Section 1: 10-Q (10-Q)

Table of Contents

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 March 31, 2020

OR

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

Commission File Number: 000-20293

ATLANTIC UNION BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**54-1598552**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1051 East Cary Street
Suite 1200
Richmond, Virginia 23219
(Address of principal executive offices) (Zip Code)

(804) 633-5031
(Registrant’s telephone number, including area code)

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

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Common Stock, par value $1.33 per share	**AUB**	**The NASDAQ Global Select Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

The number of shares of common stock outstanding as of April 30, 2020 was 78,709,196.

[redacted]

ATLANTIC UNION BANKSHARES CORPORATION
FORM 10-Q
INDEX

ITEM

[redacted]

Glossary of Acronyms and Defined Terms

2019 Form 10-K	–	Annual Report on Form 10-K for the year ended December 31, 2019
Access	–	Access National Corporation and its subsidiaries
ACL	–	Allowance for credit losses
AFS	–	Available for sale
ALCO	–	Asset Liability Committee
ALLL	–	Allowance for loan and lease losses
AOCI	–	Accumulated other comprehensive income (loss)
ASC	–	Accounting Standards Codification
ASC 326	–	ASU 2016-13, *Financial Instruments and Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*
ASC 820	–	ASC 820, *Fair Value Measurements and Disclosures*
ASC 842	–	ASU 2016-02, *Leases (Topic 842)*
ASU	–	Accounting Standards Update
ATM	–	Automated teller machine
the Bank	–	Atlantic Union Bank (formerly, Union Bank & Trust)
BOLI	–	Bank-owned life insurance
bps	–	Basis points
BSA	–	Bank Secrecy Act
CARES Act	–	Coronavirus Aid, Relief, and Economic Security Act
CCPs	–	Central Counterparty Clearinghouses
CECL	–	Current expected credit losses
CME	–	Chicago Mercantile Exchange
the Company	–	Atlantic Union Bankshares Corporation (formerly, Union Bankshares Corporation) and its subsidiaries
COVID-19	–	Novel strain of coronavirus first identified in December 2019 in Wuhan, China
DHFB	–	Dixon, Hubard, Feinour, & Brown, Inc.
Dodd-Frank Act	–	Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010
EPS	–	Earnings per share
Exchange Act	–	Securities Exchange Act of 1934, as amended
FASB	–	Financial Accounting Standards Board
FCMs	–	Futures Commission Merchants
FDIC	–	Federal Deposit Insurance Corporation
Federal Reserve	–	Board of Governors of the Federal Reserve System
Federal Reserve Act	–	Federal Reserve Act of 1913, as amended
Federal Reserve Bank	–	Federal Reserve Bank of Richmond
FHLB	–	Federal Home Loan Bank of Atlanta
FinCEN	–	Financial Crimes Enforcement Network
FOMC	–	Federal Open Markets Committee
FTE	–	Fully taxable equivalent
GAAP or U.S. GAAP	–	Accounting principles generally accepted in the United States
HTM	–	Held to maturity
IDC	–	Interactive Data Corporation
LCH	–	London Clearing House
LIBOR	–	London Interbank Offered Rate
MBS	–	Mortgage Backed Securities
MD&A	–	Management's Discussion and Analysis of Financial Condition and Results of Operations
NOW	–	Negotiable order of withdrawal
NPA	–	Nonperforming assets
OAL	–	Outfitter Advisors, Ltd.
OCI	–	Other comprehensive income

[redacted]

OREO	–	Other real estate owned
OTTI	–	Other than temporary impairment
PCD	–	Purchased credit deteriorated
PCI	–	Purchased credit impaired
PD/LGD	–	Probability of default/loss given default
PPP	–	Paycheck Protection Program
Quarterly Report	–	Quarterly Report on Form 10-Q for the quarter ended March 31, 2020
ROA	–	Return on average assets
ROE	–	Return on average common equity
ROTCE	–	Return on average tangible common equity
ROU Asset	–	Right of Use Asset
RUC	–	Reserve for unfunded commitments
SBA	–	Small Business Administration
SEC	–	Securities and Exchange Commission
SSFA	–	Simplified supervisory formula approach
Tax Act	–	Tax Cuts and Jobs Act of 2017
TDR	–	Troubled debt restructuring
Topic 606	–	ASU No. 2014-09, *“Revenue from Contracts with Customers: Topic 606”*
TFSB	–	The Federal Savings Bank
UMG	–	Union Mortgage Group, Inc.
Xenith	–	Xenith Bankshares, Inc.

