Section 1: 10-Q (10-Q)

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended June 30, 2019

Commission File No. 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	SONA	NASDAQ

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, smaller reporting company, or an emerging growth company. See the 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 ☒
Non-accelerated filer ☐	Emerging growth company ☐	

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

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

As of August 2, 2019, there were 24,143,576 shares of common stock outstanding.

[redacted]

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
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June 30, 2019

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

	June 30, 2019 (unaudited)	December 31, 2018 *
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 6,898	$ 6,939
Interest-bearing deposits in other financial institutions	26,190	20,877
Federal funds sold	—	795
Total cash and cash equivalents	33,088	28,611
Securities available for sale, at fair value	163,860	143,377
Securities held to maturity, at amortized cost (fair value of $86,681 and $89,109, respectively)	86,815	92,462
Total loans	2,172,845	2,178,824
Less allowance for loan losses	(11,613)	(12,283)
Net loans	2,161,232	2,166,541
Stock in Federal Reserve Bank and Federal Home Loan Bank	17,364	19,522
Equity investment in mortgage affiliate	4,405	3,829
Preferred investment in mortgage affiliate	3,305	3,305
Bank premises and equipment, net	30,767	32,352
Operating lease right-of-use assets	7,924	—
Goodwill	101,954	101,954
Core deposit intangibles, net	7,884	8,609
Bank-owned life insurance	63,060	62,495
Other real estate owned	5,041	5,077
Deferred tax assets, net	14,475	14,104
Other assets	23,129	19,057
Total assets	$ 2,724,303	$ 2,701,295
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 335,024	$ 320,043
Interest-bearing deposits:		
NOW accounts	361,787	345,597
Money market accounts	444,299	355,469
Savings accounts	143,328	151,050
Time deposits	865,988	925,441
Total interest-bearing deposits	1,815,402	1,777,557
Total deposits	2,150,426	2,097,600
Securities sold under agreements to repurchase - short term	14,319	18,721
Federal Home Loan Bank (FHLB) advances - short term	110,640	163,340
Junior subordinated debt - long term	9,608	9,584
Senior subordinated notes - long term	47,070	47,089
Operating lease liabilities	8,385	—
Other liabilities	21,063	16,671
Total liabilities	2,361,511	2,353,005
Commitments and contingencies (See Note 6)		
Stockholders' equity:		
Preferred stock, $0.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding	—	—
Common stock, $0.01 par value. Authorized 45,000,000 shares; 24,117,326 and 24,052,253 shares issued and outstanding at June 30, 2019 and December 31, 2018, respectively	241	240
Additional paid in capital	306,049	305,654
Retained earnings	55,983	44,985
Accumulated other comprehensive income (loss)	519	(2,589)
Total stockholders' equity	362,792	348,290
Total liabilities and stockholders' equity	$ 2,724,303	$ 2,701,295

* Derived from audited consolidated financial statements

See accompanying notes to unaudited consolidated financial statements.

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

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2019	2018	2019	2018
Interest and dividend income:				
Interest and fees on loans	$28,378	$27,697	$56,352	$53,602
Interest and dividends on taxable securities	1,475	1,400	2,900	2,882
Interest and dividends on tax exempt securities	152	160	308	319
Interest and dividends on other earning assets	388	412	1,134	879
Interest on federal funds sold	—	14	2	21
Total interest and dividend income	30,393	29,683	60,696	57,703
Interest expense:				
Interest on deposits	7,654	3,810	15,116	7,080
Interest on repurchase agreements	22	24	45	46
Interest on junior subordinated debt	150	147	300	275
Interest on senior subordinated notes	712	712	1,424	1,423
Interest on other borrowings	891	1,816	1,895	3,205
Total interest expense	9,429	6,509	18,780	12,029
Net interest income	20,964	23,174	41,916	45,674
Provision for loan losses	—	1,050	200	2,650
Net interest income after provision for loan losses	20,964	22,124	41,716	43,024
Noninterest income:				
Account maintenance and deposit service fees	1,788	1,375	3,475	2,783
Income from bank-owned life insurance	385	563	908	870
Equity gain (loss) from mortgage affiliate	558	191	576	(126)
Gain on sales of investment securities	—	—	—	—
Recoveries related to acquired charged-off loans and investment securities	324	250	915	1,733
Other	136	174	379	372
Total noninterest income	3,191	2,553	6,253	5,632
Noninterest expenses:				
Salaries and benefits	7,144	7,007	12,956	13,779
Occupancy expenses	1,801	1,656	3,604	3,306
Furniture and equipment expenses	738	712	1,448	1,509
Amortization of core deposit intangible	362	361	725	723
Virginia franchise tax expense	563	492	1,126	856
Data processing expense	571	464	1,083	930
Telephone and communication expense	406	501	781	1,095
Net (gain) loss on other real estate owned	(36)	(40)	(38)	160
Professional fees	1,381	839	2,985	1,788
Other operating expenses	962	1,625	5,512	3,090
Total noninterest expenses	13,892	13,617	30,182	27,236
Income before income taxes	10,263	11,060	17,787	21,420
Income tax expense	944	2,193	2,448	4,294
Net income	$ 9,319	$ 8,867	$15,339	$17,126
Other comprehensive income (loss):				
Unrealized gain (loss) on available for sale securities	$ 2,844	$ (837)	$ 3,928	$ (2,713)
Accretion of amounts previously recorded upon transfer to held to maturity from available for sale	3	2	6	6
Net unrealized gain (loss)	2,847	(835)	3,934	(2,707)
Tax effect	597	(175)	826	(569)
Other comprehensive income (loss)	2,250	(660)	3,108	(2,138)
Comprehensive income	$11,569	$ 8,207	18,447	14,988
Earnings per share, basic	$ 0.39	$ 0.37	$ 0.64	$ 0.71
Earnings per share, diluted	$ 0.38	$ 0.37	$ 0.63	$ 0.71

See accompanying notes to unaudited consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(dollars in thousands, except per share amounts) (Unaudited)

	For the Three Months Ended June 30, 2019				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - March 31, 2019	**$ 241**	**$ 305,879**	**$ 48,300**	**$ (1,731)**	**$352,689**
Net income	—	—	9,319	—	9,319
Changes in other comprehensive income on investment securities (net of tax, $597, and accretion of $3)	—	—	—	2,250	2,250
Dividends on common stock ($0.18 per share)	—	—	(2,171)	—	(2,171)
Issuance of common stock under Stock Incentive Plan (2,200 shares, net)	—	7	—	—	7
Impact of adoption of ASU 2016-02			535		535
Stock-based compensation expense	—	163	—	—	163
Balance - June 30, 2019	**$ 241**	**$ 306,049**	**$ 55,983**	**$ 519**	**$362,792**

	For the Three Months Ended June 30, 2018				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - March 31, 2018	**$ 240**	**$ 305,360**	**$ 25,324**	**$ (2,859)**	**$328,065**
Net income	—	—	8,867	—	8,867
Changes in other comprehensive income on investment securities (net of tax, $826, and accretion of $6)	—	—	—	(660)	(660)
Dividends on common stock ($0.18 per share)	—	—	(1,922)	—	(1,922)
Issuance of common stock under Stock Incentive Plan (19,450 shares, net)	—	6	—	—	6
Stock-based compensation expense	—	94	—	—	94
Balance - June 30, 2018	**$ 240**	**$ 305,460**	**$ 32,269**	**$ (3,519)**	**$334,450**

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(dollars in thousands, except per share amounts) (Unaudited)

	For the Six Months Ended June 30, 2019				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance - December 31, 2018	**$ 240**	**$ 305,654**	**$ 44,985**	**$ (2,589)**	**$348,290**
Net income	—	—	15,339	—	15,339
Changes in other comprehensive income on investment securities (net of tax, $826, and accretion of $6)	—	—	—	3,108	3,108
Dividends on common stock ($0.18 per share)	—	—	(4,341)	—	(4,341)
Issuance of common stock under Stock Incentive Plan (19,450 shares, net)	1	128	—	—	129
Stock-based compensation expense	—	267	—	—	267
Balance - June 30, 2019	**$ 241**	**$ 306,049**	**$ 55,983**	**$ 519**	**$362,792**

	For the Six Months Ended June 30, 2018				
	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2017	**$ 239**	**$ 304,932**	**$ 18,753**	**$ (1,152)**	**$322,772**
Net income	—	—	17,126	—	17,126
Changes in other comprehensive loss on investment securities (net of tax, $394, and accretion of $3)	—	—	—	(2,138)	(2,138)
Dividends on common stock ($0.08 per share)	—	—	(3,839)	—	(3,839)
Issuance of common stock under Stock Incentive Plan (51,200 shares, net)	1	359	—	—	360
Reclassification from accumulated other comprehensive loss to retained earnings due to adoption of ASU 2018-02	—	—	229	(229)	—
Stock-based compensation expense	—	169	—	—	169
Balance - June 30, 2018	**$ 240**	**$ 305,460**	**$ 32,269**	**$ (3,519)**	**$334,450**

See accompanying notes to unaudited consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2019 AND 2018
(dollars in thousands) (Unaudited)

	2019	2018
Operating activities:		
Net income	$ 15,339	$ 17,126
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	3,411	3,732
Amortization of operating lease right-of-use assets	1,275	—
Accretion of loan discount	(1,788)	(2,453)
Amortization of FDIC indemnification asset	354	350
Provision for loan losses	200	2,650
Earnings on bank-owned life insurance	(908)	(706)
Equity (gain) loss on mortgage affiliate	(576)	126
Stock-based compensation expense	267	169
Gain on bank-owned life insurance death benefit	—	(164)
(Gain) loss on other real estate owned	(38)	160
Provision for deferred income taxes	(1,197)	—
Net (increase) decrease in other assets	(4,210)	1,230
Net increase (decrease) in other liabilities	3,362	(2,169)
Net cash and cash equivalents provided by operating activities	15,491	20,051
Investing activities:		
Purchases of available for sale investment securities	(25,110)	—
Proceeds from paydowns, maturities and calls of available for sale investment securities	7,711	7,363
Proceeds from paydowns, maturities and calls of held to maturity investment securities	5,463	2,498
Sales of FRB and FHLB stock	2,158	756
Net (increase) decrease in loans	6,896	(91,728)
Purchase of bank-owned life insurance	—	(12,000)
Proceeds from bank-owned life insurance death benefit	343	477
Proceeds from sales of other real estate owned, net of improvements	74	1,857
Proceeds from sales of bank premise and equipment and assets held for sale	—	2,136
Purchases of bank premises and equipment	(73)	(1,805)
Net cash and cash equivalents used in investing activities	(2,538)	(90,446)
Financing activities:		
Net increase in deposits	52,837	115,153
Cash dividends paid on common stock	(4,341)	(3,839)
Issuance of common stock under Stock Incentive Plan	129	360
Net decrease in short-term borrowings	(57,101)	(14,579)
Net cash and cash equivalents provided by (used in) financing activities	(8,476)	97,095
Increase in cash and cash equivalents	4,477	26,700
Cash and cash equivalents at beginning of period	28,611	25,463
Cash and cash equivalents at end of period	$ 33,088	$ 52,163
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	$ 18,643	$ 11,663
Income taxes	2,937	4,516
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	—

See accompanying notes to unaudited consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
Notes to Unaudited Consolidated Financial Statements
June 30, 2019

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. (“Southern National” or “SNBV” or the “Company”) is a corporation that was formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank (“Sonabank” or the “Bank”) a Virginia state-chartered bank which commenced operations on April 14, 2005. As of the close of business on June 23, 2017, SNBV completed its 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 June 30, 2019, Sonabank had thirty-eight full-service retail branches in Virginia, located in the counties of Chesterfield (2), Essex (2), Fairfax (Reston, McLean and Fairfax), Gloucester (2), Hanover (3), King William, Lancaster, Middlesex (3), New Kent, Northumberland (3), Southampton, Surry, Sussex, and in Charlottesville, Clifton Forge, Colonial Heights, Front Royal, Hampton, Haymarket, Leesburg, Middleburg, New Market, Newport News, Richmond, South Riding, Warrenton, and Williamsburg, and seven full-service retail branches in Maryland, in Rockville, Shady Grove, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

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

The unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”) for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in Southern National’s Form 10-K for the year ended December 31, 2018.

