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

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported) November 16, 2018

UNION BANKSHARES CORPORATION

(Exact name of registrant as specified in its charter)

Virginia	**000-20293**	**54-1598552**
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification Number)

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)

Not Applicable
(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

☒ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 under the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 under the Securities Exchange Act of 1934 (17 CFR 240.12b-2). 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. ☐

Item 8.01. Other Events.

As previously reported, on January 1, 2018, Union Bankshares Corporation ("Union"), a Virginia corporation and the parent holding company of Union Bank & Trust, completed its acquisition of Xenith Bankshares, Inc. ("Xenith"), a Virginia corporation, pursuant to an Agreement and Plan of Reorganization, dated as of May 19, 2017, between Union and Xenith, and a related Plan of Merger (the "Xenith Acquisition"). Union has included with this filing certain historical audited financial information with respect to Xenith.

Also as previously reported, on October 4, 2018, Union and Access National Corporation ("Access"), a Virginia corporation and the parent holding company of Access National Bank, entered into an Agreement and Plan of Reorganization (the "Agreement"), pursuant to which, subject to the terms and conditions of the Agreement, among other things, (i) Access will merge with and into Union (the "Merger"), with Union continuing as the continuing corporation in the Merger and (ii) following the Merger, Access National Bank will merge with and into Union Bank & Trust, with Union Bank & Trust continuing as the continuing bank. The transaction is subject to customary closing conditions, including, among others, receipt of required regulatory approvals and shareholder approvals by Union and Access. In addition, as previously reported, on April 1, 2017, Access completed its acquisition of Middleburg Financial Corporation ("Middleburg"), a Virginia corporation, pursuant to an Agreement and Plan of Reorganization, dated as of October 21, 2016, between Access and Middleburg, and a related Plan of Merger (the "Middleburg Acquisition"). Union has included with this filing certain historical audited financial information, with respect to Access and Middleburg, certain historical unaudited financial information, with respect to Access, and certain additional unaudited pro forma financial information giving effect to the Merger and the Xenith Acquisition as though they had been completed on the dates set forth in such information.

Union is filing this Current Report in order to provide the aforementioned historical audited and unaudited financial information with respect to Xenith, Access and Middleburg, as applicable, and certain additional unaudited pro forma financial information giving effect to the Merger and the Xenith Acquisition as though they had been completed on the dates set forth in such information.

Important Additional Information will be Filed with the SEC

This Form 8-K does not constitute an offer to sell or the solicitation of an offer to buy any securities or a solicitation of any vote or approval with respect to the proposed acquisition by Union of Access. No offer of securities shall be made except by means of a prospectus meeting the requirements of the Securities Act of 1933, as amended, and no offer to sell or solicitation of an offer to buy shall be made in any jurisdiction in which such offer, solicitation or sale would be unlawful.

In connection with the proposed acquisition, Union will file with the U.S. Securities and Exchange Commission ("SEC") a Registration Statement on Form S-4 that will include a joint proxy statement of Union and Access and a prospectus of Union (the "Joint Proxy/Prospectus"), and each of Union and Access may file with the SEC other relevant documents concerning the proposed transaction. A definitive Joint Proxy/Prospectus will be sent to the shareholders of Union and Access. **Investors and shareholders of Union and Access are urged to read carefully and in their entirety the Registration Statement and Joint Proxy/Prospectus when they become available and any other relevant documents filed with the SEC by Union and Access, as well as any amendments or supplements to those documents, because they will contain important information about the proposed transaction.**

Investors and shareholders may obtain free copies of the Registration Statement and the Joint Proxy/Prospectus (when available) and other documents filed with the SEC by Union and Access through the website maintained by the SEC at www.sec.gov. Free copies of the Registration Statement and the Joint Proxy/Prospectus and other documents filed with the SEC also may be obtained by directing a request by telephone or mail to Union Bankshares Corporation, 1051 East Cary Street, Suite 1200, Richmond, Virginia 23219, Attention: Investor Relations (telephone: (804) 633-5031), or Access National Corporation, 1800 Robert Fulton Drive, Suite 300, Reston, VA 20191, Attention: Sheila Linton (telephone: (703) 871-2100), or by accessing Union's website at www.bankatunion.com under "Investor Relations" or Access's website at www.accessnationalbank.com under "Investor Relations." The information on Union's and Access's websites is not, and shall not be deemed to be, a part of this Form 8-K or incorporated into other filings either company makes with the SEC.

Participants in the Solicitation

Union, Access and their respective directors and certain of their executive officers and employees may be deemed to be participants in the solicitation of proxies from the shareholders of Union or Access in connection with the proposed transaction. Information about the directors and executive officers of Union and their ownership of Union common stock is set forth in the proxy statement for Union's 2018 annual meeting of shareholders, which was filed with the SEC on March 21, 2018. Information about the directors and executive officers of Access and their ownership of Access common stock is set forth in the proxy statement for Access's 2018 annual meeting of shareholders, which was filed with the SEC on April 12, 2018. Information regarding the persons who may, under the rules of the SEC, be deemed participants in the proxy solicitation and a description of their direct and indirect interests, by security holdings or otherwise, will be contained in the Joint Proxy/Prospectus and other relevant materials to be filed with the SEC when they become available. Free copies of these documents may be obtained as described above.

Forward-Looking Statements

Certain statements in this Form 8-K may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include, without limitation, projections, predictions, expectations, or beliefs about future events or results that are not statements of historical fact. Such statements also include statements as to the anticipated impact of the Union acquisition of Access, including future financial and operating results, ability to successfully integrate the combined businesses, the amount of cost savings, overall operational efficiencies and enhanced revenues as well as other statements regarding the acquisition. Such forward-looking statements are based on various assumptions as of the time they are made, and are inherently subject to known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements to be materially different from those expressed or implied by such forward-looking statements. Forward-looking statements are often accompanied by words that convey projected future events or outcomes such as "expect," "believe," "estimate," "plan," "project," "anticipate," "intend," "will," "may," "view," "opportunity," "potential," or words of similar meaning or other statements concerning opinions or judgment of Union or Access or their management about future events. Although each of Union and Access believes that its expectations with respect to forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance, or achievements of Union or Access will not differ materially from any projected future results, performance, or achievements expressed or implied by such forward-looking statements. Actual future results, performance or achievements may differ materially from historical results or those anticipated depending on a variety of factors, including but not limited to, the businesses of Union and Access may not be integrated successfully or such integration may be more difficult, time-consuming or costly than expected, expected revenue synergies and cost savings from the proposed acquisition may not be fully realized or realized within the expected time frame, revenues following the proposed acquisition may be lower than expected, customer and employee relationships and business operations may be disrupted by the proposed acquisition, the diversion of management time on acquisition-related issues, changes in Union's share price before closing, risks relating to the potential dilutive effect of shares of Union common stock to be issued in the proposed transaction, the ability to obtain regulatory, shareholder or other approvals or other conditions to closing on a timely basis or at all, the ability to close the proposed acquisition on the expected timeframe, or at all, and that closing may be more difficult, time-consuming or costly than expected, the reaction to the proposed acquisition of the companies' customers, employees and counterparties, and other risk factors, many of which are beyond the control of Union and Access. We refer you to the "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" sections of Union's Annual Report on Form 10-K for the year ended December 31, 2017 and Access's Annual Report on Form 10-K for the year ended December 31, 2017 and comparable "Risk Factors" sections of Union's and Access's Quarterly Reports on Form 10-Q and other filings, which have been filed with the SEC and are available on the SEC's website at www.sec.gov. All of the forward-looking statements made in this Form 8-K are expressly qualified by the cautionary statements contained or referred to herein. The actual results or developments anticipated may not be realized or, even if substantially realized, they may not have the expected consequences to or effects on Union, Access or their respective businesses or operations. Readers are cautioned not to rely too heavily on the forward-looking statements contained in this Form 8-K. Forward-looking statements speak only as of the date they are made and neither Union nor Access undertakes any obligation to update, revise or clarify these forward-looking statements, whether as a result of new information, future events or otherwise.

Item 9.01. Financial Statements and Exhibits.

(a) Financial statements of business acquired.

(i) The audited consolidated balance sheets of Xenith as of December 31, 2017 and 2016, and the related audited consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the two years in the period ended December 31, 2017, and the related notes and report of the independent auditor thereto, are attached hereto as Exhibit 99.1 and incorporated by reference herein.

(ii) The audited consolidated balance sheets of Access as of December 31, 2017 and 2016, and the related audited consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes and report of the independent auditor thereto, are attached hereto as Exhibit 99.2 and incorporated by reference herein.

(iii) The unaudited consolidated balance sheets of Access as of September 30, 2018 and December 31, 2017, and the related unaudited consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2018 and 2017 and consolidated statements of changes in shareholders' equity and cash flows for the nine months ended September 30, 2018 and 2017, and the related notes thereto, are attached hereto as Exhibit 99.3 and incorporated by reference herein.

(iv) The audited consolidated balance sheets of Middleburg as of December 31, 2016 and 2015, and the related audited consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016, and the related notes and reports of independent auditors thereto, are attached hereto as Exhibit 99.4 and incorporated by reference herein.

(b) Pro forma financial information.

(i) The unaudited pro forma combined condensed balance sheet of Union as of September 30, 2018, and the unaudited pro forma combined condensed statements of income for the nine months ended September 30, 2018 and for the year ended December 31, 2017, and the related notes thereto, are attached hereto as Exhibit 99.5 and incorporated by reference herein.

(c) Shell Company Transactions.

(i) Not applicable.

(d) Exhibits.

Exhibit No.	Description
23.1	Consent of KPMG, with respect to the audited financial statements of Xenith Bankshares, Inc.
23.2	Consent of BDO USA, LLP, with respect to the audited financial statements of Access National Corporation.
23.3	Consent of Yount, Hyde & Barbour, P.C., with respect to the audited financial statements of Middleburg Financial Corporation.
99.1	Audited Consolidated Financial Statements of Xenith Bankshares, Inc. as of and for the years ended December 31, 2017 and 2016.
99.2	Audited Consolidated Financial Statements of Access National Corporation as of and for the years ended December 31, 2017, 2016 and 2015.
99.3	Unaudited Consolidated Financial Statements of Access National Corporation as of September 30, 2018 and December 31, 2017 and for the periods ended September 30, 2018 and 2017.
99.4	Audited Consolidated Financial Statements of Middleburg Financial Corporation, as of and for the years ended December 31, 2016, 2015 and 2014.
99.5	Unaudited Pro Forma Combined Condensed Financial Statements of Union Bankshares Corporation.

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, hereunto duly authorized.

UNION BANKSHARES CORPORATION

Date: November 16, 2018

By: /s/ Robert M. Gorman
Name: Robert M. Gorman
Title: Executive Vice President and Chief Financial Officer

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the registration statements (Nos. 333-220398, 333-165874, 333-166520, 333-161860, 333-156946, 333-144481, 033-78060, 333-102012 and 333-81199) on Form S-3 and (Nos. 333-203580, 333-193364, 333-175808, 333-113842 and 333-113839) on Form S-8 of Union Bankshares Corporation of our report dated March 9, 2018, with respect to the consolidated balance sheets of Xenith Bankshares, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements, which report appears in the Form 8-K of Union Bankshares Corporation dated November 15, 2018 and to the references to our firm under the heading "Experts" in such registration statements.

/s/ KPMG, LLP

McLean, Virginia
November 15, 2018

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

Union Bankshares Corporation
Richmond, Virginia

We hereby consent to the incorporation by reference in the Registration Statements on Form S-3 (file nos. 333-220398, 333-166520, 333-165874, 333-161860, 333-156946, 333-144481, 033-78060, 333-102012, and 333-81199) and Form S-8 (file nos. 333-203580, 333-193364, 333-175808, 333-113842 and 333-113839) of Union Bankshares Corporation of our reports dated April 4, 2018, relating to the consolidated financial statements and the effectiveness of Access National Corporation’s internal control over financial reporting, which appear in the Form 10-K of Access National Corporation for the year ended December 31, 2017, which reports are included in this Form 8-K of Union Bankshares Corporation. Our report on the effectiveness of internal control over financial reporting expresses an adverse opinion on the effectiveness of Access National Corporation's internal control over financial reporting as of December 31, 2017. We also consent to the references to our firm under the heading “Experts” in such registration statements.

/s/ BDO USA, LLP

BDO USA, LLP
Richmond, Virginia
November 15, 2018

Exhibit 23.3

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statements of Union Bankshares Corporation on Form S-3 (file nos. 333-220398, 333-166520, 333-165874, 333-161860, 333-156946, 333-144481, 033-78060, 333-102012, and 333-81199) and on Form S-8 (file nos. 333-203580, 333-193364, 333-175808, 333-113842 and 333-113839) of our reports dated March 15, 2017, relating to the consolidated financial statements and effectiveness of internal control over financial reporting of Middleburg Financial Corporation and subsidiaries, appearing in the Annual Report on Form 10-K of Middleburg Financial Corporation for the year ended December 31, 2016, each of which reports are included in this Current Report on Form 8-K of Union Bankshares Corporation. We also consent to the references to our firm under the heading “Experts” in such registration statements.

/s/ YOUNT, HYDE & BARBOUR, P.C.

Winchester, Virginia
November 15, 2018

Report of Independent Registered Public Accounting Firm

The Board of Directors
Union Bankshares Corporation:

We have audited the accompanying consolidated financial statements of Xenith Bankshares, Inc. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Xenith Bankshares, Inc. and its subsidiaries as of December 31, 2017 and 2016, and the results of their operations and their cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.

