. In 2019, internal and external loan reviews were performed on 84.4% of the specified portfolio of loans. In 2020 we plan to have the independent third-party consultant review loans and commitments totaling at least 50% of the loan portfolio outstanding as of December 31, 2019, and another 30% reviewed internally. Loan reviews totaling at least 80% of the specified commercial loan portfolio outstanding at December 31, 2019 will be performed. The purpose of loan review by a third-party is to validate management's assessment of risk of the individual loans in the portfolio and to determine whether the loan was approved, underwritten and is being monitored in accordance with the Bank's credit policy and regulatory guidance. Management's risk assessment of individual loans takes into consideration among other factors, the estimated value of the underlying collateral, the borrower's ability to repay, the borrower's payment history and current payment status.

The following table sets forth the allowance for loan losses allocated by loan category and the percent of loans in each category to total loans at the dates indicated (in thousands):

	As of December 31,									
	2019		2018		2017		2016		2015	
	Allowance for Loan Losses	Percent of Loans by Category to Total Loans	Allowance for Loan Losses	Percent of Loans by Category to Total Loans	Allowance for Loan Losses	Percent of Loans by Category to Total Loans	Allowance for Loan Losses	Percent of Loans by Category to Total Loans	Allowance for Loan Losses	Percent of Loans by Category to Total Loans
Commercial real estate (1)	$ 2,530	49.1 %	$ 2,471	48.2 %	$ 2,011	45.4 %	$ 2,389	49.8 %	$ 2,407	51.0 %
Construction and land development	683	6.9 %	821	6.7 %	692	9.6 %	752	9.8 %	865	8.2 %
Residential 1-4 family (2)	1,266	32.7 %	1,106	31.8 %	1,586	30.8 %	1,279	27.9 %	1,408	25.6 %
Commercial loans	4,518	10.1 %	6,497	11.7 %	4,496	12.3 %	3,366	12.4 %	3,041	15.0 %
Consumer loans	190	1.2 %	224	1.5 %	612	1.9 %	78	0.1 %	48	0.2 %
Total	9,187	100.0 %	11,119	100.0 %	9,397	100.0 %	7,864	100.0 %	7,769	100.0 %
Allowance for acquired loan losses	900		600		—		—		—	
Total allocated allowance	10,087		11,719		9,397		7,864		7,769	
Unallocated allowance	174		564		—		746		652	
Total	$ 10,261		$ 12,283		$ 9,397		$ 8,610		$ 8,421	

(1) Includes owner and non-owner occupied loans, loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

The following table presents an analysis of the allowance for loan losses for the periods indicated (in thousands):

	For the Years Ended December 31,				
	2019	2018	2017	2016	2015
Balance, beginning of period	$ 12,283	$ 9,397	$ 8,610	$ 8,421	$ 7,414
Provision charged to operations:					
Provision for non-purchased loans	50	3,600	8,625	4,912	3,171
Provision for purchase credit impaired loans	300	600	—	—	—
Total provisions	350	4,200	8,625	4,912	3,171
Recoveries credited to allowance:					
Real estate - commercial (1)	213	15	431	8	36
Real estate - construction, land and other	—	—	1	121	139
Real estate - residential 1-4 family (2)	306	125	17	10	242
Commercial	351	1,626	538	96	91
Consumer	36	18	4	4	1
Total recoveries	906	1,784	991	239	509
Loans charged off:					
Real estate - commercial (1)	1,645	400	100	799	1,067
Real estate - construction, land and other	—	—	—	449	—
Real estate - residential 1-4 family (2)	742	842	369	22	413
Commercial	622	1,566	8,250	3,370	1,174
Consumer	269	290	110	322	19
Total loans charged-off	3,278	3,098	8,829	4,962	2,673
Net charge-offs	2,372	1,314	7,838	4,723	2,164
Balance, end of period	$ 10,261	$ 12,283	$ 9,397	$ 8,610	$ 8,421
Net charge-offs to average loans, net of unearned income	0.11 %	0.06 %	0.51 %	0.53 %	0.28 %

(1) Includes owner and non-owner occupied loans, loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

In 2019, we had loan charge-offs totaling $3.3 million, compared to $3.1 million in 2018.

We believe that the allowance for loan losses at December 31, 2019 is sufficient to absorb probable incurred credit losses in our loan portfolio based on our assessment of all known factors affecting the collectability of our loan portfolio. Our assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination, may require additional charges to the provision for loan losses in future periods if the results of their reviews warrant additions to the allowance for loan losses.

Investment Securities

Our investment securities portfolio provides us with required liquidity and investment securities to pledge as collateral to secure public deposits, certain other deposits, a line of credit for advances from the FHLB of Atlanta, and repurchase agreements.

Our investment securities portfolio is managed by our executive vice chairman and our treasurer, both of whom have significant experience in this area, with the concurrence of our Asset/Liability Committee. In addition to our executive vice chairman (who is the chairman of the Asset/Liability Committee) and our Controller, this committee is comprised of outside directors and other senior officers of the Bank, including but not limited to our executive chairman, our chief executive officer and our chief financial officer. Investment management is performed in accordance with our investment policy, which is approved annually by the Asset/Liability Committee and the Board of Directors. Our investment policy addresses our investment strategies, approval process, approved securities dealers and authorized investments. Our investment policy authorizes us to invest in:

- Government National Mortgage Association ("GNMA"), Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC") mortgage-backed securities ("MBS")
- Collateralized mortgage obligations
- U.S. Treasury securities
- SBA guaranteed loan pools
- Agency securities
- Obligations of states and political subdivisions
- Pooled trust preferred securities comprised of a minimum of 80% bank collateral with an investment grade rating or a minimum of 60% bank collateral with a AAA rating at purchase
- Other corporate debt securities rated Aa3/AA- or better at purchase

MBS are securities that have been developed by pooling a number of real estate mortgages and which are principally issued by agency/government-sponsored entities ("GSEs") such as the GNMA, FNMA and FHLMC. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, MBS provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. MBS which are purchased at a premium will generally suffer decreasing net yields as interest rates drop because homeowners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Conversely, MBS purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate MBS do not tend to experience heavy prepayments of principal, and consequently the average life of these securities will be lengthened. If interest rates begin to fall, prepayments will generally increase.

Collateralized mortgage obligations ("CMOs") are bonds that are backed by pools of mortgages. The pools can be GNMA, FNMA or FHLMC pools or they can be private-label pools. The CMOs are designed so that the mortgage collateral will generate a cash flow sufficient to provide for the timely repayment of the bonds. The mortgage collateral pool can be structured to accommodate various desired bond repayment schedules, provided that the collateral cash flow is adequate to meet scheduled bond payments. This is accomplished by dividing the bonds into classes to which payments on the underlying mortgage pools are allocated. The bond's cash flow, for example, can be dedicated to one class of bondholders at a time, thereby increasing call protection to bondholders. In private-label CMOs, losses on underlying mortgages are directed to the most junior of all classes and then to the classes above in order of increasing seniority, which means that the senior classes have enough credit protection to be given the highest credit rating by the rating agencies.

Obligations of states and political subdivisions (municipal securities) are purchased with consideration of the current tax position of the Bank. In-state (Virginia) municipal bonds will be favored when they present better relative value than comparable out-of-state municipal bonds. Both taxable and tax-exempt municipal bonds may be purchased, but only after careful assessment of the market risk of the security. Appropriate credit evaluation must be performed prior to purchasing municipal bonds.

Southern National's corporate bonds consist of pooled trust preferred securities issued by banks, thrifts and insurance companies as well as senior subordinated notes issued by banks. The collateral pools of these trust preferred securities must be at least 80% banks or thrifts, if the rating at the time of purchase is A3/A- or better. If the rating is Aaa/AAA, the collateral pool must be at least 60% banks or thrifts. These securities generally have a long term (25 years or more), allow early redemption by the issuers, make periodic variable interest payments and mature at face value. Trust preferred securities allow the deferral of interest payments for up to five years.

We classify our investment securities as either held to maturity or available for sale. Debt investment securities that Southern National has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Investment securities classified as available for sale are those debt securities that may be sold in response to changes in interest rates, liquidity needs or other similar factors. Investment securities available for sale are carried at fair value, with unrealized gains or losses net of deferred taxes, included in accumulated other comprehensive income (loss) in stockholders' equity. Investment securities totaling $72.5 million were in the held to maturity portfolio at December 31, 2019, compared to $92.4 million at December 31, 2018. Investment securities totaling $164.8 million were in the available for sale portfolio at December 31, 2019, compared to $143.4 million at December 31, 2018. During 2019, $45.1 million and $15.3 million, respectively, of available for sale investment securities and held to maturity investment securities were purchased. No investment securities were sold during 2019. No investment securities were purchased or sold during 2018.

As of December 31, 2019, we owned pooled trust preferred investment 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	Aa1	AA	$ 2,019	$ 1,882	$ 1,982	17 %	$ 219
MMCF III B	Senior Sub	A3	A-	Ba1	WD	57	56	53	45 %	4
						$ 2,076	$ 1,938	$ 2,035		$ 223
Available for Sale										**Cumulative OTTI Related to Credit Loss (2)**
Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	WD	$ 1,500	$ 1,040	$ 795	32 %	$ 400
ALESCO V C1	Mezzanine	A2	A	Caa1	C	2,150	1,490	1,773	15 %	660
						$ 3,650	$ 2,530	$ 2,568		$ 1,060
Total						$ 5,726	$ 4,468	$ 4,603		

(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 ("OTTI"). 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 OTTI. 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 OTTI charges during 2019 or 2018.

Investment securities in our portfolio as of December 31, 2019 were as follows:

- residential government-sponsored collateralized mortgage obligations in the amount of $39.8 million;
- agency residential government-sponsored mortgage-backed securities in the amount of $71.9 million;
- corporate bonds in the amount of $2.0 million;
- commercial mortgage-backed securities in the amount of $27.7 million;
- SBA loan pool securities in the amount of $14.4 million;

- callable agency securities in the amount of $44.2 million;
- trust preferred securities in the amount of $4.5 million, $1.9 million of which is Alesco VII A1B which is rated Aaa (Moody's); and
- municipal bonds in the amount of $32.7 million (fair value of $32.8 million) with a taxable equivalent yield of 2.9% and ratings as follows:

Moody's Rating	Amount (in thousands)	Standard & Poor's Rating	Amount (in thousands)
Aaa	$ 6,530	AAA	$ 6,100
Aa1	6,611	AA+	6,637
Aa2	3,908	AA	9,799
Aa3	696	AA-	1,816
A1	2,344	A+	1,008
A2	1,511	A	840
Baa1	1,013	BBB+	1,013
NA	10,204	NA	5,604
Total	$ 32,817	Total	$ 32,817

For additional information regarding investment securities refer to "Item 8. Financial Statements and Supplementary Data, Note 2-Investment Securities."

The following table sets forth a summary of the investment securities portfolio as of the dates indicated. Available for sale investment securities are reported at fair value, and held to maturity investment securities are reported at amortized cost (in thousands).

	December 31, 2019	2018	2017
Available for sale securities:			
Residential government-sponsored mortgage-backed securities	$ 48,979	$ 27,302	$ 30,864
Obligations of states and political subdivisions	17,582	18,055	18,727
Corporate securities	2,012	2,008	2,015
Trust preferred securities	2,568	2,641	2,388
Residential government-sponsored collateralized mortgage obligations	36,689	43,057	50,766
Government-sponsored agency securities	14,822	3,125	3,226
Agency commercial mortgage-backed securities	27,731	27,304	27,898
SBA pool securities	14,437	19,885	24,789
Total	$ 164,820	$ 143,377	$ 160,673
Held to maturity investment securities:			
Residential government-sponsored mortgage-backed securities	$ 22,925	$ 9,699	$ 11,500
Obligations of states and political subdivisions	15,071	21,496	22,830
Trust preferred securities	1,938	2,610	3,205
Residential government-sponsored collateralized mortgage obligations	3,128	6,001	8,727
Government-sponsored agency securities	29,386	52,656	52,650
Total	$ 72,448	$ 92,462	$ 98,912

The following table sets forth the amortized cost, fair value, and weighted average yield of our investment securities by contractual maturity at December 31, 2019. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Investment Securities Available for Sale		
	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of states and political subdivisions			
Due after one year through five years	$ 827	$ 840	3.14 %
Due after five years through ten years	5,048	5,163	3.06 %
Due after ten years	11,166	11,579	2.71 %
	17,041	17,582	2.83 %
Trust preferred securities			
Due after ten years	2,530	2,568	7.97 %
Corporate securities			
Due after five years through ten years	2,004	2,012	6.13 %
Government-sponsored agency securities			
Due after one year through five years	1,500	1,518	2.00 %
Due after five years through ten years	5,350	5,372	3.17 %
Due after ten years	7,973	7,932	2.84 %
	14,823	14,822	2.87 %
Residential government-sponsored mortgage-backed securities			
Due after one year through five years	6,708	6,813	2.45 %
Due after five years through ten years	2,947	2,972	2.27 %
Due after ten years	38,885	39,194	2.42 %
	48,540	48,979	2.42 %
Residential government-sponsored collateralized mortgage obligations			
Due after five years through ten years	8,565	8,621	2.41 %
Due after ten years	27,946	28,068	2.25 %
	36,511	36,689	2.29 %
Agency commercial mortgage-backed securities			
Due after one year through five years	25,542	25,671	2.16 %
Due after five years through ten years	2,015	2,060	2.59 %
	27,557	27,731	2.19 %
SBA pool securities			
Due after one year through five years	134	133	3.99 %
Due after five years through ten years	5,124	5,126	3.31 %
Due after ten years	9,364	9,178	3.84 %
	14,622	14,437	3.65 %
	$ 163,628	$ 164,820	2.68 %

	Investment Securities Held to Maturity		
	Amortized Cost	Fair Value	Weighted Average Yield
Obligations of states and political subdivisions			
Due after one year through five years	$ 2,731	$ 2,804	2.12 %
Due after five years through ten years	2,241	2,289	2.78 %
Due after ten years	10,099	10,142	3.37 %
	15,071	15,235	3.05 %
Trust preferred securities			
Due after ten years	1,938	2,035	3.32 %
Government-sponsored agency securities			
Due after five years through ten years	10,000	9,985	2.50 %
Due after ten years	19,386	19,347	2.83 %
	29,386	29,332	2.72 %
Residential government-sponsored mortgage-backed securities			
Due after five years through ten years	2,129	2,137	2.07 %
Due after ten years	20,796	20,798	2.52 %
	22,925	22,935	2.47 %
Residential government-sponsored collateralized mortgage obligations			
Due after five years through ten years	390	390	2.07 %
Due after ten years	2,738	2,739	2.20 %
	3,128	3,129	2.47 %
	$ 72,448	$ 72,666	2.70 %

Deposits and Other Borrowings

The market for deposits is competitive. We offer a line of traditional deposit products that currently include noninterest-bearing and interest-bearing checking (or NOW accounts), commercial checking, money market accounts, savings accounts and certificates of deposit. We compete for deposits through our banking branches with competitive pricing, advertising and online banking. We use deposits as a principal source of funding for our lending, purchasing of investment securities and for other business purposes.

Total deposits increased 1.3% to $2.12 billion at December 31, 2019 from $2.09 billion at December 31, 2018. Noninterest-bearing demand deposits increased from a year-end 2018 level of $320.0 million to $339.2 million as of December 31, 2019. Time deposits decreased from $925.4 million to $783.0 million and savings accounts decreased from $151.0 to $144.5 million over the same period. As of December 31, 2019, we had brokered certificates of deposit in the amount of $114.1 million and brokered money market deposits of $24.4 million. At December 31, 2018, we had brokered certificates of deposit in the amount of $254.6, and we had brokered money market deposits of $16.9 million.

The following table sets forth the average balance and average rate paid on each of the deposit categories for the years ended December 31, 2019, 2018 and 2017:

	2019		2018		2017	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
			(in thousands)			
Noninterest-bearing demand deposits	$ 332,924		$ 336,380		$ 219,107	
Interest-bearing deposits:						
Savings accounts	145,855	0.32 %	159,865	0.32 %	112,868	0.39 %
Money market accounts	439,097	1.76 %	328,142	0.93 %	256,746	0.62 %
NOW and other demand accounts	360,254	0.83 %	324,797	0.46 %	192,789	0.36 %
Time deposits	868,420	2.23 %	808,718	1.63 %	668,566	1.24 %
Total interest-bearing deposits	1,813,626	1.69 %	1,621,521	1.12 %	1,230,969	0.89 %
Total deposits	$ 2,146,550		$ 1,957,902		$ 1,450,076	

The variety of deposit accounts we offer allows us to be competitive in obtaining funds and in responding to the threat of disintermediation (the flow of funds away from depository institutions such as banking institutions into direct investment vehicles such as government and corporate securities). Our ability to attract and maintain deposits, and the effect of such retention on our cost of funds, has been, and will continue to be, significantly affected by the general economy and market rates of interest.