[redacted]

PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	March 31, 2020	D
ASSETS	*(unaudited)*	
Cash and cash equivalents:		
Cash and due from banks	$ 197,521	$
Interest-bearing deposits in other banks	292,154	
Federal funds sold	15,284	
Total cash and cash equivalents	504,959	
Securities available for sale, at fair value	1,972,903	
Securities held to maturity, at carrying value	552,176	
Restricted stock, at cost	130,227	
Loans held for sale, at fair value	76,690	
Loans held for investment, net of deferred fees and costs	12,768,841	
Less allowance for loan and lease losses	141,043	
Total loans held for investment, net	12,627,798	
Premises and equipment, net	161,139	
Goodwill	935,560	
Amortizable intangibles, net	69,298	
Bank owned life insurance	324,980	
Other assets	491,646	
Assets of discontinued operations	—	
Total assets	$ 17,847,376	$
LIABILITIES		
Noninterest-bearing demand deposits	$ 3,067,573	$
Interest-bearing deposits	10,485,462	
Total deposits	13,553,035	
Securities sold under agreements to repurchase	56,781	
Other short-term borrowings	380,000	
Long-term borrowings	1,077,683	
Other liabilities	354,427	
Liabilities of discontinued operations	—	
Total liabilities	15,421,926	
Commitments and contingencies (Note 8)		
STOCKHOLDERS' EQUITY		
Common stock, $1.33 par value; shares authorized of 200,000,000 and 100,000,000 at March 31, 2020 and December 31, 2019, respectively; 78,710,448 and 80,001,185 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively.	104,086	
Additional paid-in capital	1,743,429	
Retained earnings	529,606	
Accumulated other comprehensive income (loss)	48,329	
Total stockholders' equity	2,425,450	
Total liabilities and stockholders' equity	$ 17,847,376	$

See accompanying notes to consolidated financial statements.

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)
(Dollars in thousands, except share and per share data)

	Three Months Ended	
	March 31, 2020	
	(Unaudited)	
Interest and dividend income:		
Interest and fees on loans	$ 151,127	$
Interest on deposits in other banks	862	
Interest and dividends on securities:		
Taxable	11,627	
Nontaxable	7,709	
Total interest and dividend income	171,325	
Interest expense:		
Interest on deposits	28,513	
Interest on short-term borrowings	1,340	
Interest on long-term borrowings	6,464	
Total interest expense	36,317	
Net interest income	135,008	
Provision for credit losses	60,196	
Net interest income after provision for credit losses	74,812	
Noninterest income:		
Service charges on deposit accounts	7,578	
Other service charges, commissions and fees	1,624	
Interchange fees	1,625	
Fiduciary and asset management fees	5,984	
Mortgage banking income	2,022	
Gains (losses) on securities transactions	1,936	
Bank owned life insurance income	2,049	
Loan-related interest rate swap fees	3,948	
Other operating income	2,141	
Total noninterest income	28,907	
Noninterest expenses:		
Salaries and benefits	50,117	
Occupancy expenses	7,133	
Furniture and equipment expenses	3,741	
Printing, postage, and supplies	1,290	
Technology and data processing	6,169	
Professional services	3,307	
Marketing and advertising expense	2,739	
FDIC assessment premiums and other insurance	2,861	
Other taxes	4,120	
Loan-related expenses	2,697	
OREO and credit-related expenses	688	
Amortization of intangible assets	4,401	
Training and other personnel costs	1,571	
Merger-related costs	—	
Rebranding expense	—	
Other expenses	4,811	
Total noninterest expenses	95,645	
Income from continuing operations before income taxes	8,074	
Income tax expense	985	
Income from continuing operations	$ 7,089	$
Discontinued operations:		
Income (loss) from operations of discontinued mortgage segment	$ —	$
Income tax expense (benefit)	—	
Income (loss) on discontinued operations	—	
Net income	7,089	
Basic earnings per common share	$ 0.09	$
Diluted earnings per common share	$ 0.09	$
Dividends declared per common share	$ 0.25	$
Basic weighted average number of common shares outstanding	79,290,352	
Diluted weighted average number of common shares outstanding	79,317,382	

See accompanying notes to consolidated financial statements.

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)
(Dollars in thousands)

	Three Months I March 31,	
	2020	
Net income	$	**7,089**
Other comprehensive income (loss):		
Cash flow hedges:		
Change in fair value of cash flow hedges		**(699)**
Reclassification adjustment for losses included in net income (net of tax, $394 and $32 for the three months ended March 31, 2020 and 2019, respectively) (1)		**1,481**
AFS securities:		
Unrealized holding gains arising during period (net of tax, $3,904 and $5,338 for the three months ended March 31, 2020 and 2019, respectively)		**14,687**
Reclassification adjustment for gains included in net income (net of tax, $407 and $23 for the three months ended March 31, 2020 and 2019, respectively) (2)		**(1,529)**
HTM securities:		
Reclassification adjustment for accretion of unrealized gain on AFS securities transferred to HTM (net of tax, $1 and $1 for the three months ended March 31, 2020 and 2019, respectively) (3)		**(5)**
Bank owned life insurance:		
Unrealized holding losses arising during the period		**(1,289)**
Reclassification adjustment for losses included in net income (4)		**108**
Other comprehensive income (loss)		**12,754**
Comprehensive income	$	**19,843**