/s/ KPMG LLP

McLean, Virginia
March 9, 2018

CONSOLIDATED BALANCE SHEETS
As of December 31, 2017 and 2016

(in thousands, except share data)	December 31, 2017	December 31, 2016
Assets		
Cash and due from banks	$ 17,043	$ 18,825
Interest-bearing deposits in other banks	6,068	4,797
Overnight funds sold and due from Federal Reserve Bank	151,107	103,372
Investment securities available for sale, at fair value	295,782	317,443
Restricted equity securities, at cost	27,569	24,313
Loans	2,506,589	2,464,056
Allowance for loan losses	(16,829)	(21,940)
Net loans	2,489,760	2,442,116
Premises and equipment, net	54,633	56,996
Interest receivable	8,444	8,806
Other real estate owned and repossessed assets, net of valuation allowance	4,214	5,345
Goodwill	26,931	26,931
Other intangible assets, net	3,261	3,787
Net deferred tax assets, net of valuation allowance	90,246	157,825
Bank-owned life insurance	73,853	72,104
Other assets	21,815	13,969
Assets of discontinued operations	—	10,563
Totals assets	$ 3,270,726	$ 3,267,192
Liabilities and Shareholders' Equity		
Deposits:		
Noninterest-bearing demand	$ 511,371	$ 501,678
Interest-bearing:		
Demand and money market	1,182,473	1,113,453
Savings	95,593	86,739
Time deposits:		
Less than $250	689,822	785,303
$250 or more	66,288	84,797
Total deposits	2,545,547	2,571,970
Federal Home Loan Bank borrowings	235,000	172,000
Other borrowings	39,331	38,813
Interest payable	929	829
Other liabilities	19,589	19,093
Liabilities of discontinued operations	589	849
Total liabilities	2,840,985	2,803,554
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, 1,000,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.01 par value; 1,000,000,000 shares authorized; 23,412,677 and 23,123,518 shares issued and outstanding on December 31, 2017 and December 31, 2016, respectively	234	231
Capital surplus	713,630	710,916
Accumulated deficit	(282,073)	(245,538)
Accumulated other comprehensive loss, net of tax	(2,050)	(2,428)
Total shareholders' equity before non-controlling interest	429,741	463,181
Non-controlling interest of discontinued operations	—	457
Total shareholders' equity	429,741	463,638
Total liabilities and shareholders' equity	$ 3,270,726	$ 3,267,192

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2017 and 2016

(in thousands)	December 31, 2017	December 31, 2016
Interest income		
Loans, including fees	$ 111,465	$ 85,513
Investment securities	8,168	6,584
Overnight funds sold and deposits in other banks	1,015	320
Total interest income	120,648	92,417
Interest expense		
Deposits:		
Demand and money market	6,906	4,663
Savings	243	126
Time deposits	9,209	8,090
Interest on deposits	16,358	12,879
Federal Home Loan Bank borrowings	1,035	301
Other borrowings	2,881	2,368
Total interest expense	20,274	15,548
Net interest income	100,374	76,869
Provision for loan losses	874	11,329
Net interest income after provision for loan losses	99,500	65,540
Noninterest income		
Service charges on deposit accounts	4,772	4,686
Earnings from bank-owned life insurance	1,749	1,492
Gain on sales of available-for-sale investment securities	1,274	16
Gain on sales of loans	252	—
Visa check card income	3,146	2,847
Other	3,495	2,083
Total noninterest income	14,688	11,124
Noninterest expense		
Salaries and employee benefits	39,360	34,501
Professional and consultant fees	3,597	3,021
Occupancy	7,645	6,427
FDIC insurance	1,799	1,847
Data processing	5,350	5,602
Problem loan and repossessed asset costs	445	650
Impairments and gains and losses on sales of other real estate owned and repossessed assets, net	(37)	532
Losses on sales of premises and equipment, net	—	48
Equipment	1,325	1,083
Board fees	959	1,347
Advertising and marketing	821	539
Merger related	11,108	16,717
Other	10,933	8,564
Total noninterest expense	83,305	80,878
Income (loss) from continuing operations before income tax expense (benefit)	30,883	(4,214)
Income tax expense (benefit)	67,632	(59,728)
Net (loss) income from continuing operations	(36,749)	55,514
Net (loss) income from discontinued operations before income tax (benefit) expense	(134)	4,191
Income tax (benefit) expense	(20)	996
Net (loss) income from discontinued operations attributable to non-controlling interest	(129)	1,667
Net income from discontinued operations	15	1,528
Net (loss) income attributable to Xenith Bankshares, Inc.	$ (36,734)	$ 57,042

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2017 and 2016

(in thousands)	December 31, 2017	December 31, 2016
Net (loss) income attributable to Xenith Bankshares, Inc.	$ (36,734)	$ 57,042
Other comprehensive loss, net of tax:		
Change in unrealized loss (gain) on available-for-sale investment securities	1,856	(4,597)
Income tax effect	(650)	1,620
Reclassification adjustment for securities gains included in net income	(1,274)	(16)
Income tax effect	446	5
Other comprehensive income (loss), net of tax	378	(2,988)
Comprehensive (loss) income attributable to Xenith Bankshares, Inc.	$ (36,356)	$ 54,054

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2017 and 2016

(in thousands, except share data)	Common Stock Shares	Common Stock Amount	Capital Surplus	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss), Net of Tax	Non-Controlling Interest of Discontinued Operations	Total Shareholders' Equity
Balance at December 31, 2015	17,112,827	$ 171	$ 591,957	$ (302,580)	$ 560	$ 513	$ 290,621
Net income	—	—	—	57,042	—	1,667	58,709
Other comprehensive loss, net of tax	—	—	—	—	(2,988)	—	(2,988)
Issuance of common stock for Legacy Xenith Merger	5,891,544	59	118,294	—	—	—	118,353
Share-based compensation expense	—	—	1,999	—	—	—	1,999
Issuance for share-based awards	119,147	1	(1,334)	—	—	—	(1,333)
Distributed non-controlling interest	—	—	—	—	—	(1,723)	(1,723)
Balance at December 31, 2016	23,123,518	231	710,916	(245,538)	(2,428)	457	463,638
Net loss	—	—	—	(36,734)	—	(129)	(36,863)
Other comprehensive income, net of tax	—	—	—	—	378	—	378
Share-based compensation expense	—	—	2,457	—	—	—	2,457
Restricted stock awards issued under incentive plan	—	—	236	—	—	—	236
Restricted stock awards granted	15,423	—	—	—	—	—	—
Forfeiture of restricted stock awards	(404)	—	—	—	—	—	—
Net settlement of restricted stock awards	37,342	1	(150)	—	—	—	(149)
Net exercises of stock options	236,033	2	1,822	—	—	—	1,824
Reclassification to other liabilities	—	—	—	—	—	(328)	(328)
Repurchase of U.S. Treasury warrant	—	—	(1,671)	—	—	—	(1,671)
Sale of warrants	765	—	20	—	—	—	20
Cumulative effect adjustment of adoption of accounting principle	—	—	—	199	—	—	199
Balance at December 31, 2017	23,412,677	$ 234	$ 713,630	$ (282,073)	$ (2,050)	$ —	$ 429,741

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2017 and 2016

(in thousands)	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net (loss) income from continuing operations	$ (36,749)	$ 55,514
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:		
Depreciation and amortization	2,876	2,895
Deferred income tax expense (benefit)	68,249	(64,058)
Accretion and amortization of fair value adjustments	(2,608)	(2,429)
Amortization of core deposit intangible	526	467
Provision for loan losses	874	11,329
Share-based compensation expense	2,656	1,999
Net amortization of premiums and accretion of discounts on investment securities available for sale	3,754	2,437
Earnings from bank-owned life insurance	(1,749)	(1,492)
Gain on sales of available-for-sale investment securities	(1,924)	(16)
Impairments and (gains) and losses on sales of other real estate owned and repossessed assets	(37)	532
Impairments and (gains) and losses on sales of premises and equipment	(17)	48
Gain on sale of loans	(252)	—
Changes in:		
Interest receivable	362	(226)
Other assets	(8,428)	17,630
Interest payable	100	81
Other liabilities	732	(33,269)
Net cash provided by (used in) operating activities - continuing operations	28,365	(8,558)
Net cash provided by operating activities - discontinued operations	9,831	50,718
Cash provided by operating activities	38,196	42,160
Cash flows from investing activities		
Cash acquired in acquisition	—	69,241
Proceeds from maturities and calls of investment securities available for sale	34,811	38,069
Proceeds from sale of investment securities available for sale	41,842	31,632
Purchases of investment securities available for sale	(56,512)	(56,981)
Proceeds from sales of restricted equity securities	23,247	15,249
Purchases of restricted equity securities	(26,503)	(29,731)
Proceeds from sale of guaranteed student loans	39,614	—
Net increase in loans	(85,879)	(113,384)
Proceeds from sale of other real estate owned and repossessed assets, net	2,792	11,786
Purchases of premises and equipment, net	(985)	(1,621)
Net cash used in investing activities - continuing operations	(27,573)	(35,740)
Net cash provided by investing activities - discontinued operations	—	2,139
Cash used in investing activities	(27,573)	(33,601)
Cash flows from financing activities		
Net decrease in deposits	(26,423)	(89,252)
Net increase in short-term Federal Home Loan Bank borrowings	63,000	147,000
Issuance of common stock related to exercised options and warrants	1,845	1,471
Settlement of restricted stock units	(150)	(2,801)
Cash consideration paid in lieu of fractional shares	—	(6)
Distributed non-controlling interest	—	(1,723)
Repurchase of treasury warrants	(1,671)	—
Net cash provided by financing activities	36,601	54,689
Increase in cash and cash equivalents	47,224	63,248
Cash and cash equivalents at beginning of period	126,994	63,746
Cash and cash equivalents at end of period	$ 174,218	$ 126,994
Supplemental cash flow information:		
Cash paid for interest	$ 20,146	$ 15,228
Cash paid for income taxes	—	8
Supplemental non-cash information:		
Change in unrealized gain (loss) on investment securities available for sale, net of tax	$ 378	$ (2,988)
Transfer from other real estate owned and repossessed assets to loans	—	1,501
Transfer from loans to other real estate owned and repossessed assets	1,125	5,228
Transfer from premises and equipment to other real estate owned and repossessed assets	499	734
Non-cash transaction related to acquisition:		
Assets acquired	$ —	$ 1,025,352
Liabilities assumed	—	1,003,170

See accompanying notes to consolidated financial statements.

NOTE 1 - Basis of Presentation

Xenith Bankshares, Inc. ("Xenith Bankshares" or the "Company") is the bank holding company for Xenith Bank (the "Bank"), a Virginia-based institution headquartered in Richmond, Virginia. As of December 31, 2017, the Company, through the Bank, operated 40 full-service branches and two loan production offices. Xenith Bank is a commercial bank specifically targeting the banking needs of middle market and small businesses, local real estate developers and investors, and retail banking clients. The Bank's regional area of operations spans from Baltimore, Maryland, to Raleigh and eastern North Carolina, complementing its significant presence in greater Washington, D.C., greater Richmond, Virginia, and greater Hampton Roads, Virginia. The Company has one banking subsidiary, the Bank, which constitutes substantially all of the Company's assets and operations.

On May 19, 2017, the Company and Union Bankshares Corporation ("Union") entered into an Agreement and Plan of Reorganization (the "Union Merger Agreement"), pursuant to which, and subject to terms and conditions set forth therein, Xenith Bankshares merged with and into Union (the "Union Merger"), with Union surviving the Union Merger. Also pursuant to the Union Merger Agreement, immediately following the Union Merger, Xenith Bank merged with and into Union Bank & Trust, with Union Bank & Trust being the surviving bank. Pursuant to the Union Merger Agreement at the effective time of the Union Merger, January 1, 2018 at 12:01 a.m. (the "Effective Time"), holders of Xenith Bankshares' common stock received the right to 0.9354 (the "Exchange Ratio") shares of Union common stock (the "Merger Consideration") in exchange for each share of the common stock outstanding at the Effective Time of the Union Merger, with cash paid in lieu of fractional shares.

At the Effective Time, each option to purchase shares of Xenith Bankshares common stock, whether vested or unvested, that was outstanding and unexercised immediately prior to the Effective Time was converted into the right to receive a cash payment in an amount equal to the product of (i) the difference between (A) the product of the average of the closing sale prices of Union common stock on the NASDAQ Global Select Market for the 10 full trading days ending on the trading day immediately preceding the Effective Time and the Exchange Ratio (the “Conversion Price”) and (B) the per share exercise price of the option immediately prior to the Effective Time, and (ii) the number of shares of Xenith Bankshares common stock subject to such option, subject to any applicable withholdings. Any options to purchase shares of Xenith Bankshares common stock with a per share exercise price in excess of the Conversion Price were cancelled without payment.

At the Effective Time, each warrant exercisable for shares of Xenith Bankshares common stock that was outstanding and unexercised immediately prior to the Effective Time was converted into a warrant to acquire, on the same terms and conditions as were applicable under such warrant immediately prior to the Effective Time, the number of shares of Union common stock equal to the product of the number of shares of Xenith common stock subject to such warrant immediately prior to the Effective Time and the Exchange Ratio (rounding any resultant fractional share down to the nearest whole number of shares), at a price per share of Union common stock equal to the price per share under the warrant divided by the Exchange Ratio (rounding any resultant fractional cent up to the nearest whole cent).

At the Effective Time, each outstanding restricted stock award granted by Xenith Bankshares and each outstanding restricted stock unit award in respect of Xenith Bankshares common stock granted by the Company vested fully and was converted into the right to receive the Merger Consideration in respect of each share of Xenith Bankshares common stock underlying such award. Each share of Union common stock outstanding immediately prior to the Union Merger remained outstanding and was unaffected by the Union Merger.