The following table sets forth the maturities of certificates of deposit of $100 thousand and over as of December 31, 2019 (in thousands):

Within 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
$ 98,038	$ 95,562	$ 135,869	$ 166,467	$ 495,936

We use borrowed funds to support our liquidity needs and to temporarily satisfy our funding needs from increased loan demand and for other shorter term purposes. We are a member of the FHLB and are authorized to obtain advances from the FHLB from time to time as needed. The FHLB has a credit program for members with different maturities and interest rates, which may be fixed or variable. We are required to collateralize our borrowings from the FHLB with our FHLB stock and other collateral acceptable to the FHLB. At December 31, 2019 and 2018, total FHLB borrowings were $121.6 million and $163.3 million, respectively. At December 31, 2019, we had $554.3 million of unused and available FHLB lines of credit.

Other short-term borrowings can consist of 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. Repo accounts totaling $7.6 million were assumed on June 23, 2017 in the merger with EVBS. The balance in repo accounts at December 31, 2019 and 2018 was $12.9 million and $18.7 million, respectively.

Other short-term borrowings consist of the following (in thousands):

	December 31,		
	2019	2018	2017
FHLB overnight advances	$ 81,000	$ 5,500	$ 56,860
Other short-term FHLB advances maturing 3/10/2020	40,640	—	—
Other short-term FHLB advances maturing 6/27/2019	—	40,000	—
Other short-term FHLB advances maturing 6/18/2019	—	27,200	—
Other short-term FHLB advances maturing 6/12/2019	—	10,000	—
Other short-term FHLB advances maturing 6/11/2019	—	80,640	—
Other short-term FHLB advances maturing 6/27/2018	—	—	10,000
Other short-term FHLB advances maturing 6/20/2018	—	—	27,200
Other short-term FHLB advances maturing 6/14/2018	—	—	10,000
Other short-term FHLB advances maturing 6/13/2018	—	—	80,640
Other short-term FHLB advances maturing 6/12/2018	—	—	10,000
Other short-term FHLB advances maturing 3/28/2018	—	—	30,000
Other short-term FHLB advances maturing 3/14/2018	—	—	80,640
Other short-term FHLB advances maturing 3/13/2018	—	—	30,275
Total FHLB advances	121,640	163,340	335,615
Securities sold under agreements to repurchase	12,883	18,721	15,468
Total	$ 134,523	$ 182,061	$ 351,083
Weighted average interest rate at year end	1.75 %	2.68 %	1.50 %
For the periods ended December 31, 2019, 2018 and 2017:			
Average outstanding balance	$ 125,340	$ 324,155	$ 177,983
Average interest rate during the year	2.30 %	1.91 %	1.24 %
Maximum month-end outstanding balance	$ 174,739	$ 411,511	$ 351,083

Junior Subordinated Debt and Senior Subordinated Notes

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 December 31, 2019, all of the SNBV Senior Subordinated Notes qualified as Tier 2 capital. At December 31, 2019, the remaining unamortized debt issuance costs related to the SNBV Senior Subordinated Notes totaled $666 thousand.

In connection with our merger with EVBS, the Company assumed $10.3 million (fair value adjustment of $801 thousand) 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 3-month LIBOR plus 2.95%. As of December 31, 2019, the interest rate was 4.85%. 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 may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. At December 31, 2019, all of the trust preferred securities qualified as Tier 1 capital.

Subject to certain exceptions and limitations, Southern National 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 Southern National defers interest payments on the Junior Subordinated Debt for more than 20 consecutive quarters, Southern National would be in default under the governing agreements for such notes and the amount due under such agreements would be immediately due and payable.

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 (fair value adjustment of $1.9 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. At December 31, 2019 all of the EVBS Senior Subordinated Notes qualified as Tier 2 capital.

Interest Rate Sensitivity and 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 review quarterly interest sensitivity. 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 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 100 basis points, measured in 100 basis point increments) as of December 31, 2019 and 2018. All changes are within our Asset/Liability Risk Management Policy guidelines except for the change resulting from the 100 basis point decrease in interest rates at December 31, 2019 and 2018.

	Sensitivity of Economic Value of Equity As of December 31, 2019				
	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	$ 323,871	$ (45,102)	(12.22)%	11.90 %	85.85 %
Up 300	336,822	(32,151)	(8.71)%	12.37 %	89.29 %
Up 200	349,192	(19,781)	(5.36)%	12.83 %	92.56 %
Up 100	363,935	(5,038)	(1.37)%	13.37 %	96.47 %
Base	368,973	—	— %	13.55 %	97.81 %
Down 100	353,371	(15,602)	(4.23)%	12.98 %	93.67 %

Change in Interest Rates in Basis Points (Rate Shock)	Sensitivity of Economic Value of Equity As of December 31, 2018				
	Economic Value of Equity			Economic Value of Equity as a % of	
	Amount	$ Change From Base	% Change From Base	Total Assets	Equity Book Value
	(dollar amounts in thousands)				
Up 400	$ 338,853	$ (33,298)	(8.95)%	12.54 %	97.03 %
Up 300	347,409	(24,742)	(6.65)%	12.85 %	99.48 %
Up 200	356,429	(15,722)	(4.22)%	13.19 %	102.07 %
Up 100	362,312	(9,839)	(2.64)%	13.40 %	103.75 %
Base	372,151	—	0.00 %	13.77 %	106.57 %
Down 100	341,397	(30,754)	(8.26)%	12.63 %	97.76 %

Our interest rate sensitivity is also monitored by management through the use of a model 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 December 31, 2019 and 2018 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 ALM Policy guidelines at December 31, 2019 and 2018.

Change in Interest Rates in Basis Points (Rate Shock)	Sensitivity of Net Interest Income As of December 31, 2019			
	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$ 74,096	$ (8,158)	3.00 %	(0.33)%
Up 300	76,355	(5,899)	3.09 %	(0.24)%
Up 200	78,458	(3,796)	3.18 %	(0.15)%
Up 100	80,649	(1,605)	3.27 %	(0.07)%
Base	82,254	—	3.33 %	— %
Down 100	81,273	(981)	3.29 %	(0.04)%

Change in Interest Rates in Basis Points (Rate Shock)	Sensitivity of Net Interest Income As of December 31, 2018			
	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$ 101,121	$ 9,785	4.05 %	0.35 %
Up 300	97,784	6,448	3.97 %	0.23 %
Up 200	96,305	4,969	3.88 %	0.16 %
Up 100	93,719	2,383	3.78 %	0.07 %
Base	91,336	—	3.70 %	— %
Down 100	91,719	383	3.72 %	0.04 %

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.

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. For additional information about borrowings and anticipated principal repayments refer to the discussion about Contractual Obligations below and "Item 8. Financial Statements and Supplementary Data, Note 10 – Securities Sold Under Agreements To Repurchase And Other Short-Term Borrowings and Note 11 – Junior Subordinated Debt and Senior Subordinated Notes."

We prepare a cash flow forecast on a 30, 60 and 90 day basis along with a one and a two year basis. 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, the projection incorporates the scheduled loan closings in the Loan Pipeline Report along with other management estimates.

We have liquidity risk software with which we can monitor our liquidity risk at a point in time and prepare cash flow and funds availability projections over a two year period. The projections can be run using a base case and several stress levels.

During the year ended December 31, 2019, we funded our financial obligations with deposits and borrowings from the FHLB of Atlanta. At December 31, 2019, we had $324.8 million of unfunded lines of credit and undisbursed construction loan funds. The amount of certificate of deposit accounts maturing in 2020 is $554.2 million as of December 31, 2019. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

As of December 31, 2019, Southern National was not aware of any other known trends, events or uncertainties that have or are reasonably likely to have a material impact on our liquidity. As of December 31, 2019, Southern National has no material commitments or long-term debt for capital expenditures.

Capital Resources

Capital management consists of providing equity to support both current and future operations. We and the Bank are subject to risk-based capital adequacy requirements imposed by the Federal Reserve.

See "Item 1. Business, Supervision and Regulation—Capital Adequacy Requirements."

The following table provides a comparison of the leverage and risk-weighted capital ratios of Sonabank at the periods indicated to the minimum and well-capitalized required regulatory standards:

	Minimum Required for Capital Adequacy Purposes (1)	To Be Categorized as Well Capitalized (2)	Actual Ratio at December 31, 2019	Actual Ratio at December 31, 2018
Sonabank				
Common equity tier 1 capital ratio	4.50 %	6.50 %	14.81 %	13.64 %
Tier 1 risk-based capital ratio	6.00 %	8.00 %	14.81 %	13.64 %
Total risk-based capital ratio	8.00 %	10.00 %	15.29 %	14.22 %
Leverage ratio	4.00 %	5.00 %	12.07 %	11.03 %

(1) Once fully phased-in on January 1, 2019, the Basel III capital rules included 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 increased each subsequent January 1, until it reached 2.5% on January 1, 2019.

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

Impact of Inflation and Changing Prices

The financial statements and related financial data presented in this Annual Report on Form 10-K concerning Southern National have been prepared in accordance with U.S. GAAP, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant impact on our performance than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Many factors impact interest rates, including the FRB, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets. Like most financial institutions, changes in interest rates can impact our net interest income which is the difference between interest earned from interest-earning assets, such as loans and investment securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings, as well as the valuation of our assets and liabilities.

Our interest rate risk management is the responsibility of the Bank's Asset/Liability Management Committee (the "Asset/Liability Committee"). The Asset/Liability Committee has established policies and limits for management to monitor, measure and coordinate our sources, uses and pricing of funds. The Asset/Liability Committee makes reports to the board of directors on a quarterly basis.

Seasonality and Cycles

We do not consider our commercial banking business to be seasonal.

Contractual Obligations

The following table reflects the contractual maturities of our term liabilities as of December 31, 2019. The amounts shown do not reflect contractual interest, early withdrawal or prepayment assumptions.

	Contractual Obligations				
	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
	(in thousands)				
Certificates of deposit (1)	$ 554,168	$ 208,186	$ 20,686	$ —	$ 783,040
Repurchase agreements	12,883	—	—	—	12,883
FHLB advances-short term	121,640	—	—	—	121,640
Junior subordinated debt	—	—	—	10,310	10,310
Senior subordinated notes	—	—	—	47,000	47,000
Operating leases	2,386	3,139	2,067	1,654	9,246
Total	$ 691,077	$ 211,325	$ 22,753	$ 58,964	$ 984,119

(1) Certificates of deposit give customers rights to early withdrawal. Early withdrawals may be subject to penalties. The penalty amount depends on the remaining time to maturity at the time of early withdrawal.

Off-Balance Sheet Arrangements

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 $17.7 million and $19.2 million as of December 31, 2019 and 2018, 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 December 31, 2019 and 2018, we had unfunded lines of credit and undisbursed construction loan funds totaling $324.8 million and $339.2 million, respectively. Virtually all of our unfunded lines of credit and undisbursed construction loan funds are variable rate.

Premerger, 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 December 31, 2019.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

This information is incorporated herein by reference from “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of this Annual Report on Form 10-K.

Item 8. Financial Statements and Supplementary Data

DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Southern National Bancorp of Virginia, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Southern National Bancorp of Virginia, Inc. (the "Company") as of December 31, 2019 and 2018, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2019, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Dixon Hughes Goodman LLP

We have served as the Company's auditor since 2013.

Greenville, North Carolina
March 16, 2020

DIXON HUGHES GOODMAN LLP

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors of
Southern National Bancorp of Virginia, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited Southern National Bancorp of Virginia, Inc.'s (the "Company") internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, Southern National Bancorp of Virginia, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019 based on criteria established in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated financial statements of the Company as of December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and our report dated March 16, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

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

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

/s/ Dixon Hughes Goodman LLP

Greenville, North Carolina
March 16, 2020

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED BALANCE SHEETS
(dollars in thousands, except per share amounts)

	December 31, 2019	December 31, 2018
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 7,909	$ 6,939
Interest-bearing deposits in other financial institutions	24,019	20,877
Federal funds sold	—	795
Total cash and cash equivalents	31,928	28,611
Securities available for sale, at fair value	164,820	143,377
Securities held to maturity, at amortized cost (fair value of $72,666 and $89,109, respectively)	72,448	92,462
Total loans	2,186,047	2,178,824
Less allowance for loan losses	(10,261)	(12,283)
Net loans	2,175,786	2,166,541
Stock in Federal Reserve Bank and Federal Home Loan Bank	17,832	19,522
Equity investment in mortgage affiliate	5,020	3,829
Preferred investment in mortgage affiliate	3,305	3,305
Bank premises and equipment, net	31,184	32,352
Operating lease right-of-use assets	8,013	—
Goodwill	101,954	101,954
Core deposit intangibles, net	7,191	8,609
Bank-owned life insurance	63,850	62,495
Other real estate owned	6,224	5,077
Deferred tax assets, net	11,788	14,104
Other assets	20,827	19,057
Total assets	$ 2,722,170	$ 2,701,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 339,153	$ 320,043
Interest-bearing deposits:		
NOW accounts	391,172	345,597
Money market accounts	466,867	355,469
Savings accounts	144,486	151,050
Time deposits	783,040	925,441
Total interest-bearing deposits	1,785,565	1,777,557
Total deposits	2,124,718	2,097,600
Securities sold under agreements to repurchase - short term	12,883	18,721
Federal Home Loan Bank (FHLB) advances - short term	121,640	163,340
Junior subordinated debt - long term	9,632	9,584
Senior subordinated notes - long term	47,051	47,089
Operating lease liabilities	8,469	—
Other liabilities	20,536	16,671
Total liabilities	2,344,929	2,353,005
Commitments and contingencies (See Note 15)		
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; 24,181,534 and 24,052,253 shares issued and outstanding at December 31, 2019 and December 31, 2018, respectively	241	240
Additional paid in capital	306,755	305,654
Retained earnings	69,462	44,985
Accumulated other comprehensive income (loss)	783	(2,589)
Total stockholders' equity	377,241	348,290
Total liabilities and stockholders' equity	$ 2,722,170	$ 2,701,295

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
(dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	2019	2018	2017
Interest and dividend income:			
Interest and fees on loans	$ 112,181	$ 110,213	$ 77,764
Interest and dividends on taxable securities	5,639	5,752	4,077
Interest and dividends on tax exempt securities	585	634	492
Interest and dividends on other earning assets	2,117	2,256	1,231
Interest on federal funds sold	2	52	6
Total interest and dividend income	120,524	118,907	83,570
Interest expense:			
Interest on deposits	30,602	18,235	10,993
Interest on repurchase agreements	87	97	36
Interest on junior subordinated debt	589	575	253
Interest on senior subordinated notes	2,847	2,847	2,194
Interest on other borrowings	2,799	6,087	2,177
Total interest expense	36,924	27,841	15,653
Net interest income	83,600	91,066	67,917
Provision for loan losses	350	4,200	8,625
Net interest income after provision for loan losses	83,250	86,866	59,292
Noninterest income:			
Account maintenance and deposit service fees	7,159	5,959	3,564
Income from bank-owned life insurance	1,699	1,983	929
Equity gain (loss) from mortgage affiliate	1,191	(894)	(345)
Gain on sales of investment securities	—	—	255
Recoveries related to acquired charged-off loans and investment securities	1,537	2,610	757
Other	1,000	541	269
Total noninterest income	12,586	10,199	5,429
Noninterest expenses:			
Salaries and benefits	26,261	27,706	20,285
Occupancy expenses	6,204	6,628	4,809
Furniture and equipment expenses	2,719	2,795	2,228
Amortization of core deposit intangible	1,418	1,445	845
Virginia franchise tax expense	2,251	1,839	969
Data processing expense	2,381	1,885	1,140
Telephone and communication expense	1,615	2,035	1,422
Net (gain) loss on other real estate owned	(38)	360	520
Professional fees	3,612	1,644	1,798
Merger expenses	—	—	9,426
Other operating expenses	10,169	7,423	5,707
Total noninterest expenses	56,592	53,760	49,149
Income before income taxes	39,244	43,305	15,572
Income tax expense	6,077	9,614	13,147
Net income	$ 33,167	$ 33,691	$ 2,425
Other comprehensive income (loss):			
Unrealized gain (loss) on available for sale securities	$ 4,256	$ (1,548)	$ (309)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	—	—	(255)
Accretion of amounts previously recorded upon transfer to held to maturity from available for sale	13	16	13
Net unrealized gain (loss)	4,269	(1,532)	(551)
Tax effect	897	(324)	(188)
Other comprehensive income (loss)	3,372	(1,208)	(363)
Comprehensive income	$ 36,539	$ 32,483	$ 2,062
Earnings per share, basic	$ 1.38	$ 1.40	$ 0.13
Earnings per share, diluted	$ 1.36	$ 1.39	$ 0.13