[redacted]*arnings for the three months ended March 31, 2020 included a $1.8 million loss related to the termination of a cash flow hedge that is reported in “Oth income” with the corresponding income tax effect being reflected as a component of income tax expense. The remaining gross amounts are reported in the interest income and interest exper Company’s Consolidated Statements of Income with the corresponding income tax effect being reflected as a component of income tax expense.*

(2) *The gross amounts reclassified into earnings are reported as "Gains (losses) on securities transactions " on the Company’s Consolidated Statements of Income with the corresponding incor reflected as a component of income tax expense.*

(3) *The gross amounts reclassified into earnings are reported within interest income on the Company’s Consolidated Statements of Income with the corresponding income tax effect being reflec of income tax expense.*

(4) *Reclassifications in earnings are reported in "Salaries and benefits" expense on the Company’s Consolidated Statements of Income.*

See accompanying notes to consolidated financial statements.

[redacted]

Table of Contents

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2020 AND 2019
(Dollars in thousands, except share and per share amounts)

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	
Balance - December 31, 2018	$ 87,250	$ 1,380,259	$ 467,345	$ (10,273)	$
Net Income			35,631		
Other comprehensive income (net of taxes of $5,346)				18,670	
Issuance of common stock in regard to acquisition (15,842,026 shares)	21,070	478,904			
Dividends on common stock ($0.23 per share)			(18,838)		
Issuance of common stock under Equity Compensation Plans (6,127 shares)	8	130			
Issuance of common stock for services rendered (6,085 shares)	8	211			
Vesting of restricted stock, net of shares held for taxes, under Equity Compensation Plans (104,151 shares)	139	(1,786)			
Impact of adoption of ASC 842			(1,133)		
Stock-based compensation expense		1,870			
Balance - March 31, 2019	$ 108,475	$ 1,859,588	$ 483,005	$ 8,397	$
Balance - December 31, 2019	$ 105,827	$ 1,790,305	$ 581,395	$ 35,575	$
Net Income			7,089		
Other comprehensive income (net of taxes of $3,890)				12,754	
Dividends on common stock ($0.25 per share)			(19,825)		
Stock purchased under stock repurchase plan (1,493,472 shares)	(1,985)	(47,894)			
Issuance of common stock under Equity Compensation Plans (34,714 shares)	46	731			
Issuance of common stock for services rendered (6,860 shares)	9	195			
Vesting of restricted stock, net of shares held for taxes, under Equity Compensation Plans (142,176 shares)	189	(2,199)			
Impact of adoption of ASC 326			(39,053)		
Stock-based compensation expense		2,291			
Balance - March 31, 2020	$ 104,086	$ 1,743,429	$ 529,606	$ 48,329	$

[redacted]

See accompanying notes to consolidated financial statements.

[redacted]

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2020 AND 2019

(Dollars in thousands)	2020
Operating activities [1]:	
Net income	$ 7,089
Adjustments to reconcile net income to net cash and cash equivalents provided by (used in) operating activities:	
Depreciation of premises and equipment	3,831
Writedown of foreclosed properties and former bank premises	95
Amortization, net	6,164
Amortization (accretion) related to acquisitions, net	(5,262)
Provision for credit losses	60,196
Gains on securities transactions, net	(1,936)
BOLI income	(2,049)
Decrease (increase) in loans held for sale, net	(21,285)
Losses (gains) on sales of foreclosed properties and former bank premises, net	141
Stock-based compensation expenses	2,291
Issuance of common stock for services	204
Net decrease (increase) in other assets	(111,854)
Net increase in other liabilities	110,731
Net cash and cash equivalents provided by (used in) operating activities	48,356
Investing activities:	
Purchases of AFS securities and restricted stock	(208,318)
Purchases of HTM securities	—
Proceeds from sales of AFS securities and restricted stock	120,701
Proceeds from maturities, calls and paydowns of AFS securities	81,240
Proceeds from maturities, calls and paydowns of HTM securities	2,042
Net increase in loans held for investment	(150,890)
Net increase in premises and equipment	(3,994)
Proceeds from sales of foreclosed properties and former bank premises	2,095
Cash paid in acquisitions	—
Cash acquired in acquisitions	—
Net cash and cash equivalents provided by (used in) investing activities	(157,124)
Financing activities:	
Net increase in noninterest-bearing deposits	97,434
Net increase in interest-bearing deposits	150,670
Net increase (decrease) in short-term borrowings	528
Cash dividends paid - common stock	(19,825)
Repurchase of common stock	(49,879)
Issuance of common stock	777
Vesting of restricted stock, net of shares held for taxes	(2,010)
Net cash and cash equivalents provided by (used in) financing activities	177,695
Increase (decrease) in cash and cash equivalents	68,927
Cash and cash equivalents at beginning of the period	436,032
Cash and cash equivalents at end of the period	$ 504,959