Effective July 29, 2016, the Company (previously, Hampton Roads Bankshares, Inc.) completed its merger (the "Legacy Xenith Merger") with legacy Xenith Bankshares, Inc. ("Legacy Xenith"), pursuant to an Agreement and Plan of Reorganization (the "Legacy Xenith Merger Agreement"), dated as of February 10, 2016, by and between the Company and Legacy Xenith. At the effective time of the Legacy Xenith Merger, Legacy Xenith merged with and into the Company, with the Company surviving the Legacy Xenith Merger. Also at the effective time of the Legacy Xenith Merger, the Company changed its name from "Hampton Roads Bankshares, Inc." to "Xenith Bankshares, Inc." and changed its ticker symbol to "XBKS". Pursuant to the Legacy Xenith Merger Agreement and immediately following the completion of the Legacy Xenith Merger, legacy Xenith Bank merged (the "Legacy Xenith Bank Merger") with and into the Bank, with the Bank surviving the Legacy Xenith Bank Merger. In connection with the Legacy Xenith Bank Merger, the Bank changed its name from "The Bank of Hampton Roads" to "Xenith Bank."

Pursuant to the Legacy Xenith Merger Agreement, holders of Legacy Xenith common stock received 4.4 shares of common stock of the Company for each share of Legacy Xenith common stock with cash paid in lieu of fractional shares.

Information presented herein for the year ended December 30, 2016 includes the operations of Legacy Xenith for the period since the effective time of the Legacy Xenith Merger, July 29, 2016.

On October 17, 2016, the Company completed the sale its mortgage banking business, whereby the Bank sold certain assets of Gateway Bank Mortgage, Inc., a wholly-owned subsidiary of the Bank ("GBMI"), and transitioned GBMI's operations, which included originating, closing, funding and selling first lien residential mortgage loans, to an unrelated party (the "GBMI Sale"). The operations of GBMI have been reported as discontinued operations for all periods presented herein.

On December 13, 2016, a reverse stock split of the Company's outstanding shares of common stock at a ratio of 1-for-10 (the "Reverse Stock Split"), which had been previously approved by the Company's shareholders, became effective. No fractional shares were issued in the Reverse Stock Split, rather shareholders of fractional shares received a cash payment based on the closing price of the common stock as of the date of the Reverse Stock Split. The par value of each share of common stock remained unchanged at $0.01 per share and the number of authorized shares was not affected. References made to outstanding shares or per share amounts in the accompanying consolidated financial statements and notes thereto have been retroactively adjusted to reflect the Reverse Stock Split, unless otherwise noted.

In December 2008, the Company entered into a Letter Agreement and Securities Purchase Agreement - Standard Terms with the United States Department of the Treasury (the “Treasury”), pursuant to which the Treasury purchased (i) shares of the Company’s preferred stock and (ii) a warrant to purchase shares of the Company’s common stock (the “Treasury Warrant”). On September 13, 2017, the Company repurchased the Treasury Warrant from the Treasury for an aggregate cash purchase price of $1.7 million, the fair value of the Treasury Warrant as agreed upon by the Company and the Treasury, and canceled the Treasury Warrant. Following the Company’s repurchase of the Treasury Warrant, the Treasury had no remaining equity interest in the Company.

Certain comparative balances have been reclassified to reflect the current presentation. Any reclassification had no effect on total assets, total shareholders' equity or net income. All dollar amounts included in the tables in these notes are in thousands, except per share data, unless otherwise stated. The Company has various subsidiaries, and in consolidation, all intercompany transactions are eliminated.

NOTE 2 - Summary of Significant Accounting Policies

The following is a summary of the significant accounting and reporting policies used in preparing the consolidated financial statements.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with United States generally accepted accounting principles ("GAAP") requires management to make assumptions, judgments and estimates that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenues and expenses during the periods presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term are the determination of the allowance for loan losses, the determination of the fair value for financial instruments, the valuation of other real estate owned and repossessed assets, and the valuation of net deferred tax assets.

Accounting for Acquisition

The Legacy Xenith Merger was determined to be an acquisition of a business and accounted for under the acquisition method of accounting in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 805, *Business Combinations* ("ASC 805"), with the assets acquired and liabilities assumed pursuant to the business combination recorded at estimated fair values as of the effective date of the combination. The determination of fair values requires management to make estimates about future expected cash flows, market conditions and other future events that are highly subjective in nature and subject to actual results that may differ materially from the estimates made. In accordance with the framework established by FASB ASC Topic 820, *Fair Value Measurements and Disclosure* ("ASC 820"), the Company used a fair value hierarchy to prioritize the information used to form assumptions and estimates in determining fair values. These fair value hierarchies are further discussed below.

Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, cash due from banks, interest-bearing deposits in other banks, and overnight funds sold and due from the Federal Reserve Bank (the "FRB"). The Company considers all highly-liquid debt instruments with original maturities, or maturities when purchased, of three months or less to be cash equivalents.

Investment Securities

Investment securities are classified into three categories:

1. debt securities that a company has the positive intent and ability to hold to maturity are classified as "held-to-maturity securities" and reported at amortized cost;

2. debt and equity securities that are bought and held principally for the purpose of selling them in the near term are classified as "trading securities" and reported at fair value, with unrealized gains and losses included in net income; and

3. debt and equity securities not classified as either held-to-maturity securities or trading securities are classified as "available-for-sale securities" and reported at fair value, with unrealized gains and losses excluded from net income. Such unrealized gains and losses are reported in other comprehensive income, net of tax, as a separate component of shareholders' equity.

Except for restricted equity securities, all investment securities are classified by the Company as "available for sale." Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are determined using the specific identification method.

Investment securities for which the fair value of the security is less than its amortized cost are evaluated periodically for credit related other-than-temporary impairment ("OTTI"). For debt securities, impairment is considered other-than-temporary and recognized in its entirety in the consolidated statements of income, if either the Company intends to sell the security or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery, the Company must determine what portion of the impairment is attributable to a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security. If there is credit loss, the loss is recognized in the consolidated statements of income, and the remaining portion of the impairment is recognized in other comprehensive income. For equity securities, impairment is considered to be other-than-temporary based on the ability and intent to hold the investment until a recovery of fair value. OTTI of an equity security results in a write-down that is included in the consolidated statements of income. Factors management uses in reviewing investment securities for OTTI include the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, the best estimate of the present value of cash flows expected to be collected from debt securities, the intention with regard to holding the security to maturity, and the likelihood that the security would be sold before recovery. All OTTI identified are taken in the periods identified, and once charged to income a new cost basis for the security is established.

The Company held no securities classified as "held to maturity" or "trading" as of December 31, 2017 and 2016, and recorded no OTTI for the years ended December 2017 and 2016.

Loans

Loans are carried at their unpaid principal amount outstanding net of unamortized fees and origination costs, partial charge-offs, if any, and in the case of acquired loans, unaccreted fair value or "purchase accounting" adjustments. Interest income is recorded as earned on an accrual basis. Generally, the accrual of interest income is discontinued when a loan is 90 days or greater past due as to principal or interest or when the collection of principal and/or interest is in doubt, which may occur in advance of the loan being past due 90 days. In the period loans are placed in nonaccrual status, interest receivable is reversed against interest income. Interest payments received thereafter are applied as a reduction of the principal balance until the loan is in compliance with its stated terms. Loans are removed from nonaccrual status when they become current as to both principal and interest and when the collection of principal and interest is no longer considered doubtful. The accrual of interest is not discontinued on loans past due 90 days or greater if the estimated net realizable value of collateral is sufficient to assure collection of both principal and interest and the loan is in the process of collection. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment to the yield (interest income) over the life of the related loan. In those instances when a loan prepays, the unamortized remaining deferred fees or costs are recognized upon prepayment as interest income. The Company has an allowance reserve to provide for possible loan losses.

A loan is considered impaired when it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans, unless collateral dependent, are measured at the present value of their expected future cash flows by discounting those cash flows at the loan's interest rate or at the loan's observable market price. For collateral dependent impaired loans, impairment is measured based upon the estimated fair value of the underlying collateral less disposal costs. The majority of the Company's impaired loans are collateral dependent. The Company's policy is to charge off impaired loans at the time of foreclosure, repossession or liquidation, or at such time any portion of the loan is deemed to be uncollectible and most cases no later than 90 days in nonaccrual status. A loan in nonaccrual status more than 90 days may not be charged off, if the borrower is making payments on the loan and collection is probable. Once a loan is considered impaired, it continues to be considered impaired until the collection of all contractual interest and principal is considered probable or the balance is charged off.

A restructured or modified loan results in a troubled debt restructuring ("TDR") when a borrower is experiencing financial difficulty and the creditor grants a concession. TDRs are included in impaired loans and can be in accrual or nonaccrual status. Those in nonaccrual status are returned to accrual status after a period (generally at least six months) of performance under which the borrower demonstrates the ability and willingness to repay the loan.

Acquired loans pursuant to a business combination are initially recorded at estimated fair value as of the date of acquisition; therefore, any related allowance for loan losses is not carried over or established at acquisition. The difference between contractually required amounts receivable and the acquisition date fair value of loans that are not deemed credit impaired at acquisition is accreted (recognized) into income over the life of the loan either on a level yield or interest method. Any change in credit quality subsequent to acquisition for these loans is reflected in the allowance for loan losses at such time the remaining purchase accounting adjustment (discount) for the acquired loans is inadequate to cover the allowance needs of these loans.

Loans acquired with evidence of credit deterioration since origination and for which it is probable at the date of acquisition that all contractually required principal and interest payments will not be collected are accounted for under FASB ASC Topic 310-30, *Loans and Debt Securities Acquired with Deteriorated Credit Quality* ("ASC 310-30"). A portion of the loans acquired in the Legacy Xenith Merger were deemed by management to be purchased credit-impaired loans and accounted for under ASC 310-30.

In applying ASC 310-30 to acquired loans, the Company must estimate the amount and timing of cash flows expected to be collected, which requires significant judgment, including default rates, the amount and timing of prepayments, and the liquidation value and timing of underlying collateral, in addition to other factors. ASC 310-30 allows the purchaser to estimate cash flows on purchased credit-impaired loans on a loan-by-loan basis or aggregate credit-impaired loans into one or more pools, if the loans have common risk characteristics. The Company has estimated cash flows expected to be collected on a loan-by-loan basis.

For purchased credit-impaired loans, the excess of cash flows expected to be collected over the estimated acquisition date fair value is referred to as the accretable yield and is accreted into interest income over the period of expected cash flows from the loan, using the effective yield method. The difference between contractually required payments due and the cash flows expected to be collected at acquisition, on an undiscounted basis, is referred to as the nonaccretable difference.

ASC 310-30 requires periodic re-evaluation of expected cash flows for purchased credit-impaired loans subsequent to acquisition date. Decreases in the amount or timing of expected cash flows attributable to credit will generally result in an impairment charge to earnings such that the accretable yield remains unchanged. Increases in expected cash flows will result in an increase in the accretable yield, which is a reclassification from the nonaccretable difference. The new accretable yield is recognized in income over the remaining period of expected cash flows from the loan. The Company re-evaluates expected cash flows no less frequent than annually and generally on a quarterly basis.

Acquired loans for which the Company cannot predict the amount or timing of cash flows are accounted for under the cost recovery method, whereby principal and interest payments received reduce the carrying value of the loan until such amount has been received. Amounts received in excess of the carrying value are reported in interest income.

The Company had loans held for sale related to its mortgage banking business as of December 31, 2016. Loans held for sale are carried at the lower of cost or fair value in the aggregate and reported as assets from discontinued operations on the Company's consolidated balance sheets.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance consisting of the cumulative effect of the provision for loan losses, less loans charged off, plus any amounts recovered on loans previously charged off. The provision for loan losses is the amount necessary, in management's judgment, to maintain the allowance for loan losses at a level it believes sufficient to cover incurred losses in the Company's loan portfolio as of the balance sheet date. Loans are charged against the allowance when, in management's opinion, they are deemed wholly or partially uncollectible. Recoveries of loans previously charged off are credited to the allowance when received.

The Company's allowance for loan losses consists of (1) a general component for collective loan impairment recognized and measured pursuant to FASB ASC Topic 450, *Contingencies*, and (2) a specific component for individual loan impairment recognized and measured pursuant to FASB ASC Topic 310, *Receivables.*

The specific component relates to loans that are determined to be impaired, and therefore, are individually evaluated for impairment. For those loans, an allowance is established when the discounted cash flows, collateral value or observable market price of the impaired loan is lower than the carrying value of that loan.

A portion of the general reserve component is based on groups of homogeneous loans, defined by Call Codes, to which a loss rate is applied based on historical loss experience and adjusted for qualitative factors where necessary. The Company's loan portfolio is also grouped by risk grade as determined in the Company's loan grading process. A weighted average historical loss rate is computed for each group of loans. The historical loss rate is based on a lookback period approximating an economic cycle and with higher weightings assigned to the more recent periods.

The general reserve also includes an unallocated qualitative component, which is maintained to cover uncertainties that could affect management's estimate of probable losses and reflects the imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio. The unallocated qualitative component includes both external and internal factors. External factors include published data for the gross domestic product growth rate, interest rate levels as measured by the prime rate, changes in regional home price indices, and regional unemployment statistics. The internal factor is based on a self-assessment of the credit process, including loan approval authority changes, the number of extensions and interest only loans within the portfolio, the status of financial information from borrowers, loan type concentration, risk grade accuracy, adherence to loan growth forecasts, and asset quality metrics.

For purchased credit-impaired loans accounted for under ASC 310-30, management periodically re-estimates the amount and timing of cash flows expected to be collected. Upon re-estimation, any deterioration in the timing and/or amount of cash flows results in an impairment charge, which is reported as a provision for loan losses in net income and a component of the Company's allowance for loan losses. A subsequent improvement in the expected timing or amount of future cash flows for those loans could result in the reduction of the allowance for loan losses and an increase in net income.