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017
(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - January 1, 2017	**$ 123**	**$ 104,884**	**$ 22,126**	**$ (789)**	**$ 126,344**
Comprehensive income:					
Net income	—	—	2,425	—	2,425
Change in unrealized loss on securities available for sale (net of tax benefit, $192)	—	—	—	(372)	(372)
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $4 and accretion, $8 and amounts recorded into other comprehensive income at transfer)	—	—	—	9	9
Dividends on common stock ($0.32 per share)	—	—	(5,798)	—	(5,798)
Issuance of common stock for warrants exercised (49,500 shares)	—	449	—	—	449
Issuance of common stock under Stock Incentive Plan (65,550 shares)	—	555	—	—	555
Issuance of common stock in connection with Eastern Virginia Bankshares, Inc. merger (11,557,760 shares)	116	198,793	—	—	198,909
Stock-based compensation expense	—	251	—	—	251
Balance - December 31, 2017	**$ 239**	**$ 304,932**	**$ 18,753**	**$ (1,152)**	**$ 322,772**
Comprehensive income:					
Net income	—	—	33,691	—	33,691
Changes in other comprehensive loss on investment securities (net of tax, $(324) and accretion of $16)	—	—	—	(1,208)	(1,208)
Dividends on common stock ($0.32 per share)	—	—	(7,688)	—	(7,688)
Issuance of common stock under Stock Incentive Plan (58,000 shares)	1	442	—	—	443
Reclassification adjustment from accumulated other comprehensive income to retained earnings for adoption of ASU 2018-02	—	—	229	(229)	—
Stock-based compensation expense	—	280	—	—	280
Balance - December 31, 2018	**$ 240**	**$ 305,654**	**$ 44,985**	**$ (2,589)**	**$ 348,290**
Net income	—	—	33,167	—	33,167
Changes in other comprehensive income on investment securities (net of tax, $897 and accretion of $13)	—	—	—	3,372	3,372
Dividends on common stock ($0.36 per share)	—	—	(8,690)	—	(8,690)
Issuance of common stock under Stock Incentive Plan (83,900 shares)	1	669	—	—	670
Stock-based compensation expense	—	432	—	—	432
Balance - December 31, 2019	**$ 241**	**$ 306,755**	**$ 69,462**	**$ 783**	**$ 377,241**

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Years Ended December 31, 2019	2018	2017
Operating activities:			
Net income	$ 33,167	$ 33,691	$ 2,425
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation and amortization	5,632	7,403	4,627
Amortization of operating lease right-of-use assets	2,546	—	—
Accretion of loan discount	(3,859)	(4,534)	(3,802)
Amortization of FDIC indemnification asset	649	704	712
Provision for loan losses	350	4,200	8,625
Earnings on bank-owned life insurance	(1,565)	(1,633)	(929)
Equity (gain) loss on mortgage affiliate	(1,191)	894	345
Stock-based compensation expense	432	280	251
Net gain on sales of investment securities	—	—	(255)
Gain on bank-owned life insurance death benefit	(134)	(350)	—
(Gain) loss on other real estate owned	(38)	360	520
Provision for deferred income taxes	1,420	3,121	9,686
Net (increase) decrease in other assets	(2,203)	213	6,069
Net increase (decrease) in other liabilities	1,558	(2,909)	(3,687)
Net cash and cash equivalents provided by operating activities	36,764	41,440	24,587
Investing activities:			
Proceeds from sales of investment securities	—	—	4,767
Purchases of held to maturity investment securities	(15,260)	—	(9,950)
Purchases of available for sale investment securities	(45,135)	—	(3,247)
Proceeds from paydowns, maturities and calls of available for sale investment securities	26,283	14,360	7,987
Proceeds from paydowns, maturities and calls of held to maturity investment securities	35,006	5,955	11,037
Net (increase) decrease of FRB and FHLB stock	1,690	7,253	(12,112)
Net increase in loans	(7,059)	(113,845)	(104,009)
Proceeds from sales of loans held for sale	—	—	19,689
Purchase of bank-owned life insurance	—	(12,000)	—
Proceeds from bank-owned life insurance death benefit	344	2,278	—
Sales of other real estate owned, net of improvements	214	2,140	1,110
Investment in mortgage affiliate, net	—	—	46
Payments received on FDIC indemnification asset	—	—	46
Proceeds from sales of bank premise and equipment and assets held for sale	—	2,136	40
Purchases of bank premises and equipment	(1,101)	(1,973)	(1,425)
Cash acquired in acquisition of Eastern Virginia Bankshares, Inc.	—	—	24,015
Net cash and cash equivalents used in investing activities	(5,018)	(93,696)	(62,006)
Financing activities:			
Net increase (decrease) in deposits	27,129	231,671	(196,801)
Cash dividends paid on common stock	(8,690)	(7,688)	(5,798)
Issuance of common stock for warrants exercised	—	—	449
Issuance of common stock under Stock Incentive Plan	670	443	555
Issuance of subordinated notes, net of cost	—	—	26,075
Net decrease (increase) in short-term borrowings	(47,538)	(169,022)	191,010
Net cash and cash equivalents provided by (used in) financing activities	(28,429)	55,404	15,490
Increase in cash and cash equivalents	3,317	3,148	(21,929)
Cash and cash equivalents at beginning of period	28,611	25,463	47,392
Cash and cash equivalents at end of period	$ 31,928	$ 28,611	$ 25,463
Supplemental disclosure of cash flow information			
Cash payments for:			
Interest	$ 36,002	$ 26,129	$ 14,571
Income taxes	4,897	6,672	3,671
Non-cash investing and financing activities:			
Initial recognition of operating lease right-of-use assets	$ 8,615	$ —	$ —
Initial recognition of operating lease liabilities	9,099	—	—
Supplemental schedule of noncash investing and financing activities:			
Transfer from loans to other real estate owned	$ 1,323	$ —	$ 43
Fair value of assets and liabilities from acquisition:			
Fair value of tangible assets acquired	$ —	$ —	$ 1,356,637
Other intangible assets acquired	—	—	100,127
Fair value of liabilities assumed	—	—	(1,257,845)
Total merger consideration	$ —	$ —	$ 198,919

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT 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 merger with Eastern Virginia Bankshares, Inc. ("EVBS") and the merger of EVBS's wholly-owned subsidiary, EVB, with and into SNBV's wholly-owned subsidiary, Sonabank.

Sonabank provides a range of financial services to individuals and small and medium sized businesses. At December 31, 2019, Sonabank had forty-five full-service branches. Thirty-eight full-service retail branches are in Virginia, located in Ashland, Burgess, Callao, Central Garage, Charlottesville, Chester, Clifton Forge, Colonial Heights, Courtland, Deltaville, Fairfax, Front Royal, Gloucester, Gloucester Point, Hampton, Hartfield, Haymarket, Heathsville, Kilmarnock, Leesburg, McLean, Mechanicsville (2), Middleburg, Midlothian, New Market, Newport News, Quinton, Reston, Richmond, South Riding, Surry, Tappahannock (2), Urbanna, Warrenton, Waverly, and Williamsburg, and seven full-service retail branches in Maryland, located in Bethesda, Brandywine, Huntingtown, Owings, Rockville, Shady Grove, and Upper Marlboro.

The accounting policies and practices of Southern National and its subsidiaries conform to U.S. generally accepted accounting principles ("U.S. GAAP") and to general practice within the banking industry. Major policies and practices are described below:

Principles of Consolidation

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.

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 include: the determination of the allowance for loan losses, the fair value of investment securities, other than temporary impairment of investment securities, the valuation of goodwill and intangible assets, other real estate owned ("OREO") and deferred tax assets.

Business Combinations

U.S. GAAP requires that the acquisition method of accounting be used for all business combinations and that an acquirer be identified for each business combination. Under U.S. GAAP, the acquirer is the entity that obtains control of one or more businesses in the business combination, and the acquisition date is the date the acquirer achieves control. U.S. GAAP requires that the acquirer recognize the fair value of assets acquired, liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, with any excess of purchase price recognized as either intangibles or goodwill.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. The measurement period ends as soon as the acquirer receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. However, the measurement period shall not exceed one year from the acquisition date. The acquirer recognizes an increase (decrease) in the provisional amount recognized for an identifiable asset (liability) by means of a decrease (increase) in goodwill.

Investment Securities

Debt securities that Southern National has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost.

Securities classified as available for sale are those debt securities that may be sold in response to changes in interest rates, liquidity needs or other similar factors. Securities available for sale are carried at fair value, with unrealized gains or losses net of deferred taxes, included in accumulated other comprehensive income (loss) in stockholders’ equity.

Premiums and discounts are generally amortized using the interest method with a constant effective yield without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable securities are amortized to their earliest call date. Prior to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2017-08 in 2019, premiums and discounts were recognized in interest income using the interest method over the terms of the securities without anticipating prepayments, except for mortgage-backed securities where prepayments were anticipated. Gains and losses on the sale of investment securities are recorded on the settlement date and are determined using the specific identification method.

Southern National purchases amortizing investment securities in which the underlying assets are residential mortgage loans subject to prepayments. The actual principal reduction on these assets varies from the expected contractual principal reduction due to principal prepayments resulting from the borrowers’ election to refinance the underlying mortgage based on market and other conditions. The purchased premiums and discounts associated with these assets are amortized or accreted to interest income over the estimated life of the related assets. The estimated life is calculated by projecting future prepayments and the resulting principal cash flows until maturity. Prepayment rate projections utilize actual prepayment speed experience and available market information on like-kind instruments. The prepayment rates form the basis for income recognition of premiums and discounts on the related assets. Changes in prepayment estimates may cause the earnings recognized on these assets to vary over the term that the assets are held, creating volatility in the net interest margin. Prepayment rate assumptions are monitored and updated monthly to reflect actual activity and the most recent market projections.

Management evaluates investment securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For investment securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, an investment security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) OTTI related to credit loss, which must be recognized in the income statement and (2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, Southern National compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Loans

Southern National provides mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by loans secured by real estate throughout its market area. The ability of Southern National’s debtors to honor their contracts is in varying degrees dependent upon the real estate market conditions and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for the allowance for loan losses, purchased premiums and discounts and any deferred loan fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method without anticipating prepayments.

Commercial real estate consists of borrowings secured by owner occupied and non-owner occupied commercial real estate. Repayment of these loans is dependent upon rental income or the subsequent sale of the property for loans secured by non-owner occupied commercial real estate and by cash flows from business operations for owner occupied commercial real estate. Loans for which the source of repayment is rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial real estate loans that are dependent on cash flows from operations can also be adversely affected by current market conditions for their product or service.

Construction and land development primarily consist of borrowings to purchase and develop raw land into residential and non-residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale or lease of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by Southern National.

Commercial loans consist of borrowings for commercial purposes to individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. Southern National's risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure which may require Southern National to write-down the value significantly to sell.

Residential real estate loans consist of loans to individuals for the purchase of primary residences with repayment primarily through wage or other income sources of the individual borrower. Southern National's loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

On May 15, 2014, we purchased a 44.0% equity investment and preferred stock of STM, a regional mortgage banking company headquartered in Virginia Beach, Virginia. On June 23, 2017, in connection with the EVBS acquisition, we added 4.9% of additional equity investment and preferred stock in STM, bringing us to a total equity investment of 48.9%. STM has mortgage banking originators in Delaware, Virginia, Maryland, North Carolina and South Carolina. STM only originates retail mortgage production.

Sonabank has established with STM underwriting guidelines under which it will purchase residential construction only, construction loans that convert to permanent, and permanent loans primarily in its Virginia and Maryland footprint from STM. These will be largely loans that do not conform to FNMA or FHLMC standards because of size or acreage.

Other consumer loans are comprised of loans to individuals both unsecured and secured and home equity loans secured by real estate (closed and open-end), with repayment dependent on individual wages and other income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. Losses in this portfolio are generally relatively low, however, due to the small individual loan size and the balance outstanding as a percentage of Southern National's entire portfolio.

As part of the Greater Atlantic Bank ("GAB") acquisition in 2009, the Bank and the Federal Deposit Insurance Corporation ("FDIC") entered into a loss sharing agreement on approximately $143.4 million (cost basis) of GAB's assets. The Bank shared in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreement; we refer to these assets collectively as "covered assets." The indemnification against losses in the GAB commercial portfolio ended in December 2014. The FDIC indemnification on the GAB residential mortgages and the GAB HELOCs ended on December 31, 2019. Loans that were not covered in the loss sharing agreement with the FDIC are referred to as "non-covered loans."

The accrual of interest on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Most of Southern National's business activity is with customers located within Virginia and Maryland. Therefore, our exposure to credit risk is significantly affected by changes in the economy in those areas. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

Southern National has purchased, primarily through acquisitions, individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased loans are recorded at fair value such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Purchased credit-impaired ("PCI") loans are accounted for using the expected cash flow methodology, and purchased performing loans are accounted for using the contractual cash flow methodology.

Such PCI loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. Southern National estimates the amount and timing of expected cash flows for each PCI loan or pool, and the expected cash flows in excess of fair value are recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loans' or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. In accordance with FASB Accounting Standards Codification ("ASC") 310-30, "*Loans and debt securities acquired with Deteriorated Credit Quality,"* and based on current information and events, if it becomes probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Bank will recalculate the amount of accretable yield for the acquired loans as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment in the loans less (2) cash collected less (3) write downs, if any plus (4) the amount of yield accreted to date. The amount of accretable yield will be adjusted by reclassification from non-accretable yield. This adjustment would be accounted for as a change in estimate with the amount of periodic accretion adjusted over the remaining life of the loans.

Allowance for Loan and Lease Losses ("ALLL")

The allowance for loan and lease losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collection of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on a three year historical average net loss experience for each portfolio segment adjusted for current industry and economic conditions and estimates of their effect on loan collectability. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component provides for estimated losses in unimpaired loans and is based on historical loss experience adjusted for current factors.

A loan is considered impaired when, based on current information and events, it is probable that Southern National will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual net loss history experienced by Southern National over the most recent three years, except consumer loans that are tracked on a two year basis. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: owner occupied commercial real estate, non-owner occupied commercial real estate, construction and land development, commercial loans, 1-4 family residential, and other consumer. While underwriting practices in this environment are more stringent, the Bank estimates the effect of internal factors on future net loss experience to be fairly small. Management's estimate of the effect of current external economic environmental conditions on future net loss experience is significant in all loan segments and particularly on loans secured by real estate including single family 1-4, non-owner occupied commercial real estate and construction and land development loans. These factors include excess inventory, generally less demand driven in part by fewer qualified borrowers and buyers. These considerations have played a significant role in management's estimate of the adequacy of the allowance for loan and lease losses.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from Southern National, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and Southern National does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Investments in Mortgage Affiliate

Southern National's investment in STM's common stock is being accounted for under the equity method. Under the equity method, the carrying value of Southern National's investment in STM was originally recorded at cost but is adjusted periodically to record Southern National's proportionate share of STM's earnings or losses through noninterest income and decreased by the amount of cash dividends or similar distributions received from STM.

Southern National's investment in STM's preferred stock is considered to be a non-marketable equity security that does not have a readily determinable fair value. Equity securities with no recurring market value data available are reviewed periodically and any observable market value change are adjusting through net income. Southern National evaluated this non-marketable equity security for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of STM, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest income.

Bank Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives of 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years.

Operating Leases

The Company leases certain properties and equipment under operating leases. The Company recognizes a liability to make lease payments, the operating lease liability, and an asset representing the right to use the underlying asset during the lease term, the right-of-use asset. In recognizing lease right-of-use assets and related right-of-use liabilities, we account for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) separately as such amounts are generally readily determinable under our lease contracts. The operating lease liability is measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate at inception. The right-of-use asset is measured at the amount of the operating lease liability adjusted for the remaining balance of any lease incentives received, any cumulative prepaid or accrued rent if the lease payments are uneven throughout the lease term, any unamortized initial direct costs, and any impairment of the right-of-use-asset. Lease expense consists of a single lease cost calculated so that the remaining cost of the lease is allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the operating lease liability, and any impairment of the right-of-use asset. Lease renewal options are generally not included in the calculation of the operating lease liabilities, unless they are not reasonably certain to be exercised. The Company does not recognize short-term leases on the balance sheet.

Goodwill and Intangible Assets

Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. Southern National has selected September 30th as the date to perform the annual goodwill impairment assessment. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of loan servicing rights and core deposit intangible assets arising from whole-bank and branch acquisitions and are amortized over their estimated useful lives, which range from 6 to 15 years.

Stock Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes option-pricing model is utilized to estimate the fair value of stock options. Compensation cost for grants of restricted shares is accounted for based on the closing price of Southern National's common stock on the date the restricted shares are awarded. Compensation cost for stock options and restricted shares is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Bank-owned Life Insurance

Southern National has purchased, and acquired through acquisitions, life insurance policies on certain former and current key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Other Real Estate Owned ("OREO")

Real estate acquired through or instead of foreclosure is held for sale and initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a direct charge-off is recorded through expense. Operating costs after acquisition are expensed as incurred.