Revenue from Contracts with Customers

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

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

Operating Leases

The Company leases certain properties and equipment under operating leases. For leases in effect upon adoption of FASB Accounting Standards Update (ASU) 2016-02, Leases (Topic 842) at January 1, 2019 and for any leases commencing thereafter, 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. 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.

Certain of the Company's leases contain options to renew the lease; however, these renewal options are not included in the calculation of the operating lease liabilities as they are not reasonably certain to be exercised. The Company's leases do not contain residual value guarantees or material variable lease payments. The Company does not have any material restrictions or covenants imposed by leases that would impact the Company's ability to pay dividends or cause the Company to incur additional financial obligations.

The Company has made an accounting policy election to not apply the recognition requirements in Topic 842 to short-term leases. The Company has also 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.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, the carrying value of investment securities, other than temporary impairment of investment securities and the valuation of goodwill and intangible assets.

Recent Accounting Pronouncements

Adoption of New Accounting Standards:

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. In July 2018, the FASB issued ASU 2018-10, Codification Improvements to Topic 842, Leases, which updates narrow aspects of the guidance issued in ASU 2016-02. The amendments in this ASU 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 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 currently does not have any finance leases. See Note 5 – Leases for additional disclosures related to leases.

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.

In July 2018, the FASB issued ASU 2018-09, *Codification Improvements*. This ASU makes changes to a variety of topics to clarify, correct errors in, or make minor improvements to the Accounting Standards Codification. The majority of the amendments in ASU 2018-09 were effective for the Company for fiscal years beginning after December 15, 2018. The Company adopted ASU 2018-09 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 sets forth a "current expected credit loss" ("CECL") model requiring the Company to measure all expected credit losses for financial instruments held at the reporting date based on historical experience, current conditions and reasonable supportable forecasts. This replaces the existing incurred loss model and is applicable to the measurement of credit losses on financial assets measured at amortized cost and applies to some off-balance sheet credit exposures. For public business entities that are U.S. Securities and Exchange Commission filers, the amendments in this update are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Southern National has engaged a third-party to collect data that will be needed to produce historical inputs into any models created as a result of adopting this ASU. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

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. Southern National is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

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 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.

2. STOCK-BASED COMPENSATION

In 2004, the Company's Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. The 2010 Stock Awards and Incentive Plan (the "2010 Plan") was approved by the Company's Board of Directors in January 2010 and approved by the stockholders at the Annual Stockholder Meeting in April 2010. The 2010 Plan authorized the reservation of an additional 700,000 shares of common stock for the granting of stock awards. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employment of Southern National and to assist in attracting and retaining of non-employee directors by affording them an opportunity to share in Southern National's anticipated future success. Under the plan, the option's price cannot be less than the fair market value of the stock on the grant date. The maximum term of the options is ten years and options granted may be subject to a graded vesting schedule.

At the June 21, 2017 Annual Meeting of Stockholders of Southern National, the 2017 Equity Compensation Plan (the "2017 Plan") was approved as recommended by the Board of Directors. The 2017 Plan replaced the 2010 Plan and has a maximum number of 750,000 shares reserved for issuance. The purpose of the 2017 Plan is to promote the success of the Company by providing greater incentive to employees, non-employee directors, consultants and advisors to associate their personal interests with the long-term financial success of the Company, including its subsidiaries, and with growth in stockholder value, consistent with the Company's risk management practices. Because the 2017 Plan was approved, shares under the 2004 stock-option plan or 2010 Plan will no longer be awarded.

A summary of the activity in the stock option plan during the six months ended June 30, 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	(19,450)	6.77		
Options outstanding, end of period	620,200	$ 9.86	4.6	$ 3,383
Exercisable at end of period	478,050	$ 9.04	3.9	$ 2,856

Stock-based compensation expense associated with stock options was $22 thousand and $39 thousand for the three months ended June 30, 2019 and 2018, respectively and $43 thousand and $78 thousand for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, unrecognized compensation expense associated with stock options was $50 thousand, which is expected to be recognized over a weighted average period of 1.5 years.

As of June 30, 2019, 48,500 shares of restricted stock were granted at a weighted average exercise price of $14.15 to certain officers of Southern National under the 2017 Plan and are subject to vesting in five years. These shares are included in the total shares outstanding at June 30, 2019. As of June 30, 2019, 2,700 shares of restricted stock granted to certain officers of Southern National under the 2017 Plan were forfeited. Restricted stock compensation expense totaled $141 thousand and $55 thousand for the three months ended June 30, 2019 and 2018, respectively and $224 thousand and $61 thousand for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, unrecognized compensation expense associated with restricted stock was $1.3 million, which is expected to be recognized over a weighted average period of 4.2 years.

3. 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
June 30, 2019				
Residential government-sponsored mortgage-backed securities	$ 45,594	$ 331	$ (76)	$ 45,849
Obligations of states and political subdivisions	18,166	427	—	18,593
Corporate securities	2,006	13	—	2,019
Trust preferred securities	2,589	316	(314)	2,591
Residential government-sponsored collateralized mortgage obligations	40,814	214	(48)	40,980
Government-sponsored agency securities	8,597	37	—	8,634
Agency commercial mortgage-backed securities	27,839	154	(14)	27,979
SBA pool securities	17,401	21	(207)	17,215
Total	$ 163,006	$ 1,513	$ (659)	$ 163,860

	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
June 30, 2019				
Residential government-sponsored mortgage-backed securities	$ 8,957	$ 19	$ (33)	$ 8,943
Obligations of states and political subdivisions	20,121	176	(10)	20,287
Trust preferred securities	2,471	124	(2)	2,593
Residential government-sponsored collateralized mortgage obligations	4,607	10	(16)	4,601
Government-sponsored agency securities	50,659	100	(502)	50,257
Total	$ 86,815	$ 429	$ (563)	$86,681

	Amortized	Gross Unrecognized		Fair
	Cost	Gains	Losses	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

The amortized cost amounts are net of recognized other than temporary impairment on trust preferred securities.

During the three and six months ended June 30, 2019, $9.8 million and $25.1 million, respectively of available for sale investment securities were purchased.

The fair value and carrying amount, if different, of debt investment securities as of June 30, 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	$ 3,343	$ 3,366	$ 4,963	$ 4,987
Due in five to ten years	11,923	12,061	18,933	18,917
Due after ten years	16,092	16,410	49,355	49,233
Residential government-sponsored mortgage-backed securities	45,594	45,849	8,957	8,943
Residential government-sponsored collateralized mortgage obligations	40,814	40,980	4,607	4,601
Agency commercial mortgage-backed securities	27,839	27,979	—	—
SBA pool securities	17,401	17,215	—	—
Total	$ 163,006	$ 163,860	$ 86,815	$ 86,681

Investment securities with a carrying amount of approximately $152.6 million and $165.7 million at June 30, 2019 and December 31, 2018, respectively, were pledged to secure public deposits, certain other deposits, a line of credit for advances from the Federal Home Loan Bank ("FHLB") of Atlanta, and repurchase agreements.

Southern National monitors the portfolio for indicators of other than temporary impairment. At June 30, 2019 and December 31, 2018, certain investment securities' fair values were below cost. As outlined in the table below, there were investment securities with fair values totaling approximately $97.1 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at June 30, 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 June 30, 2019.

The following tables present information regarding investment securities available for sale and held to maturity in a continuous unrealized loss position as of June 30, 2019 and December 31, 2018 by duration of time in a loss position (in thousands):

June 30, 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	$ 4,373	$ (10)	$ 14,238	$ (66)	$ 18,611	$ (76)
Obligations of states and political subdivisions	—	—	1,006	—	1,006	—
Corporate securities	—	—	—	—	—	—
Trust preferred securities	—	—	795	(314)	795	(314)
Residential government-sponsored collateralized mortgage obligations	475	(7)	8,973	(41)	9,448	(48)
Government-sponsored agency securities	—	—	—	—	—	—
Agency commercial mortgage-backed securities	—	—	6,190	(14)	6,190	(14)
SBA pool securities	—	—	11,575	(207)	11,575	(207)
Total	$ 4,848	$ (17)	$ 42,777	$ (642)	$ 47,625	$ (659)

June 30, 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	$ —	$ —	$ 3,865	$ (33)	$ 3,865	$ (33)
Obligations of states and political subdivisions	—	—	3,731	(10)	3,731	(10)
Trust preferred securities	—	—	56	(2)	56	(2)
Residential government-sponsored collateralized mortgage obligations	—	—	3,365	(16)	3,365	(16)
Government-sponsored agency securities	—	—	38,478	(502)	38,478	(502)
Total	$ —	$ —	$49,495	$ (563)	$49,495	$ (563)

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 June 30, 2019, we owned pooled trust preferred securities as follows:

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	AA	Aa1	AA	$2,596	$2,413	$ 2,537	17 %	$ 219
MMCF III B	Senior Sub	A3	WD	Ba1	BBB	59	58	56	45 %	4
						2,655	2,471	2,593		$ 223
										Cumulative OTTI Related to Credit Loss (2)
Available for Sale Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	D	Caa3	D	1,500	1,099	785	31 %	$ 400
ALESCO V C1	Mezzanine	A2	C	Caa1	C	2,150	1,490	1,806	14 %	660
						3,650	2,589	2,591		$ 1,060
Total						$6,305	$5,060	$ 5,184		

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

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

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

We recognized no other than temporary impairment charges during the three and six months ended June 30, 2019 and 2018, respectively.

Changes in accumulated other comprehensive loss by component for the three and six months ended June 30, 2019 and 2018 are shown in the tables below. All amounts are net of tax (in thousands).

For the three months ended June 30, 2019	Unrealized Holding Losses on Available for Sale	Held to Maturity Securities	Total
Beginning balance	$ (1,563)	$ (168)	$ (1,731)
Current period other comprehensive income	2,247	3	2,250
Ending balance	$ 684	$ (165)	$ 519

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

For the six months ended June 30, 2019	Unrealized Holding Losses on Available for Sale	Held to Maturity Securities	Total
Beginning balance	$ (2,419)	$ (170)	$ (2,589)
Current-period other comprehensive income	3,103	5	3,108
Ending balance	$ 684	$ (165)	$ 519

For the six months ended June 30, 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	(2,144)	6	(2,138)
Ending balance	$ (3,342)	$ (177)	$ (3,519)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Loans secured by real estate:		
Commercial real estate - owner occupied	$ 410,832	$ 407,031
Commercial real estate - non-owner occupied	561,732	540,698
Secured by farmland	18,629	20,966
Construction and land loans	158,956	146,654
Residential 1-4 family(1)	572,715	565,083
Multi- family residential	82,593	82,516
Home equity lines of credit(1)	117,298	128,225
Total real estate loans	1,922,755	1,891,173
Commercial loans	220,566	255,441
Consumer loans	29,310	32,347
Subtotal	2,172,631	2,178,961
Plus (less) deferred costs (fees) on loans	214	(137)
Loans, net of deferred fees	$ 2,172,845	$ 2,178,824

(1) Includes $15.8 million and $18.3 million of loans as of June 30, 2019 and December 31, 2018, respectively, acquired in the Greater Atlantic Bank ("GAB") transaction covered under an FDIC loss-share agreement. The agreement covering single family loans expires in December 2019.

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.

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 is a 10-year agreement expiring in December 2019, and one for non-single family (commercial) assets which was a 5-year agreement which expired in December 2014. The Bank will continue to share 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 refer to these assets collectively as "covered assets." Loans that are not covered in the loss sharing agreement are referred to as "non-covered loans." Covered loans totaled $15.8 million and $18.3 million at June 30, 2019 and December 31, 2018, respectively.

Accretable discount on the acquired EVBS, GAB, Prince George's Federal Savings Bank ("PGFSB"), and the HarVest Bank ("HarVest") loans totaled $13.3 million and $15.1 million at June 30, 2019 and December 31, 2018, respectively. Accretion associated with the acquired loans held for investment of $972 thousand and $1.1 million was recognized in the three months ended June 30, 2019 and 2018, respectively, and $1.8 million and $2.2 million was recognized in the six months ended June 30, 2019 and 2018, respectively.