Although various data and information sources are used to establish the allowance for loan losses, future adjustments to the allowance for loan losses may be necessary, if conditions, circumstances or events are substantially different from the assumptions used in making the assessments. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions or reductions to the allowance for loan losses based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Premises and equipment, including leasehold improvements, are recorded at cost less accumulated depreciation or amortization. Premises and equipment acquired pursuant to a business combination are recorded at estimated fair values as of the acquisition date. Depreciation is calculated over the estimated useful lives of the respective assets on a straight-line basis. Leasehold improvements are capitalized and amortized over the shorter of the useful life of the asset or the lease term, including probable renewal periods. Land is not subject to depreciation. Maintenance and repairs are charged to expense as incurred. The costs of major additions and improvements are capitalized and depreciated over their estimated useful lives. Depreciable lives for major categories of assets are as follows:

Building and improvements	7 to 50 years
Equipment, furniture and fixtures	3 to 15 years
Information technology equipment	3 to 5 years

Other Real Estate Owned and Repossessed Assets

Other real estate owned and repossessed assets include real estate acquired in the settlement of loans, other repossessed collateral, and bank premises held for sale and are initially recorded at estimated fair value less disposal costs. At foreclosure, any excess of the loan balance over this value is charged to the allowance for loan losses. Subsequent to foreclosure, management periodically performs valuations, including obtaining updated appraisals and the review of other observable data, and if required, a reserve is established to reflect the carrying value of the asset at the lower of the then existing carrying value or the estimated fair value less costs of disposal.

Costs to bring a property to salable condition are capitalized up to the fair value of the property less selling costs, while costs to maintain a property in salable condition are expensed as incurred. Losses on subsequent impairments and gains and losses upon disposition of other real estate owned are recognized in noninterest expense on the Company's consolidated statements of income. Revenue and expenses from operations of other real estate owned and repossessed assets are also included in the consolidated statements of income.

Property values are affected by various factors in addition to local economic conditions, including, among other things, changes in general or regional economic conditions, government rules or policies, and natural disasters. While the Company's policy is to obtain updated appraisals on a periodic basis, there are no assurances that the Company may be able to realize the amount indicated in the appraisal upon disposition of the underlying property.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the consideration paid over the fair value of the identifiable net assets acquired. Goodwill is tested at least annually for impairment and whenever events or circumstances occur that might result in the carrying amount of goodwill not being recoverable. In performing the impairment test, the Company elected to bypass performance of a qualitative assessment based on macroeconomic conditions, industry changes, financial performance and other relevant information and performed a quantitative analysis to estimate the fair value of the reporting unit, which included employing a number of valuation techniques such as market capitalization and the value attributed to the Company pursuant to the Union Merger. Management has concluded that none of its recorded goodwill was impaired as of its testing date, which was April 30, 2017.

Other intangible assets, which represent acquired core deposit intangibles, are amortized over their estimated useful life on a straight-line basis.

The Company has not identified any events or circumstances that would indicate impairment in the carrying amounts of goodwill and other intangible assets as of December 31, 2017 and 2016.

Operating Leases

The Company has operating leases for many of its branch and office locations. The lease agreements for certain locations contain rent escalation clauses, free rent periods and leasehold improvement allowances. Scheduled rent escalations during the lease terms, rental payments commencing at a date other than the date of initial occupancy, and leasehold improvement allowances received are recognized on a straight-line basis over the terms of the leases in occupancy expense in the consolidated statements of income. Liabilities related to the difference between actual payments and the straight-lining of rent are recorded in other liabilities on the consolidated balance sheets.

Bank-owned Life Insurance

The Bank invests in bank-owned life insurance ("BOLI"), which is life insurance purchased by the Bank on a select group of employees. The Bank is the owner and primary beneficiary of the policies. BOLI is recorded in the Company's balance sheet at the cash surrender value of the underlying policies. Earnings from the increase in cash surrender value of the policies, other than death benefits, are included in noninterest income on the statements of income. Benefits paid upon death are split with the beneficiaries of the covered employees and, in certain cases, former employees. The cost of providing benefits to beneficiaries of former employees is recorded in noninterest expense. Proceeds from death benefits first reduce the cash surrender value attributable to the individual policy; proceeds exceeding the cash surrender value are recorded as noninterest income. The Company expenses the present value of the expected cost of maintaining the policies over the expected life of the covered employees or former employees. The Bank has rights under the insurance contracts to redeem them for book value at any time.

Income Taxes

The Company computes its income taxes under the asset and liability method in accordance with FASB ASC Topic 740, *Income Taxes* ("ASC 740"). Pursuant to ASC 740, deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis, resulting in temporary differences. Deferred tax assets, including tax loss and credit carryforwards and deferred tax liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax expense or benefit represents the change during the period in deferred tax assets and deferred tax liabilities.

A deferred tax liability is recognized for all temporary differences that will result in future taxable income; a deferred tax asset is recognized for all temporary differences that will result in future tax deductions, potentially reduced by a valuation allowance. A valuation allowance is recognized if, based on an analysis of available evidence, management determines that it is more likely than not that some portion or all of the deferred tax asset will not be realized. In making this assessment, all sources of taxable income available to realize the deferred tax asset are considered, including taxable income in prior carryback years, future releases of existing temporary differences, tax planning strategies, and future taxable income exclusive of reversing temporary differences and carryforwards. The predictability that future taxable income, exclusive of reversing temporary differences, will occur is the most subjective of these four sources. Additionally, cumulative losses in recent years is considered negative evidence that may be difficult to overcome to support a conclusion that future taxable income, exclusive of reversing temporary differences and carryforwards, is sufficient to realize a deferred tax asset. Adjustments to increase or decrease the valuation allowance are charged or credited, respectively, to income tax expense. The evaluation of the recoverability of deferred tax assets requires management to make significant judgments regarding the releases of temporary differences and future profitability, among other items. Management has concluded that, as of December 31, 2017 and 2016, a valuation allowance of $780 thousand was required on the Company's deferred tax assets.

Pursuant to ASC 740, the effect of a change in tax law or rate is recognized at the date of enactment. Deferred tax assets and liabilities are adjusted for the effect of a change in tax law or rate in the period that includes the enactment date, and the effect of the change is recorded in income tax expense or benefit. On December 22, 2017, The Tax Cut and Jobs Act ("The Tax Act") was signed into law, permanently reducing the corporate tax rate from 35% to 21%. As a result, the Company recorded an adjustment to its net deferred tax asset and a charge to income tax expense of $57.2 million. The Company's evaluation of the effect of The Tax Act is on-going. The adjustment recorded is based on available information and the Company's interpretation of the information and the provisions of The Tax Act. The adjustment is subject to refinement for up to one year after the date of enactment.

The effect of a tax position is recognized in the financial statements if it is probable that position is more likely than not to be sustained by the taxing authority. Benefits from tax positions are measured at the highest tax benefit that is greater than 50% likely of being realized upon settlement. To the extent that the final tax outcome of these matters is different from the amounts recorded, the differences (both favorably and unfavorably) impact income tax expense in the period in which the determination is made. The Company recognizes interest and/or penalties related to income tax matters in other noninterest expense.

Share-based Compensation

The Company accounts for share-based compensation awards at the estimated fair value as of the grant date of the award. Stock options are valued based on the Black-Scholes model, and restricted stock awards and units are valued based on the market price of the Company's stock on the day preceding the day of grant. The grant-date fair value of the award is recognized as expense over the requisite service period in which the awards are expected to vest.

Derivatives

Derivatives designated as cash flow hedges, in accordance with FASB ASC Topic 815,*Derivatives and Hedging* ("ASC 815"), are used primarily to minimize the variability in cash flows of assets or liabilities caused by interest rates. Cash flow hedges are periodically tested for effectiveness, which measures the correlation of the cash flows of the hedged item with the cash flows from the derivative. The effective portion of changes in the fair value of derivatives designated as cash flow hedges is recorded in accumulated other comprehensive income ("AOCI") and is subsequently reclassified into net income in the period that the hedged forecasted transaction affects earnings. The ineffective portion of the change in fair value of the derivative is recognized directly in earnings. The Company had no cash flow hedges at December 31, 2017 and 2016.

The Company has derivatives that are not designated as hedges and are not speculative and result from a service the Company provides to certain customers. The Company executes interest rate derivatives with commercial banking customers to facilitate their respective risk management strategies. Those interest rate derivatives are simultaneously hedged by offsetting derivatives that the Company executes with a third party, thus minimizing its net exposure from such transactions. These derivatives do not meet the hedge accounting requirements; therefore, changes in the fair value of both the customer derivative and the offsetting derivative are recognized in noninterest income on the consolidated statements of income.

Fair Value

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability.

ASC 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Under the guidance in ASC 820, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1	Quoted prices in active markets for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
Level 2	Significant 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 for substantially the full term of the assets or liabilities.
Level 3	Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer or broker-traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value to such assets or liabilities.

NOTE 3 - Business Combination

Assets acquired and liabilities assumed in the Legacy Xenith Merger were recorded by the Company at their estimated fair values as of the effective date of the Legacy Xenith Merger, which was July 29, 2016. Fair value estimates were based on management's assessment of the best information available at the time of determination and are highly subjective.

The Legacy Xenith Merger combined two banks with complementary capabilities and geographical focus, thus provided the opportunity for the organization to leverage its existing infrastructure, including people, processes and systems, across a larger asset base.

The following table presents the summary balance sheet of Legacy Xenith as of the date of the Legacy Xenith Merger inclusive of estimated fair value adjustments and the allocation of consideration paid in the Legacy Xenith Merger to the acquired assets and assumed liabilities. Common stock issued and the per share price are reflected on a pre-Reverse Stock Split basis. The allocation resulted in goodwill of $26.9 million, which represents the growth opportunities and franchise value the Bank has in the markets it serves.

	As of July 29, 2016
Fair value of assets acquired:	
Cash and cash equivalents	$ 69,241
Investment securities	139,025
Loans	827,987
Premises and equipment	6,180
Other real estate owned	738
Core deposit intangible	4,006
Accrued interest receivable	4,464
Net deferred tax asset	5,156
Bank-owned life insurance	19,917
Other assets	17,879
Total assets	$ 1,094,593
Fair value of liabilities assumed:	
Deposits	$ 956,078
Accrued interest payable	285
Supplemental executive retirement plan	2,162
Borrowings	36,533
Other liabilities	8,112
Total liabilities	$ 1,003,170
Net identifiable assets acquired	$ 91,423
Consideration paid:	
Company's common shares issued (1)	58,915,439
Purchase price per share (2)	$ 1.97
Value of common stock issued	$ 116,063
Estimated fair value of stock options	2,290
Cash in lieu of fractional shares	1
Total consideration paid	118,354
Goodwill	$ 26,931

(1) The issuance of shares in the Legacy Xenith Merger preceded the Reverse Stock Split and the number of shares of the Company common stock is presented on a pre-Reverse Stock Split basis.
(2) The value of the shares of the Company common stock exchanged for shares of Legacy Xenith common stock was based upon the closing price of Company common stock at July 28, 2016, the last trading day prior to the date of completion of the Legacy Xenith Merger, which occurred prior to the Reverse Stock Split and is presented at the pre-Reverse Stock Split price.

The following table presents the purchased performing and purchased credit-impaired loans receivable at the date of the Legacy Xenith Merger and the fair value adjustments (discounts) recorded immediately following the Legacy Xenith Merger:

	Purchased Performing	Purchased Impaired	Total
Principal payments receivable	$ 830,613	$ 9,851	$ 840,464
Fair value adjustment - credit and interest	(9,318)	(3,159)	(12,477)
Fair value of acquired loans	$ 821,295	$ 6,692	$ 827,987

NOTE 4 - Discontinued Operations

In connection with the GBMI Sale, which was completed on October 17, 2016, GBMI ceased taking new mortgage loan applications, and all applications with prospective borrowers that were in process as of the completion of the GBMI Sale were managed by GBMI through funding and sale to investors in the ordinary course of business. As of December 31, 2017, there were no remaining loans to be funded or sold to investors related to GBMI, and as of December 31, 2016, $9.9 million of loans were held for sale to investors related to GBMI, which are included in assets from discontinued operations in the Company's consolidated balance sheets. Proceeds from the GBMI Sale, which included the sale of certain fixed assets, were $87 thousand.

As of the end of the first quarter of 2017, the operations of GBMI had been transitioned to the purchaser. Management believes, as of December 31, 2017, there are no significant on-going obligations with respect to the mortgage banking business that have not been recorded in the Company's consolidated financial statements. As of December 31, 2017, the Company had a liability of $589 thousand recorded as liabilities of discontinued operations on its consolidated balance sheet, which consists primarily of amounts due to the former non-controlling interest holder, which is reserved to satisfy a portion of any future obligations.

The following table presents summarized results of operations of the discontinued operations for the periods stated:

	December 31, 2017	December 31, 2016
Net interest income	$ 17	$ 514
Benefit for loan losses	(5)	(22)
Net interest income after provision for loan losses	22	536
Noninterest income	166	20,784
Noninterest expense:		
Salaries and employee benefits	247	13,315
Professional and consultant fees	5	293
Occupancy	7	657
Data processing	56	482
Equipment	2	60
Advertising and marketing	6	664
Other	(1)	1,658
Total noninterest expense	322	17,129
Net (loss) income before provision for income taxes	(134)	4,191
(Benefit) provision for income taxes	(20)	996
Net (loss) income	(114)	3,195
Net (loss) income attributable to non-controlling interest	(129)	1,667
Net income attributable to Xenith Bankshares, Inc.	$ 15	$ 1,528

NOTE 5 - Cash Reserves

To comply with regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirement based on the measurement periods closest to December 31, 2017 and December 31, 2016 was $63.9 million for both periods. The Bank was in compliance with this requirement at December 31, 2017 and 2016.