Stock in Federal Home Loan Bank ("FHLB") and Federal Reserve Bank ("FRB")

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. The Bank is also required to own FRB stock with a par value equal to 6% of capital. FHLB and FRB stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Impairment of Long-Lived Assets

Premises and equipment, core deposit intangible assets and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

FDIC Indemnification Asset

The acquisition of GAB on December 4, 2009 was accounted for under the acquisition method of accounting, and the assets and liabilities were recorded at their estimated fair values. The FDIC indemnification asset was measured separately from each of the covered asset categories as it was not contractually embedded in any of the covered asset categories. The indemnification asset represents the present value of cash flows expected to be received from the FDIC for future losses on covered assets based on the expected credit losses estimated for each covered loan or loan pool and the loss sharing percentages at the acquisition date. We acquired the GAB loans in December 2009 and continuously evaluated our estimates of expected losses on these loans. There were two agreements with the FDIC, one for single family assets which was a 10-year agreement which expired on December 31, 2019, and one for non-single family (commercial) assets which was a 5-year agreement which expired in December 2014.

Retirement Plans

Employee 401(k) plan expense is the amount of matching contributions. Supplemental retirement plan expense allocates the benefits over years of service.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to Southern National or by Southern National to shareholders.

Estimates and Uncertainties

Estimates including the carrying value of investment securities, other than temporary impairment of investment securities, the determination of the allowance for loan losses and the valuation of goodwill and intangible assets involves uncertainties and matters of significant judgement regarding interest rates, credit risk, repayments and prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Discrete financial information is not available other than on a company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications

In certain instances, amounts reported in prior years' consolidated financial statements have been reclassified to conform to the current financial statement presentation. Such reclassifications had no effect on previously reported cash flows, stockholders' equity or net income.

During 2019, the Company determined that certain assets were incorrectly recorded in the Company's fixed asset accounting software in a prior period. In correcting these errors the Company has reduced the previously disclosed cost basis of bank premises and equipment and accumulated depreciation by $22.5 million each. These corrections did not result in a change to amounts previously reported as bank premises and equipment, net, stockholders' equity, or net income. The Company has evaluated the effect of the error, both qualitatively and quantitatively, and concluded that it was immaterial.

Advertising Costs

Advertising costs are expensed as incurred.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded. We have no unrecognized tax benefits and do not anticipate any increase in unrecognized tax benefits during the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals exist as of December 31, 2019. Southern National and its subsidiaries file a consolidated U.S. federal tax return; Sonabank files a Maryland state income tax return and Southern National files a franchise tax return. These returns are subject to examination by taxing authorities for all years after 2015.

On December 22, 2017 the Tax Cuts and Jobs Act was enacted. The law established a new flat corporate federal statutory income tax rate of 21%. For more information on the impact the new law had on Southern National, see discussion in Note 12 - Income Taxes.

Restrictions on Cash

No regulatory reserve or clearing requirements with the FRB were needed at December 31, 2019 and 2018.

Consolidated Statements of Cash Flows

For purposes of reporting cash flows, Southern National defines cash and cash equivalents as cash due from financial institutions, interest-bearing deposits and federal funds sold in other financial institutions with maturities less than 90 days. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

Earnings Per Share ("EPS")

Basic EPS is computed by dividing net income by the weighted average number of common shares outstanding during the year. Diluted EPS reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to net income that would result from the assumed issuance. Potential common shares that may be issued by Southern National relate solely to outstanding stock options and warrants and are determined using the treasury stock method.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive (loss) income. Other comprehensive (loss) income includes unrealized gains and losses on investment securities available for sale and the non-credit component of other than temporary impairment of investment securities held-to-maturity which are also recognized as a separate component of equity.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, Southern National has entered into commitments to extend credit, standby letters of credit, and guarantees of previously sold credit card accounts assumed in the merger with EVBS. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay.

Fair Value Measurements

In general, fair values of financial instruments are based upon quoted market prices, where available. If such quoted market prices are not available, fair value is based upon observable market-based parameters. Valuation assumptions may be made to ensure that financial instruments are recorded at fair value. These assumptions may reflect assumptions that market participants would use in pricing an asset or liability, among other things, as well as unobservable parameters. Any such valuation assumptions are applied consistently over time.

Recent Accounting Pronouncements

New Accounting Standards 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 updated narrow aspects of the guidance issued in ASU 2016-02. The amendments in this ASU were effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption of this ASU was permitted for all entities. The Company adopted ASU 2016-02 and its subsequent updates in the first quarter of 2019 and inventoried and categorized its lease agreements. Upon adoption, the Company recognized right-of-use assets and associated operating lease liabilities of $8.6 million and $9.1 million, respectively. Right-of-use assets and operating lease liabilities are reflected on our consolidated balance sheets. The Company elected to apply certain practical adoption expedients provided under the updates whereby we did not reassess (i) whether any expired or existing contracts are or contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. The Company has elected to use the practical expedient to make an accounting policy election for property leases to use the discount rates in effect on January 2, 2019 for the remaining life of the leases. The Company currently does not have any finance leases. See Note 6 – Leases for additional disclosures related to leases.

In January 2017, the FASB issued ASU 2017-04*, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment,* 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. The Company early adopted ASU 2017-04 in the third quarter of 2019 and it did not have an impact on the Company's 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 shortens 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 became effective for public entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company adopted ASU 2017-08 in the first quarter of 2019 and it did not have a material impact on the Company's consolidated financial statements.

New Accounting Standards Not Yet Adopted:

In June 2016*,* the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which along with several other subsequent codification updates related to accounting for credit losses, sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments recorded at amortized cost held at the reporting date. The estimate is to be based on historical experience, current conditions and reasonable and 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. The amendments are effective for the Company beginning January 1, 2020. Southern National engaged a third-party to collect data that was needed to produce historical inputs into any models created as a result of adopting this ASU. We have had our models validated and are currently evaluating the results and certain changes to our models. We currently expect the adoption of this ASU will result in an increase of approximately $10.0 million to $15.0 million in our allowance for loan losses, including transfers of non-accretable discount on purchased credit-impaired loans. As we are currently finalizing the execution of our implementation controls and processes, the ultimate impact of the adoption of this ASU could materially differ from our current expectation. The expected increase is a result of changing from an "incurred loss" model, which encompasses allowances for current known and inherent losses within the portfolio, to an "expected loss" model, which encompasses allowances for losses expected to be incurred over the life of the portfolio. The adoption of this ASU requires that we establish an allowance for expected credit losses for certain debt securities and other financial assets; however, we do not expect these allowances to be material. We plan to elect the federal banking agencies' rule providing for an optional three-year phase-in period for the day-one adverse regulatory capital effects upon adopting the standard. The adoption of this ASU is not expected to have a significant impact on our regulatory capital ratios.

In August 2018, FASB issued ASU 2018-13, *Fair Value measurement (Topic 820)*. This ASU adds, eliminates and modifies certain disclosure requirements for fair value measurements. The amendments in ASU 2018-13 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. Early adoption is permitted. The disclosures are effective using the prospective method for certain disclosures and retrospective for a majority of the disclosures. Southern National is currently in the process of evaluating the impact of adopting the new guidance on its consolidated financial statements and disclosures.

In December 2019, FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes (Topic 740)*. This ASU simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in ASC 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition for deferred tax liabilities for outside basis differences. This ASU also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting transactions that result in a step-up in the tax basis of goodwill. ASU 2019-12 is effective for annual periods beginning after December 15, 2020, including interim periods within those annual periods. Early adoption is permitted. Southern National is currently in the process of evaluating the impact of adopting the new guidance on its consolidated financial statements and disclosures.

2. 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):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
Residential government-sponsored mortgage-backed securities	$ 48,540	$ 455	$ (16)	$ 48,979
Obligations of states and political subdivisions	17,041	541	—	17,582
Corporate securities	2,004	8	—	2,012
Trust preferred securities	2,530	283	(245)	2,568
Residential government-sponsored collateralized mortgage obligations	36,511	217	(39)	36,689
Government-sponsored agency securities	14,823	47	(48)	14,822
Agency commercial mortgage-backed securities	27,557	192	(18)	27,731
SBA pool securities	14,622	11	(196)	14,437
Total	$ 163,628	$ 1,754	$ (562)	$ 164,820

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2018				
Residential government-sponsored mortgage-backed securities	$ 27,945	$ —	$ (643)	$ 27,302
Obligations of states and political subdivisions	18,305	30	(280)	18,055
Corporate securities	2,008	1	(1)	2,008
Trust preferred securities	2,589	356	(304)	2,641
Residential government-sponsored collateralized mortgage obligations	44,095	3	(1,041)	43,057
Government-sponsored agency securities	3,247	—	(122)	3,125
Agency commercial mortgage-backed securities	28,069	—	(765)	27,304
SBA pool securities	20,183	10	(308)	19,885
Total	$ 146,441	$ 400	$ (3,464)	$ 143,377

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

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2019				
Residential government-sponsored mortgage-backed securities	$ 22,925	$ 62	$ (52)	$ 22,935
Obligations of states and political subdivisions	15,071	165	(1)	15,235
Trust preferred securities	1,938	99	(2)	2,035
Residential government-sponsored collateralized mortgage obligations	3,128	10	(9)	3,129
Government-sponsored agency securities	29,386	108	(162)	29,332
Total	$ 72,448	$ 444	$ (226)	$ 72,666

	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2018				
Residential government-sponsored mortgage-backed securities	$ 9,699	$ 4	$ (230)	$ 9,473
Obligations of states and political subdivisions	21,496	85	(147)	21,434
Trust preferred securities	2,610	150	(1)	2,759
Residential government-sponsored collateralized mortgage obligations	6,001	—	(91)	5,910
Government-sponsored agency securities	52,656	—	(3,123)	49,533
Total	$ 92,462	$ 239	$ (3,592)	$ 89,109

During 2019, $45.1 million and $15.3 million, respectively, of available for sale investment securities and held to maturity investment securities were purchased. No investment securities were sold during 2019. No investment securities were purchased or sold during 2018.

The fair value and carrying amount, if different, of debt investment securities as of December 31, 2019, by contractual maturity were as follows (in thousands). Investment securities not due at a single maturity date are shown separately.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one to five years	$ 2,327	$ 2,358	$ 2,731	$ 2,804
Due in five to ten years	12,402	12,547	12,241	12,274
Due after ten years	21,669	22,079	31,423	31,524
Residential government-sponsored mortgage-backed securities	48,540	48,979	22,925	22,935
Residential government-sponsored collateralized mortgage obligations	36,511	36,689	3,128	3,129
Agency commercial mortgage-backed securities	27,557	27,731	—	—
SBA pool securities	14,622	14,437	—	—
Total	$ 163,628	$ 164,820	$ 72,448	$ 72,666

Investment securities with a carrying amount of approximately $120.5 million and $165.7 million at December 31, 2019 and 2018, respectively, were pledged to secure public deposits, certain other deposits, a line of credit for advances from the FHLB of Atlanta, and repurchase agreements.

Southern National monitors the portfolio for indicators of OTTI. At December 31, 2019 and 2018, certain investment securities' fair values were below cost. As outlined in the tables below, there were 59 investment securities with fair values totaling approximately $75.1 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at December 31, 2019. 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 December 31, 2019.

The following tables present information regarding investment securities in a continuous unrealized loss position as of December 31, 2019 and 2018 by duration of time in a loss position (in thousands):

December 31, 2019	**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	$ 2,686	$ (7)	$ 1,758	$ (9)	$ 4,444	$ (16)
Trust preferred securities	—	—	795	(245)	795	(245)
Residential government-sponsored collateralized mortgage obligations	4,253	(25)	3,133	(14)	7,386	(39)
Government-sponsored agency securities	4,924	(48)	—	—	4,924	(48)
Agency commercial mortgage-backed securities	2,833	(6)	3,126	(12)	5,959	(18)
SBA pool securities	1,148	(2)	9,420	(194)	10,568	(196)
Total	$ 15,844	$ (88)	$ 18,232	$ (474)	$ 34,076	$ (562)

December 31, 2019	**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	$ 14,978	$ (41)	$ 1,402	$ (11)	$ 16,380	$ (52)
Obligations of states and political subdivisions	2,011	(1)	—	—	2,011	(1)
Trust preferred securities	—	—	53	(2)	53	(2)
Residential government-sponsored collateralized mortgage obligations	1,162	(3)	571	(6)	1,733	(9)
Government-sponsored agency securities	—	—	20,833	(162)	20,833	(162)
Total	$ 18,151	$ (45)	$ 22,859	$ (181)	$ 41,010	$ (226)

December 31, 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	$ 393	$ (5)	$ 26,910	$ (638)	$ 27,303	$ (643)
Obligations of states and political subdivisions	2,220	(78)	13,385	(202)	15,605	(280)
Corporate securities	1,008	(1)	—	—	1,008	(1)
Trust preferred securities	—	—	795	(304)	795	(304)
Residential government-sponsored collateralized mortgage obligations	—	—	42,598	(1,041)	42,598	(1,041)
Government-sponsored agency securities	—	—	3,125	(122)	3,125	(122)
Agency commercial mortgage-backed securities	—	—	27,304	(765)	27,304	(765)
SBA pool securities	6,009	(70)	10,546	(238)	16,555	(308)
Total	$ 9,630	$ (154)	$ 124,663	$ (3,310)	$ 134,293	$ (3,464)

December 31, 2018	**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	$ —	$ —	$ 8,935	$ (230)	$ 8,935	$ (230)
Obligations of states and political subdivisions	3,273	(10)	7,187	(137)	10,460	(147)
Trust preferred securities	—	—	60	(1)	60	(1)
Residential government-sponsored collateralized mortgage obligations	—	—	5,910	(91)	5,910	(91)
Government-sponsored agency securities	—	—	49,532	(3,123)	49,532	(3,123)
Total	$ 3,273	$ (10)	$ 71,624	$ (3,582)	$ 74,897	$ (3,592)

As of December 31, 2019, we owned pooled trust preferred investment 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)
Held to Maturity										
ALESCO VII A1B	Senior	Aaa	AAA	Aa1	AA	$ 2,019	$ 1,882	$ 1,982	17 %	$ 219
MMCF III B	Senior Sub	A3	A-	Ba1	WD	57	56	53	45 %	4
						$ 2,076	$ 1,938	$ 2,035		$ 223
Available for Sale Other Than Temporarily Impaired:										**Cumulative OTTI Related to Credit Loss (2)**
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	WD	$ 1,500	$ 1,040	$ 795	32 %	$ 400
ALESCO V C1	Mezzanine	A2	A	Caa1	C	2,150	1,490	1,773	15 %	660
						$ 3,650	$ 2,530	$ 2,568		$ 1,060
Total						$ 5,726	$ 4,468	$ 4,603		

(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 OTTI. 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 OTTI. 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 London Inter-bank Offered Rate ("LIBOR") curve to discount projected cash flows to present values.

The amount of cumulative other than temporary impairment related to credit losses, previously recognized in earnings, was $1,060 at December 31, 2019, 2018 and 2017. There were no other than temporary impairment charges related to credit losses or sales of these securities during the years ended December 31, 2019, 2018 or 2017.

Changes in accumulated other comprehensive (loss) by component for the years ended December 31, 2019, 2018 and 2017 are shown in the table below. All amounts are net of tax (in thousands).

For the year ended December 31, 2019	Unrealized Holding Gains (Losses) on Available for Sale	Held to Maturity Securities	Total
Beginning balance	$ (2,419)	$ (170)	$ (2,589)
Current period other comprehensive income	3,362	10	3,372
Ending balance	$ 943	$ (160)	$ 783

For the year ended December 31, 2018	Unrealized Holding Losses on Available for Sale	Held to Maturity Securities	Total
Beginning balance	$ (999)	$ (153)	$ (1,152)
Amounts reclassified from accumulated other comprehensive loss due to the adoption of ASU 2018-02	(199)	(30)	(229)
Subtotal	(1,198)	(183)	(1,381)
Current period other comprehensive (loss) income	(1,221)	13	(1,208)
Ending balance	$ (2,419)	$ (170)	$ (2,589)

For the year ended December 31, 2017	Unrealized Holding Losses on Available for Sale	Held to Maturity Securities	Total
Beginning balance	$ (627)	$ (162)	$ (789)
Other comprehensive loss before reclassifications	(372)	(246)	(618)
Amounts reclassified from accumulated other comprehensive loss	—	255	255
Net current period other comprehensive income (loss)	(372)	9	(363)
Ending balance	$ (999)	$ (153)	$ (1,152)

3. LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans, net of deferred fees, consist of the following at year end (in thousands):

	December 31, 2019	December 31, 2018
Loans secured by real estate:		
Commercial real estate - owner occupied	$ 414,479	$ 407,031
Commercial real estate - non-owner occupied	559,195	540,698
Secured by farmland	17,622	20,966
Construction and land loans	150,750	146,654
Residential 1-4 family (1)	604,777	565,083
Multi- family residential	82,055	82,516
Home equity lines of credit (1)	109,006	128,225
Total real estate loans	1,937,884	1,891,173
Commercial loans	221,447	255,441
Consumer loans	26,304	32,347
Subtotal	2,185,635	2,178,961
Plus (less) deferred costs (fees) on loans	412	(137)
Loans, net of deferred fees	$ 2,186,047	$ 2,178,824

(1) Includes $13.5 million and $18.3 million of loans as of December 31, 2019 and 2018, respectively, acquired in the GAB transaction covered under an FDIC loss-share agreement. The agreement covering single family loans expired on December 31, 2019.