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

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

June 30, 2019	Total Loans Recorded Investment (1)	Total Loans Unpaid Principal Balance	Total Loans Related Allowance
With no related allowance recorded			
Commercial real estate - owner occupied	$ 5,279	$ 7,019	$ —
Commercial real estate - non-owner occupied (2)	4,868	5,011	—
Construction and land development	338	749	—
Commercial loans	5,442	9,052	—
Residential 1-4 family (3)	1,635	4,127	—
Other consumer loans	—	20	—
Total	$ 17,562	$ 25,978	$ —
With an allowance recorded			
Commercial real estate - owner occupied	$ —	$ —	$ —
Commercial real estate - non-owner occupied (2)	—	—	—
Construction and land development	—	—	—
Commercial loans	2,771	2,771	600
Residential 1-4 family (3)	1,179	1,463	5
Other consumer loans	—	—	—
Total	$ 3,950	$ 4,234	$ 605
Grand total	$ 21,512	$ 30,212	$ 605

(1) Recorded investment is after cumulative prior charge offs of $1.3 million. These loans also have aggregate SBA guarantees of $3.2 million.
(2) Includes loans secured by farmland and multi-family loans.
(3) Includes home equity lines of credit.

December 31, 2018	Total Loans Recorded Investment (1)	Total Loans Unpaid Principal Balance	Total Loans 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 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 three and six months ended June 30, 2019 and 2018 (in thousands):

Three Months Ended June 30, 2019	Total Loans Average Recorded Investment	Total Loans Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$ 5,433	$ 92
Commercial real estate - non-owner occupied (1)	4,901	100
Construction and land development	357	14
Commercial loans	5,524	98
Residential 1-4 family (2)	1,691	48
Other consumer loans	—	—
Total	$ 17,906	$ 352
With an allowance recorded		
Commercial real estate - owner occupied	$ —	$ —
Commercial real estate - non-owner occupied (1)	—	—
Construction and land development	—	—
Commercial loans	2,787	49
Residential 1-4 family (2)	1,256	20
Other consumer loans	—	—
Total	$ 4,043	$ 69
Grand total	$ 21,949	$ 421

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

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

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

Six Months Ended June 30, 2019	Total Loans Average Recorded Investment	Total Loans Interest Income Recognized
With no related allowance recorded		
Commercial real estate - owner occupied	$ 5,459	$ 158
Commercial real estate - non-owner occupied (1)	4,933	137
Construction and land development	362	28
Commercial loans	5,547	109
Residential 1-4 family (2)	1,703	107
Other consumer loans	—	—
Total	$ 18,004	$ 539
With an allowance recorded		
Commercial real estate - owner occupied	$ —	$ —
Commercial real estate - non-owner occupied (1)	—	—
Construction and land development	—	—
Commercial loans	2,819	99
Residential 1-4 family (2)	1,257	38
Other consumer loans	—	—
Total	$ 4,076	$ 137
Grand total	$ 22,080	$ 676

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

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

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

The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2019 and December 31, 2018 (in thousands):

June 30, 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	$ 265	$ —	$ —	$ 265	$ 813	$ 409,754	$ 410,832
Commercial real estate - non-owner occupied (1)	915	—	—	915	—	662,039	662,954
Construction and land development	237	—	—	237	—	158,719	158,956
Commercial loans	3,052	157	—	3,209	3,207	214,150	220,566
Residential 1-4 family (2)	2,827	2,170	—	4,997	1,180	683,836	690,013
Other consumer loans	135	14	—	149	—	29,161	29,310
Total	$ 7,431	$ 2,341	$ —	$ 9,772	$ 5,200	$2,157,659	$2,172,631

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

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 loans.
(2) Includes home equity lines of credit.

Nonaccrual loans include SBA guaranteed amounts totaling $3.2 million and $3.4 million at June 30, 2019 and December 31, 2018, respectively.

Activity in the allowance for non-covered loan and lease losses for the three and six months ended June 30, 2019 and 2018 is summarized below (in thousands):

Three Months Ended June 30, 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	$ 816	$ 1,831	$ 920	$ 6,106	$ 1,170	$ 253	$ 778	$11,874
Provision (recovery)	599	56	(118)	(481)	(237)	105	76	—
Charge offs	(782)	—	—	—	(90)	(96)	—	(968)
Recoveries	200	3	—	209	284	11	—	707
Ending balance	$ 833	$ 1,890	$ 802	$ 5,834	$ 1,127	$ 273	$ 854	$11,613
Three Months Ended June 30, 2018								
Allowance for loan losses:								
Beginning balance	$ 859	$ 1,550	$ 804	$ 5,272	$ 1,450	$ 820	$ —	$10,755
Provision (recovery)	(113)	(257)	69	1,709	199	(557)	—	1,050
Charge offs	—	—	—	(707)	(95)	(91)	—	(893)
Recoveries	4	—	—	32	25	27	—	88
Ending balance	$ 750	$ 1,293	$ 873	$ 6,306	$ 1,579	$ 199	$ —	$11,000

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

Six Months Ended June 30, 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)	610	680	(19)	(1,368)	(181)	188	290	200
Charge offs	(782)	(462)	—	(167)	(90)	(156)	—	(1,657)
Recoveries	203	3	—	272	292	17	—	787
Ending balance	$ 833	$ 1,890	$ 802	$ 5,834	$ 1,127	$ 273	$ 854	$11,613
Six Months Ended June 30, 2018								
Allowance for loan losses:								
Beginning balance	$ 690	$ 1,321	$ 692	$ 4,496	$ 1,586	$ 612	$ —	$ 9,397
Provision (recovery)	53	(28)	181	2,540	165	(261)	—	2,650
Charge offs	—	—	—	(937)	(261)	(182)	—	(1,380)
Recoveries	7	—	—	207	89	30	—	333
Ending balance	$ 750	$ 1,293	$ 873	$ 6,306	$ 1,579	$ 199	$ —	$11,000

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

The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of June 30, 2019 and December 31, 2018 (in thousands):

June 30, 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	$ —	$ —	$ —	$ 600	$ —	$ —	$ —	$ 600
Collectively evaluated for impairment	833	1,890	802	5,234	1,127	273	854	11,013
Total ending allowance	$ 833	$ 1,890	$ 802	$ 5,834	$ 1,127	$ 273	$ 854	$ 11,613
Loans:								
Individually evaluated for impairment	$ 5,279	$ 4,868	$ 338	$ 5,442	$ 1,635	$ —	$ —	$ 17,562
Collectively evaluated for impairment	405,553	658,086	158,618	215,124	688,378	29,310	—	2,155,069
Total ending loan balances	$ 410,832	$ 662,954	$ 158,956	$ 220,566	$ 690,013	$29,310	$ —	$2,172,631
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	$ —	$ 3,450	$ 1,591	$ —	$ —	$ 8,007
Collectively evaluated for impairment	404,236	644,009	146,654	251,991	691,717	32,347	—	2,170,954
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 loans.
(2) Includes home equity lines of credit.

Troubled Debt Restructurings

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

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

As of June 30, 2019, we had two loans in TDRs. One loan was modified in TDRs during the year ending December 31, 2018. One TDR which had been modified in 2013 defaulted in 2015. This loan, in the amount of $655 thousand, was current as of June 30, 2019.

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.

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 June 30, 2019 or December 31, 2018.

As of June 30, 2019 and December 31, 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			
June 30, 2019	**Special Mention**	**Substandard (3)**	**Pass**	**Total**
Commercial real estate - owner occupied	$ 3,939	$ 5,058	$ 401,835	$ 410,832
Commercial real estate - non-owner occupied (1)	4,311	181	658,462	662,954
Construction and land development	731	—	158,225	158,956
Commercial loans	3,439	7,173	209,954	220,566
Residential 1-4 family (2)	471	2,583	686,959	690,013
Other consumer loans	132	—	29,178	29,310
Total	$ 13,023	$ 14,995	$ 2,144,613	$ 2,172,631

	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 $3.2 million and $3.4 million as of June 30, 2019 and December 31, 2018, respectively.

The amount of foreclosed residential real estate property held at June 30, 2019 and December 31, 2018 was $ $1.2 million. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $0.5 million and $1.5 million at June 30, 2019 and December 31, 2018, respectively.

5. LEASES

The Company leases certain premises and equipment under operating leases. At June 30, 2019, the Company had operating lease liabilities totaling $8.4 million and right-of-use assets totaling $7.9 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 three and six months ended June 30, 2019, our net operating lease cost was $693 thousand and $1.3 million, respectively, and was reflected in occupancy expenses on our income statement.

The following table presents other information related to our operating leases:

(in thousands except for percent and period data)		For the Six Months Ended June 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	$	2,483
Right-of-use assets obtained in exchange for new operating lease liabilities	$	—
Weighted-average remaining lease term - operating leases, in years		6.0
Weighted-average discount rate - operating leases		3.0 %

The following table summarizes the maturity of remaining lease liabilities:

(dollars in thousands)		As of June 30, 2019
Lease payments due:		
Less than one year	$	1,199
One to three years		3,445
Three to five years		2,384
More than five years		2,199
Total lease payments		9,227
Less: lease expense		(842)
Lease liabilities	$	8,385

As of June 30, 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.

6. 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 $19.6 million and $19.2 million as of June 30, 2019 and December 31, 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 June 30, 2019 and December 31, 2018, we had unfunded lines of credit and undisbursed construction loan funds totaling $342.0 million and $339.2 million, respectively. Virtually all of our unfunded lines of credit and undisbursed construction loan funds are variable rate.

7. EARNINGS PER SHARE

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

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended June 30, 2019			
Basic EPS	$ 9,319	24,025	$ 0.39
Effect of dilutive stock options	—	298	(0.01)
Diluted EPS	$ 9,319	24,323	$ 0.38
For the three months ended June 30, 2018			
Basic EPS	$ 8,867	24,038	$ 0.37
Effect of dilutive stock options	—	292	—
Diluted EPS	$ 8,867	24,330	$ 0.37
For the six months ended June 30, 2019			
Basic EPS	$ 15,339	24,017	$ 0.64
Effect of dilutive stock options	—	298	(0.01)
Diluted EPS	$ 15,339	24,315	$ 0.63
For the six months ended June 30, 2018			
Basic EPS	$ 17,126	24,000	$ 0.71
Effect of dilutive stock options	—	282	—
Diluted EPS	$ 17,126	24,282	$ 0.71

The Company did not have any anti-dilutive options in 2019 and 2018.

8. 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:

(dollars in thousands)	Total at June 30, 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)
Available for sale securities				
Residential government-sponsored mortgage-backed securities	$ 45,849	$ —	$ 45,849	$ —
Obligations of states and political subdivisions	18,593	—	18,593	—
Corporate securities	2,019	—	1,019	1,000
Trust preferred securities	2,591	—	2,591	—
Residential government-sponsored collateralized mortgage obligations	40,980	—	40,980	—
Government-sponsored agency securities	8,634	—	8,634	—
Agency commercial mortgage-backed securities	27,979	—	27,979	—
SBA pool securities	17,215	—	17,215	—
Total	$ 163,860	$ —	$ 162,860	$ 1,000

(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)
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

Assets and Liabilities Measured on a Non-recurring Basis:

Impaired Loans

Generally, we measure the impairment for impaired loans considering the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral is determined by an independent appraisal or evaluation less estimated costs related to selling the collateral. In some cases appraised value is net of costs to sell. Estimated selling costs range from 6% to 10% of collateral valuation at June 30, 2019 and December 31, 2018. Fair value is classified as Level 3 in the fair value hierarchy. Loans identified as impaired totaled $21.5 million (including SBA guarantees of $3.2 million) as of June 30, 2019 with $605 thousand allocation made to the allowance for loan losses compared to a carrying amount of $12.1 million (including SBA guarantees of $3.4 million) with $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. 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")

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or evaluation less cost to sell. In some cases appraised value is net of costs to sell. Selling costs have been in the range from 5.0% to 7.6% of collateral valuation at June 30, 2019 and December 31, 2018. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At June 30, 2019 and December 31, 2018, the total amount of OREO was $5.0 million and $5.1 million, respectively.