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)
THREE MONTHS ENDED MARCH 31, 2019 AND 2018
(Dollars in thousands)

		2020	_
Supplemental Disclosure of Cash Flow Information			
Cash payments for:			
Interest	**$**	**34,755**	$
Income taxes		—	
Supplemental schedule of noncash investing and financing activities			
Transfers from loans (foreclosed properties) to foreclosed properties (loans)		**615**	
Issuance of common stock in exchange for net assets in acquisitions		—	
Transactions related to acquisitions			
Assets acquired		—	
Liabilities assumed		—	

[redacted]*terial impact to the Company’s Consolidated Statement of Cash Flows.*

See accompanying notes to consolidated financial statements.

[redacted]

ATLANTIC UNION BANKSHARES CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements (Unaudited)

1. ACCOUNTING POLICIES

The Company
Headquartered in Richmond, Virginia, Atlantic Union Bankshares Corporation (Nasdaq: AUB) is the holding company for Atlantic Union Bank. Atlantic Union Bank has 149 branches and approximately 170 ATMs located throughout Virginia, and in portions of Maryland and North Carolina. Middleburg Financial is a brand name used by Atlantic Union Bank and certain affiliates when providing trust, wealth management, private banking, and investment advisory products and services. Certain non-bank affiliates of Atlantic Union Bank include: Old Dominion Capital Management, Inc., and its subsidiary, Outfitter Advisors, Ltd., Dixon, Hubard, Feinour, & Brown, Inc., and Middleburg Investment Services, LLC, which provide investment advisory and/or brokerage services; and Union Insurance Group, LLC, which offers various lines of insurance products.

On March 13, 2020, the United States President declared a national emergency in the face of a growing public health and economic crisis due to the COVID-19 global pandemic. Within a few days of the declaration of a national emergency, governors of states comprising the Company's geographic footprint issued states of emergency in response to the novel COVID-19. As a result of this pandemic, actions were taken around the world to help mitigate the spread of COVID 19, which have impacted the economies and financial markets of many countries, including the geographical area in which the Company operates. On March 27, 2020, the CARES Act was signed into law. The CARES Act is designated to provide financial relief to the American people and American businesses in response to the economic fallout from COVID-19. The CARES Act, as well as other interagency guidance, provide enhanced guidelines and accounting for COVID-19 related modifications.

The unaudited consolidated financial statements have been prepared in accordance with U.S. GAAP for interim financial information and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all the information and footnotes required by U.S. GAAP for complete financial statements; however, in the opinion of management, all adjustments 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 or any other period.

These unaudited consolidated financial statements should be read in conjunction with the Company's audited consolidated financial statements and notes thereto included in the Company's 2019 Form 10-K. Certain prior period amounts have been reclassified to conform to current period presentation.

Adoption of New Accounting Standards
On January 1, 2020, the Company adopted ASC 326. This ASU updates the existing guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. This ASU replaces the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to unfunded credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and unfunded credit exposures. Results for reporting periods beginning after January 1, 2020 are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. As a result of adopting ASC 326, the Company recorded a net decrease to retained earnings of $39.1 million.

ASC 326 also replaced the Company's current accounting for PCI loans. With the adoption of ASC 326, previously classified PCI loans are now classified as PCD loans. The Company adopted ASC 326 using the prospective transition approach for financial assets with PCD that were previously identified as PCI and accounted for under ASC 310-30. On January 1, 2020, the amortized cost basis of the PCD assets were adjusted to reflect the addition of $2.4 million to the ACL. The remaining noncredit discount (based on the adjusted amortized cost basis) will be accreted into interest income at the effective interest rate as of January 1, 2020.

The Company's adoption of ASC 326 resulted in a change in the accounting and reporting related to PCI loans which are now defined as PCD and evaluated at the loan level instead of being evaluated in pools under PCI accounting. In accordance with

ASC 326, the Company did not re-assess whether individual modifications were needed to individual acquired financial assets accounted for in the pools with troubled debt restructurings as of the date of adoption.

The Company adopted ASC 326 using the prospective transition approach for debt securities. The effective interest rate on these debt securities was not changed. Upon adoption of ASC 326, the Company did not have any securities included in its portfolio where OTTI had previously been recognized.

The following table illustrates the impact of ASC 326.

	December 31, 2019	January 1, 2020	
	As Previously Reported (Incurred Loss)	Impact of CECL Adoption	A
Assets:			
Loans			
Commercial	$ 30,941	$ 6,184	$
Consumer	11,353	41,300	
Allowance for loan and lease losses	42,294	47,484	
Liabilities:			
Allowance for credit losses on unfunded credit exposure	900	4,160	
Total Allowance for credit losses	$ **43,194**	$ **51,644**	$

Allowance for Loan and Lease Losses
The provision for loan losses charged to operations is an amount sufficient to bring the allowance to an estimated balance that management considers adequate to absorb expected losses in the Company's loan portfolio. The ALLL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Amortized cost is the principal balance outstanding, net of any purchase premiums and discounts and net of any deferred loan fees and costs.