In 2019, $33.9 million of commercial loans were reclassified into loans secured by real estate, upon review and validation of collateral and Call Report codes.

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.

As part of the GAB acquisition, the Bank and the FDIC entered into loss sharing agreements on approximately $143.4 million (contractual basis) of GAB's assets. There were two agreements with the FDIC, one for single family loans which was a 10-year agreement which expired on December 31, 2019, and one for non-single family (commercial) assets which was a 5-year agreement which expired on December 31, 2014. The Bank shared in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreement related to single family loans; we referred to these assets collectively as “covered assets.” Loans that were not covered in the loss sharing agreement were referred to as “non-covered loans.” Covered loans totaled $13.5 million and $18.3 million at December 31, 2019 and 2018, respectively.

Accretable discount on the acquired loans totaled $11.2 million and $15.1 million at December 31, 2019 and 2018, respectively. Accretion associated with the acquired loans held for investment of $3.9 million, $4.5 million and $3.9 million was recognized during the twelve months ended December 31, 2019, 2018 and 2017, respectively.

Impaired loans for the portfolio were as follows (in thousands):

	Total Loans		
December 31, 2019	**Recorded Investment (1)**	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded			
Commercial real estate - owner occupied	$ 6,890	$ 8,530	$ —
Commercial real estate - non-owner occupied (2)	3,120	3,363	—
Construction and land development	345	747	—
Commercial loans	5,049	8,490	—
Residential 1-4 family (3)	1,021	2,719	—
Other consumer loans	—	—	—
Total	$ 16,425	$ 23,849	$ —
With an allowance recorded			
Commercial real estate - owner occupied	$ —	$ —	$ —
Commercial real estate - non-owner occupied (2)	176	281	1
Construction and land development	—	—	—
Commercial loans	2,498	2,533	957
Residential 1-4 family (3)	2,841	3,243	92
Other consumer loans	39	39	1
Total	$ 5,554	$ 6,096	$ 1,051
Grand total	$ 21,979	$ 29,945	$ 1,051

(1) Recorded investment is after cumulative prior charge offs of $1.5 million. These loans also have aggregate SBA guarantees of $4.4 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) Includes home equity lines of credit.

December 31, 2018	Total Loans Recorded Investment (1)	Unpaid Principal Balance	Related Allowance
With no related allowance recorded			
Commercial real estate - owner occupied	$ 2,795	$ 4,777	$ —
Commercial real estate - non-owner occupied (2)	171	333	—
Construction and land development	—	336	—
Commercial loans	3,450	6,013	—
Residential 1-4 family (3)	1,591	5,911	—
Other consumer loans	—	—	—
Total	$ 8,007	$ 17,370	$ —
With an allowance recorded			
Commercial real estate - owner occupied	$ —	$ —	$ —
Commercial real estate - non-owner occupied (2)	—	—	—
Construction and land development	—	—	—
Commercial loans	2,626	3,276	612
Residential 1-4 family (3)	1,429	1,476	6
Other consumer loans	—	—	—
Total	$ 4,055	$ 4,752	$ 618
Grand total	$ 12,062	$ 22,122	$ 618

(1) Recorded investment is after cumulative prior charge offs of $1.5 million. These loans also have aggregate SBA guarantees of $3.4 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) Includes home equity lines of credit.

The following tables present the average recorded investment and interest income recognized for impaired loans recognized by class of loans for the years ended December 31, 2019, 2018 and 2017 (in thousands):

Year Ended December 31, 2019	Total Loans Average Recorded Investment	Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$ 7,387	$ 453
Commercial real estate - non-owner occupied (1)	3,205	191
Construction and land development	398	57
Commercial loans	5,254	214
Residential 1-4 family (2)	1,061	149
Other consumer loans	—	—
Total	$ 17,305	$ 1,064
With an allowance recorded		
Commercial real estate - owner occupied	$ —	$ —
Commercial real estate - non-owner occupied (1)	182	19
Construction and land development	—	—
Commercial loans	3,027	176
Residential 1-4 family (2)	2,944	111
Other consumer loans	39	—
Total	$ 6,192	$ 306
Grand total	$ 23,497	$ 1,370

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

Year Ended December 31, 2018	Total Loans Average Recorded Investment	Total Loans Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$ 2,780	$ 179
Commercial real estate - non-owner occupied (1)	169	22
Construction and land development	—	—
Commercial loans	3,319	92
Residential 1-4 family (2)	1,582	125
Other consumer loans	—	—
Total	$ 7,850	$ 418
With an allowance recorded		
Commercial real estate - owner occupied	$ —	$ —
Commercial real estate - non-owner occupied (1)	—	—
Construction and land development	—	—
Commercial loans	2,530	200
Residential 1-4 family (2)	1,422	67
Other consumer loans	—	—
Total	$ 3,952	$ 267
Grand total	$ 11,802	$ 685

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

For the Year Ended December 31, 2017	Total Loans Average Recorded Investment	Total Loans Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$ 875	$ 34
Commercial real estate - non-owner occupied (1)	890	56
Construction and land development	9,942	139
Commercial loans	12,655	485
Residential 1-4 family (2)	3,398	91
Other consumer loans	—	—
Total	$ 27,760	$ 805
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	$ 27,760	$ 805

(1) Includes loans secured by farmland and multi-family residential 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 December 31, 2019 and 2018 (in thousands):

December 31, 2019	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	$ 813	$ —	$ —	$ 813	$ —	$ 413,666	$ 414,479
Commercial real estate - non-owner occupied (1)	936	—	—	936	—	657,936	658,872
Construction and land development	746	275	—	1,021	—	149,729	150,750
Commercial loans	234	62	—	296	6,337	214,814	221,447
Residential 1-4 family (2)	4,060	—	—	4,060	2,524	707,199	713,783
Other consumer loans	107	—	—	107	39	26,158	26,304
Total	$ 6,896	$ 337	$ —	$ 7,233	$ 8,900	$ 2,169,502	$ 2,185,635

December 31, 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	$ 577	$ 344	$ —	$ 921	$ 1,284	$ 404,826	$ 407,031
Commercial real estate - non-owner occupied (1)	581	617	—	1,198	—	642,982	644,180
Construction and land development	851	—	—	851	—	145,803	146,654
Commercial loans	319	168	—	487	3,391	251,563	255,441
Residential 1-4 family (2)	5,523	197	—	5,720	2,055	685,533	693,308
Other consumer loans	142	18	—	160	—	32,187	32,347
Total	$ 7,993	$ 1,344	$ —	$ 9,337	$ 6,730	$ 2,162,894	$ 2,178,961

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

Nonaccrual loans include SBA guaranteed amounts totaling $4.1 million and $3.4 million at December 31, 2019 and 2018, respectively.

Activity in the allowance for loan and lease losses by class of loan for the years ended December 31, 2019, 2018 and 2017 is summarized below (in thousands):

Year Ended December 31, 2019	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	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 802	$ 1,669	$ 821	$ 7,097	$ 1,106	$ 224	$ 564	$ 12,283
Provision (recovery) for non-purchased loans	587	904	(138)	(1,708)	596	199	(390)	50
Provision for purchase credit impaired loans	—	—	—	300	—	—	—	300
Total provision (recovery)	587	904	(138)	(1,408)	596	199	(390)	350
Charge offs	(782)	(863)	—	(622)	(742)	(269)	—	(3,278)
Recoveries	203	10	—	351	306	36	—	906
Ending balance	$ 810	$ 1,720	$ 683	$ 5,418	$ 1,266	$ 190	$ 174	$ 10,261
Year Ended December 31, 2018								
Allowance for loan losses:								
Beginning balance	$ 690	$ 1,321	$ 692	$ 4,496	$ 1,586	$ 612	$ —	$ 9,397
Provision (recovery) for non-purchased loans	497	348	129	1,941	237	(116)	564	3,600
Provision for purchase credit impaired loans	—	—	—	600	—	—	—	600
Total provision (recovery)	497	348	129	2,541	237	(116)	564	4,200
Charge offs	(400)	—	—	(1,566)	(842)	(290)	—	(3,098)
Recoveries	15	—	—	1,626	125	18	—	1,784
Ending balance	$ 802	$ 1,669	$ 821	$ 7,097	$ 1,106	$ 224	$ 564	$ 12,283
Year ended December 31, 2017								
Allowance for loan losses:								
Beginning balance	$ 905	$ 1,484	$ 752	$ 3,366	$ 1,279	$ 78	$ 746	$ 8,610
Provision (recovery)	(347)	(362)	(61)	8,842	659	640	(746)	8,625
Charge offs	—	(100)	—	(8,250)	(369)	(110)	—	(8,829)
Recoveries	132	299	1	538	17	4	—	991
Ending balance	$ 690	$ 1,321	$ 692	$ 4,496	$ 1,586	$ 612	$ —	$ 9,397

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

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2019 and 2018 (in thousands):

December 31, 2019	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	Unallocated	Total
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ —	$ —	$ —	$ 957	$ 85	$ —	$ —	$ 1,042
Collectively evaluated for impairment	810	1,720	683	4,461	1,181	190	174	9,219
Total ending allowance	$ 810	$ 1,720	$ 683	$ 5,418	$ 1,266	$ 190	$ 174	$ 10,261
Loans:								
Individually evaluated for impairment	$ 6,890	$ 3,120	$ 345	$ 7,544	$ 1,443	$ —	$ —	$ 19,342
Collectively evaluated for impairment	407,589	655,752	150,405	213,903	712,340	26,304	—	2,166,293
Total ending loan balances	$ 414,479	$ 658,872	$ 150,750	$ 221,447	$ 713,783	$ 26,304	$ —	$ 2,185,635
December 31, 2018								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ —	$ —	$ —	$ 600	$ —	$ —	$ —	$ 600
Collectively evaluated for impairment	802	1,669	821	6,497	1,106	224	564	11,683
Total ending allowance	$ 802	$ 1,669	$ 821	$ 7,097	$ 1,106	$ 224	$ 564	$ 12,283
Loans:								
Individually evaluated for impairment	$ 2,795	$ 171	$ —	$ 6,076	$ 1,591	$ —	$ —	$ 10,633
Collectively evaluated for impairment	404,236	644,009	146,654	249,365	691,717	32,347	—	2,168,328
Total ending loan balances	$ 407,031	$ 644,180	$ 146,654	$ 255,441	$ 693,308	$ 32,347	$ —	$ 2,178,961

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

Credit Quality Indicators

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. Southern National had no loans classified Doubtful at December 31, 2019 or 2018.

Special Mention loans are loans that have a potential weakness that deserve 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 Doubtful at December 31, 2019 or 2018.

As of December 31, 2019 and 2018, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

	Total Loans			
December 31, 2019	**Special Mention**	**Substandard (3)**	**Pass**	**Total**
Commercial real estate - owner occupied	$ 3,821	$ 3,975	$ 406,683	$ 414,479
Commercial real estate - non-owner occupied (1)	4,193	176	654,503	658,872
Construction and land development	—	690	150,060	150,750
Commercial loans	3,432	4,462	213,553	221,447
Residential 1-4 family (2)	666	1,194	711,923	713,783
Other consumer loans	122	—	26,182	26,304
Total	$ 12,234	$ 10,497	$ 2,162,904	$ 2,185,635

	Total Loans			
December 31, 2018	**Special Mention**	**Substandard (3)**	**Pass**	**Total**
Commercial real estate - owner occupied	$ 6,611	$ 2,810	$ 397,610	$ 407,031
Commercial real estate - non-owner occupied (1)	4,382	189	639,609	644,180
Construction and land development	—	—	146,654	146,654
Commercial loans	2,373	2,689	250,379	255,441
Residential 1-4 family (2)	395	1,982	690,931	693,308
Other consumer loans	142	—	32,205	32,347
Total	$ 13,903	$ 7,670	$ 2,157,388	$ 2,178,961

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.
(3) Includes SBA guarantees of $4.1 million and $3.4 million as of December 31, 2019 and 2018, respectively.

The amount of foreclosed residential real estate property held at December 31, 2019 and 2018 was $1.4 million and $1.2 million, respectively. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $1.9 million and $1.5 million at December 31, 2019 and 2018, respectively.

Purchased Loans

The following table presents the carrying amount of purchased impaired and non-impaired loans from the acquisitions as of December 31, 2019 and 2018 (in thousands):

	December 31, 2019			December 31, 2018		
	Purchased Impaired Loans	Purchased Non-impaired Loans	Total	Purchased Impaired Loans	Purchased Non-impaired Loans	Total
Commercial real estate (1)	$ 3,978	$ 307,289	$ 311,267	$ 4,387	$ 379,889	$ 384,276
Construction and land development	26	21,111	21,137	358	47,466	47,824
Commercial loans	2,354	34,729	37,083	3,050	71,146	74,196
Residential 1-4 family (2)	2,841	232,887	235,728	3,654	275,527	279,181
Other consumer loans	—	15,153	15,153	—	21,731	21,731
Total	$ 9,199	$ 611,169	$ 620,368	$ 11,449	$ 795,759	$ 807,208

(1) Includes owner occupied and non-owner occupied as well as loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

The FDIC indemnification on the GAB residential mortgages and home equity lines of credit expired on December 31, 2019.

Changes in the carrying amount and accretable yield for purchased impaired and non-impaired loans from the acquisitions were as follows for the years ended December 31, 2019 and 2018 (in thousands):

	December 31, 2019				December 31, 2018			
	Purchased Impaired		Purchased Non-impaired		Purchased Impaired		Purchased Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Discount	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Discount	Carrying Amount of Loans
Balance at beginning of the period	$ 174	$ 11,449	$ 13,474	$ 795,759	$ 315	$ 13,614	$ 17,460	$ 1,011,801
Additions	—	—	—	—	—	—	—	—
Accretion	(72)	72	(3,549)	3,549	(141)	141	(4,196)	4,196
Reclassifications from nonaccretable balance	—	—	—	—	—	—	210	—
Adjustment-transfer to OREO	—	—	—	—	—	—	—	—
Payments received	—	(2,322)	—	(188,139)	—	(2,306)	—	(220,238)
Balance at end of the period	$ 102	$ 9,199	$ 9,925	$ 611,169	$ 174	$ 11,449	$ 13,474	$ 795,759

4. FAIR VALUE

ASC 820 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:

Assets Measured on a Recurring Basis:

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 include highly liquid government bonds and mortgage products. 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 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, a majority of Southern National's available for sale debt investment securities are considered to be Level 2 investment securities, except for a few corporate securities that are classified as Level 3 investment securities.

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

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Residential government-sponsored mortgage-backed securities	$ 48,979	$ —	$ 48,979	$ —
Obligations of states and political subdivisions	17,582	—	17,582	—
Corporate securities	2,012	—	1,012	1,000
Trust preferred securities	2,568	—	2,568	—
Residential government-sponsored collateralized mortgage obligations	36,689	—	36,689	—
Government-sponsored agency securities	14,822	—	14,822	—
Agency commercial mortgage-backed securities	27,731	—	27,731	—
SBA pool securities	14,437	—	14,437	—
Total	$ 164,820	$ —	$ 163,820	$ 1,000

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Available for sale securities				
Residential government-sponsored mortgage-backed securities	$ 27,302	$ —	$ 27,302	$ —
Obligations of states and political subdivisions	18,055	—	18,055	—
Corporate securities	2,008	—	1,008	1,000
Trust preferred securities	2,641	—	2,641	—
Residential government-sponsored collateralized mortgage obligations	43,057	—	43,057	—
Government-sponsored agency securities	3,125	—	3,125	—
Agency commercial mortgage-backed securities	27,304	—	27,304	—
SBA pool securities	19,885	—	19,885	—
Total	$ 143,377	$ —	$ 142,377	$ 1,000

No corporate securities that are classified as Level 3 above were purchased or sold during 2019. These corporate securities did not have a material impact on the income statement for the year ended December 31, 2019.

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 5% to 10% of collateral valuation at December 31, 2019 and 2018. Fair value is classified as Level 3 in the fair value hierarchy. Loans identified as impaired totaled $22.0 million (including SBA guarantees of $4.4 million) with $1.1 million allocation made to the allowance for loan losses at December 31, 2019 compared to a carrying amount of $12.1 million (including SBA guarantees of $3.4 million) with a $618 thousand allocation made to the allowance for loan losses at December 31, 2018.

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. As of December 31, 2019, three of these properties have been sold. 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 and are included in other assets in the consolidated balance sheets. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense on the consolidated statements of comprehensive income.