NOTE 6 - Investment Securities

The following tables present amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale as of the dates stated:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Agencies	$ 120,673	$ 150	$ 1,020	$ 119,803
Collateralized	63,066	1	1,065	62,002
Collateralized mortgage obligations	26,330	11	476	25,865
Asset-backed securities	6,687	—	76	6,611
Municipals				
Tax-exempt	63,201	66	372	62,895
Taxable	17,908	—	374	17,534
Corporate bonds	973	—	—	973
Equity securities	99	—	—	99
Total securities available for sale	$ 298,937	$ 228	$ 3,383	$ 295,782

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities				
Agencies	$ 135,054	$ 793	$ 957	$ 134,890
Collateralized	63,837	61	1,145	62,753
Collateralized mortgage obligations	19,626	288	104	19,810
Asset-backed securities	14,866	—	108	14,758
Municipals				
Tax-exempt	67,738	—	2,983	64,755
Taxable	18,105	1	430	17,676
Corporate bonds	983	1	—	984
Equity securities	969	848	—	1,817
Total securities available for sale	$ 321,178	$ 1,992	$ 5,727	$ 317,443

As of December 31, 2017 and 2016, the Company had available-for-sale securities with a fair value of $57.5 million and $83.0 million, respectively, pledged as collateral for public deposits, derivatives and other purposes.

Unrealized Losses

The following tables present the fair values and gross unrealized losses aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position as of the dates stated:

		December 31, 2017					
		Less than 12 Months		12 Months or More		Total	
	Number of securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities							
Agencies	27	$ 58,154	$ 383	$ 32,274	$ 637	$ 90,428	$ 1,020
Collateralized	23	25,287	140	35,676	925	60,963	1,065
Collateralized mortgage obligations	8	20,415	373	4,286	103	24,701	476
Asset-backed securities	2	—	—	6,611	76	6,611	76
Municipals							
Tax-exempt	34	12,186	50	36,096	322	48,282	372
Taxable	10	3,385	65	14,149	309	17,534	374
Total securities available for sale	104	$ 119,427	$ 1,011	$ 129,092	$ 2,372	$ 248,519	$ 3,383

		December 31, 2016					
		Less than 12 Months		12 Months or More		Total	
	Number of securities	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Mortgage-backed securities							
Agencies	33	$ 88,315	$ 945	$ 695	$ 12	$ 89,010	$ 957
Collateralized	19	42,272	1,145	—	—	42,272	1,145
Collateralized mortgage obligations	6	7,216	104	—	—	7,216	104
Asset-backed securities	6	5,443	64	9,315	44	14,758	108
Municipals							
Tax-exempt	44	64,755	2,983	—	—	64,755	2,983
Taxable	9	17,149	430	—	—	17,149	430
Total securities available for sale	117	$ 225,150	$ 5,671	$ 10,010	$ 56	$ 235,160	$ 5,727

In instances where an unrealized loss did occur, there was no indication of an adverse change in credit on any of the underlying securities in the tables above, and management believes no individual unrealized loss represented an OTTI as of those dates. The Company does not intend to sell and it is not more likely than not that it will be required to sell the securities before the recovery of their amortized cost basis, which may be at maturity.

Maturities of Investment Securities

The following table presents the amortized cost and fair value by contractual maturity of investment securities available for sale as of the dates stated. 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. Mortgage-backed and asset-backed securities that are not due at a single maturity date and equity securities, which do not have contractual maturities, are shown separately.

	December 31, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 763	$ 759	$ 502	$ 502
Due after one year but less than five years	14,541	14,327	12,283	12,056
Due after five years but less than ten years	64,208	63,768	69,900	66,880
Due after ten years	2,570	2,548	4,141	3,977
Mortgage-backed securities				
Agencies	120,673	119,803	135,054	134,890
Collateralized	63,066	62,002	63,837	62,753
Collateralized mortgage obligations	26,329	25,865	19,626	19,810
Asset-backed securities	6,687	6,611	14,866	14,758
Equity securities	99	99	969	1,817
Total securities available for sale	$ 298,936	$ 295,782	$ 321,178	$ 317,443

Federal Home Loan Bank ("FHLB")

The Company's investment in FHLB stock totaled $12.9 million and $10.1 million at December 31, 2017 and 2016, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted investment, as it is required to be held in order to access FHLB advances (i.e., borrowings). The Company earns dividends from its investment in FHLB stock and, for the year ended December 31, 2017, recorded an annualized dividend rate of 5.34%. The investment in FHLB stock is carried at cost as there is no active market or exchange for the stock other than the FHLB or member institutions.

Federal Reserve Bank and Other Restricted Stock

The Company's investment in FRB totaled $14.5 million and $14.0 million at December 31, 2017 and 2016, respectively. FRB stock is generally viewed as a long-term investment and as a restricted investment, as it is required to be held to effect membership in the Federal Reserve. It is carried at cost as there is not an active market or exchange for the stock other than the FRB or member institutions. The remaining restricted stock in the amount of $178 thousand at December 31, 2017 and 2016 held by the Company is in other banks with which the Bank conducts or has the ability to conduct correspondent activity. These investments are also carried at cost as there is no readily available market for these securities.

NOTE 7 - Loans and Allowance for Loan Losses

The following table presents the Company's composition of loans as of the dates stated. All lending decisions are based upon a thorough evaluation of the financial strength and credit history of the borrower and the quality and value of the collateral securing the loan.

The Company makes owner-occupied real estate ("OORE") loans, which are secured in part by the real estate that is generally the offices or production facilities of the borrower. In some cases, the real estate is not held by the commercial enterprise, rather it is owned by the principals of the business or an entity controlled by the principals. The Company classifies OORE loans as commercial and industrial, as the primary source of repayment of the loan is generally dependent on the financial performance of the commercial enterprise occupying the property, with the real estate being a secondary source of repayment.

The Company held guaranteed student loans ("GSLs"), which were originated under the Federal Family Education Loan Program ("FFELP"), authorized by the Higher Education Act of 1965, as amended. Pursuant to the FFELP, the student loans are substantially guaranteed by a guaranty agency and reinsured by the U.S. Department of Education. The Company had an agreement with a third-party servicer of student loans to provide all day-to-day operational requirements for the servicing of the loans. The GSLs carry a nearly 98% guarantee of principal and accrued interest, and in allocating the consideration paid in the Legacy Xenith Merger, the Company recorded a fair value adjustment for GSLs reducing the carrying amount in the loan portfolio to a carrying value that approximated the guaranteed portion of the loans. During 2017, the Company sold the GSLs and recorded gains totaling $252 thousand, which were reported as noninterest income in its consolidated statement of income.

	December 31, 2017	December 31, 2016
Commercial & Industrial	$ 828,544	$ 895,952
Construction	298,929	257,712
Commercial real estate	650,452	585,727
Residential real estate	367,480	405,291
Consumer	359,590	274,008
Guaranteed student loans	—	44,043
Deferred loan fees and related costs	1,594	1,323
Total loans	$ 2,506,589	$ 2,464,056

As of December 31, 2017, the Company had $578.8 million of loans pledged to the FRB and the FHLB as collateral for borrowings.

Allowance for Loan Losses

The following table presents the allowance for loan loss activity, by loan category, for the periods stated. The Company had no allowance for loan losses on its GSL portfolio, as the carrying amount of the portfolio approximated the portion of the loans subject to federal guarantee.

	December 31, 2017	December 31, 2016
Balance at beginning of period	$ 21,940	$ 23,157
Charge-offs:		
Commercial & Industrial	5,271	6,594
Construction	61	8,076
Commercial real estate	966	767
Residential real estate	2,425	2,299
Consumer	716	48
Guaranteed student loans	—	—
Overdrafts	209	134
Total charge-offs	9,648	17,918
Recoveries:		
Commercial & Industrial	1,073	2,969
Construction	811	1,264
Commercial real estate	430	392
Residential real estate	1,068	715
Consumer	231	32
Guaranteed student loans	—	—
Overdrafts	50	—
Total recoveries	3,663	5,372
Net charge-offs	5,985	12,546
Provision for loan losses	874	11,329
Balance at end of period	$ 16,829	$ 21,940

The following tables present the allowance for loan losses, with the amount independently and collectively evaluated for impairment, and loan balances, by loan type, as of the dates stated:

	December 31, 2017		
	Total Amount	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses applicable to:			
Purchased credit-impaired loans			
Commercial & Industrial	$ —	$ —	$ —
Construction	—	—	—
Commercial real estate	—	—	—
Residential real estate	9	9	—
Consumer	—	—	—
Total purchased credit-impaired loans	9	9	—
Originated and other purchased loans			
Commercial & Industrial	2,317	109	2,208
Construction	1,644	231	1,413
Commercial real estate	2,891	423	2,468
Residential real estate	3,199	1,251	1,948
Consumer	1,672	12	1,660
Guaranteed student loans	—	—	—
Unallocated qualitative	5,097	—	5,097
Total originated and other purchased loans	16,820	2,026	14,794
Total allowance for loan losses	$ 16,829	$ 2,035	$ 14,794
Loan balances applicable to:			
Purchased credit-impaired loans			
Commercial & Industrial	$ 721	$ 721	$ —
Construction	923	923	—
Commercial real estate	948	948	—
Residential real estate	1,593	1,593	—
Consumer	43	43	—
Total purchased credit-impaired loans	4,228	4,228	—
Originated and other purchased loans			
Commercial & Industrial	827,823	10,501	817,322
Construction	298,006	6,903	291,103
Commercial real estate	649,504	6,307	643,197
Residential real estate	365,887	11,514	354,373
Consumer	359,547	33	359,514
Guaranteed student loans	—	—	—
Deferred loan fees and related costs	1,594	—	1,594
Total originated and other purchased loans	2,502,361	35,258	2,467,103
Total loans	$ 2,506,589	$ 39,486	$ 2,467,103

	December 31, 2016		
	Total Amount	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses applicable to:			
Purchased credit-impaired loans			
Commercial & Industrial	$ —	$ —	$ —
Construction	—	—	—
Commercial real estate	—	—	—
Residential real estate	—	—	—
Consumer	—	—	—
Total purchased credit-impaired loans	—	—	—
Originated and other purchased loans			
Commercial & Industrial	5,816	3,327	2,489
Construction	1,551	161	1,390
Commercial real estate	2,410	734	1,676
Residential real estate	5,205	1,275	3,930
Consumer	1,967	606	1,361
Guaranteed student loans	—	—	—
Unallocated qualitative	4,991	—	4,991
Total originated and other purchased loans	21,940	6,103	15,837
Total allowance for loan losses	$ 21,940	$ 6,103	$ 15,837
Loan balances applicable to:			
Purchased credit-impaired loans			
Commercial & Industrial	$ 897	$ 897	$ —
Construction	992	992	—
Commercial real estate	1,090	1,090	—
Residential real estate	2,122	2,122	—
Consumer	55	55	—
Total purchased credit-impaired loans	5,156	5,156	—
Originated and other purchased loans			
Commercial & Industrial	895,055	24,052	871,003
Construction	256,720	7,982	248,738
Commercial real estate	584,637	9,184	575,453
Residential real estate	403,169	12,637	390,532
Consumer	273,953	1,551	272,402
Guaranteed student loans	44,043	—	44,043
Deferred loan fees and related costs	1,323	—	1,323
Total originated and other purchased loans	2,458,900	55,406	2,403,494
Total loans	$ 2,464,056	$ 60,562	$ 2,403,494

The following tables present the loans that were individually evaluated for impairment, by loan type, as of the dates stated. The tables present those loans with and without an allowance for loan losses and various additional data as of the dates stated:

	December 31, 2017		
	Recorded Investment	**Unpaid Principal Balance**	**Related Allowance**
With no related allowance recorded:			
Purchased credit-impaired loans			
Commercial & Industrial	$ 721	$ 1,054	$ —
Construction	923	1,377	—
Commercial real estate	948	1,363	—
Residential real estate	1,547	2,021	—
Consumer	43	78	—
Originated and other purchased loans			
Commercial & Industrial	10,329	11,728	—
Construction	6,262	15,212	—
Commercial real estate	5,254	6,197	—
Residential real estate	5,740	7,269	—
Consumer	6	27	—
With an allowance recorded:			
Purchased credit-impaired loans			
Commercial & Industrial	—	—	—
Construction	—	—	—
Commercial real estate	—	—	—
Residential real estate	46	64	9
Consumer	—	—	—
Originated and other purchased loans			
Commercial & Industrial	172	258	109
Construction	641	641	231
Commercial real estate	1,053	1,053	423
Residential real estate	5,774	5,775	1,251
Consumer	27	27	12
Total loans individually evaluated for impairment	$ 39,486	$ 54,144	$ 2,035

	December 31, 2016		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
Purchased credit-impaired loans			
Commercial & Industrial	$ 897	$ 1,298	$ —
Construction	992	1,448	—
Commercial real estate	1,090	1,520	—
Residential real estate	2,122	2,989	—
Consumer	55	92	—
Originated and other purchased loans			
Commercial & Industrial	12,809	14,185	—
Construction	7,078	16,327	—
Commercial real estate	7,131	9,214	—
Residential real estate	7,038	7,816	—
Consumer	8	28	—
With an allowance recorded:			
Purchased credit-impaired loans			
Commercial & Industrial	—	—	—
Construction	—	—	—
Commercial real estate	—	—	—
Residential real estate	—	—	—
Consumer	—	—	—
Originated and other purchased loans			
Commercial & Industrial	11,243	16,297	3,327
Construction	904	1,054	161
Commercial real estate	2,053	2,053	734
Residential real estate	5,599	5,631	1,275
Consumer	1,543	1,546	606
Total loans individually evaluated for impairment	$ 60,562	$ 81,498	$ 6,103

	December 31, 2017		December 31, 2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:				
Purchased credit-impaired loans				
Commercial & Industrial	$ 789	$ —	$ 919	$ 2
Construction	958	—	1,634	11
Commercial real estate	1,018	—	1,289	24
Residential real estate	1,880	30	2,194	17
Consumer	50	3	57	1
Originated and other purchased loans				
Commercial & Industrial	10,678	212	13,176	303
Construction	6,441	267	10,543	206
Commercial real estate	6,356	225	7,542	269
Residential real estate	6,753	60	7,615	14
Consumer	14	—	14	—
With an allowance recorded:				
Purchased credit-impaired loans				
Commercial & Industrial	—	—	—	—
Construction	—	—	—	—
Commercial real estate	—	—	—	—
Residential real estate	50	—	—	—
Consumer	—	—	—	—
Originated and other purchased loans				
Commercial & Industrial	204	—	11,018	203
Construction	687	9	933	9
Commercial real estate	1,067	49	2,123	12
Residential real estate	5,879	126	5,333	173
Consumer	29	—	1,565	—
Total loans individually evaluated for impairment	$ 42,853	$ 981	$ 65,955	$ 1,244

The following table presents accretion of acquired loan discounts for the periods stated. The amount of accretion recognized within a period is based on many factors, including, among other factors, loan prepayments and curtailments; therefore, amounts recognized are subject to volatility.