The ALLL represents management's estimate of credit losses over the remaining life of the loan portfolio. Loans are charged off against the ALLL when management believes the loan balance is no longer collectible. Subsequent recoveries of previously charged off amounts are recorded as increases to the ALLL.

Management's determination of the adequacy of the ALLL is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, reasonable and supportable forecasts, and other risk factors. The ALLL is estimated by pooling loans by call code and credit risk indicator and applying a loan-level PD/LGD method for all loans with the exception of its auto and third party consumer lending portfolios. For auto and third party consumer portfolios, the Company has elected to pool those loans based on similar risk characteristics to determine the ALLL using vintage and loss rate methods. The Company utilizes a forecast period of two years and then reverts to the mean of historical loss rates on a straight-line basis over the following two-year period. The Company considers economic forecasts and recession probabilities from highly recognized third-parties to inform the model for loss estimation. Management also considers qualitative factors when estimating loan losses to take into account model limitations. The Company's Allowance Committee approves the key methodologies and assumptions, as well as the final ALLL on a quarterly basis. While management uses available information to estimate expected losses on loans, future changes in the ALLL may be necessary based on changes in portfolio composition, portfolio credit quality, and/or economic conditions.

Loans that do not share risk characteristics are evaluated on an individual basis. The individual reserve component relates to loans that have shown substantial credit deterioration as measured by risk rating and/or delinquency status. In addition, the Company has elected the practical expedient that would include loans for individual assessment consideration if the repayment of the loan is expected substantially through the operation or sale of collateral because the borrower is experiencing financial difficulty. Where the source of repayment is the sale of collateral, the ALLL is based on the fair value of the underlying collateral, less selling costs, compared to the amortized cost basis of the loan. If the ALLL is based on the operation of the collateral, the reserve is calculated based on the fair value of the collateral calculated as the present value of expected cash flows from the operation of the collateral, compared to the amortized cost basis. If the Company determines that the value of a collateral dependent loan is less than the recorded investment in the loan, the Company charges off the deficiency if it is determined that such amount is deemed to be a confirmed loss. Typically, a loss is confirmed when the Company is moving towards foreclosure (or final disposition).

In situations where, for economic or legal reasons related to a borrower’s financial condition, the Company grants a concession in the loan structure to the borrower that is would not otherwise consider, the related loan is classified as a TDR. With the exception of loans with interest rate concessions, the ALLL on a TDR is measured using the same method as all other loans held for investment. For loans with interest rate concessions, the Company uses a discounted cash flow approach using the original interest rate.

Reserve for Unfunded Commitments
The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The reserve for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded and is included in “Other Liabilities” within the Company’s Consolidated Balance Sheets.

Accrued Interest Receivable
The Company has elected to exclude accrued interest from the amortized cost basis in its determination of the ACL reserve for both loans and HTM securities, as well as elected the policy to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable totaled $31.1 million on loans held for investment and, $5.2 million on HTM securities at March 31, 2020 and is included in “Other Assets” on the Company’s consolidated balance sheet.

Acquired Loans
The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Acquired loans are recorded at their fair value at acquisition date without carryover of the acquiree’s previously established ALLL, as credit discounts are included in the determination of fair value. The fair value of the loans is determined using market participant assumptions in estimating the amount and timing of both principal and interest cash flows expected to be collected on the loans and then applying a market-based discount rate to those cash flows. During evaluation upon acquisition, acquired loans are also classified as either PCD or acquired performing.

The purchase discount on acquired performing loans is accounted for under ASC 310-20, *Receivables – Nonrefundable Fees and Other Costs*. The difference between the fair value and unpaid principal balance of the loan at acquisition date (premium or discount) is amortized or accreted into interest income over the life of the loans. If the acquired performing loan has revolving privileges, it is accounted for using the straight-line method; otherwise, the effective interest method is used.

PCD loans reflect loans that have experienced more-than-insignificant credit deterioration since origination. These PCD loans are accounted for under ASC 326. Credit risk characteristics include risk rating groups, nonaccrual status, and past due status. For valuation purposes, these pools are further disaggregated by maturity, pricing characteristics, and re-payment structure.

PCD loans are recorded at the amount paid. An ALLL is determined using the same methodology as other loans held for investment. For PCD loans not individually assessed, the initial ALLL is determined on a collective basis and is allocated to individual loans. The sum of the loan's purchase price and ALLL becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the ALLL are recorded through provision expense.

The PCD loans are and will continue to be subject to the Company’s internal and external credit review and monitoring.