Other Real Estate Owned

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% to 10% of collateral valuation at December 31, 2019 and 2018. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At December 31, 2019 and 2018, the total amount of OREO was $6.2 million and $5.1 million, respectively.

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

(dollars in thousands)	Total at December 31, 2019	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	$ 6,890	$ —	$ —	$ 6,890
Commercial real estate - non-owner occupied (1)	3,296	—	—	3,296
Construction and land development	345	—	—	345
Commercial loans	7,547	—	—	7,547
Residential 1-4 family (2)	3,862	—	—	3,862
Consumer	39	—	—	39
Assets held for sale	—	—	—	—
Other real estate owned:				
Commercial real estate - owner occupied (1)	1,984	—	—	1,984
Construction and land development	2,874	—	—	2,874
Residential 1-4 family (2)	1,366	—	—	1,366

(dollars in thousands)	Total at December 31, 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	$ 2,795	$ —	$ —	$ 2,795
Commercial real estate - non-owner occupied (1)	171	—	—	171
Commercial loans	6,076	—	—	6,076
Residential 1-4 family (2)	3,020	—	—	3,020
Assets held for sale	600	—	—	600
Other real estate owned:				
Commercial real estate - owner occupied (1)	908	—	—	908
Construction and land development	2,938	—	—	2,938
Residential 1-4 family (2)	1,231	—	—	1,231

(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) for the periods indicated:

	Fair Value Hierarchy Level	December 31, 2019 Carrying Amount	December 31, 2019 Fair Value	December 31, 2018 Carrying Amount	December 31, 2018 Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$ 31,928	$ 31,928	$ 28,611	$ 28,611
Securities available for sale	Level 2 & Level 3	164,820	164,820	143,377	143,377
Securities held to maturity	Level 2	72,448	72,666	92,462	89,109
Stock in Federal Reserve Bank and Federal Home Loan Bank	Level 2	17,832	17,832	19,522	19,522
Equity investment in mortgage affiliate	Level 3	5,020	5,020	3,829	3,829
Preferred investment in mortgage affiliate	Level 3	3,305	3,305	3,305	3,305
Net loans	Level 3	2,175,786	2,180,487	2,166,541	2,134,021
Accrued interest receivable	Level 2 & Level 3	8,210	8,210	8,745	8,745
Financial liabilities:					
Demand deposits and NOW accounts	Level 2	$ 730,325	$ 730,325	$ 665,640	$ 665,640
Money market and savings accounts	Level 2	611,353	611,353	506,519	506,519
Time deposits	Level 3	783,040	786,420	925,441	919,175
Securities sold under agreements to repurchase	Level 1	12,883	12,883	18,721	18,721
FHLB short term advances	Level 1	121,640	121,640	163,340	163,340
Junior subordinated debt	Level 2	9,632	9,206	9,584	12,065
Senior subordinated notes	Level 2	47,051	48,156	47,089	57,173
Accrued interest payable	Level 1 & Level 3	4,907	4,907	3,985	3,985

Carrying amount is the estimated fair value for cash and cash equivalents (including federal funds sold), accrued interest receivable and payable, demand deposits, savings accounts, money market accounts and short-term debt (FHLB short-term advances and securities sold under agreements to repurchase).

The investment in common stock of our mortgage affiliate is accounted for using the equity method. Under the equity method, the carrying value of Southern National's investment in STM was originally recorded at cost but is adjusted periodically to record Southern National's proportionate share of STM's earnings or losses through noninterest income and decreased by the amount of cash dividends or similar distributions received from STM. The investment in preferred stock of our mortgage affiliate is considered to be a non-marketable equity security that does not have a readily determinable fair value. Non-marketable equity securities with no recurring market value data available are reviewed periodically and any observable market value change are adjusting through noninterest income. Southern National evaluates its investments in this non-marketable equity security for impairment and recoverability of the recorded investment by considering positive and negative evidence, including the profitability and asset quality of STM, dividend payment history and recent redemption experience. Impairment is assessed at each reporting period and if identified, is recognized in noninterest income.

Fair value of long-term debt is based on current rates for similar financing. Carrying amount of Federal Reserve Bank and Federal Home Loan Bank stock is a reasonable estimate of fair value as these securities are not readily marketable and are based on the ultimate recoverability of the par value. The fair value of off-balance-sheet items is not considered material. Fair value of net loans, time deposits, junior subordinated debt, and senior subordinated notes are measured using the exit-price notion in accordance with the adoption of ASU 2016-01.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2019 and 2018 were as follows (in thousands):

	2019	2018
Land	$ 8,139	$ 8,139
Land improvements	1,558	1,558
Building and improvements	23,164	23,132
Leasehold improvements	2,933	2,933
Furniture and equipment	8,789	8,349
Construction in progress	719	133
	45,302	44,244
Less accumulated depreciation and amortization	14,118	11,892
Bank premises and equipment, net	$ 31,184	$ 32,352

Depreciation and amortization expense related to bank premises and equipment for 2019, 2018 and 2017 was $2.3 million, $3.3 million and $2.2 million, respectively.

6. LEASES

The Company leases certain premises and equipment under operating leases. In recognizing lease right-of-use assets and related liabilities, we account for lease and non-lease components (such as taxes, insurance, and common area maintenance costs) separately as such amounts are generally readily determinable under our lease contracts. At December 31, 2019, the Company had operating lease liabilities totaling $8.5 million and right-of-use assets totaling $8.0 million related to these leases. Operating lease liabilities and right-of-use assets are reflected in our consolidated balance sheets. We do not currently have any financing leases. For the year ended December 31, 2019, our net operating lease cost was $2.5 million and was reflected in occupancy expenses on our income statement.

The following table presents supplemental cash flow and other information related to our operating leases:

(in thousands except for percent and period data)	For the Year Ended December 31, 2019
Supplemental cash flow information:	
Cash paid for amounts included in the measurement of lease liabilities	$ 4,883
Right-of-use assets obtained in exchange for new operating lease liabilities	$ —
Other information:	
Weighted-average remaining lease term - operating leases, in years	5.7
Weighted-average discount rate - operating leases	2.8 %

The following table summarizes the maturity of remaining lease liabilities:

(dollars in thousands)	As of December 31, 2019
Lease payments due:	
Less than one year	$ 2,386
One to three years	3,139
Three to five years	2,067
More than five years	1,654
Total lease payments	9,246
Less: imputed interest	(777)
Lease liabilities	$ 8,469

As of December 31, 2019, the Company does not have or expect any operating leases that have not yet commenced or will create additional lease liabilities and right-of-use assets for the Company.

As of December 31, 2018, future minimum rental payments required under non-cancelable operating leases for bank premises that had initial or remaining terms in excess of one year accounted for under the previous lease accounting guidance were as follows (in thousands):

2019	$ 2,628
2020	2,093
2021	1,337
2022	1,269
2023	1,111
Thereafter	2,201
Total	$ 10,639

7. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Southern National has recorded $101.9 million of goodwill at December 31, 2019 and 2018. Goodwill is primarily related to the acquisition of EVBS, which increased goodwill by $90.1 million in 2017. During 2018, as part of recognition of all measurement period adjustments, we recognized additional goodwill of $1.3 million related to the 2017 acquisition of EVBS.

Goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances warrant. Our annual assessment timing is during the third calendar quarter. For the 2019 assessment, we performed a qualitative assessment to determine if it was more likely than not that the fair value of our single reporting unit is less than its carrying amount. We concluded that the fair value of our single reporting unit exceeded its carrying amount and that it was not necessary to perform the quantitative impairment test pursuant to ASC 350-20. Our qualitative assessment considered many factors including, but not limited to, our actual and projected operating performance and profitability, as well as consideration of recent bank merger and acquisition transaction metrics. No impairment was indicated in 2019, 2018 or 2017.

Intangible Assets

Intangible assets were as follows at year end (in thousands):

	December 31, 2019		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$ 17,503	$ (10,312)	$ 7,191

	December 31, 2018		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$ 17,503	$ (8,894)	$ 8,609

Estimated amortization expense of intangibles for the years ended December 31 were as follows (in thousands):

2020	$ 1,365
2021	1,365
2022	1,325
2023	1,269
2024	1,265
Thereafter	602
Total	$ 7,191

8. FDIC INDEMNIFICATION ASSET

The indemnification asset represented our estimate of future expected recoveries under the FDIC loss sharing arrangement for covered loans acquired in the GAB acquisition in 2009. The estimated fair value of the indemnification asset was $8.8 million at December 4, 2009, the date of acquisition. The following table presents changes in the indemnification asset for the periods indicated (in thousands):

	2019	2018
Balance as of January 1	$ 649	$ 1,353
Payments from FDIC	—	—
Amortization	(649)	(704)
Balance as of December 31,	$ —	$ 649

There were two agreements with the FDIC, one for single family assets which was a 10-year agreement which expired on December 31, 2019, and one for non-single family (commercial) assets which was a 5-year agreement which expired on December 31, 2014.

9. DEPOSITS

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2019 and 2018 was $163.2 million and $190.6 million, respectively.

At December 31, 2019, the scheduled maturities of time deposits are as follows (in thousands):

2020	$ 554,168
2021	154,289
2022	53,897
2023	10,009
2024	10,677
Total	$ 783,040

The following table sets forth the maturities of certificates of deposit of $250 thousand and over as of December 31, 2019 (in thousands):

Within 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
$ 38,800	$ 15,576	$ 37,932	$ 70,866	$ 163,174

As of December 31, 2019, we had brokered certificates of deposit in the amount of $114.1 million and brokered money market deposits of $24.4 million. At December 31, 2018, we had brokered certificates of deposit in the amount of $254.6 million, and we had brokered money market deposits of $16.9 million.

For our deposit agreements with certain customers, we hold the collateral in a segregated custodial account. We are required to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, we will pledge additional securities. We closely monitor collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization.

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

Short-term borrowings can consist of FHLB of Atlanta overnight advances, 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. The balance in repo accounts at December 31, 2019 and 2018 was $12.9 million and $18.7 million, respectively.

At December 31, 2019 and 2018, we have pledged callable agency securities, residential government-sponsored mortgage-backed securities and collateralized mortgage obligations with a carrying value of $22.0 million and $28.5 million, respectively, to customers who require collateral for overnight repurchase agreements and deposits.

Short-term borrowings consist of the following (in thousands):

	December 31, 2019	December 31, 2018
FHLB overnight advances	$ 81,000	$ 5,500
Short-term FHLB advances maturing 3/10/2020	40,640	—
Short-term FHLB advances maturing 6/27/2019	—	40,000
Short-term FHLB advances maturing 6/18/2019	—	27,200
Short-term FHLB advances maturing 6/12/2019	—	10,000
Short-term FHLB advances maturing 6/11/2019	—	80,640
Total FHLB advances	121,640	163,340
Securities sold under agreements to repurchase	12,883	18,721
Total	$ 134,523	$ 182,061
Weighted average interest rate at year end	1.75 %	2.68 %

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances paid off earlier than maturity. Residential 1-4 family mortgage loans in the amount of approximately $376.3 million and $347.4 million were pledged as collateral for FHLB advances as of December 31, 2019 and 2018, respectively. HELOCs in the amount of approximately $46.9 million and $54.7 million were pledged as collateral for FHLB advances at December 31, 2019 and 2018, respectively. Commercial mortgage loans in the amount of approximately $76.6 million and $107.7 million were pledged as collateral for FHLB advances as of December 31, 2019 and 2018, respectively. Investment securities in the amount of $17.6 million and $25.3 million were pledged as collateral for FHLB advances at December 31, 2019 and 2018, respectively. At December 31, 2019, Sonabank had available collateral to borrow an additional $554.3 million from the FHLB.

11. 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. At December 31, 2019 and 2018, we had $9.6 million of Junior Subordinated Debt. The trust preferred securities pay cumulative cash distributions quarterly at a variable rate per annum, reset quarterly, equal to the 3-month LIBOR plus 2.95%. As of December 31, 2019 and 2018, the interest rate was 4.85% and 5.73%, 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 may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. At December 31, 2019, all of the trust preferred securities qualified as Tier 1 capital.

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 December 31, 2019, all of the SNBV Senior Subordinated Notes qualified as Tier 2 capital. At December 31, 2019, the remaining unamortized debt issuance costs related to the SNBV Senior Subordinated Notes totaled $666 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. At December 31, 2019 all of the EVBS Senior Subordinated Notes qualified as Tier 2 capital.

At December 31, 2019 and 2018, we had $47.1 million of Senior Subordinated Notes.

12. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting and income tax purposes. Net deferred tax assets at December 31, 2019 and 2018 consist primarily of the following (in thousands):

	2019	2018
Deferred tax assets:		
Allowance for loan losses	$ 2,235	$ 2,686
Unearned loan fees and other	1,064	1,058
Other real estate owned write-downs	748	783
Lease liability	1,829	—
Other than temporary impairment charge	229	232
Net unrealized loss on investment securities available for sale	—	694
Purchase accounting	949	1,909
Federal and state net operating loss carryforward	—	762
Federal AMT credit carryforward	1,137	1,137
Federal low income housing credit carryforward	3,226	2,887
Deferred compensation	1,573	1,390
Depreciation	218	—
Other	511	729
Total deferred tax assets	13,719	14,267
Deferred tax liabilities:		
FDIC indemnification asset	—	140
Right-of-use assets	1,731	—
Net unrealized gain on investment securities available for sale	200	—
Depreciation	—	23
Total deferred tax liabilities	1,931	163
Net deferred tax assets	$ 11,788	$ 14,104

No valuation allowance was deemed necessary on deferred tax assets in 2019 or 2018. Management believes that the realization of the deferred tax assets is more likely than not based on the expectation that Southern National will generate the necessary taxable income in future periods.

We have no unrecognized tax benefits and do not anticipate any increase in unrecognized tax benefits during the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals existed as of December 31, 2019, 2018 or 2017. Southern National and its subsidiaries file a consolidated U.S. federal income tax return, and Southern National files a Virginia state income tax return. Sonabank files a Maryland state income tax return. These returns are subject to examination by taxing authorities for all years after 2015.

The provision for income taxes consists of the following for the years ended December 31, 2019, 2018 and 2017 (in thousands):

	2019	2018	2017
Current tax expense			
Federal	$ 4,429	$ 6,244	$ 3,145
State	228	249	316
Total current tax expense	4,657	6,493	3,461
Deferred tax expense (benefit)			
Federal	1,350	2,692	10,234
State	70	429	(548)
Total deferred tax expense	1,420	3,121	9,686
Total income tax expense	$ 6,077	$ 9,614	$ 13,147

The income tax expense differed from the amount of income tax determined by applying the U.S. Federal income tax rate of 21% to pretax income for the years ended December 31, 2019 and 2018 and 34% to pretax income for the year ended December 31, 2017 due to the following (in thousands):

	2019	2018	2017
Computed expected tax expense at statutory rate	$ 8,241	$ 9,094	$ 5,294
Increase (decrease) in tax expense resulting from:			
Remeasurement of deferred tax assets and liabilities	(1,659)	1,130	—
Low income housing tax credits, net of amortization	(255)	(502)	—
Income from bank-owned life insurance	(357)	(416)	(316)
Other, net	107	308	234
Transaction costs	—	—	724
Tax adjustment related to reduction in U.S. federal statutory income tax rate	—	—	7,211
Income tax expense	$ 6,077	$ 9,614	$ 13,147

During 2018, the Company determined that certain net operating loss carryforwards were impaired due to Section 382 limitations. During 2019, the Company completed its formal assessment of the Section 382 limitation and rebooked $1.2 million deferred tax asset stemming from a $5.5 million acquired net operating loss carryforward that was written off in the fourth quarter of 2018. Additionally, the Company remeasured the depreciation deferred tax liability by $0.6 million, net, to reflect a 2018 adjustment to the assets held for sale not previously included.

Income tax expense for 2017 was impacted by the adjustment of our deferred tax assets and liabilities related to the reduction in the U.S. federal statutory income tax rate to 21% under the Tax Cuts and Jobs Act, which was enacted on December 22, 2017. As a result of the Tax Cuts and Jobs Act, we recognized additional income tax expense totaling $7.2 million in 2017, as reported in the rate change line item in the table above. Accounting for the Tax Act was completed during the fourth quarter of 2018 with no material changes.

13. EMPLOYEE BENEFITS

Southern National has a 401(k) plan that allows employees to make pre-tax contributions for retirement. The 401(k) plan provides for discretionary matching contributions by Southern National. Expense for 2019, 2018 and 2017 was $704 thousand, $784 thousand and $433 thousand, respectively.

A deferred compensation plan that covers two executive officers was established in 2007. Under the plan, the Bank pays each participant, or their beneficiary, the amount of compensation deferred plus accrued interest over 10 years, beginning with the individual's retirement. A liability is accrued for the obligation under these plans.