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

(dollars in thousands)	Total at June 30, 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	$ 5,279	$ —	$ —	$ 5,279
Commercial real estate - non-owner occupied (1)	4,868	—	—	4,868
Construction and land development	338	—	—	338
Commercial loans	8,213	—	—	8,213
Residential 1-4 family (2)	2,814	—	—	2,814
Assets held for sale	600	—	—	600
Other real estate owned:				
Commercial real estate - owner occupied (1)	908	—	—	908
Construction and land development	2,902	—	—	2,902
Residential 1-4 family (2)	1,231	—	—	1,231

(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	June 30, 2019 Carrying Amount	June 30, 2019 Fair Value	December 31, 2018 Carrying Amount	December 31, 2018 Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$ 33,088	$ 33,088	$ 28,611	$ 28,611
Securities available for sale	Level 2 & Level 3	163,860	163,860	143,377	143,377
Securities held to maturity	Level 2	86,815	86,681	92,462	89,109
Stock in Federal Reserve Bank and Federal Home Loan Bank	Level 2	17,364	17,364	19,522	19,522
Equity investment in mortgage affiliate	Level 3	4,405	4,405	3,829	3,829
Preferred investment in mortgage affiliate	Level 3	3,305	3,305	3,305	3,305
Net loans	Level 3	2,161,232	2,139,365	2,166,541	2,134,021
Accrued interest receivable	Level 2 & Level 3	8,818	8,818	8,745	8,745
Financial liabilities:					
Demand deposits	Level 2	$ 696,811	$ 696,811	$ 665,640	$ 665,640
Money market and savings accounts	Level 2	587,627	587,627	506,519	506,519
Certificates of deposit	Level 3	865,988	866,127	925,441	919,175
Securities sold under agreements to repurchase	Level 1	14,319	14,319	18,721	18,721
FHLB short term advances	Level 1	110,640	110,640	163,340	163,340
Junior subordinated debt	Level 2	9,608	13,034	9,584	12,065
Senior subordinated notes	Level 2	47,070	58,785	47,089	57,173
Accrued interest payable	Level 1 & Level 3	4,121	4,121	3,985	3,985

Carrying amount is the estimated fair value for cash and cash equivalents (including federal funds sold), equity investments in our mortgage affiliate, preferred investments in our mortgage affiliate, accrued interest receivable and payable, demand deposits, savings accounts, money market accounts, securities sold under agreements to repurchase, and short-term debt (FHLB short-term advances and securities sold under agreements to repurchase). Fair value of long-term debt is based on current rates for similar financing. Carrying amount of Federal Reserve Bank and FHLB 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, certificates of deposits, junior subordinated debt, and senior subordinated notes are measured using the exit-price notion in accordance with the adoption of ASU 2016-01 in 2018.

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

Other short-term borrowings can consist of FHLB of Atlanta 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. The balance in repo accounts at June 30, 2019 and December 31, 2018 was $14.3 million and $18.7 million, respectively.

10. JUNIOR SUBORDINATED DEBT AND SENIOR SUBORDINATED NOTES

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 invested the total proceeds from the sale of the trust preferred securities in Floating Rate Junior Subordinated Deferrable Interest Debentures (“Junior Subordinated Debt”) issued by EVBS. The trust preferred securities pay cumulative cash distributions quarterly at a variable rate per annum, reset quarterly, equal to the three-month LIBOR plus 2.95%. As of June 30, 2019 and December 31, 2018, the interest rate was 5.36% 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 June 30, 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 June 30, 2019, all of the SNBV Senior Subordinated Notes qualified as Tier 2 capital. At June 30, 2019, the remaining unamortized debt issuance costs related to the SNBV Senior Subordinated Notes totaled $713 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 (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 June 30, 2019 all of the EVBS Senior Subordinated Notes qualified as Tier 2 capital.

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of SNBV. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2018. Results of operations for the three and six months ended June 30, 2019 are not necessarily indicative of results that may be attained for any other period.

FORWARD-LOOKING STATEMENTS

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 Risk Factor contained in this Quarterly Report on Form 10-Q, as well as the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2018, 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 recent 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;
- 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 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 Quarterly Report on Form 10-Q 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 Quarterly Report on Form 10-Q (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.

OVERVIEW

SNBV is a corporation that was formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank a Virginia state-chartered bank which commenced operations on April 14, 2005. As of the close of business on June 23, 2017, SNBV completed its merger with 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 June 30, 2019, Sonabank had thirty-eight full-service retail branches in Virginia, located in the counties of Chesterfield (2), Essex (2), Fairfax (Reston, McLean and Fairfax), Gloucester (2), Hanover (3), King William, Lancaster, Middlesex (3), New Kent, Northumberland (3), Southampton, Surry, Sussex, and in Charlottesville, Clifton Forge, Colonial Heights, Front Royal, Hampton, Haymarket, Leesburg, Middleburg, New Market, Newport News, Richmond, South Riding, Warrenton, and Williamsburg, and seven full-service retail branches in Maryland, in Rockville, Shady Grove, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

We have administrative offices in Warrenton and Glen Allen, Virginia, and executive offices in Georgetown, Washington, D.C. and Glen Allen, Virginia where senior management is located.

RESULTS OF OPERATIONS

Net Income

Three-Month Comparison. Net income for the three months ended June 30, 2019 was $9.3 million, or $0.39 basic and $0.38 diluted earnings per share, compared to net income of $8.9 million, or $0.37 basic and diluted earnings per share, for the three months ended June 30, 2018.

The increase in the net income during the three months ended June 30, 2019 compared to the three months ended June 30, 2018 was primarily driven by an income tax benefit of $1.2 million in the second quarter of 2019 due to the formal assessment and rebooking of the $5.5 million net operating loss carryforward that was written off in the fourth quarter of 2018. The increase was partially offset by a decrease in net interest income as a result of a rising interest rate environment during 2018.

During the three months ended June 30, 2018, net income was impacted positively by the $1.2 million of accretion income from the acquired loan discounts, $732 thousand of interest income recognized on the payout of a $9.9 million nonaccrual loan, and $250 thousand of income from recoveries of legacy investment securities and loans charged off by EVBS before it merged into Southern National in June of 2017.

Six-Month Comparison. Net income for the six months ended June 30, 2019 was $15.3 million, or $0.64 basic and $0.63 diluted earnings per share, compared to net income of $17.1 million, or $0.71 basic and diluted earnings per share, for the six months ended June 30, 2018.

The decrease in the net income during the six months ended June 30, 2019 compared to the six months ended June 30, 2018 was primarily driven by a nonrecurring other loss of $3.2 million and related legal expense of $502 thousand. The decrease was partially offset by an income tax benefit of $1.2 million in the second quarter of 2019 due to the formal assessment and rebooking of the $5.5 million net operating loss carryforward that was written off in the fourth quarter of 2018.

During the six months ended June 30, 2018, the net income was impacted positively by the $2.5 million of accretion income from the acquired loan discounts, $1.7 million of income from recoveries of legacy investment securities and loans charged off by EVBS before it merged into Southern National in June of 2017, and the reduced federal income tax rate of 21% from 34% due to the enactment of the Tax Cuts and Jobs Act of 2017, which became effective on January 1, 2018.

Net Interest Income

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

Three-Month Comparison. Net interest income was $21.0 million for the three months ended June 30, 2019 compared to $23.2 million for the three months ended June 30, 2018, which was a direct result of the rising costs of funds including deposits and borrowings. Southern National’s net interest margin for the three months ended June 30, 2019 was 3.40% compared to 3.79% for the three months ended June 30, 2018. Total income on interest-earning assets was $30.3 million and $30.0 million for the three months ended June 30, 2019 and 2018, respectively. The yield on average interest-earning assets was 4.93% and 4.86% for the second quarter of 2019 and 2018, respectively. Interest and fees on loans totaled $28.4 million and $27.7 million for the second quarter of 2019 and 2018, respectively. The accretion of the discount on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince Georges Federal Savings Bank contributed $156 thousand to net interest income during the three months ended June 30, 2019 compared to $1.2 million during the three months ended June 30, 2018. The decrease in accretion was due to the slowdown in acquired loan prepayments and payoffs. Average loans during the second quarter of 2019 were $2.16 billion compared to $2.14 billion during the second quarter of 2018.

Total interest expense was $9.4 million and $6.5 million for the three months ended June 30, 2019 and 2018, respectively. Interest on deposits was $7.7 million and $3.8 million for the three months ended June 30, 2019 and 2018, respectively. Total average interest-bearing deposits for the second quarter of 2019 and 2018 were $1.78 billion and $1.56 billion, respectively. The yield on total average interest-bearing deposits was 1.72% and 0.98% for the quarter ended June 30, 2019 and 2018, respectively. Interest expense on total average borrowings, which include securities sold under agreements to repurchase, FHLB advances, junior subordinated debt, and senior subordinated notes, was $1.8 million and $2.7 million for the three months ended June 30, 2019 and 2018, respectively. Total average borrowings were $223.0 million and $451.9 million for the three months ended June 30, 2019 and 2018, respectively.

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

Average Balance Sheets and Net Interest Analysis For the Three Months Ended

	June 30, 2019			June 30, 2018		
	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)	$2,161,505	$28,378	5.27 %	$2,141,966	$27,697	5.19 %
Investment securities	248,276	1,627	2.63 %	250,573	1,560	2.50 %
Other earning assets	55,824	326	2.34 %	58,517	426	2.91 %
Total earning assets	2,465,605	30,331	4.93 %	2,451,056	29,683	4.86 %
Allowance for loan losses	(12,488)			(11,172)		
Total non-earning assets	266,606			262,974		
Total assets	$2,719,723			$2,702,858		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW and other demand accounts	$ 357,850	$ 773	0.87 %	$ 327,459	$ 336	0.41 %
Money market accounts	432,927	2,058	1.91 %	330,214	619	0.75 %
Savings accounts	146,073	115	0.32 %	164,421	132	0.32 %
Time deposits	848,806	4,709	2.23 %	739,673	2,723	1.48 %
Total interest-bearing deposits	1,785,656	7,655	1.72 %	1,561,767	3,810	0.98 %
Borrowings	223,053	1,774	3.19 %	451,919	2,699	2.40 %
Total interest-bearing liabilities	2,008,709	9,429	1.88 %	2,013,686	6,509	1.30 %
Noninterest-bearing liabilities:						
Demand deposits	331,481			336,849		
Other liabilities	22,123			19,248		
Total liabilities	2,362,313			2,369,783		
Stockholders' equity	357,410			333,075		
Total liabilities and stockholders' equity	$2,719,723			$2,702,858		
Net interest income		$20,902			$23,172	
Interest rate spread			3.05 %			3.56 %
Net interest margin			3.40 %			3.79 %

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

Six-Month Comparison. Net interest income was $41.9 million for the six months ended June 30, 2019 compared to $45.7 million for the six months ended June 30, 2018, which was a direct result of the rising costs of funds including deposits and borrowings. Southern National’s net interest margin for the six months ended June 30, 2019 was 3.41% compared to 3.80% for the six months ended June 30, 2018. Total income on interest-earning assets was $60.6 million and $57.7 million for the six months ended June 30, 2019 and 2018, respectively. The yield on average interest-earning assets was 4.94% and 4.81% for the six months ended June 30, 2019 and 2018, respectively. Interest and fees on loans totaled $56.4 million and $53.6 million for the six months ended June 30, 2019 and 2018, respectively. The accretion of the discount on loans acquired in the acquisitions of EVBS, Greater Atlantic Bank, HarVest and Prince Georges Federal Savings Bank contributed $972 thousand to net interest income during the six months ended June 30, 2019 compared to $2.5 million during the six months ended June 30, 2018. The decrease in accretion was due to the slowdown in acquired loan prepayments and payoffs. Average loans during the six months ended June 30, 2019 were $2.16 billion compared to $2.11 billion during the six months ended June 30, 2018.