Allowance for Credit Losses on HTM Securities
The Company evaluates the credit risk of its securities on at least a quarterly basis. Management estimates expected credit losses on held-to-maturity debt securities based on an individual basis based on the PD/LGD methodology primarily using security-level credit ratings. Management recorded an immaterial ACL on HTM securities as a result of the adoption of ASC 326, and no additional changes were needed at March 31, 2020.

Allowance for Credit Losses on AFS Securities
For AFS securities, the Company evaluates the fair value and credit quality of its AFS securities on at least a quarterly basis. In the event the fair value of a security falls below its amortized cost basis, the security will be evaluated to determine whether the decline in value was caused by changes in market interest rates or security credit quality. The primary indicators of credit quality for the Company's AFS portfolio are security type and credit rating, which is influenced by a number of security-specific factors that may include obligor cash flow, geography, seniority, and others. There is currently no ACL held against the Company's AFS securities portfolio at March 31, 2020. See Note 3 "Securities," for additional information on the Company's ACL analysis. If unrealized losses are related to credit quality, the Company estimates the credit related loss by evaluating the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis of the security and a credit loss exists, an ACL shall be recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis.

Business Combinations and Divestitures
On February 1, 2019, the Company completed the acquisition of Access. Refer to the Note 2 "Acquisitions" for additional information.

Goodwill and Intangible Assets
The Company has an aggregate goodwill balance of $935.6 million associated with previous merger transactions, which is primarily associated with commercial and consumer banking.

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009 is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exists that indicate that a goodwill impairment test should be performed. The Company has selected April 30th as the date to perform the annual impairment test. The Company performed its annual goodwill impairment testing as of April 30, 2019 and determined that there was no impairment to its goodwill.

The Company performed an interim impairment review as of March 31, 2020 and considered various factors including, the results of the prior year impairment test, the Company's most recent forecasts, and the Company's recent stock price movements, and concluded that no impairment existed as of the balance sheet date.

Intangible assets with definite useful lives are amortized over their estimated useful lives, which range from 4 to 10 years, to their estimated residual values. Goodwill is the only intangible asset with an indefinite life included on the Company's Consolidated Balance Sheets.

Long-lived assets, including purchased intangible assets subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented on the Company's Consolidated Balance Sheets and reported at the lower of the carrying amount or fair value less costs to sell, would no longer depreciated. Management performed a review of impairment through March 31, 2020, and concluded no impairment of these assets existed as of the balance sheet date.

2. ACQUISITIONS

Access Acquisition

On February 1, 2019, the Company completed its acquisition of Access National Corporation (and its subsidiaries), a bank holding company based in Reston, Virginia. Holders of shares of Access's common stock received 0.75 shares of the Company's common stock in exchange for each share of Access's common stock, resulting in the Company issuing 15,842,026 shares of the Company's common stock at a fair value of approximately $500.0 million. In addition, the Company paid cash of approximately $12,000 in lieu of fractional shares.

The transaction was accounted for using the acquisition method of accounting and, accordingly, assets acquired, liabilities assumed, and consideration exchanged were recorded at estimated fair values on the acquisition date. Fair values are preliminary and subject to refinement for up to one year after the closing date of the acquisition, in accordance with ASC 350, *Intangibles-Goodwill and Other*. The measurement period was formally closed as of February 1, 2020, and the Company did not make any measurement period adjustments in January of 2020.

Merger-related costs associated with the acquisition of Access were $0 and $17.8 million for the three months ended March 31, 2020 and 2019, respectively. Such costs include legal and accounting fees, lease and contract termination expenses, system conversion, and employee severances, which have been expensed as incurred.

3. SECURITIES

On January 1, 2020, the Company adopted ASC 326, which made changes to the accounting for AFS debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell prior to maturity. In addition, ASC 326 requires financial assets measured at amortized cost, including held-to-maturity debt securities, to measure an expected credit loss under the CECL methodology that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For further discussion on the Company's accounting policies and policy elections related to the accounting standard update refer to Note 1 "Accounting Policies".

All securities information presented as of March 31, 2020 is in accordance with ASC 326. All securities information presented prior to March 31, 2020 is in accordance with previous applicable GAAP. See the Company's prior accounting policies in Note 1 "Summary of Significant Accounting Policies" of the 2019 Form 10-K.

Available for Sale

The Company's AFS investment portfolio is generally highly-rated, and all AFS securities were current with no securities past due or on non-accrual as March 31, 2020.