	December 31, 2017	December 31, 2016
Balance at beginning of period	$ 9,030	$ —
Additions	—	12,477
Accretion (1)	(3,126)	(2,921)
Disposals (2)	(1,374)	(526)
Balance at end of period	$ 4,530	$ 9,030

(1) Accretion amounts are reported in interest income.

(2) Disposals represent the reduction of purchase accounting adjustments due to the resolution of acquired loans at amounts less than the contractually-owed receivable.

Of the $12.5 million fair value adjustment recorded as part of the Legacy Xenith Merger, $3.2 million was related to $9.9 million of purchased credit-impaired loans. The remaining carrying value and fair value adjustment on the purchased credit-impaired loans as of December 31, 2017 was $4.2 million and $1.7 million, respectively.

Management believes the allowance for loan losses as of December 31, 2017 is adequate to absorb losses inherent in the Company's loan portfolio.

Impaired Loans

Total impaired loans were $39.5 million and $60.6 million at December 31, 2017 and 2016, respectively. In determining the estimated fair value of collateral dependent impaired loans, the Company uses third-party appraisals and, if necessary, utilizes a proprietary database of its historical property appraisals in conjunction with external data and applies a relevant discount derived from analysis of appraisals of similar property type, vintage and geographic location (for example, in situations where the most recent available appraisal is aged and an updated appraisal has not yet be received). Collateral dependent impaired loans were $35.1 million and $50.2 million at December 31, 2017 and 2016, respectively, and are measured at the estimated fair value of the underlying collateral less disposal costs. Impaired loans for which no allowance is provided totaled $31.8 million and $39.2 million at December 31, 2017 and 2016, respectively. Loans written down to their estimated fair value of collateral less costs to sell account for $6.7 million and $8.1 million of the impaired loans for which no allowance has been provided as of December 31, 2017 and 2016, respectively.

Nonperforming Assets

Nonperforming assets consist of nonaccrual loans and other real estate owned and repossessed assets. As of December 31, 2017 and 2016, the Company had no loans that were past due greater than 90 days and accruing interest.

The following table presents nonperforming assets, by loan category, as of the dates stated:

	December 31, 2017	December 31, 2016
Purchased credit-impaired loans:		
Commercial & Industrial	$ 721	$ 897
Construction	923	992
Commercial real estate	948	1,090
Residential real estate	1,294	1,549
Consumer	31	39
Total purchased credit-impaired loans	3,917	4,567
Originated and other purchased loans:		
Commercial & Industrial	5,558	11,805
Construction	1,993	2,830
Commercial real estate	989	3,686
Residential real estate	7,147	7,931
Consumer	33	1,551
Total originated and other purchased loans	15,720	27,803
Total nonaccrual loans	19,637	32,370
Other real estate owned	4,214	5,345
Total nonperforming assets	$ 23,851	$ 37,715

The following table presents a reconciliation of nonaccrual loans to impaired loans as of the dates stated:

	December 31, 2017	December 31, 2016
Nonaccrual loans	$ 19,637	$ 32,370
TDRs on accrual	19,538	27,603
Impaired loans on accrual	311	589
Total impaired loans	$ 39,486	$ 60,562

The following table presents a rollforward of nonaccrual loans for the period stated:

	Commercial & Industrial	Construction	Commercial real estate	Residential real estate	Consumer	Total
Balance at December 31, 2016	$ 12,702	$ 3,822	$ 4,776	$ 9,480	$ 1,590	$ 32,370
Transfers in	8,817	468	1,294	7,495	565	18,639
Transfers to other real estate owned	(63)	(75)	—	(887)	—	(1,025)
Charge-offs	(5,271)	(61)	(966)	(2,425)	(925)	(9,648)
Payments	(9,114)	(1,238)	(2,670)	(3,634)	(1,145)	(17,801)
Return to accrual	(748)	—	(497)	(1,632)	(21)	(2,898)
Loan type reclassification	(44)	—	—	44	—	—
Balance at December 31, 2017	$ 6,279	$ 2,916	$ 1,937	$ 8,441	$ 64	$ 19,637

Age Analysis of Past Due Loans

The following tables present an age analysis of loans, by loan category, as of the dates stated:

	December 31, 2017				
	Current	30-89 days Past Due	90+ days Past Due	Total Past Due	Total Loans
Purchased credit-impaired loans:					
Commercial & Industrial	$ 597	$ —	$ 124	$ 124	$ 721
Construction	727	—	196	196	923
Commercial real estate	590	358	—	358	948
Residential real estate	1,127	145	321	466	1,593
Consumer	12	—	31	31	43
Total purchased credit-impaired loans	3,053	503	672	1,175	4,228
Originated and other purchased loans:					
Commercial & Industrial	819,567	3,610	4,646	8,256	827,823
Construction	295,423	769	1,814	2,583	298,006
Commercial real estate	648,514	—	990	990	649,504
Residential real estate	356,631	4,395	4,861	9,256	365,887
Consumer	359,287	233	27	260	359,547
Guaranteed student loans	—	—	—	—	—
Deferred loan fees and related costs	1,594	—	—	—	1,594
Total originated and other purchased loans	2,481,016	9,007	12,338	21,345	2,502,361
Total loans	$ 2,484,069	$ 9,510	$ 13,010	$ 22,520	$ 2,506,589

	December 31, 2016				
	Current	30-89 days Past Due	90+ days Past Due	Total Past Due	Total Loans
Purchased credit-impaired loans:					
Commercial & Industrial	$ 145	$ 11	$ 741	$ 752	$ 897
Construction	774	181	37	218	992
Commercial real estate	1,090	—	—	—	1,090
Residential real estate	1,261	297	564	861	2,122
Consumer	16	—	39	39	55
Total purchased credit-impaired loans	3,286	489	1,381	1,870	5,156
Originated and other purchased loans:					
Commercial & Industrial	883,531	1,714	9,810	11,524	895,055
Construction	254,058	53	2,609	2,662	256,720
Commercial real estate	580,355	2,911	1,371	4,282	584,637
Residential real estate	395,579	5,124	2,466	7,590	403,169
Consumer	272,147	1,630	176	1,806	273,953
Guaranteed student loans	30,909	5,562	7,572	13,134	44,043
Deferred loan fees and related costs	1,323	—	—	—	1,323
Total originated and other purchased loans	2,417,902	16,994	24,004	40,998	2,458,900
Total loans	$ 2,421,188	$ 17,483	$ 25,385	$ 42,868	$ 2,464,056

Credit Quality

The following tables present information about the credit quality of the loan portfolio using the Company's internal rating system as an indicator, by loan category, as of the dates stated:

	December 31, 2017			
	Pass	Special Mention	Substandard	Total
Purchased credit-impaired loans:				
Commercial & Industrial	$ —	$ —	$ 721	$ 721
Construction	—	—	923	923
Commercial real estate	—	—	948	948
Residential real estate	—	202	1,391	1,593
Consumer	—	—	43	43
Total purchased credit-impaired loans	—	202	4,026	4,228
Originated and other purchased loans:				
Commercial & Industrial	816,187	5,495	6,141	827,823
Construction	289,295	6,353	2,358	298,006
Commercial real estate	643,034	1,620	4,850	649,504
Residential real estate	332,495	19,633	13,759	365,887
Consumer	356,259	3,243	45	359,547
Guaranteed student loans	—	—	—	—
Deferred loan fees and related costs	1,594	—	—	1,594
Total originated and other purchased loans	2,438,864	36,344	27,153	2,502,361
Total loans	$ 2,438,864	$ 36,546	$ 31,179	$ 2,506,589

	December 31, 2016			
	Pass	Special Mention	Substandard	Total
Purchased credit-impaired loans:				
Commercial & Industrial	$ —	$ —	$ 897	$ 897
Construction	—	—	992	992
Commercial real estate	—	—	1,090	1,090
Residential real estate	—	—	2,122	2,122
Consumer	—	—	55	55
Total purchased credit-impaired loans	—	—	5,156	5,156
Originated and other purchased loans:				
Commercial & Industrial	873,180	9,391	12,484	895,055
Construction	247,335	6,460	2,925	256,720
Commercial real estate	571,781	3,689	9,167	584,637
Residential real estate	366,940	21,646	14,583	403,169
Consumer	270,919	1,467	1,567	273,953
Guaranteed student loans	44,043	—	—	44,043
Deferred loan fees and related costs	1,323	—	—	1,323
Total originated and other purchased loans	2,375,521	42,653	40,726	2,458,900
Total loans	$ 2,375,521	$ 42,653	$ 45,882	$ 2,464,056

Troubled Debt Restructurings

Loans meeting the criteria to be classified as TDRs are included in impaired loans. As of December 31, 2017 and 2016, loans classified as TDRs were $20.5 million and $28.9 million, respectively. The following table presents the number of and recorded investment in loans classified as TDRs by management, by loan category, as of the dates stated:

	December 31, 2017		December 31, 2016	
	Number of Contracts	Recorded Investment	Number of Contracts	Recorded Investment
Commercial & Industrial	6	$ 5,711	13	$ 13,067
Construction	4	4,971	5	5,225
Commercial real estate	8	5,317	7	5,498
Residential real estate	11	4,502	14	5,082
Consumer	—	—	—	—
Total	29	$ 20,501	39	$ 28,872

Of TDRs, amounts totaling $19.5 million were accruing and $1.0 million were nonaccruing at December 31, 2017, and $27.6 million were accruing and $1.3 million were nonaccruing at December 31, 2016. Loans classified as TDRs that are on nonaccrual status at the time of the restructuring generally remain on nonaccrual status for approximately six months before management considers whether such loans may return to accrual status. Loans classified as TDRs in nonaccrual status may be returned to accrual status after a period of performance under which the borrower demonstrates the ability and willingness to repay the loan in accordance with the modified terms. For the year ended December 31, 2017, none of the nonaccrual TDRs were returned to accrual status.

The following table presents a rollforward of accruing and nonaccruing TDRs for the period stated:

	Accruing	Nonaccruing	Total
Balance at December 31, 2016	$ 27,603	$ 1,269	$ 28,872
Charge-offs	—	(75)	(75)
Payments	(8,011)	(285)	(8,296)
New TDR designation	—	—	—
Release TDR designation	—	—	—
Transfer	—	—	—
Balance at December 31, 2017	$ 19,592	$ 909	$ 20,501

The following table presents performing and nonperforming loans identified as TDRs, by loan type, as of the dates stated:

	December 31, 2017	December 31, 2016
Performing TDRs:		
Commercial & Industrial	$ 4,943	$ 12,247
Construction	4,910	5,152
Commercial real estate	5,317	5,498
Residential real estate	4,368	4,706
Consumer	—	—
Total performing TDRs	19,538	27,603
Nonperforming TDRs:		
Commercial & Industrial	768	820
Construction	61	73
Commercial real estate	—	—
Residential real estate	134	376
Consumer	—	—
Total nonperforming TDRs	963	1,269
Total TDRs	$ 20,501	$ 28,872

The allowance for loan losses allocated to TDRs was $757 thousand and $705 thousand at December 31, 2017 and 2016, respectively.

Two TDRs totaling $75 thousand were charged off during the year ended December 31, 2017. There were no TDRs charged off and there was no allocated portion of allowance for loan losses associated with TDRs charged off during the year ended December 31, 2016.

For the years ended December 31, 2017 and 2016, the Company had no loans for which there was a payment default and subsequent movement to nonaccrual status that were modified as TDRs. The Company had no commitments to lend additional funds to debtors owing receivables identified as TDRs at December 31, 2017 and December 31, 2016.

NOTE 8 - Goodwill and Other Intangible Assets

Goodwill of $26.9 million and core deposit intangibles of $4.0 million were recorded in the allocation of the purchase consideration in the Legacy Xenith Merger. The core deposit intangible is being amortized over approximately eight years on a straight-line basis.