Total interest expense was $18.8 million and $12.0 million for the six months ended June 30, 2019 and 2018, respectively. Interest on deposits was $15.1 million and $7.1 million for the six months ended June 30, 2019 and 2018, respectively. Total average interest-bearing deposits for the six months ended June 30, 2019 and 2018 were $1.80 billion and $1.55 billion, respectively. The yield on total average interest-bearing deposits was 1.69% and 0.92% for the six months ended June 30, 2019 and 2018, respectively. Interest expense on total average borrowings, which include securities sold under agreements to repurchase, FHLB advances, junior subordinated debt, and senior subordinated notes, was $3.7 million and $4.9 million for the six months ended June 30, 2019 and 2018, respectively. Total average borrowings were $218.5 million and $439.0 million for the six months ended June 30, 2019 and 2018, respectively.

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

	Average Balance Sheets and Net Interest Analysis For the Six Months Ended June 30,					
	2019			2018		
	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)	$2,158,395	$56,352	5.26 %	$2,109,109	$53,603	5.14 %
Investment securities	242,878	3,207	2.66 %	254,083	3,201	2.54 %
Other earning assets	73,001	1,011	2.79 %	58,401	899	3.10 %
Total earning assets	2,474,275	60,570	4.94 %	2,421,593	57,703	4.81 %
Allowance for loan losses	(12,393)			(10,781)		
Total non-earning assets	261,938			259,039		
Total assets	$2,723,820			$2,669,851		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW and other demand accounts	$ 351,925	$ 1,415	0.81 %	$ 327,427	$ 652	0.40 %
Money market accounts	417,358	3,886	1.88 %	336,425	1,179	0.71 %
Savings accounts	146,827	230	0.32 %	163,786	260	0.32 %
Time deposits	887,258	9,585	2.18 %	719,453	4,989	1.40 %
Total interest-bearing deposits	1,803,368	15,116	1.69 %	1,547,091	7,080	0.92 %
Borrowings	218,516	3,663	3.38 %	439,022	4,949	2.27 %
Total interest-bearing liabilities	2,021,884	18,779	1.87 %	1,986,113	12,029	1.22 %
Noninterest-bearing liabilities:						
Demand deposits	325,921			333,095		
Other liabilities	20,818			18,861		
Total liabilities	2,368,623			2,338,069		
Stockholders' equity	355,197			331,782		
Total liabilities and stockholders' equity	$2,723,820			$2,669,851		
Net interest income		$41,791			$45,674	
Interest rate spread			3.06 %			3.58 %
Net interest margin			3.41 %			3.80 %

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

Provision for Loan Losses

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

For the three months ended June 30, 2019 and 2018, the provision for loan losses was zero and $1.1 million, respectively. The provision for loan losses for the six months ended June 30, 2019 and 2018 was $200 thousand and $2.7 million, respectively. Net charge offs for the three and six months ended June 30, 2019 and 2018 was $261 thousand and $870 thousand, respectively, compared to $804 thousand and $1.0 million, respectively for the three and six months ended June 30, 2018.

Noninterest Income

The following table presents the major categories of noninterest income for the three months ended June 30, 2019 and 2018:

	For the Three Months Ended June 30,		
(dollars in thousands)	**2019**	**2018**	**Change**
Account maintenance and deposit service fees	$ 1,788	$ 1,375	$ 413
Income from bank-owned life insurance	385	563	(178)
Equity income from mortgage affiliate	558	191	367
Recoveries related to acquired charged-off loans and investment securities	324	250	74
Other	136	174	(38)
Total noninterest income	$ 3,191	$ 2,553	$ 638

Southern National had noninterest income of $3.2 million and $2.6 million during the second quarter of 2019 and 2018, respectively. Account maintenance and deposit service fees, which totaled $1.8 million for the second quarter of 2019, increased $413 thousand compared to prior year. Income from bank-owned life insurance, which totaled $385 thousand for the second quarter of 2019, decreased $178 thousand compared to $563 thousand of income in the second quarter of 2018. The second quarter decrease was driven by death benefits paid in 2018. Income from the investment in STM totaled $558 thousand during the second quarter of 2019 compared to $191 thousand during the second quarter of 2018. The increase was driven by strengthened management and operational improvements within STM. Other noninterest income, which totaled $324 thousand for the second quarter of 2019, increased $74 thousand when compared to the second quarter of the prior year. For the three months ended June 30, 2019, other noninterest income has benefited, from $324 thousand of recoveries of legacy investment securities and loans charged off by EVBS premerger compared to $243 thousand for the three months ended June 30, 2018.

The following table presents the major categories of noninterest income for the six months ended June 30, 2019 and 2018:

	For the Six Months Ended June 30,		
(dollars in thousands)	**2019**	**2018**	**Change**
Account maintenance and deposit service fees	$ 3,475	$ 2,783	$ 692
Income from bank-owned life insurance	908	870	38
Equity income (loss) from mortgage affiliate	576	(126)	702
Recoveries related to acquired charged-off loans and investment securities	915	1,733	(818)
Other	379	372	7
Total noninterest income	$ 6,253	$ 5,632	$ 621

Southern National had noninterest income of $6.3 million and $5.6 million during the six months ended June 30, 2019 and 2018, respectively. The $621 thousand increase was primarily driven by an increase of $692 thousand increase in account maintenance and deposit fees and $702 thousand increase in equity income from mortgage affiliate, partially offset by $818 thousand 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 $576 thousand during the six months ended June 30, 2019 compared to the loss of $126 thousand during the six months ended June 30, 2018. The increase was driven by strengthened management and operational improvements within STM. For the six months ended June 30, 2019, other noninterest income has benefited, from $915 thousand of recoveries of legacy investment securities and loans charged off by EVBS premerger compared to $1.7 million for the six months ended June 30, 2018.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three months ended June 30, 2019 and 2018:

(dollars in thousands)	For the Three Months Ended June 30, 2019	2018	Change
Salaries and benefits	$ 7,144	$ 7,007	$ 137
Occupancy expenses	1,801	1,656	145
Furniture and equipment expenses	738	712	26
Amortization of core deposit intangible	362	361	1
Virginia franchise tax expense	563	492	71
Data processing expense	571	464	107
Telephone and communication expense	406	501	(95)
Net gain on other real estate owned	(36)	(40)	4
Professional fees	1,381	839	542
Other operating expenses	962	1,625	(663)
Total noninterest expenses	$ 13,892	$ 13,617	$ 275

Noninterest expense was $13.9 million and $13.6 million during the three months ended June 30, 2019 and 2018, respectively. Employee compensation and benefits expense totaled $7.1 million and $7.0 million for the three months ended June 30, 2019 and 2018, respectively. The increase was due to $350 thousand of separation expense recognized in 2019, partially offset by savings from the reduction in staff completed during 2018. Occupancy expenses and equipment increased $145 thousand from prior year primarily due to improvements made to our branch offices.

The following table presents the major categories of noninterest expense for the six months ended June 30, 2019 and 2018:

(dollars in thousands)	For the Six Months Ended June 30, 2019	2018	Change
Salaries and benefits	$ 12,956	$ 13,779	$ (823)
Occupancy expenses	3,604	3,306	298
Furniture and equipment expenses	1,448	1,509	(61)
Amortization of core deposit intangible	725	723	2
Virginia franchise tax expense	1,126	856	270
Data processing expense	1,083	930	153
Telephone and communication expense	781	1,095	(314)
Net (gain) loss on other real estate owned	(38)	160	(198)
Professional fees	2,985	1,788	1,197
Other operating expenses	5,512	3,090	2,422
Total noninterest expenses	$ 30,182	$ 27,236	$ 2,946

Noninterest expense was $30.2 million and $27.2 million during the six months ended June 30, 2019 and 2018, respectively. The increase in noninterest expenses was primarily due to a nonrecurring other loss of $3.2 million with related legal expense of $502 thousand during the first quarter of 2019. Employee compensation and benefits expense totaled $13.0 million and $13.8 million for the six months ended June 30, 2019 and 2018, respectively. The decrease was due to a reduction in staffing. Occupancy expenses and equipment increased $298 thousand from prior year primarily due to improvements made to our branch offices. The Company recognized a gain of $38 thousand on the sale of other real estate owned ("OREO") during the six months ended June 30, 2019 compared to a $160 thousand loss for the six months ended June 30, 2018. Other expenses totaled $8.5 million and $4.2 million for six months ended June 30, 2019 and 2018, respectively.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $2.72 billion and 2.70 billion, respectively as of June 30, 2019 and as of December 31, 2018. Total loans decreased 0.3%, from $2.18 billion at December 31, 2018 to $2.17 billion at June 30, 2019, primarily due to unanticipated large loan payoffs of $50.0 million in the first quarter of 2019, partially offset by growth of $44.0 million during the six months ended June 30, 2019. Total deposits were $2.15 billion at June 30, 2019 compared to $2.10 billion at December 31, 2018 and total equity was $362.8 million and $348.3 million at June 30, 2019 and December 31, 2018, respectively.

Loan Portfolio

Loan demand remains strong in the Company's markets. Loan growth in the six months ended June 30, 2019 of $44.0 million was offset by $40.0 million in five hospitality loans that paid off due to property sales and under-market rates offered by other financial institutions and a $10.0 million construction loan moved to a competitor on a nonrecourse basis. 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.

The composition of our loan portfolio consisted of the following at June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Loans secured by real estate:		
Commercial real estate - owner occupied	$ 410,832	$ 407,031
Commercial real estate - non-owner occupied	561,732	540,698
Secured by farmland	18,629	20,966
Construction and land loans	158,956	146,654
Residential 1-4 family	572,715	565,083
Multi-family residential	82,593	82,516
Home equity lines of credit	117,298	128,225
Total real estate loans	1,922,755	1,891,173
Commercial loans	220,566	255,441
Consumer loans	29,310	32,347
Gross loans	2,172,631	2,178,961
Less deferred fees on loans	214	(137)
Loans, net of deferred fees	$ 2,172,845	$ 2,178,824

As of June 30, 2019 and December 31, 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.

Asset Quality

Asset quality remained high during the first six months of 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.

Other real estate owned ("OREO") at June 30, 2019 was $5.0 million compared to $5.1 million at December 31, 2018.

Non-covered nonaccrual loans were $1.2 million (excluding $3.2 million of loans fully covered by SBA guarantees) at June 30, 2019 compared to $2.5 million (excluding $3.4 million of loans fully covered by SBA guarantees) as of 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 0.26% at June 30, 2019.

Southern National’s allowance for loan losses as a percentage of total non-covered loans at June 30, 2019 was 0.54%, compared to 0.57% at December 31, 2018. The allowance for loan losses as a percentage of non-covered non-acquired loans was 0.78% and 0.85% at June 30, 2019 and December 31, 2018, respectively.

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

The following table presents a comparison of non-covered nonperforming assets as of June 30, 2019 and December 31, 2018 (in thousands):

	June 30, 2019	December 31, 2018
Nonaccrual loans	$ 5,201	$ 6,709
Loans past due 90 days and accruing interest	—	—
Total nonperforming loans	5,201	6,709
Other real estate owned	5,041	5,077
Total non-covered nonperforming assets	$ 10,242	$ 11,786
Troubled debt restructurings	$ 685	$ 692
SBA guaranteed amounts included in nonaccrual loans	$ 3,207	$ 3,391
Allowance for loan losses to nonperforming loans	223.35 %	207.63 %
Allowance for loan losses to total non-covered loans	0.54 %	0.57 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	0.26 %	0.28 %

Investment Securities

Investment securities, available for sale and held to maturity, totaled $250.7 million at June 30, 2019 up from $235.8 million at December 31, 2018.

Investment securities in our portfolio as of June 30, 2019 were as follows:

- residential government-sponsored collateralized mortgage obligations in the amount of $45.6 million;
- agency residential mortgage-backed securities in the amount $54.8 million;
- corporate bonds in the amount of $2.0 million;
- commercial mortgage-backed securities in the amount of $28.0 million;
- SBA loan pool securities in the amount of $17.2 million;
- callable agency securities in the amount of $58.9 million;
- trust preferred securities in the amount of $5.2 million; and
- municipal bonds in the amount of $38.9 million with a taxable equivalent yield of 3.0% and ratings as of June 30, 2019 as follows:

Moody's Rating	Amount (in thousands)	Standard & Poor's Rating	Amount (in thousands)
Aaa	$ 6,370	AAA	$ 7,100
Aa1	11,564	AA+	7,631
Aa2	3,197	AA	11,067
Aa3	1,916	AA-	1,811
A1	1,866	A+	1,024
A2	1,531	A	850
Baa1	1,012	BBB+	1,012
NA	11,424	NA	8,385
Total	$ 38,880	Total	$ 38,880

Available for sale investment securities of $25.1 million were purchased during the six months ended June 30, 2019. No investment securities were sold during the first six months of 2019.