In connection with our merger with EVBS, Southern National assumed the EVBS Supplemental Executive Retirement Plan, which had two participants. The normal retirement benefits for both participants became fully vested as a result of the merger. The completion of the merger, however, did not accelerate the time of payment under the EVBS Supplemental Executive Retirement Plan. For one participant, benefits are to be paid in equal monthly installments over a 15-year period. There is no pre-retirement benefit, but a beneficiary can be named to receive the remaining payments for the 15-year period after benefits have commenced. For the other participant, benefits are to be paid in equal monthly installments over a 200-month period. There is no pre-retirement benefit, but a beneficiary can be named to receive the remaining payments for the 200-month period after benefits have commenced.

The expense incurred for the deferred compensation plans in 2019, 2018 and 2017 was $1.2 million, $1.2 million and $415 thousand, respectively. The deferred compensation plan liability was $7.3 million and $6.1 million as of December 31, 2019 and 2018, respectively.

14. STOCK-BASED COMPENSATION

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 replaced the 2010 Plan and has a maximum number of 750,000 shares reserved for issuance. The purpose of the 2017 Plan was 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 were to be no longer awarded.

Southern National granted no regular options during 2019 and 2018, but in 2017 issued 22,559 options under the 2017 Plan in connection with the merger with EVBS which options were previously outstanding under the EVBS 2003 Stock Incentive Plan. Immediately prior to the effective time of the merger, each option to purchase shares of EVBS common stock granted under an EVBS stock plan vested and was converted into and became an option to purchase shares of common stock of SNBV (each, an "Assumed Option"), which was adjusted (i) by multiplying the number of shares of common stock that could be purchased under the Assumed Option by the 0.6313 exchange ratio and rounding down to the nearest share and (ii) by dividing the per share exercise price of the option by the 0.6313 exchange ratio and rounding up to the nearest cent. SNBV assumed each Assumed Option in accordance with the terms of the EVBS stock plan and award agreement by which it is evidenced.

A summary of the activity in the stock option plan for 2019 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding, beginning of period	642,350	$ 9.77	5.0	$ 2,219
Forfeited	(2,700)	10.52		
Exercised	(83,900)	8.06		
Options outstanding, end of period	555,750	$ 10.02	4.3	$ 3,518
Exercisable at end of period	484,070	$ 9.52	3.9	$ 3,193

Stock-based compensation expense associated with stock options was $62 thousand, $122 thousand and $223 thousand for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, unrecognized compensation expense associated with stock options was $31 thousand, which is expected to be recognized over a weighted average period of 1.3 years.

A summary of the activity in the restricted stock plan for 2019 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Unvested restricted stock outstanding, beginning of period	58,550	$ 15.87	4.3
Granted	48,500	14.15	
Vested	(17,850)	16.16	
Forfeited	(2,700)	15.75	
Unvested restricted stock outstanding, end of period	86,500	$ 14.85	3.8

Restricted stock compensation expense totaled $370 thousand, $158 thousand and $14 thousand for the years ended December 31, 2019, 2018 and 2017, respectively. As of December 31, 2019, unrecognized compensation expense associated with restricted stock was $1.1 million, which is expected to be recognized over a weighted average period of 3.8 years.

15. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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. 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 $17.7 million and $19.2 million as of December 31, 2019 and 2018, 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 December 31, 2019 and 2018, we had unfunded lines of credit and undisbursed construction loan funds totaling $324.8 million and $339.2 million, respectively. Virtually all of our unfunded lines of credit and undisbursed construction loan funds are variable rate.

16. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the basic and diluted EPS computations for 2019, 2018 and 2017 (amounts in thousands, except per share data):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the year ended December 31, 2019			
Basic EPS	$ 33,167	24,050	$ 1.38
Effect of dilutive stock options and unvested restricted stock	—	275	(0.02)
Diluted EPS	$ 33,167	24,325	$ 1.36
For the year ended December 31, 2018			
Basic EPS	$ 33,691	24,012	$ 1.40
Effect of dilutive stock options and unvested restricted stock	—	261	(0.01)
Diluted EPS	$ 33,691	24,273	$ 1.39
For the year ended December 31, 2017			
Basic EPS	$ 2,425	18,391	$ 0.13
Effect of dilutive stock options	—	281	—
Diluted EPS	$ 2,425	18,672	$ 0.13

The Company did not have any anti-dilutive options during 2019 and 2018. There were 8,517 anti-dilutive options during 2017 and all unexercised warrants expired in 2017.

17. REGULATORY MATTERS

Southern National and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (“PCA”), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2019 and 2018, the most recent regulatory notifications categorized the Bank as well capitalized under regulatory framework for PCA.

Quantitative measures established by regulation to ensure capital adequacy require Southern National to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to average assets (as defined). Management believes, as of December 31, 2019, that Southern National meets all capital adequacy requirements to which it is subject.

The capital amounts and ratios for Sonabank at year end are presented in the following table (in thousands):

	Actual		Required For Capital Adequacy Purposes (1)		To Be Categorized as Well Capitalized (2)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019						
Sonabank						
Common equity tier 1 capital ratio	$ 313,354	14.81 %	$ 95,229	4.50 %	$ 137,553	6.50 %
Tier 1 risk-based capital ratio	313,354	14.81 %	126,972	6.00 %	169,296	8.00 %
Total risk-based capital ratio	323,615	15.29 %	169,296	8.00 %	211,619	10.00 %
Leverage ratio	313,354	12.07 %	103,838	4.00 %	105,810	5.00 %
December 31, 2018						
Sonabank						
Common equity tier 1 capital ratio	$ 288,018	13.64 %	$ 95,020	4.50 %	$ 137,251	6.50 %
Tier 1 risk-based capital ratio	288,018	13.64 %	126,693	6.00 %	168,924	8.00 %
Total risk-based capital ratio	300,301	14.22 %	168,924	8.00 %	211,156	10.00 %
Leverage ratio	288,018	11.03 %	104,420	4.00 %	105,578	5.00 %

(1) Once fully phased-in on January 1, 2019, the Basel III capital rules included a capital conservation buffer of 2.5% that was 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 increased each subsequent January 1, until it reached 2.5% on January 1, 2019.

(2) PCA provisions are not applicable at the bank holding company level.

Southern National's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year's net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above.

18. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information of Southern National Bancorp of Virginia, Inc. follows (in thousands):

CONDENSED BALANCE SHEETS
DECEMBER 31,

	2019	2018
ASSETS		
Cash	$ 2,707	$ 1,393
Investment in subsidiaries	423,591	397,063
Other assets	8,128	7,174
Total assets	$ 434,426	$ 405,630
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Junior subordinated debt - long term	$ 9,632	$ 9,584
Senior subordinated notes - long term	47,051	47,089
Other liabilities	502	667
Total liabilities	57,185	57,340
Stockholders' equity:		
Common stock	241	240
Additional paid in capital	306,755	305,654
Retained earnings	69,462	44,985
Accumulated other comprehensive income (loss)	783	(2,589)
Total stockholders' equity	377,241	348,290
Total liabilities and stockholders' equity	$ 434,426	$ 405,630

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018	2017
Income:			
Cash dividends received from subsidiaries	$ 13,300	$ 8,000	$ 4,900
Interest on deposit with subsidiary	—	—	3
Total income	13,300	8,000	4,903
Expenses:			
Interest on junior subordinated debt	589	575	253
Interest on senior subordinated notes	2,847	2,847	2,194
Merger expenses	—	—	2,812
Other operating expenses	726	765	478
Total expenses	4,162	4,187	5,737
Income (loss) before income tax benefit and equity in undistributed net income of subsidiaries	9,138	3,813	(834)
Income tax benefit	(862)	(872)	(1,196)
Equity in undistributed net income of subsidiaries	23,167	29,006	2,063
Net income	$ 33,167	$ 33,691	$ 2,425

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2019	2018	2017
Operating activities:			
Net income	$ 33,167	$ 33,691	$ 2,425
Adjustments to reconcile net income to net cash and cash equivalents (used in) provided by operating activities:			
Equity in undistributed net income of subsidiaries	(36,467)	(37,006)	(6,963)
Other, net	(666)	(582)	4,046
Net cash and cash equivalents used in operating activities	(3,966)	(3,897)	(492)
Investing activities:			
Increase in investment in subsidiary	—	—	(22,000)
Dividend from subsidiaries	13,300	8,000	4,900
Acquisition of Eastern Virginia Bankshares, Inc.	—	—	(10)
Net cash and cash equivalents (used in) provided by investing activities	13,300	8,000	(17,110)
Financing activities:			
Issuance of subordinated notes, net of cost	—	—	26,075
Issuance of common stock	670	443	1,004
Cash dividends paid on common stock	(8,690)	(7,688)	(5,798)
Net cash and cash equivalents provided by (used in) financing activities	(8,020)	(7,245)	21,281
Increase (decrease) in cash and cash equivalents	1,314	(3,142)	3,679
Cash and cash equivalents at beginning of period	1,393	4,535	856
Cash and cash equivalents at end of period	$ 2,707	$ 1,393	$ 4,535

19. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the accumulated other comprehensive income (loss) balances, net of tax (in thousands):

	Balance at December 31, 2018	Current Period Change	Balance at December 31, 2019
Unrealized gain (loss) on investment securities available for sale	$ (2,419)	$ 3,362	$ 943
Unrecognized gain on investment securities held to maturity for which other than temporary impairment charges have been taken	311	—	311
Unrealized gain (loss) on investment securities available for sale transferred to held to maturity	(481)	10	(471)
Total	$ (2,589)	$ 3,372	$ 783

20. RELATED PARTY TRANSACTIONS

Sonabank has entered into loan transactions with STM. The following table summarizes the changes in the loan amount outstanding with STM during the periods indicated (in thousands):

	2019	2018
Balance at January 1,	$ 24,168	$ 25,767
Principal advances	298,639	296,627
Principal paid	(296,047)	(298,226)
Balance at December 31,	$ 26,760	$ 24,168

Sonabank has established with STM underwriting guidelines under which it will purchase residential construction only, construction loans that convert to permanent, and permanent loans primarily in its Virginia and Maryland footprint from

STM. These will be largely loans that do not conform to FNMA or FHLMC standards because of size or acreage. We purchased loans in an aggregate amount of $152.2 million during 2019 and $125.1 million during 2018 from STM.

During the year, officers, directors, principal shareholders, and their affiliates (related parties) were customers of and had transactions with the Company. Loan activity to related parties is as follows (in thousands):

	2019
Balance at January 1,	$ 22,869
Principal advances	1,702
Principal paid	(3,165)
Balance at December 31,	$ 21,406

Sonabank has also entered into deposit transactions with its related parties including STM. The aggregate amount of these deposit accounts were $20.1 million and $12.8 million as of December 31, 2019 and 2018, respectively.

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
	(dollars in thousands, except per share amounts)					
2019						
First quarter	$ 30,303	$ 20,952	$ 7,524	$ 6,020	$ 0.25	$ 0.25
Second quarter	30,393	20,964	10,263	9,319	0.39	0.38
Third quarter	30,474	21,015	11,225	8,864	0.37	0.36
Fourth quarter	29,354	20,669	10,232	8,964	0.37	0.37
2018						
First quarter	$ 28,020	$ 22,500	$ 10,360	$ 8,259	$ 0.34	$ 0.34
Second quarter	29,683	23,174	11,060	8,867	0.37	0.37
Third quarter	30,054	22,588	11,061	8,861	0.37	0.36
Fourth quarter	31,150	22,804	10,824	7,704	0.32	0.32

22. LOW INCOME HOUSING TAX CREDITS

The general purpose of housing equity funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds were recorded as other assets on the consolidated balance sheets and were carried at $6.0 million and $2.7 million at December 31, 2019 and 2018, respectively. These investments and related tax benefits have expected terms through 2033, with the majority maturing by 2027. Tax credits, net of amortization recognized related to these investments during the years ended December 31, 2019 and 2018 were $255 thousand and $502 thousand, respectively. Total projected tax credits to be received for 2019 are $643 thousand, which is based on the most recent quarterly estimates received from the funds. Additional capital calls expected for the funds totaled $3.8 million and $4.1 million at December 31, 2019 and 2018, respectively.

23. SUBSEQUENT EVENT

On February 20, 2020, the Company announced that effective February 19, 2020, Mr. Joe A. Shearin would be retiring as Chief Executive Officer of the Company and the Company’s wholly-owned subsidiary, Sonabank, and resigning as a director of the Company and Sonabank. On February 19, 2020, the Company’s Board of Directors appointed Dennis J. Zember Jr. as the new President and Chief Executive Officer of the Company and Sonabank, and as a member of the Board of Directors of the Company and Sonabank, effective February 19, 2020.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, 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(e) under the Securities Exchange Act of 1934) utilizing the framework established in "Internal Control – Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Annual Report on Form 10-K.

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) Management's Report on Internal Control Over Financial Reporting***.** Management of Southern National is responsible for establishing and maintaining adequate internal control over financial reporting for Southern National ("we" and "our"), as that term is defined in Exchange Act Rules 13a-15(f). Southern National conducted an evaluation of the effectiveness of our internal control over Southern National's financial reporting as of December 31, 2019 based on the framework in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, we concluded that our internal control over financial reporting is effective as of December 31, 2019.

Dixon Hughes Goodman LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and has issued a report on the effectiveness of our internal control over financial reporting, which report is included in "Part II - Item 8. Financial Statements and Supplementary Data" of this Report.

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

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the captions "Election of Directors,” "Continuing Directors and Executive Officers," "Delinquent Section 16(a) Reports,” "Corporate Governance — Committees of the Board of Directors— Audit Committee,” "Corporate Governance — Director Nominations Process" and "Corporate Governance — Code of Ethics" in Southern National’s definitive Proxy Statement for its 2020 Annual Meeting of Shareholders to be filed with the SEC within 120 days after December 31, 2019 pursuant to Regulation 14A under the Exchange Act (the "2020 Proxy Statement"), is incorporated herein by reference in response to this item.

Item 11. Executive Compensation

The information under the captions "Executive Compensation and Other Matters," "Director Compensation" and "Compensation Committee Report on Executive Compensation" in the 2020 Proxy Statement is incorporated herein by reference in response to this item.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information under the caption "Beneficial Ownership of Common Stock by Management of the Company and Principal Stockholders" in the 2020 Proxy Statement is incorporated herein by reference in response to this item.

The information required by this Item concerning securities authorized for issuance under equity compensation plans is incorporated herein by reference to Part II, Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information under the captions "Corporate Governance — Director Independence" and "Certain Relationships and Related Party Transactions" in the 2020 Proxy Statement is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services

The information under the caption "Fees and Services of Independent Registered Public Accounting Firm" in the 2020 Proxy Statement is incorporated herein by reference in response to this item.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent registered public accounting firm are in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm
Consolidated Balance Sheets - December 31, 2019 and 2018

Consolidated Statements of Income and Comprehensive Income - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2019, 2018 and 2017

Consolidated Statements of Cash Flows -Years ended December 31, 2019, 2018 and 2017

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The following are filed or furnished, as noted below, as part of this Annual Report on Form 10-K and this list includes the Exhibit Index.

Exhibit No.	Description
2.1	Agreement and Plan of Merger dated as of December 13, 2016, by and among Southern National Bancorp of Virginia, Inc. and Eastern Virginia Bankshares, Inc. (incorporated herein by reference to Exhibit 2.1 to Southern National's Current Report on Form 8-K filed on December 14, 2016)
2.2	Amendment to Agreement and Plan of Merger, dated as of March 8, 2017, by and between Southern National Bancorp of Virginia, Inc. and Eastern Virginia Bankshares, Inc. (incorporated herein by reference to Exhibit 2.1 to Southern National's Current Report on Form 8-K filed on March 9, 2017)
2.3	Amendment No. 2 to Agreement and Plan of Merger, dated as of April 5, 2017, by and between Southern National Bancorp of Virginia, Inc. and Eastern Virginia Bankshares, Inc. (incorporated herein by reference to Exhibit 2.1 to Southern National's Current Report on Form 8-K filed on April 5, 2017)
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))

Exhibit No.	Description
3.2	Certificate of Amendment to the Articles of Incorporation dated January 31, 2005 (incorporated herein by reference to Exhibit 3.2 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
3.3	Certificate of Amendment to the Articles of Incorporation dated April 13, 2006 (incorporated herein by reference to Exhibit 3.3 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to Southern National's Annual Report on Form 10-K for the year ended December 31, 2006)
3.5	Amendment No. 1 to Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 to Southern National's Current Report on Form 8-K filed on October 14, 2009)
3.6	Amendment No. 2 to Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 to Southern National's Current Report on Form 8-K filed on April 5, 2017)
4.1	Specimen Stock Certificate of Southern National (incorporated herein by reference to Exhibit 4.1 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
4.2	Form of Warrant Agreement (incorporated herein by reference to Exhibit 4.2 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
4.3	Form of Amendment to Warrant Agreement (incorporated herein by reference to Exhibit 4.3 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
4.4	Form of 5.875% Fixed-to-Floating Rate Subordinated Notes due January 31, 2027 (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on January 24, 2017)
4.5*	Description of Registrant's Securities

Certain instruments relating to long-term debt as to which the total amount of securities authorized there under does not exceed 10% of the total assets of Southern National Bancorp of Virginia, Inc. have been omitted in accordance with Item 601(b)(4)(iii) of Regulation S-K. The registrant will furnish a copy of any such instrument to the Securities and Exchange Commission upon its request.