The following table presents goodwill and other intangible assets as of the dates stated:

	December 31, 2017	December 31, 2016
Amortizable core deposit intangibles:		
Gross amount	$ 4,006	$ 4,006
Accumulated amortization	(745)	(219)
Net core deposit intangibles	3,261	3,787
Goodwill	26,931	26,931
Total goodwill and other intangible assets, net	$ 30,192	$ 30,718

Estimated future amortization of core deposit intangibles is $526 thousand for each of the five years 2018 through 2022 and $632 thousand thereafter.

NOTE 9 - Premises and Equipment

The following table presents premises and equipment as of the dates stated:

	December 31, 2017	December 31, 2016
Land	$ 16,509	$ 16,609
Buildings and improvements	48,799	48,967
Leasehold improvements	2,156	2,162
Equipment, furniture and fixtures	18,010	17,584
Construction in progress	63	—
	85,537	85,322
Less accumulated depreciation and amortization	(30,904)	(28,326)
Premises and equipment, net	$ 54,633	$ 56,996

Depreciation and amortization expense related to premises and equipment for the years ended December 31, 2017 and 2016 was $2.9 million for both periods.

NOTE 10 - Other Real Estate Owned and Repossessed Assets

The following table presents a rollforward of other real estate owned and repossessed assets for the period stated:

	Amount
Balance at December 31, 2016	$ 5,345
Transfers in (via foreclosure)	1,624
Sales	(2,792)
Gains on sales	287
Impairments	(250)
Balance at December 31, 2017	$ 4,214

As of December 31, 2017, there were $572 thousand of residential real estate properties included in the balance of other real estate owned and repossessed assets. Also, at December 31, 2017, the Company held $777 thousand of residential real estate mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Other real estate owned and repossessed assets are reported net of a valuation allowance. The following table shows an analysis of the valuation allowance on these assets for the periods stated:

	December 31, 2017	December 31, 2016
Balance at beginning of period	$ 3,031	$ 9,875
Impairments	250	1,818
Charge-offs	(2,005)	(8,662)
Balance at end of period	$ 1,276	$ 3,031

The following table presents amounts applicable to other real estate owned and repossessed assets included in the consolidated statements of income for the periods stated:

	December 31, 2017	December 31, 2016
Gains on sales	$ (287)	$ (1,286)
Impairments	250	1,818
Operating expenses	210	368
Total	$ 173	$ 900

NOTE 11 - Deposits

The following table presents a summary of deposit accounts as of the dates stated:

	December 31, 2017	December 31, 2016
Noninterest-bearing demand deposits	$ 511,371	$ 501,678
Interest-bearing:		
Demand and money market	1,182,473	1,113,453
Savings deposits	95,593	86,739
Time deposits less than $250	689,822	785,303
Time deposits $250 or more	66,288	84,797
Total deposits	$ 2,545,547	$ 2,571,970

Deposits of officers and directors as of December 31, 2017 and 2016 totaled $35.8 million and $44.2 million, respectively.

The following table presents time deposit balances by year of maturity and weighted average interest rates for the next five years, as of December 31, 2017:

Year	Total	Weighted Average Rate
2018	$ 480,664	1.01%
2019	202,015	1.44%
2020	43,170	1.53%
2021	25,122	1.64%
2022	5,128	1.40%
Thereafter	11	1.10%
Total time deposits	$ 756,110	

NOTE 12 - Derivative Instruments

Derivatives are financial instruments whose value is based on one or more underlying assets. The Company, through GBMI, originated residential mortgage loans for sale into the secondary market on a best efforts basis. In connection with the underwriting process, the Company entered into commitments to lock-in the interest rate of the loan with the borrower prior to funding ("interest rate lock commitments"), which are considered derivatives. The Company managed its exposure to changes in fair value associated with these interest rate-lock commitments by entering into simultaneous agreements to sell the residential loans to third-party investors shortly after origination and funding. Under the contractual relationship in the best efforts method, the Company was obligated to sell the loans only if the loans close. At December 31, 2017 and 2016, the Company had loans held for sale of $0.0 million and $9.9 million, respectively, reported in assets from discontinued operations on its consolidated balance sheets. At December 31, 2017 and 2016, the Company had interest rate lock commitments in the amounts of $0.0 million and $1.4 million, respectively.

The Company has derivative financial instruments not designated as hedges and result from a service the Company provides to meet the needs of certain commercial customers. The Company executes interest rate swaps with commercial banking customers to facilitate their respective risk management strategies. Derivative contracts are executed between the Company and certain commercial loan customers with offsetting positions to dealers under a back-to-back swap arrangement enabling the commercial loan customers to effectively exchange variable-rate interest payments under their existing obligations for fixed-rate interest payments. These derivatives do not meet hedge accounting requirements; therefore, changes in the fair value of both the customer derivative and the offsetting derivative are recognized in net income. For the year ended December 31, 2017 and 2016, the Company recorded $983 thousand and $110 thousand, respectively, of income related to its back-to-back interest rate swap program that was included in other noninterest income on its consolidated statements of income.

The Company has minimum collateral requirements with its financial institution counterparties for non-hedge derivatives that contain provisions, whereby if the Company fails to maintain its status as a well or an adequately capitalized institution, the Company could be required to terminate or fully collateralize the derivative contract. Additionally, if the Company defaults on any of its indebtedness, including default where repayment has not been accelerated by the lender, the Company could also be in default on its derivative obligations. As of December 31, 2017, the Bank had cash and securities in the amount of $3.9 million pledged as collateral under the agreements. If the Company is not in compliance with the terms of the derivative agreements, it could be required to settle its obligations under the agreements at termination value.

Certain financial instruments, including derivatives, may be eligible for offset in the consolidated balance sheet and/or subject to master netting arrangements. The Company’s derivative transactions with financial institution counterparties are generally executed under International Swaps and Derivative Association (ISDA) master agreements, which include right of setoff provisions. In such cases, there is generally a legally enforceable right to offset recognized amounts and there may be an intention to settle such amounts on a net basis. However, the Company has not offset financial instruments for financial reporting purposes.

The following tables present information about derivatives that are eligible for offset in the consolidated balance sheets as of the dates stated. Gross amounts of recognized assets and liabilities are recorded in other assets and other liabilities, respectively, on the Company's consolidated balance sheets.

	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Assets Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash and Security Collateral Received	
Derivative assets:						
December 31, 2017						
Interest rate swap agreements	$ 1,409	$ —	$ 1,409	$ 524	$ —	$ 885
December 31, 2016						
Interest rate swap agreements	1,223	—	1,223	53	1,120	50

	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheets	Net Amounts of Liabilities Presented in the Consolidated Balance Sheets	Gross Amounts Not Offset in the Consolidated Balance Sheets		Net Amount
				Financial Instruments	Cash and Security Collateral Pledged	
Derivative liabilities:						
December 31, 2017						
Interest rate swap agreements	$ 1,301	$ —	$ 1,301	$ 524	$ —	$ 777
December 31, 2016						
Interest rate swap agreements	1,226	—	1,226	53	341	832

NOTE 13 - Income Taxes

The recorded income tax expense or benefit is based upon the results of operations, adjusted for the effect of certain tax-exempt income and nondeductible expenses. Certain items of income and expense are reported in different periods for financial reporting and tax return purposes resulting in temporary differences. The tax effects of these temporary differences are recognized currently in the deferred income tax expense or benefit on the Company's consolidated statements of income.

The following table presents the statutory tax rate reconciled to the Company's effective tax rate from continuing operations for the periods stated:

	December 31, 2017		December 31, 2016	
	Tax	Rate	Tax	Rate
Income tax expense (benefit) at statutory rate	$ 10,809	35.00%	$ (1,475)	(35.00)%
Change in federal statutory tax rate	57,200	185.20%	—	—
Nondeductible merger-related expenses	1,054	3.40%	1,310	31.09%
Tax-exempt income, net	(897)	(2.90)%	(681)	(16.16)%
State tax expense, net of federal benefit	11	—	(120)	(2.85)%
Equity-based excess tax benefit	(631)	(2.00)%	—	—
Change in state statutory tax rate	—	—	1,170	27.76%
Change in state tax apportionment	—	—	372	8.83%
Other nondeductible expenses	31	0.10%	14	0.33%
Valuation allowance release	—	—	(59,950)	(1,422.64)%
Prior year's tax return adjustments	—	—	(99)	(2.35)%
Adjustments to deferred items	—	—	(193)	(4.58)%
Other	55	0.20%	(76)	(1.80)%
Income tax expense (benefit) reported	$ 67,632	219.00%	$ (59,728)	(1,417.37)%

Deferred tax assets or liabilities are computed based on the difference between the financial statement and income tax bases of assets and liabilities. These differences will result in deductible or taxable amounts in a future year(s) when the reported amounts of assets or liabilities are recovered or settled. Deferred assets and liabilities are stated at tax rates expected to be in effect in the year(s) the differences reverse. A valuation allowance is recorded against that portion of the deferred tax assets when it is not more likely than not that all or a portion of the asset will be realized. As of December 31, 2017, the Company had a net deferred tax asset of $90.2 million, which is net of a valuation allowance of $780 thousand.

Pursuant to ASC 740 paragraph 10-25-47, the effect of a change in tax law or rate is recognized at the date of enactment. ASC 740 paragraphs 10-35-4 and 10-45-15 state that deferred tax assets and liabilities are adjusted for the effect of a change in tax law or rate in the period that includes the enactment date, and the effect of the change is recorded in income tax expense or benefit from continuing operations. On December 22, 2017, The Tax Act was signed into law, permanently reducing the corporate tax rate from 35% to 21%. As a result, the Company recorded an adjustment to its net deferred tax asset and a charge to income tax expense of $57.2 million. The Company's evaluation of the effect of The Tax Act is on-going. The adjustment recorded is based on available information and the Company's interpretation of the information and the provisions of The Tax Act. This adjustment is subject to refinement for up to one year after the date of enactment.

The following table presents the components of the net deferred tax asset as of the dates stated:

	December 31, 2017	December 31, 2016
Deferred tax assets:		
Allowance for loan losses	$ 17,632	$ 31,854
Federal net operating loss carryforward	68,529	114,965
State net operating loss carryforward	4,043	3,841
Start-up costs	724	1,377
AMT carryforward	642	502
Impairment of other real estate owned	2,732	5,247
Compensation related	1,501	3,428
SERP related	356	705
Interest on nonaccrual loans	3,839	5,617
Basis in acquired loans	741	3,654
Other acquisition accounting adjustments	187	316
Other tax assets	771	1,351
Gross deferred tax assets before valuation allowance	101,697	172,857
Valuation allowance	(780)	(780)
Total deferred tax assets	100,917	172,077
Deferred tax liabilities:		
Unearned loan costs in excess of loan fees	1,433	1,739
Prepaid expenses	2,305	727
Other acquisition accounting adjustments	5,565	9,466
Core deposit intangibles	458	921
Fixed asset related	411	644
Unrealized gains on securities	322	381
Other tax liabilities	177	374
Gross deferred tax liabilities	10,671	14,252
Net deferred tax asset	$ 90,246	$ 157,825

Prior to 2015, the Company had a full valuation allowance on its net deferred tax asset. The valuation allowance was established based upon a determination at the time that it was not more likely than not that the deferred tax assets would be fully realized. In 2015, management determined that is was more likely than not that a portion of its deferred tax assets would be realized and released a portion of its valuation allowance in the amount of $95.1 million. In the third quarter of 2016, management determined that it was more likely than not that substantially all of its net deferred tax asset would be realized and released substantially all of the remaining valuation allowance, which totaled $60.0 million.

ASC 740, paragraph 740-10-30-18, states that four possible sources of taxable income may be available under the tax law to realize a tax benefit for deductible temporary differences. In determining the need for a valuation allowance and in accordance with ASC 740-10-30-17, management evaluated all available evidence, both positive and negative, assessing the objectivity of the evidence and giving more weight to that evidence which is more objective than evidence which is subjective. Positive and negative evidence refers to factors affecting the predictability of one or more of the four sources of taxable income.

The positive evidence in the third quarter of 2016 included the fact that the Company has been in a positive cumulative pre-tax income position for the previous three years, and the Company expects to generate taxable income in future years sufficient to absorb substantially all of its net deferred tax assets. A significant component of the Company's deferred tax assets relates to federal net operating losses ("NOLs") carrying forward of approximately $300.0 million as of September 30, 2016, which under current law can be carried forward 20 years. Legacy Xenith did not have federal NOLs carrying forward.

The table below summarizes deferred tax assets related to federal and state NOLs and tax credits and the periods over which they expire, as of December 31, 2017:

Type of NOL or Credit	Expiration Dates	Deferred Tax Asset	Valuation Allowance	Net Deferred Tax Asset
Federal	2030-2037	$ 68,529	$ —	$ 68,242
State	2030-2037	4,043	(780)	3,263
Alternative Minimum Tax	None	545	—	545
Low-income Housing	2031-2037	97		97
Total		$ 119,308	$ (780)	$ 118,528

Management's estimate of future taxable income was based on internal projections, which consider historical performance, various internal estimates and assumptions, as well as certain external data, all of which, while inherently subject to judgment, management believed to be reasonable. The remaining valuation allowance relates to the deferred tax asset related to NOLs in the Commonwealth of Virginia, where Xenith Bankshares, Inc. (the parent company) files a standalone tax return. The parent company is not expected to generate taxable income in future periods; therefore, management has concluded that it is not more likely than not that the deferred tax asset related to these NOLs, which totals approximately $780 thousand as of December 31, 2017 will be utilized.

If actual results differ significantly from the current estimates of future taxable income, even if caused by adverse macro-economic conditions, the valuation allowance may need to be increased for some or all of the Company's net deferred tax assets. An increase to the deferred tax asset valuation allowance could have a material adverse effect on the Company's financial condition and results of operations.