At June 30, 2019, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value (in thousands)	Book Value (in thousands)	Estimated Fair Value (in thousands)	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)
Held to Maturity										
ALESCO VII A1B	Senior	Aaa	AA	Aa1	AA	$2,596	$2,413	$ 2,537	17 %	$ 219
MMCF III B	Senior Sub	A3	WD	Ba1	BBB	59	58	56	45 %	4
						2,655	2,471	2,593		$ 223
Available for Sale Other Than Temporarily Impaired:										**Cumulative OTTI Related to Credit Loss (2)**
TPREF FUNDING II	Mezzanine	A1	D	Caa3	D	1,500	1,099	785	31 %	$ 400
ALESCO V C1	Mezzanine	A2	C	Caa1	C	2,150	1,490	1,806	14 %	660
						3,650	2,589	2,591		$ 1,060
Total						$6,305	$5,060	$ 5,184		

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

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

We recognized no other than temporary impairment charges during the six months ended June 30, 2019 and 2018, respectively.

Liquidity and Funds Management

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

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

During the six months ended June 30, 2019, we funded our financial obligations with deposits, borrowings from the FHLB of Atlanta and the proceeds from issuance of the SNBV Senior Subordinated Notes in January 2018. At June 30, 2019, we had $342.0 million of unfunded commitments. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

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

	Actual		Required for Capital Adequacy Purposes (1)		To Be Categorized as Well Capitalized (2)	
June 30, 2019	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Southern National						
Common equity tier 1 capital ratio	$250,475	12.00 %	$ 93,928	4.50 %	n/a	n/a
Tier 1 risk-based capital ratio	260,475	12.48 %	125,238	6.00 %	n/a	n/a
Total risk-based capital ratio	319,088	15.29 %	166,984	8.00 %	n/a	n/a
Leverage ratio	260,475	9.93 %	104,929	4.00 %	n/a	n/a
Sonabank						
Common equity tier 1 capital ratio	$295,654	14.08 %	$ 95,495	4.50 %	$ 137,938	6.50 %
Tier 1 risk-based capital ratio	295,654	14.08 %	127,327	6.00 %	169,769	8.00 %
Total risk-based capital ratio	307,267	14.63 %	169,769	8.00 %	212,212	10.00 %
Leverage ratio	295,654	11.27 %	104,359	4.00 %	106,106	5.00 %
December 31, 2018						
Southern National						
Common equity tier 1 capital ratio	$239,554	11.57 %	$ 93,135	4.50 %	n/a	n/a
Tier 1 risk-based capital ratio	249,554	12.06 %	124,180	6.00 %	n/a	n/a
Total risk-based capital ratio	308,838	14.92 %	165,573	8.00 %	n/a	n/a
Leverage ratio	249,554	9.57 %	104,338	4.00 %	n/a	n/a
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) When 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.

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in EVE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of June 30, 2019 and as of December 31, 2018. All changes are within our Asset/Liability Risk Management Policy guidelines except for the change resulting from the 100 and 200 basis point decrease in interest rates at June 30, 2019 and December 31, 2018.

	Sensitivity of Economic Value of Equity As of June 30, 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	$344,880	$ (22,904)	(6.23)%	12.66 %	95.01 %
Up 300	352,084	(15,700)	(4.27)%	12.93 %	97.00 %
Up 200	359,580	(8,204)	(2.23)%	13.20 %	99.06 %
Up 100	365,474	(2,310)	(0.63)%	13.42 %	100.68 %
Base	367,784	—	— %	13.50 %	101.32 %
Down 100	333,464	(34,320)	(9.33)%	12.24 %	91.87 %
Down 200	292,700	(75,084)	(20.42)%	10.75 %	80.64 %

	Sensitivity of Economic Value of Equity As of December 31, 2018				
	Economic Value of Equity			Economic Value of Equity as a % of	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	% Change From Base	Total Assets	Equity Book Value
	(dollar amounts in thousands)				
Up 400	$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 %
Down 200	303,809	(68,342)	(18.36)%	11.24 %	87.00 %

Our interest rate sensitivity is also monitored by management through the use of a model run by FTN Financial that generates estimates of the change in the net interest income ("NII") over a range of interest rate scenarios. NII depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. In this regard, the model assumes that the composition of our interest sensitive assets and liabilities existing at June 30, 2019 and December 31, 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 Asset/Liability Risk Management Policy guidelines at June 30, 2019 and December 31, 2018.

	Sensitivity of Net Interest Income As of June 30, 2019			
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$ 97,048	$ 8,768	3.88 %	0.31 %
Up 300	94,905	6,625	3.80 %	0.23 %
Up 200	92,753	4,473	3.73 %	0.16 %
Up 100	90,785	2,505	3.66 %	0.09 %
Base	88,280	—	3.57 %	— %
Down 100	87,816	(464)	3.56 %	(0.01)%
Down 200	87,641	(639)	3.56 %	(0.01)%

	Sensitivity of Net Interest Income As of December 31, 2018			
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	Percent	% Change From Base
	(dollar amounts in thousands)			
Up 400	$ 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 %
Down 200	91,165	(171)	3.70 %	0.03 %

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.

ITEM 4 – CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Southern National and Sonabank 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. There are no proceedings pending, or to management's knowledge, threatened, that represent a significant risk against Southern National or Sonabank as of June 30, 2019.

ITEM 1A – RISK FACTORS

As of June 30, 2019, there have been no material changes to the risk factors faced by Southern National from those previously disclosed on our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 – OTHER INFORMATION

Not applicable.

ITEM 6 - EXHIBITS

(a) Exhibits.

Exhibit No.	Description
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))
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)
10.1+*	Employment Agreement, dated as of February 28, 2019, by and between George C. Sheflett and Southern National Bancorp of Virginia, Inc.
10.2+	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)

10.3+	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)
10.4+	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)
10.5+	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)
10.6+	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)
10.7+	Termination Agreement between Southern National Bancorp of Virginia, Inc., Sonabank and Jeffrey H. Culver, dated as of June 20, 2019 (incorporated herein by reference to Exhibit 10.2 to Southern National's Current Report on Form 8-K filed on June 21, 2019)
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101	The following materials from Southern National Bancorp of Virginia, Inc. Quarterly Report on Form 10-Q for the quarter ended June 30, 2019, formatted in XBRL (Extensible Business Reporting Language), filed herewith: (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Income and Comprehensive Income (unaudited), (iii) Consolidated Statement of Changes in Stockholders' Equity (unaudited), (iv) Consolidated Statements of Cash Flows (unaudited), and (v) Notes to Consolidated Financial Statements (unaudited).

+ Management contract or compensatory plan or arrangement
* Filed with this Quarterly Report on Form 10-Q
** Furnished with this Quarterly Report on Form 10-Q

Signatures

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

Southern National Bancorp of Virginia, Inc.
(Registrant)

August 8, 2019	/s/ Joe A. Shearin
(Date)	**Joe A. Shearin,** **Chief Executive Officer** **(Principal Executive Officer)**
August 8, 2019	/s/ Jeffrey L. Karafa
(Date)	**Jeffrey L. Karafa,** **Executive Vice President and Chief Financial Officer** **(Principal Financial and Accounting Officer)**

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Section 2: EX-10.1 (EX-10.1)

Exhibit 10.1

CHANGE-IN-CONTROL SEVERANCE AGREEMENT

This CHANGE-IN-CONTROL SEVERANCE AGREEMENT (this "Agreement") is made and entered into this 24th day of March, 2019 by and by and between (i) Southern National Bancorp of Virginia, Inc. (the "Company") and Sonabank (the "Bank") (collectively, the Company and the Bank shall be referred to as the "Employer"), and George Cody Sheflett ("Employee"), to be effective as of March 1, 2019 (the "Effective Date").

BACKGROUND

WHEREAS, Employee will serve as the Chief Information Officer and Chief Operating Officer of the Employer; and

WHEREAS, the Employer desires to promote the retention of Employee by offering certain protections in the event his employment is involuntarily terminated under certain circumstances in connection with a Change in Control (as defined herein).

NOW, THEREFORE, in consideration of the payments, consents and acknowledgements described below, in consideration of Employee's employment with the Employer, and in consideration of other good and valuable consideration, the receipt and sufficiency of all of which is hereby acknowledged, the parties agree as follows:

1. Term of Agreement. This Agreement shall terminate (subject to the survival of Section 6 hereof) on the earliest of (i) if Employee is entitled to benefits under Section 3 hereof and complies with the terms thereof, the date that the Employer satisfies its obligations pursuant to Section 3 hereof; (ii) the date of Employee's termination of employment with the Employer for any reason other than a Qualifying Termination; or (iii) the first anniversary of a Change in Control.

2. Employment At-Will. Employee shall continue to be employed at-will and for no definite term. This means that either party may terminate the employment relationship at any time for any or no reason.

3. Termination of Employment due to a Qualifying Termination. In the event of Employee's Qualifying Termination, Employer shall pay to Employee in a lump sum in cash within thirty (30) days after the date of termination, Employee's Base Salary and any earned but unused paid-time off, in each case through the date of termination to the extent not theretofore paid (the "Accrued Benefits") and the following severance benefits (the benefits provided in Section 3(a)(i), (ii) and (iii) being collectively referred to as the "Severance Benefits"):

(i) the Employer shall pay to Employee an amount equal to one and one-half (11/2) times Employee's annual base salary at the rate in effect immediately prior to the Qualifying Termination, payable during the 18-month period immediately following Employee's date of termination in approximately equal installments in accordance with the Bank's regular payroll practices, commencing with the first regular payroll date to occur after the sixtieth (60th) day after the date of termination; provided that the first such payment shall consist of all amounts payable to Employee pursuant to this Section 3(a)(i) between the date of termination and the first payroll date to occur after the sixtieth (60th) day following the date of termination;

(ii) if Employee elects to continue participation in any group medical, dental, vision and/or prescription drug plan benefits to which Employee and/or Employee's eligible dependents would be entitled under Section 4980B of the Code (COBRA), then for the 18-month period following Employee's date of termination (the "Group Health Benefits Continuation Period"), the Employer shall pay the excess of (1) the COBRA cost of such coverage over (2) the amount that Employee would have had to pay for such coverage if he had remained employed during the Group Health Benefits Continuation Period and paid the active employee rate for such coverage, provided, however, that (A) if Employee becomes eligible to receive group health benefits under a program of a subsequent employer or otherwise, the Employer's obligation to pay any portion of the cost of health coverage as described herein shall cease, except as otherwise provided by law; (B) the Group Health Benefits Continuation Period shall run concurrently with any period for which Employee is eligible to elect health coverage under COBRA; (C) during the Group Health Benefits Continuation Period, the benefits provided in any one calendar year shall not affect the amount of benefits provided in any other calendar year (other than the effect of any overall coverage benefits under the applicable plans); (D) the reimbursement of an eligible taxable expense shall be made as soon as practicable but not later than December 31 of the year following the year in which the expense was incurred; and (E) Employee's rights pursuant to this Section 3(a)(ii) shall not be subject to liquidation or exchange for another benefit.

(iii) Employee's unvested equity awards outstanding on the Date of Termination, shall become fully vested and exercisable on the Date of Termination and shall otherwise remain subject to the terms and conditions of the equity plan pursuant to which they were granted and the award agreements evidencing the grant thereof.