10.1	Form of Affiliate Agreement, dated as of December 13, 2016, between Southern National Bancorp of Virginia, Inc., Eastern Virginia Bankshares, Inc. and certain shareholders of Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 99.1 to Southern National's Current Report on Form 8-K filed on December 14, 2016)
10.2	Form of Affiliate Agreement, dated as of December 13, 2016, between Southern National Bancorp of Virginia, Inc., Eastern Virginia Bankshares, Inc. and certain shareholders of Eastern Virginia Bankshares, Inc. (incorporated herein by reference to Exhibit 99.2 to Southern National's Current Report on Form 8-K filed on December 14, 2016)
10.3	Form of Voting and Election of Consideration, dated as of December 13, 2016, by and among Southern National Bancorp of Virginia, Inc., Eastern Virginia Bankshares, Inc. and certain shareholders of Eastern Virginia Bankshares, Inc. (incorporated herein by reference to Exhibit 99.3 to Southern National's Current Report on Form 8-K filed on December 14, 2016)

Exhibit No.	Description
10.4+	Form of Southern National Bancorp of Virginia, Inc. Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.3 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.5+	Supplemental Executive Retirement Plan for Georgia Derrico (incorporated herein by reference to Exhibit 10.4 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.6+	Supplemental Executive Retirement Plan for Rod Porter (incorporated herein by reference to Exhibit 10.5 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.7+	Southern National Bancorp of Virginia, Inc. 2010 Stock Awards and Incentive Plan (incorporated herein by reference to Exhibit 4.2 to Southern National's Registration Statement on Form S-8 (Registration No. 333-166511))
10.8+	Southern National Bancorp of Virginia, Inc. 2017 Equity Compensation Plan (incorporated herein by reference to Appendix A of Southern National's Definitive Proxy Statement on Schedule 14A filed with the Securities and Exchange Commission on May 11, 2017)
10.9+	Form of Southern National Bancorp of Virginia, Inc. Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 4.3 to Southern National's Registration Statement on Form S-8 (Registration No. 333-166511))
10.10+	Termination Agreement between Southern National Bancorp of Virginia, Inc., Sonabank and Georgia S. Derrico, dated as of June 23, 2017 (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.11+	Termination Agreement between Southern National Bancorp of Virginia, Inc., Sonabank and R. Roderick Porter, dated as of June 23, 2017 (incorporated herein by reference to Exhibit 10.2 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.12+	Employment Agreement, dated as of June 23, 2017, by and between Georgia S. Derrico and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.4 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.13+	Employment Agreement, dated as of June 23, 2017, by and between R. Roderick Porter and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.5 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.14+	Employment Agreement, dated as of June 23, 2017, by and between Joe A. Shearin, Southern National Bancorp of Virginia, Inc. and Sonabank (incorporated herein by reference to Exhibit 10.7 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.15+	Southern National Bancorp of Virginia, Inc. Supplemental Executive Retirement Plan (incorporated herein by reference to Exhibit 10.9 to Southern National's Current Report on Form 8-K filed on June 26, 2017)
10.16+	Southern National Bancorp of Virginia, Inc. Executive Severance Plan (incorporated herein by reference to Exhibit 10.10 to Southern National's Current Report on Form 8-K filed on June 26, 2017)

Exhibit No.	Description
10.17+	Form of Subordinated Note Purchase Agreement, dated January 20, 2017 (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on January 24, 2017)
10.18+	Employment Agreement, dated as of October 29, 2018 by and between Jeffrey H. Culver, Southern National Bancorp of Virginia, Inc. and Sonabank (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on October 31, 2018)
10.19+	Change in Control Agreement, dated as of October 29, 2018 by and between Jeffrey L. Karafa, Southern National Bancorp of Virginia, Inc. and Sonabank (incorporated herein by reference to Exhibit 10.2 to Southern National's Current Report on Form 8-K filed on October 31, 2018)
10.20+	Employment Agreement, dated as of February 28, 2019, by and between George C. Sheflett and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.1 to Southern National's Quarterly Report on Form 10-Q filed on May 9, 2019)
10.21+	Amendment to Employment Agreement, dated as of April 18, 2019, by and between Georgia S. Derrico and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on April 24,2019)
10.22+	Amendment to Employment Agreement, dated as of April 18, 2019, by and between R. Roderick Porter and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.2 to Southern National's Current Report on Form 8-K filed on April 24,2019)
10.23+	Supplemental Executive Retirement Plan, dated as of April 2, 2018, by and between Sonabank and Georgia S. Derrico (incorporated herein by reference to Exhibit 10.3 to Southern National's Current report on Form 8-K filed April 24, 2019)
10.24+	Supplemental Executive Retirement Plan, dated as of April 2, 2018, by and between Sonabank and R. Roderick Porter (incorporated herein by reference to Exhibit 10.4 to Southern National's Current report on Form 8-K filed April 24, 2019)
10.25+	Supplemental Executive Retirement Plan, dated as of April 2, 2018, by and between Sonabank and Joe A. Shearin (incorporated herein by reference to Exhibit 10.5 to Southern National's Current report on Form 8-K filed April 24, 2019)
10.26+	Amended and Restated Employment Agreement, dated as of October 2, 2019, by and between Georgia S. Derrico and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.1 to Southern National's Current Report on Form 8-K filed on October 4, 2019)
10.27+	Amended and Restated Employment Agreement, dated as of October 2, 2019, by and between R. Roderick Porter and Southern National Bancorp of Virginia, Inc. (incorporated herein by reference to Exhibit 10.2 to Southern National's Current Report on Form 8-K filed on October 4, 2019)
21.0*	Subsidiaries of the Registrant
23.1*	Consent of Dixon Hughes Goodman LLP
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

Exhibit No.	Description
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.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Extensible Business Reporting Language (Inline XBRL), filed herewith: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income and Comprehensive Income, (iii) Consolidated Statements of Changes in Stockholders' Equity, (iv) Consolidated Statements of Cash Flows, and (v) Notes to Consolidated Financial Statements.
104	The cover page from Southern National Bancorp of Virginia, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Inline XBRL.

+ Management contract or compensatory plan or arrangement
* Filed herewith
** Furnished herewith

Item 16. - Form 10-K Summary

None.

Southern National Bancorp of Virginia, Inc. will furnish, upon written request, a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

Jeffrey L. Karafa, Executive Vice President and Chief Financial Officer
Southern National Bancorp of Virginia, Inc.
10900 Nuckols Road, Suite 325
Glen Allen, Virginia 23060

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ Dennis J. Zember Date: March 16, 2020
Dennis J. Zember
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Jeffrey L. Karafa Date: March 16, 2020
Jeffrey L. Karafa
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Date: March 16, 2020

Signature	Title
/s/ Georgia S. Derrico Georgia S. Derrico	Executive Chairman
/s/ R. Roderick Porter R. Roderick Porter	Executive Vice Chairman
/s/ Dennis J. Zember Dennis J. Zember	President and Chief Executive Officer, Director
/s/ John F. Biagas John F. Biagas	Director
/s/ Daniel H. Burch Daniel H. Burch	Director
/s/ Robert Y. Clagett Robert Y. Clagett	Director
/s/ W. Rand Cook W. Rand Cook	Director
/s/ F. L. Garrett, III F. L. Garrett, III	Director
/s/ W. Bruce Jennings W. Bruce Jennings	Director
/s/ Eric A. Johnson Eric A. Johnson	Director
/s/ Charles A. Kabbash Charles A. Kabbash	Director

Exhibit 4.5

DESCRIPTION OF THE REGISTRANT'S SECURITIES REGISTERED PURSUANT TO SECTION 12 OF THE SECURITIES EXCHANGE ACT OF 1934

As of March 5, 2020, Southern National Bancorp of Virginia, Inc. ("SONA") has one class of securities, our common stock, registered under Section 12 of the Securities Exchange Act of 1934, as amended.

DESCRIPTION OF COMMON STOCK

The following description of the terms and provisions of our common stock is qualified in its entirety by reference to our amended Articles of Incorporation, Amended and Restated Bylaws or Virginia law applicable to us. For a more thorough understanding of the terms of our capital stock, you should refer to our amended Articles of Incorporation and Amended and Restated Bylaws, which are included as exhibits to this Annual Report on Form 10-K.

General

We are authorized to issue 50,000,000 shares of capital stock of which 45,000,000 are shares of common stock and 5,000,000 are shares of preferred stock, par value $0.01 per share. As of March 5, 2020, there were 24,295,380 shares of common stock outstanding held by 1,371 holders of record and no shares of preferred stock issued and outstanding.

Common Stock

General. Each share of SONA common stock has the same relative rights as, and is identical in all respects to, each other share of SONA common stock. SONA's common stock is traded on the NASDAQ Global Market under the symbol "SONA."

Dividends. SONA's shareholders are entitled to receive dividends or distributions that its board of directors may declare out of funds legally available for those payments. The payment of distributions by SONA is subject to the restrictions of Virginia law applicable to the declaration of distributions by a corporation. A Virginia corporation generally may not authorize and make distributions if, after giving effect to the distribution, it would be unable to meet its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if it were dissolved at that time, to satisfy the preferential rights of shareholders whose rights are superior to the rights of those receiving the distribution. In addition, the payment of distributions to shareholders is subject to any prior rights of outstanding preferred stock.

As a bank holding company, SONA's ability to pay dividends is affected by the ability of Sonabank, its bank subsidiary, to pay dividends to the holding company. The ability of Sonabank, as well as SONA, to pay dividends in the future is, and could be further, influenced by bank regulatory requirements and capital guidelines.

Liquidation Rights. In the event of any liquidation, dissolution or winding up of SONA, the holders of shares of its common stock will be entitled to receive, after payment of all debts and liabilities of SONA and after satisfaction of all liquidation preferences applicable to any preferred stock, all remaining assets of SONA available for distribution in cash or in kind.

Voting Rights. The holders of SONA common stock are entitled to one vote per share and, in general, a majority of votes cast with respect to a matter is sufficient to authorize action upon routine matters. Holders of SONA common stock are not entitled to cumulative voting rights. Directors are elected by a plurality of the votes cast, and shareholders do not have the right to cumulate their votes in the election of directors.

Directors and Classes of Directors. SONA's board of directors is divided into three classes with directors serving staggered three-year terms. Any newly created directorships or any decrease in directorships are apportioned among the classes as evenly as possible. Under SONA's articles of incorporation, directors may be removed for cause upon the affirmative vote of not less than 75% of the outstanding shares entitled to vote generally in an election of directors. Cause for removal exists only if a director whose removal is proposed has been either declared incompetent by an order of a court, convicted of a felony or of an offense punishable by imprisonment for a term of more than one year, or deemed liable by a court for gross negligence or misconduct in the performance of such director's duties to SONA.

No Preemptive Rights; Redemption and Assessment. Holders of shares of SONA will not be entitled to preemptive rights with respect to any shares that may be issued. SONA common stock is not subject to redemption or any sinking fund and the outstanding shares are fully paid and nonassessable.

Anti-Takeover Effects of Certain Provisions in Our Amended Articles of Incorporation and Amended and Restated Bylaws and Virginia Law

Subject to the application of the Virginia Stock Corporation Act (VSCA), the affirmative vote of the holders of more than two thirds of all votes entitled to be cast is generally required with respect to a merger, exchange offer or the sale of all or substantially all of our assets. Under the VSCA and our amended Articles of Incorporation, any action required or permitted to be taken by our shareholders may be taken without a meeting and without a shareholder vote if a written consent is signed by the holders of the shares of outstanding stock having not less than the minimum number of votes that would be necessary to authorize such action at a meeting of shareholders at which all shares entitled to vote on such matter were present and voted.

Virginia law provides for certain restrictions on extraordinary corporate transactions that may discourage the acquisition of control of Virginia corporations. We elected to "opt out" of those protective provisions.

The provisions described below, to the extent applicable, will have the general effect of discouraging, or rendering more difficult, unfriendly takeover or acquisition attempts. Consequently, such provisions would be beneficial to current management in an unfriendly takeover attempt, but could have an adverse effect on shareholders who might wish to participate in such a transaction. However, we believe that such provisions are advantageous to our shareholders in that they will permit management and our shareholders to carefully consider and understand a proposed acquisition, lead to higher offering prices, and require a higher level of shareholder participation in the decision if the transaction is not approved by our board of directors.

Staggered Board and Removal of Directors

One class of our three classes of directors is elected annually. Directors serve for three-year terms. There is no cumulative voting for directors provided for in the amended Articles of Incorporation. As permitted by Virginia law, our amended Articles of Incorporation provide that where a corporation's directors are elected in classes that a director, or the entire board of directors, only may be removed for cause by the affirmative vote of not less than 75% of the shares entitled to vote generally in an election of directors. The provisions contained in our amended Articles of Incorporation relating to election of directors in staggered three-year classes and the supermajority vote required to remove a director tend to discourage attempts by third parties to acquire us because of the extra time and expense involved and a greater possibility of failure. This also can affect the price that a potential purchaser would be willing to pay for our common stock, thereby reducing the amount a shareholder would receive in, for example, a tender offer for our common stock.

Special Shareholder Meetings

Our amended Articles of Incorporation also restrict the manner in which special meetings may be called. Under the VSCA, a corporation is permitted to provide for calling of special meetings either in its bylaws or articles of incorporation. Our amended Articles of Incorporation specify that special meetings may be called by our Chairman of the Board or President or by the affirmative vote of three-fourths of the board of directors or by holders of record of not less than 40% of our then outstanding voting shares.

Evaluation of Change in Control Offers

Our amended Articles of Incorporation also provide that when evaluating any offer that may result in a change in control of our company, the board of directors may consider, consistent with the exercise of its fiduciary duties and in connection with the exercise of its judgment in determining what is in the best interests of our company and our shareholders, not only the price or other consideration being offered, but also all other relevant factors including, without limitation, the financial and management resources and future prospects of the other party, the possible effect on our business and the business of our subsidiaries and on our employees, customers, suppliers and creditors and those of our subsidiaries, the effects on the ability of our company to fulfill its corporate objectives as a holding company and on the ability of Sonabank to fulfill its objectives as a bank, and the effects on the communities in which our facilities are located.

Blank Check Preferred Stock

In addition to common stock, our amended Articles of Incorporation permit the board of directors to issue up to 5,000,000 shares of "blank check" preferred stock. Among other things, the board of directors in issuing a series of preferred stock has the power to determine voting powers, if any, of such series. Such issuance of preferred stock having voting rights could dilute the voting and ownership interest of existing shareholders. Such issuance may have the effect of discouraging unilateral attempts by third parties to obtain control of our company, since the issuance of additional shares of capital stock could be used to dilute the voting power of, or increase the cost to, any person seeking to obtain control of us. This may occur by virtue of the fact that the preferred stock may be issued in a series having rights in excess of one vote per share or having the right to vote separately by class respecting some matters.

Transfer Agent and Registrar

The transfer agent for SONA's common stock is Computershare Inc., 250 Royall Street, Canton, Massachusetts 02021.

Exhibit 21.0

Subsidiaries of Southern National Bancorp of Virginia, Inc.

Subsidiary	State of Incorporation
Sonabank	Virginia
Eastern Virginia Statutory Trust I	Connecticut

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements on Forms S-8 (Nos. 333-218976, 333-189730, 333-166511, and 333-138636) of our reports dated March 16, 2020, with respect to the consolidated financial statements of Southern National Bancorp of Virginia, Inc. (the “Company”) as of December 31, 2019 and 2018, and the related consolidated statements of income and comprehensive income, changes in stockholders’ equity and cash flows for each of the years in the three year period ended December 31, 2019, and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the Company’s 2019 Annual Report on Form 10-K.

/s/ Dixon Hughes Goodman LLP

Greenville, North Carolina
March 16, 2020

Exhibit 31.1

CERTIFICATIONS

I, Dennis J. Zember, certify that:

1. I have reviewed this report on Form 10-K of Southern National Bancorp of Virginia, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/s/ Dennis J. Zember
Dennis J. Zember,
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey L. Karafa, certify that:

1. I have reviewed this report on Form 10-K of Southern National Bancorp of Virginia, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 16, 2020

/s/ Jeffrey L. Karafa
Jeffrey L. Karafa,
Executive Vice President and Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 32.1

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Southern National Bancorp of Virginia, Inc. ("Southern National") on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of Southern National hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Southern National as of and for the periods covered in the Report.

/s/ Dennis J. Zember
Dennis J. Zember
President and Chief Executive Officer

/s/ Jeffrey L. Karafa
Jeffrey L. Karafa
Executive Vice President and Chief Financial Officer

March 16, 2020