The amortized cost, gross unrealized gains and losses, and estimated fair values of AFS securities as of March 31, 2020 are summarized as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
March 31, 2020				
U.S. government and agency securities	**$ 17,631**	**$ 365**	**$ (34)**	**$**
Obligations of states and political subdivisions	**515,914**	**31,367**	**(555)**	
Corporate and other bonds [1]	**122,232**	**2,185**	**(3,449)**	
Mortgage-backed securities				
Commercial	**353,684**	**13,819**	**(56)**	
Residential	**887,762**	**33,820**	**(4,872)**	
Total mortgage-backed securities	**1,241,446**	**47,639**	**(4,928)**	
Other securities	**3,090**	**—**	**—**	
Total AFS securities	**$ 1,900,313**	**$ 81,556**	**$ (8,966)**	**$**

[redacted]urities.

The amortized cost, gross unrealized gains and losses, and estimated fair values of AFS securities as of December 31, 2019 are summarized as follows (dollars in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	
December 31, 2019				
U.S. government and agency securities	$ 21,149	$ 209	$ (38)	$
Obligations of states and political subdivisions	421,344	25,776	(29)	
Corporate and other bonds [1]	134,342	1,991	(374)	
Mortgage-backed securities				
Commercial	416,904	8,786	(643)	
Residential	896,609	17,156	(816)	
Total mortgage-backed securities	1,313,513	25,942	(1,459)	
Other securities	3,079	—	—	
Total AFS securities	$ 1,893,427	$ 53,918	$ (1,900)	$

[redacted]urities

[redacted]

The following table shows the gross unrealized losses and fair value of the Company's AFS securities with unrealized losses for which an allowance for credit losses has not been recorded at March 31, 2020 and that are not deemed to be other than temporarily impaired as of December 31, 2019. These are aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position (dollars in thousands).

	Less than 12 months		More than 12 months		To
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
March 31, 2020					
U.S. government and agency securities	$ 5,338	$ (23)	$ 1,619	$ (11)	$ 6,957
Obligations of states and political subdivisions	24,757	(555)	—	—	24,757
Corporate and other bonds[(1)]	40,409	(2,854)	19,922	(595)	60,331
Mortgage-backed securities					
Commercial	14,667	(56)	—	—	14,667
Residential	135,577	(4,436)	14,880	(436)	150,457
Total mortgage-backed securities	150,244	(4,492)	14,880	(436)	165,124
Total AFS securities	**$ 220,748**	**$ (7,924)**	**$ 36,421**	**$ (1,042)**	**$ 257,169**
December 31, 2019					
U.S. government and agency securities	$ 7,638	$ (38)	$ —	$ —	$ 7,638
Obligations of states and political subdivisions	4,526	(29)	—	—	4,526
Corporate and other bonds[(1)]	17,323	(83)	19,901	(291)	37,224
Mortgage-backed securities					
Commercial	54,714	(554)	14,966	(89)	69,680
Residential	114,147	(500)	40,168	(316)	154,315
Total mortgage-backed securities	168,861	(1,054)	55,134	(405)	223,995
Total AFS securities	$ 198,348	$ (1,204)	$ 75,035	$ (696)	$ 273,383

[redacted]*urities.*

As of March 31, 2020, there were $36.4 million, or 20 issues, of individual AFS securities that had been in a continuous loss position for more than 12 months and had an aggregate unrealized loss of $1.0 million. As of December 31, 2019, there were $75.0 million, or 47 issues, of individual securities that had been in a continuous loss position for more than 12 months and had an aggregate unrealized loss of $696,000.

The Company has determined the securities that were in an unrealized loss position with no allowance for credit loss as of March 31, 2020 and December 31, 2019 were based on the reasons set out below:

Obligations of state and political subdivisions. This category's unrealized losses are primarily the result of market volatility. The majority of the securities are of high credit quality (rated A- or higher) and the issuers continue to make timely principal and interest payments on the bonds. The contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the cost basis of each investment. The Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis.

Corporate and other bonds. This category's unrealized losses are the result of market volatility. The majority of these securities remain investment grade and the Company's analysis did not indicate the existence of a credit loss. The contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the cost basis of each investment. The Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis, which may be maturity.

[redacted]

Mortgage-backed securities. The majority of these securities are of high credit quality (rated A or higher) or are issued by FNMA, FHLMC, and GNMA and do not have credit risk given the implicit and explicit government guarantees associated with these agencies. In addition, the issuers continue to make timely principal and interest payments. Current market volatility has caused certain securities to experience a non-credit related decline in value. The majority of the securities in an unrealized loss position are guaranteed with implicit and explicit government guarantees associated. In addition, the Company does not intend to sell the investments before recovery of their amortized cost, which may be maturity.

The Company's mortgage-backed securities portfolio includes non-agency collateralized mortgage obligations with a fair value of $40.6 million which had unrealized losses of approximately $1.3 million at March 31, 2020. These non-agency mortgage-backed securities were generally rated AAA or equivalent at purchase and generally received a 20% SSFA rating. The Company does not intend to sell the investments, and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of their amortized cost basis, which may be maturity. The issuer(s) continues to make timely principal and interest payments. As such, the Company does not consider these investments to have credit related impairment as of March 31, 2020.