Notwithstanding the foregoing, the Employer shall be obligated to provide the Severance Benefits only if (A) within forty-five (45) days after the date of termination Employee shall have executed a separation and full release of claims/covenant not to sue agreement in the form provided by the Employer (the "Release Agreement") and such Release Agreement shall not have been revoked within the revocation period specified in the Release Agreement, and (B) Employee fully complies with the obligations set forth in Section 6 hereof. For the avoidance of doubt, if Employee does not comply with the obligations set forth in Section 6 hereof, then any obligation of the Employer to pay the Severance Benefits shall cease immediately upon Employee's breach thereof.

4. Termination of Employment other than a Qualifying Termination. If Employee's employment is terminated for any reason other than a Qualifying Termination, then the Employer shall have no further obligations to Employee or Employee's legal representatives under this Agreement, other than for payment of Accrued Benefits, which shall be paid to Employee or Employee's estate or beneficiary, as applicable, in a lump sum in cash within thirty (30) days after the date of termination.

5. Definitions.

(a) "Cause" means a good faith determination by the Employer that any of the following has occurred: (i) Employee's willful violation of any laws, rules or regulations applicable to banks or the banking industry generally; (ii) Employee's material failure to comply with the Employer's policies or guidelines of employment or corporate governance policies or guidelines, including, without limitation, any business code of ethics adopted by the Employer, that, if capable of being cured, is not cured by Employee within ten (10) days of written notice by the Employer of the failure; (iii) any act of fraud, misappropriation or embezzlement by Employee; (iv) a material breach of this Agreement that, if such breach is capable of being cured, is not cured by Employee within ten (10) days of written notice by the Employer of the breach; or (v) Employee's conviction of, or Employee's pleading guilty or nolo contendere to, a felony or a crime involving moral turpitude (including pleading guilty or nolo contendere to a felony or lesser charge which results from plea bargaining).

(b) "Change in Control" shall have the same meaning as set forth in the Southern National Bancorp of Virginia, Inc. 2017 Equity Compensation Plan, as such plan may be amended from time to time.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time. For purposes of this Agreement, references to sections of the Code shall be deemed to include references to any applicable regulations thereunder and any successor or similar provision.

(d) "Disability" means the inability of Employee, as reasonably determined by the Employer, to perform the essential functions of his regular duties and responsibilities, with or without reasonable accommodation, due to a medically determinable physical or mental illness which has lasted (or can reasonably be expected to last) for a period of six (6) consecutive months.

(e) "Good Reason" means the occurrence of any of the following, without Employee's consent: (i) a material diminution in Employee's Base Salary; (ii) a material diminution in Employee's authority, duties, or responsibilities; (iii) the relocation of Employee's principal office to a facility or location more than fifty (50) miles away from Employee's principal place of work immediately prior to the relocation; provided, however, that Good Reason shall not include (A) any relocation of Employee's principal office which is proposed or initiated by Employee; or (B) any relocation that results in Employee's principal place office being closer to Employee's then-principal residence; or (iv) any intentional, material breach by the Employer of this Agreement. A termination by Employee shall not constitute termination for Good Reason unless Employee shall first have delivered to the Employer written notice setting forth with specificity the occurrence deemed to give rise to a right to terminate for Good Reason (which notice must be given no later than thirty (30) days after the initial occurrence of such event), and there shall have passed a reasonable time (not less than thirty (30) days) within which the Employer may take action to correct, rescind or otherwise substantially reverse the occurrence supporting termination for Good Reason as identified by Employee. Good Reason shall not include Employee's death or Disability.

(f) "Qualifying Termination" means Employee's termination of employment during the Qualifying Termination Window by (A) the Employer without Cause (other than by reason of Employee's death or Disability), or (B) Employee for Good Reason within a period of 90 days after the occurrence of the event giving rise to Good Reason. For the avoidance of doubt, in no event shall Employee be deemed to have experienced a Qualifying Termination as a result of Employee's termination of employment with the Employer for any reason or no reason outside of the Qualifying Termination Window or as a result of Employee's termination of employment with the Employer during the Qualifying Termination Window by reason of his (i) death, (ii) Disability, or (iii) voluntary resignation for any reason or no reason.

(g) "Qualifying Termination Window" means the sixty (60) day period immediately preceding a Change in Control or the one-year period immediately following a Change in Control.

6. Restrictions on Competition and Disclosure and Use of Confidential Information.

(a) Confidential Information. Employee agrees that Employee shall not, directly or indirectly, use any Confidential Information (as defined herein) on Employee's own behalf or on behalf of any Person (as defined herein) other than the Employer, or reveal, divulge, or disclose any Confidential Information to any Person not expressly authorized by the Employer to receive such Confidential Information. This obligation shall remain in effect for as long as the information or materials in question retain their status as Confidential Information. Employee further agrees that he shall fully cooperate with the Employer in maintaining the Confidential Information to the extent permitted by law. The parties acknowledge and agree that this Agreement is not intended to, and does not, alter either the Employer's rights or Employee's obligations under any state or federal statutory or common law regarding trade secrets and unfair trade practices. Anything herein to the contrary notwithstanding, Employee shall not be restricted from disclosing information that is required to be disclosed by law, court order or other valid and appropriate legal process; provided, however, that in the event such disclosure is required by law, Employee shall provide the Employer with prompt notice of such requirement so that the Employer may seek an appropriate protective order prior to any such required disclosure by Employee.

Employee understands and acknowledges that nothing in this section limits his ability to initiate communications directly with, respond to any inquiry from, volunteer information to, or provide testimony before any government agency or otherwise participate in any reporting of, investigation into, or proceeding regarding suspected violations of law, or from making other disclosures that are protected under, or from receiving an award for information provided under, the whistleblower provisions of state or federal law or regulation. Employee does not need the prior authorization of the Employer to engage in such communications with any government agency, respond to such inquiries from any government agency, provide Confidential Information or documents containing Confidential Information to any government agency, or make any such reports or disclosures to any government agency. Employee is not required to notify the Employer that Employee has engaged in such communications with a government agency. Employee recognizes and agrees that, in connection with any such activity outlined above, Employee must inform the government agency that the information Employee is providing is confidential.

Federal law provides certain protections to individuals who disclose a trade secret to their attorney, a court, or a government official in certain, confidential circumstances. Specifically, federal law provides that an individual shall not be held criminally or civilly liable under any state or federal trade secret law for the disclosure of a trade secret under either of the following conditions:

- Where the disclosure is made (A) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (B) solely for the purpose of reporting or investigating a suspected violation of law; or
- Where the disclosure is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal.

Federal law also provides that an individual who files a lawsuit for retaliation by an employer for reporting a suspected violation of law may disclose the trade secret to the attorney of the individual and use the trade secret information in the court proceeding, if the individual (A) files any document containing the trade secret under seal; and (B) does not disclose the trade secret, except pursuant to court order.

For purposes of this Section 6, "Confidential Information" means any and all data and information relating to the Employer, their activities, business, or clients that (i) is disclosed to Employee or of which Employee becomes aware as a consequence of his employment with the Employer; (ii) has value to the Employer; and (iii) is not generally known outside of the Employer. "Confidential Information" shall include, but is not limited to the following types of information regarding, related to, or concerning the Employer: trade secrets (as defined by Virginia Uniform Trade Secrets Act); financial plans and data; management planning information; business plans; operational methods; market studies; marketing plans or strategies; pricing information; product development techniques or plans; customer lists; customer files, data and financial information; details of customer contracts; current and anticipated customer requirements; identifying and other information pertaining to business referral sources; past, current and planned research and development; computer aided systems, software, strategies and programs; business acquisition plans; management organization and related information (including, without limitation, data and other information concerning the compensation and benefits paid to officers, directors, employees and management); personnel and compensation policies; new personnel acquisition plans; and other similar information. “Confidential Information” also includes combinations of information or materials which individually may be generally known outside of the Employer, but for which the nature, method, or procedure for combining such information or materials is not generally known outside of the Employer. In addition to data and information relating to the Employer, “Confidential Information” also includes any and all data and information relating to or concerning a third party that otherwise meets the definition set forth above, that was provided or made available to the Employer by such third party, and that the Employer has a duty or obligation to keep confidential. This definition shall not limit any definition of “confidential information” or any equivalent term under state or federal law. “Confidential Information” shall not include information that has become generally available to the public by the act of one who has the right to disclose such information without violating any right or privilege of the Employer. For purposes of this Section 6, “Person” means any individual or any corporation, partnership, joint venture, limited liability company, association or other entity or enterprise.

(b) Non-competition. Beginning on the Effective Date and for a period continuing through the twelve (12) months following cessation of Employee’s employment with the Employer (the “Restricted Period”), Employee shall not, directly or indirectly, within any State in the United States where the Employer has a retail bank branch at the time Employee’s employment ceases, own any interest in, control or participate in the ownership or control of, or perform services that are the same as or substantially similar to the services Employee performed for the Employer pursuant to this Agreement for any company, person or entity engaged in a Competitive Business (as defined herein). A “Competitive Business” shall mean any person or entity that is providing deposits, money market accounts, certificates of deposit or other typical retail banking deposit-type services or loans on a retail level, to individuals, businesses or non-profit entities in any State in the United States in which the Employer has a retail bank branch at the time Employee’s employment ceases. Notwithstanding the foregoing, nothing in this Agreement shall prevent Employee from owning for passive investment purposes not intended to circumvent this Agreement, less than five percent (5%) of the publicly-traded voting securities of any company engaged in the banking, financial services, insurance, brokerage or other business similar to or competitive with the Employer (so long as Employee has no power to manage, operate or control the competing enterprise and no power, alone or in conjunction with other affiliated parties, to select a director, manager, general partner, or similar governing official of the competing enterprise other than in connection with the normal and customary voting powers afforded Employee in connection with any permissible equity ownership).

(c) Non-solicitation of Employees. During the Restricted Period, Employee shall not, directly or indirectly solicit, induce or hire, or attempt to solicit, induce or hire, any person who is an employee of the Employer at the time Employee’s employment ceases or within six (6) months prior thereto, to leave his or his employment with the Employer or join or become affiliated with any Competitive Business.

(d) Non-solicitation of Customers. During the Restricted Period, Employee shall not, directly or indirectly solicit or induce or attempt to solicit or induce, any customer, lender, supplier, licensee, licensor or other business relation of the Employer to terminate its relationship or contracts with the Employer, to cease doing business with the Employer, or in any way interfere with the relationship between any such customer, lender, supplier, licensee, licensor or business relation and the Employer.

(e) Rights and Remedies Upon Breach. The parties specifically acknowledge and agree that the remedy at law for any breach of the covenants in Section 6 will be inadequate, and that in the event Employee breaches any such covenant, the Employer shall have the right and remedy, without the necessity of proving actual damage or posting any bond, to enjoin, preliminarily and permanently, Employee from violating the covenant and to have the covenant specifically enforced by any court of competent jurisdiction, it being agreed that any breach would cause irreparable injury to the Employer and that money damages would not provide an adequate remedy to the Employer. Such rights and remedies shall be in addition to, and not in lieu of, any other rights and remedies available to the Employer at law or in equity. The Employer and Employee understand and agree that, if the parties become involved in legal action regarding the enforcement of the covenants in Section 6, the prevailing party in such legal action will be entitled, in addition to any other remedy, to recover its reasonable costs and attorneys' fees incurred in enforcing or defending action with respect to such covenants. The Employer's ability to enforce its rights under the covenants in Section 6 or applicable law against Employee shall not be impaired in any way by the existence of a claim or cause of action on the part of Employee based on, or arising out of, this Agreement or any other event or transaction.

7. Non-exclusivity of Rights. Nothing in this Agreement shall prevent or limit Employee's continuing or future participation in any employee benefit plan, program, policy or practice provided by the Employer or its affiliated companies and for which Employee may qualify. Amounts that are vested benefits or which Employee is otherwise entitled to receive under any plan, policy, practice or program of the Employer or any of its affiliated companies at or subsequent to the date of termination shall be payable in accordance with such plan, policy, practice or program.

8. Full Settlement; No Mitigation. The Employer's obligation to make the payments provided for in this Agreement and otherwise to perform its obligations hereunder shall not be affected by any set-off, counterclaim, recoupment, defense or other claim, right or action which the Employer may have against Employee or others. In no event shall Employee be obligated to seek other employment or take any other action by way of mitigation of the amounts payable to Employee under any of the provisions of this Agreement and such amounts shall not be reduced whether or not Employee obtains other employment.

9. Successors. This Agreement is personal to Employee and shall not be assignable by Employee otherwise than by will or the laws of descent and distribution. This Agreement shall inure to the benefit of and be enforceable by Employee's legal representatives. This Agreement can be assigned by the Employer and shall be binding and inure to the benefit of the Employer, and their successors and assigns.

10. Code Section 409A.

(a) General. This Agreement shall be interpreted and administered in a manner so that any amount or benefit payable hereunder shall be paid or provided in a manner that is either exempt from or compliant with the requirements of Section 409A of the Code and applicable Internal Revenue Service guidance and Treasury Regulations issued thereunder (and any applicable transition relief under Section 409A of the Code) ("Section 409A of the Code"). Nevertheless, the tax treatment of the benefits provided under the Agreement is not warranted or guaranteed. Neither the Employer nor its directors, officers, employees or advisers, shall be held liable for any taxes, interest, penalties or other monetary amounts owed by Employee as a result of the application of Section 409A of the Code.

(b) Definitional Restrictions. Notwithstanding anything in this Agreement to the contrary, to the extent that any amount or benefit that would constitute non-exempt "deferred compensation" for purposes of Section 409A of the Code ("Non-Exempt Deferred Compensation") would otherwise be payable or distributable hereunder by reason of Employee's termination of employment, such Non-Exempt Deferred Compensation will not be payable or distributable to Employee by reason of such circumstance unless the circumstances giving rise to such termination of employment meet any description or definition of "separation from service," in Section 409A of the Code and applicable regulations (without giving effect to any elective provisions that may be available under such definition). If this provision prevents the payment or distribution of any Non-Exempt Deferred Compensation, then, subject to subsection (c) below, such payment or distribution shall be made at the time and in the form that would have applied absent the non-409A-conforming event.

(c) Six-Month Delay in Certain Circumstances. Notwithstanding anything in this Agreement to the contrary, if any amount or benefit that would constitute Non-Exempt Deferred Compensation would otherwise be payable or distributable under this Agreement by reason of Employee's separation from service during a period in which he is a Specified Employee (as defined below), then, subject to any permissible acceleration of payment by the Employer under Treas. Reg. Section 1.409A-3(j)(4)(ii) (domestic relations order), (j)(4)(iii) (conflicts of interest), or (j)(4)(vi) (payment of employment taxes): (i) the amount of such Non-Exempt Deferred Compensation that would otherwise be payable during the six-month period immediately following Employee's separation from service will be accumulated through and paid or provided on the first day of the seventh month following Employee's separation from service (or, if Employee dies during such period, within 30 days after Employee's death) (in either case, the "Required Delay Period"); and (ii) the normal payment or distribution schedule for any remaining payments or distributions will resume at the end of the Required Delay Period.

(d) Timing of Release of Claims. Whenever in this Agreement a payment or benefit is conditioned on Employee's execution of a release of claims, such release must be executed and all revocation periods shall have expired within 60 days after the date of termination; failing which such payment or benefit shall be forfeited. If such payment or benefit constitutes Non-Exempt Deferred Compensation, then such payment or benefit (including any installment payments) that would have otherwise been payable during such 60-day period shall be accumulated and paid on the 60th day after the date of termination provided such release shall have been executed and such revocation periods shall have expired. If such payment or benefit is exempt from Section 409A of the Code, the Employer may elect to make or commence payment at any time during such period.

(e) Timing of Reimbursements and In-kind Benefits. If Employee is entitled to be paid or reimbursed for any taxable expenses under this Agreement, and such payments or reimbursements are includible in Employee's federal gross taxable income, the amount of such expenses reimbursable in any one calendar year shall not affect the amount reimbursable in any other calendar year, and the reimbursement of an eligible expense must be made no later than December 31 of the year after the year in which the expense was incurred. No right of Employee to reimbursement of expenses under this Agreement shall be subject to liquidation or exchange for another benefit.

11. Modified Cutback of Compensation Deemed to be Contingent on a Change of Control. If any benefits or payments are to be made under the terms of this Agreement or any other agreement between Employee and the Employer following a transaction that constitutes a change in the ownership or effective control of the Employer or in the ownership of a substantial portion of the assets of the Employer such that the provisions of Section 280G of the Internal Revenue Code of 1986, as amended, and any regulations thereunder ("Code Section 280G") or Section 4999 of the Internal Revenue Code and any regulations thereunder could potentially apply to such compensation, then the following provisions shall be applicable:

(a) In the event the independent accountants serving as auditors for the Employer on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by the Employer) determine that some or all of the payments or benefits scheduled under this Agreement, as well as any other payments or benefits on such change of control, would be nondeductible by the Employer under Code Section 280G, then the payments scheduled under this Agreement and all other agreements between Employee and the Employer will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible. Any reduction of benefits or payments required to be made under this Section 11(a) shall be taken in the following order: first from cash compensation and then from payments or benefits not payable in cash, in each case in reverse order beginning with payments or benefits which are to be paid the farthest in time from the date of determination.

(b) Notwithstanding the foregoing Section 11(a), in the event the independent accountants serving as auditors for the Employer on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by the Employer) determine that the net economic benefit to Employee after payment of all income and excise taxes is greater without giving effect to Section 11(a) than Employee’s net economic benefit after a reduction by reason of the application of Section 11(a), then Section 11(a) shall be a nullity and without any force or effect. Any decisions regarding the requirement or implementation of the reductions to compensation described in Section 11(a) shall be made by the independent accountants serving as auditors for the Employer on the date of a change of control within the meaning of Code Section 280G (or any other accounting firm designated by the Employer), shall be made at the Employer’s expense and shall be binding on the parties.

12. Regulatory Action.

(a) If Employee is removed and/or permanently prohibited from participating in the conduct of the Employer’s affairs by an order issued under Section 8(e)(4) or 8(g)(1) of the Federal Deposit Insurance Act (“FDIA”) (12 U.S.C. 1818(e)(4) and (g)(1)), all obligations of the Employer under this Agreement shall terminate, as of the effective date of such order.

(b) If Employee is suspended and/or temporarily prohibited from participating in the conduct of the Employer’s affairs by a notice served under Section 8(e)(3) or 8(g)(1) of the FDIA (12 U.S.C. 1818(e)(3) and (g)(1)), all obligations of the Employer under this Agreement shall be suspended as of the date of service, unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Employer shall reinstate (in whole or in part) any of its obligations which were suspended.

(c) If the Employer is in default (as defined in Section 3(x)(1) of the FDIA), all obligations under this Agreement shall terminate as of the date of default.

(d) All obligations under this Agreement shall be terminated, except to the extent a determination is made that continuation of the Agreement is necessary for the continued operation of the Employer (1) by the director of the FDIC or his or his designee (the “Director”), at the time the FDIC enters into an agreement to provide assistance to or on behalf of the Employer under the authority contained in 13(c) of the FDIA; or (2) by the Director, at the time the Director approves a supervisory merger to resolve problems related to operation of the Employer when the Employer is determined by the Director to be in an unsafe and unsound condition.

(e) Notwithstanding anything contained in this Agreement to the contrary, no payments shall be made pursuant to any provision herein in contravention of the requirements of Section 2[18(k)] of the FDIA (12 U.S.C. 1828(k)). In particular, the provisions pertaining to the potential for payments shall have no force or effect as long as either the agreement concerning the potential for payments or the actual payment of such amounts would be considered a “golden parachute payment,” with the meaning of 12 C.F.R. Section 359.1(f).

13. Miscellaneous.

(a) Applicable Law; Forum Selection; Consent to Jurisdiction. The Employer and Employee agree that this Agreement shall be governed by and construed and interpreted in accordance with the laws of the State of Virginia without giving effect to its conflicts of law principles. Employee agrees that the exclusive forum for any action to enforce this Agreement, as well as any action relating to or arising out of this Agreement, shall be the Circuit Court of Fairfax County or the federal court encompassing that jurisdiction, at the option of the Employer. With respect to any such court action, Employee hereby irrevocably submits to the personal jurisdiction of such courts. The parties hereto further agree that the courts listed above are convenient forums for any dispute that may arise herefrom and that neither party shall raise as a defense that such courts are not convenient forums.

(b) Non-Duplication. Notwithstanding anything to the contrary in this Agreement, and except as specifically provided below, any severance payments or benefits received by Employee pursuant to this Agreement shall be in lieu of any general severance policy or other severance plan maintained by the Employer (other than a stock option, restricted stock, share or unit, performance share or unit, supplemental retirement, deferred compensation or similar plan or agreement which may contain provisions operative on a termination of Employee's employment or may incidentally refer to accelerated vesting or accelerated payment upon a termination of employment).

(c) Captions. The captions of this Agreement are not part of the provisions hereof and shall have no force or effect.

(d) Amendments. This Agreement may not be amended or modified otherwise than-by a written agreement executed by the parties hereto or their respective successors and legal representatives.

(e) Notices. All notices and other communications hereunder shall be in writing and shall be given by hand delivery to the other party or by registered or certified mail, return receipt requested, postage prepaid, addressed as follows:

If to Employee:
On file with the Employer

If to the Employer:
6830 Old Dominion Drive
McLean, Virginia 22101
Attention: CEO

or to such other address as either party shall have furnished to the other in writing in accordance herewith. Notice and communications shall be effective when actually received by the addressee.

(f) Severability. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement.

(g) Withholding. The Employer may withhold from any amounts payable under this Agreement such federal, state, local or foreign taxes as shall be required to be withheld pursuant to any applicable law or regulation.

(h) Waivers. Failure of either party to insist, in one or more instances, on performance by the other in strict accordance with the terms and conditions of this Agreement shall not be deemed a waiver or relinquishment of any right granted in this Agreement or of the future performance of any such term or condition or of any other term or condition of this Agreement, unless such waiver is contained in a writing signed by the party making the waiver.

(i) Entire Agreement. This Agreement contains the entire agreement between the Employer and Employee with respect to the subject matter hereof and, from and after the date hereof, this Agreement shall supersede any other agreement, written or oral, between the parties relating to the subject matter of this Agreement, including but not limited to any prior discussions, understandings, and/or agreements between the parties, written or oral, at any time.

(j) Construction. The parties understand and agree that because they both have been given the opportunity to have counsel review and revise this Agreement, the normal rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall not be employed in the interpretation of this Agreement. Instead, the language of all parts of this Agreement shall be construed as a whole, and according to its fair meaning, and not strictly for or against either of the parties.

(k) Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument.

(Signatures on following page)

[redacted]

IN WITNESS WHEREOF, Employee has hereunto set Employee's hand and the Employer has caused these presents to be executed in its name on its behalf, all as of the day and year first above written.

/s/ GEORGE CODY SHEFLETT
GEORGE CODY SHEFLETT

/s/ Joe A. Shearin
SOUTHERN NATIONAL
BANCORP OF VIRGINIA, INC.
By: Joe A. Shearin
Its: Chief Executive Officer

/s/ Joe A. Shearin
SONABANK
By: Joe A. Shearin
Its: Chief Executive Officer

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Section 3: EX-31.1 (EX-31.1)

Exhibit 31.1

CERTIFICATIONS

I, Joe A. Shearin, certify that:

1. I have reviewed this report on Form 10-Q 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 officers 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 we 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 officers 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: August 8, 2019

/s/ Joe A. Shearin
Joe A. Shearin,
Chief Executive Officer

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Section 4: EX-31.2 (EX-31.2)

Exhibit 31.2

CERTIFICATIONS

I, Jeffrey L. Karafa, certify that:

1. I have reviewed this report on Form 10-Q 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 officers 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 we 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 officers 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: August 8, 2019

/s/ Jeffrey L. Karafa
Jeffrey L. Karafa,
Chief Financial Officer

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Section 5: EX-32.1 (EX-32.1)

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 Quarterly Report of Southern National Bancorp of Virginia, Inc. ("Southern National") on Form 10-Q for the period ending June 30, 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/ Joe A. Shearin
Joe A. Shearin,
Chief Executive Officer

/s/ Jeffrey L. Karafa
Jeffrey L. Karafa,
Chief Financial Officer

August 8, 2019

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