The following table presents the amortized cost of AFS securities as of March 31, 2020 by security type and credit rating (dollars in thousands):

	Three Months Ended March 31, 2020					
	U.S. Government and Agency securities	Obligations of states and political subdivisions	Corporate and other bonds	Mortgage-backed securities	Other securities	
Credit Rating:						
AAA/AA/A	$ 2,497	$ 514,374	$ 32,288	$ 38,859	$ —	$
BBB/BB/B	—	1,033	22,853	—	—	
Not Rated - Agency[1]	15,134	—	—	1,153,495	1,608	
Not Rated - Non-Agency	—	507	67,091	49,092	1,482	
Total	$ 17,631	$ 515,914	$ 122,232	$ 1,241,446	$ 3,090	$

[redacted]t risk given the government guarantees associated with these agencies

The following table presents the amortized cost and estimated fair value of AFS securities as of March 31, 2020 and December 31, 2019, by contractual maturity. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (dollars in thousands).

	March 31, 2020		December 31,	
	Amortized Cost	Estimated Fair Value	Amortized Cost	
Due in one year or less	**$ 24,916**	**$ 25,080**	$ 35,177	$
Due after one year through five years	**157,141**	**162,774**	164,605	
Due after five years through ten years	**221,929**	**228,121**	249,713	
Due after ten years	**1,496,327**	**1,556,928**	1,443,932	
Total AFS securities	**$ 1,900,313**	**$ 1,972,903**	$ 1,893,427	$

Refer to Note 8 "Commitments and Contingencies" for information regarding the estimated fair value of AFS securities that were pledged to secure public deposits, repurchase agreements, and for other purposes as permitted or required by law as of March 31, 2020 and December 31, 2019.

Held to Maturity

The Company's HTM investment portfolio primarily consists of highly-rated municipal securities and the estimated credit loss inherent in the portfolio is currently immaterial. The Company's HTM securities were all current, with no securities past due or on non-accrual at March 31, 2020.

The Company reports HTM securities on the Company's Consolidated Balance Sheets at carrying value. Carrying value is amortized cost, which includes any unamortized unrealized gains and losses recognized in accumulated other comprehensive income prior to reclassifying the securities from AFS securities to HTM securities. Investment securities transferred into the

[redacted]

HTM category from the AFS category are recorded at fair value at the date of transfer. The unrealized holding gain or loss at the date of transfer is retained in accumulated other comprehensive income and in the carrying value of the HTM securities. Such unrealized gains or losses are accreted over the remaining life of the security with no impact on future net income.

The carrying value, gross unrealized gains and losses, and estimated fair values of HTM securities as of March 31, 2020 are summarized as follows (dollars in thousands):

	Carrying	Gross Unrealized		
	Value	Gains	(Losses)	
March 31, 2020				
U.S. government and agency securities	$ 2,797	$ —	$ (69)	$
Obligations of states and political subdivisions	543,517	52,815	—	
Mortgage-backed securities				
Commercial	5,862	—	(142)	
Residential	—	—	—	
Total mortgage-backed securities	5,862	—	(142)	
Total held-to-maturity securities	**$ 552,176**	**$ 52,815**	**$ (211)**	**$**

The carrying value, gross unrealized gains and losses, and estimated fair values of HTM securities as of December 31, 2019 are summarized as follows (dollars in thousands):

	Carrying	Gross Unrealized		
	Value	Gains	(Losses)	
December 31, 2019				
U.S. government and agency securities	$ 2,813	$ 26	$ —	$
Obligations of states and political subdivisions	545,148	48,274	—	
Mortgage-backed securities				
Commercial	7,183	59	—	
Residential	—	—	—	
Total mortgage-backed securities	7,183	59	—	
Total held-to-maturity securities	$ 555,144	$ 48,359	$ —	$

Credit Quality Indicators & Allowance for Credit Losses - HTM

For HTM securities, the Company evaluates the credit risk of its securities on at least a quarterly basis. The Company estimates expected credit losses on HTM debt securities on an individual basis based on the PD/LGD methodology primarily using security-level credit ratings. The Company's HTM securities ACL was immaterial at the adoption of ASC 326. The Company re-evaluated the HTM securities ACL at March 31, 2020 and concluded no additional reserve was needed at March 31, 2020. The primary indicators of credit quality for the Company's HTM portfolio are security type and credit rating, which is influenced by a number of factors including obligor cash flow, geography, seniority, and others. The Company's only credit risk HTM securities are obligations of states and political subdivisions.

[redacted]

The following table presents the amortized cost of HTM securities as of March 31, 2020 by security type and credit rating (dollars in thousands):

	Three Months Ended March 31, 2020			
	U.S. Government and Agency securities	Obligations of states and political subdivisions	Mortgage-backed securities	
Credit Rating:				
AAA/AA/A	$ —	$ 536,747	$ —	$

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