Federal tax returns filed by the Company for tax years 2010 through 2016 are subject to examination. Federal tax returns filed by Legacy Xenith for the years 2014 through 2016 are subject to examination, and as of December 31,2017, Legacy Xenith's federal tax return for the 2015 tax year was under examination. Subsequent to December 31, 2017, the examination was completed with no changes to the return as filed. Tax returns filed in various states are subject to examination for tax years varying from 2009 through 2016.

NOTE 14 - Borrowings

The Bank has secured borrowing facilities with the FHLB and the FRB. As of December 31, 2017, total credit availability under the FHLB facility was $814.5 million and with pledged, lendable collateral value, which was $299.9 million. Under this facility, as of December 31, 2017, there were short-term, non-amortizing borrowings outstanding of $235.0 million. Credit availability under the FRB facility as of December 31, 2017 was $108.5 million, which is also based on pledged collateral. At December 31, 2017, the Bank had no borrowings under the FRB facility.

Short-term borrowing sources also include lines of credit with nine banks to borrow federal funds up to $163.0 million on an unsecured basis. The lines are uncommitted and can be canceled by the lender at any time. Three of the lines expire within one year; the remaining lines have no stated expiration. At December 31, 2017, no amounts were outstanding under these uncommitted lines of credit. Borrowings under these arrangements bear interest at the prevailing Federal Funds Rate.

The Company has four placements of trust preferred securities. In all four trusts, the trust issuer has invested the total proceeds from the sale of the trust preferred securities in junior subordinated deferrable interest debentures issued by the Company. The trust preferred securities pay cumulative cash distributions quarterly at an annual rate, which resets quarterly. The Company has fully and unconditionally guaranteed the trust preferred securities through the combined operation of the debentures and other related documents. The Company's obligation under the guarantee is unsecured and subordinate to other senior and subordinated indebtedness. The trust preferred securities are redeemable only at the Company's discretion and subject to regulatory approval. Mandatory redemption is in the years 2033, 2034, 2036 and 2037. The aggregate carrying value of these debentures as of December 31, 2017 was $30.5 million. The difference between the par amounts and the carrying amounts of the debentures, due to purchase accounting adjustments recorded at the acquisition of Gateway Financial Holdings, Inc. in 2008, is being amortized using the interest method as an adjustment to interest expense. Effective interest rates for the trust preferred securities for the year ended December 31, 2017 were between 7.45% and 8.10%.

In 2015, Legacy Xenith issued and sold $8.5 million in aggregate principal amount of its 6.75% subordinated notes due 2025 pursuant to a Subordinated Note Purchase Agreement (the "Subordinated Notes"). The Subordinated Notes, which the Company assumed in the Legacy Xenith Merger, bear interest at an annual rate of 6.75%, which is payable quarterly in arrears on March 31, June 30, September 30, and December 31. The Subordinated Notes qualify as Tier 2 capital for the Company. As of December 31, 2017, the carrying value of the Subordinated Notes was $8.6 million, which includes the remaining fair value adjustment recorded immediately following the Legacy Xenith Merger. For the year ended December 31, 2017, the effective interest rate, including the amortization of the purchase accounting adjustment, on the Subordinated Notes was 6.40%. As of December 31, 2017, the Company and the Bank, as applicable, were in compliance with all covenants of the Subordinated Notes.

NOTE 15 - Earnings Per Share

The following tables present weighted average basic and diluted shares outstanding and basic and diluted earnings per share for the years ended December 31, 2017 and 2016. Earnings per share is presented for continuing operations, discontinued operations and total net income attributable to the Company. For the years ended December 31, 2017 and 2016, 32 and 186,030 stock options were not included in the diluted earnings per share calculations, as their inclusion would have been antidilutive. Additionally, for the year ended December 31, 2016, 248,054 warrants (exercise price of $26.20) were not included in the calculations, as their inclusion would have been antidilutive.

	December 31, 2017	December 31, 2016
Weighted average shares outstanding, basic	23,210,438	19,685,290
Dilutive effect of warrants	68,176	49,485
Dilutive effect of equity awards	224,970	19,196
Dilutive shares	293,146	68,681
Weighted average shares outstanding, diluted	23,503,584	19,753,971

	December 31, 2017		December 31, 2016	
Net Income:				
Net (loss) income from continuing operations	$	(36,749)	$	55,514
Net income from discontinued operations		15		1,528
Net (loss) income attributable to Xenith Bankshares	$	(36,734)	$	57,042
Basic earnings per share:				
(Loss) earnings per share from continuing operations	$	(1.58)	$	2.82
Earnings per share from discontinued operations		—		0.08
(Loss) earnings per share attributable to Xenith Bankshares	$	(1.58)	$	2.90
Diluted earnings per share:				
(Loss) earnings per share from continuing operations	$	(1.56)	$	2.81
Earnings per share from discontinued operations		—		0.08
(Loss) earnings per share attributable to Xenith Bankshares	$	(1.56)	$	2.89

NOTE 16 - Share-based Compensation

In 2011, the Company's shareholders approved the 2011 Omnibus Incentive Plan (the "Plan"), which succeeded the Company's 2006 Stock Incentive Plan and provided for the grant of up to 275,000 shares of Company common stock as awards to employees of the Company and its related entities, members of the board of directors of the Company, and members of the board of directors of any of the Company's related entities. In 2012, the Company's shareholders approved an amendment to the Plan that increased the number of shares reserved for issuance under the Plan to 1,367,500 of which 76,633 remain available for future grant as of December 31, 2017.

Pursuant to the Legacy Xenith Merger Agreement, at the effective time of the Legacy Xenith Merger, the Company assumed the Legacy Xenith equity incentive plans (the "Legacy Xenith Plans"). At the effective time of the Legacy Xenith Merger, each stock option granted by Legacy Xenith (a "Legacy Xenith Option") that was outstanding and unexercised immediately prior to the effective time of the Legacy Xenith Merger and whether or not vested was converted into an option to acquire, on the same terms and conditions as were applicable under such Legacy Xenith Option immediately prior to the effective time of the Legacy Xenith Merger, shares of Company common stock. The number of shares of Company common stock subject to the Legacy Xenith Options was equal to the number of shares of Legacy Xenith common stock subject to such Legacy Xenith Option immediately prior to the effective time of the Legacy Xenith Merger multiplied by the Exchange Ratio (rounding any resultant fractional share down to the nearest whole number of shares), at a price per share of Company common stock equal to the price per share under such Legacy Xenith Option divided by the Exchange Ratio (rounding any resultant fractional cent up to the nearest whole cent). As a result of the Legacy Xenith Merger, 72,805 Legacy Xenith options were converted into 320,342 options (32,034 after the Reverse Stock Split) to acquire shares of Company common stock, all of which will be issued under the Legacy Xenith Plans. Other than stock options, there were no equity awards outstanding under the Legacy Xenith Plans following the completion of the Legacy Xenith Merger.

Stock Options

In connection with the Legacy Xenith Merger, 207,407 stock options were granted to executive managers. These options were to vest ratably over a period of three years. The fair value of each stock option was estimated on the date of grant using the Black-Scholes option valuation model. The Company must make assumptions regarding the expected life of the options, forfeitures of options, expected dividends and volatilities in share price within the valuation model. In December 2017, after the receipt of regulatory and shareholder approvals for the Union Merger, the board of directors approved the immediate vesting of all of the stock options granted to the chief executive officer of the Company at the time of the Legacy Xenith Merger. There were no stock options granted in 2017.

The following table presents a summary of the Company's stock option activity and related information for the period stated:

	Options Outstanding	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted-Average Contractual Term in Years
Balance at December 31, 2016	713,162	$ 16.79	$ 3,275	5.09
Granted	—	—		
Forfeited and canceled	—	—		
Exercised	(352,957)	15.89		
Expired	(448)	8.20		
Balance at December 31, 2017	359,757	$ 17.67	$ 5,911	3.84

As of December 31, 2017, there was $697 thousand of total unrecognized compensation cost related to stock options expected to be recognized over a weighted-average period of 1.2 years. At the Effective Time of the Union Merger, unrecognized compensation costs were accelerated.

Restricted Stock and Restricted Stock Units

The Company grants restricted stock awards ("RSAs") and restricted stock units ("RSUs") to non-employee directors and certain employees pursuant to the Plan. Grants of these awards are valued based on the closing price on the day preceding the day of grant. Holders of RSAs are not eligible to receive dividends, though are eligible to receive dividend equivalents, which are payable upon the vesting of the underlying shares. Holders of RSUs are not eligible to receive dividends or dividend equivalents. When the awards are converted to unrestricted common shares, holders of both RSAs and RSUs have all the same rights as other shareholders of the Company common stock.

The following table presents a summary of the Company's restricted stock activity, including only unvested RSUs, for the period stated:

	Number of Unvested Awards	Weighted Average Grant Date Fair Value
Balance at December 31, 2016	69,500	$ 20.62
Granted	14,840	25.16
Vested	(25,742)	20.64
Forfeited and canceled	(1,358)	22.14
Balance at December 31, 2017	57,240	$ 21.77

As of December 31, 2017, there was $733 thousand of total unrecognized compensation cost related to RSAs and RSUs expected to be recognized over a weighted-average period of 1.5 years. At the Effective Time of the Union Merger, unrecognized compensation costs were accelerated.

Compensation cost relating to share-based awards is accounted for in the consolidated financial statements based on the fair value of the share-based award on the date of the award and are expensed over the requisite service period. The following table presents the amount of share-based compensation expense recognized in the consolidated statements of income for the periods stated:

	December 31, 2017	December 31, 2016
Expense recognized:		
Related to stock options	$ 1,690	$ 393
Related to restricted stock	767	1,606

NOTE 17 - 401(k) Plans

Prior to 2017, the Company had a 401(k) defined contribution plan (the "HRB Plan") covering any employee of the Company or the Bank who was an employee prior to the Legacy Xenith Merger or any employee of the Company or the Bank hired after the effective date of the Legacy Xenith Merger, who was at least 21 years of age and had at least three months of service. Participants were able to contribute up to 96% of their covered compensation under the HRB Plan, subject to statutory limitations. The HRB Plan provided a safe harbor matching contribution of 100% of the first 3% of contributions made by participants and 50% of the next 2% of contributions. The Company was also able to make additional discretionary contributions to the HRB Plan. Participants were fully vested in their contributions and the Company's match immediately and became fully vested in the Company's discretionary contributions after three years of service. The Company offers its stock as an investment option under the HRB Plan. The Company made no discretionary contributions in 2017 or 2016.

Legacy Xenith had a 401(k) defined contribution plan (the "Legacy XBKS Plan") covering all eligible employees of Legacy Xenith Bank who were employees prior to the Legacy Xenith Merger, which the Company assumed in the Legacy Xenith Merger and remained in effect through December 31, 2016. There were no age or service requirements under the Legacy XBKS Plan. The Legacy XBKS Plan provided a safe harbor matching contribution of 100% of the first 1% of contributions made by participants and 50% of the next 5% of contributions.

At the beginning of 2017, the Legacy XBKS Plan merged into the HRB Plan and the HRB Plan was amended. The HRB Plan, as amended, covered all eligible employees and there are no age or service requirements. The Company has elected to provide a safe harbor matching contribution of 100% of the first 3% of contributions made by participants and 50% of the next 2% of contributions. The Company recorded expense of $906 thousand and $1.0 million for the years ended December 31, 2017 and 2016, respectively, for plan matching contributions.

NOTE 18 - Retirement Plans

Supplemental Executive Retirement Plans

The Company has two supplemental executive retirement plans (the "HRB SERP" and the "CVB SERP") covering several employees and former employees. Pursuant to the HRB SERP, two employees are eligible to receive an annual benefit payable in fifteen installments each equal to $50 thousand following the attainment of their plan retirement date. The CVB SERP provides for the payment of supplemental retirement benefits to three former employees for a period of 15 years. All former employees are fully vested, and as of December 31, 2017, payments had begun to the former employees.

The Company recognizes expense each year related to the HRB SERP and CVB SERP based on the present value of the benefits expected to be provided to the employees and any beneficiaries. For the years ended December 31, 2017 and 2016, the Company recorded $201 thousand and $94 thousand, respectively, of expense in its consolidated income statements related to the HRB SERP and CVB SERP. The accrued liability related to the HRB SERP and the CVB SERP recorded on the Company's consolidated balance sheets was $2.4 million as of both December 31, 2017 and 2016. For the year ended December 31, 2017, the Company paid $201 thousand of benefits to former employees.

The plans are unfunded and there are no plan assets. The Company also has a grantor trust (rabbi trust) as a source of funds to pay benefits under the CVB SERP. At December 31, 2017, $1.8 million in cash and investment securities were held in the rabbi trust and recorded in other assets on the Company's consolidated balance sheet. The rabbi trust assets are subject to the general unsecured creditors of the Company.

Board of Directors Retirement Agreements

The Company has entered into retirement agreements with certain former and current members of its board of directors. Participants are eligible for compensation under the agreements upon the sixth anniversary of the participant's first board meeting. Benefits are to be paid in monthly installments commencing at retirement and ending upon the death, disability or mutual consent of both parties to the agreement. Under the agreements, the participants continue to serve the Company after retirement by performing certain duties as outlined in the agreements. For the years ended December 31, 2017 and 2016, the Company expensed $24 thousand and $28 thousand, respectively, related to these agreements.

NOTE 19 - Related Parties

Both the Company's and the Bank's officers and directors and their related interests have various types of loans with the Bank. As of December 31, 2017 and 2016, the total of these related party loans outstanding was $83 thousand and $14.8 million, respectively. New loans to officers and directors in 2017 and 2016 totaled $83 thousand and $1.9 million, respectively. Repayments in 2017 and 2016 amounted to $122 thousand and $5.2 million, respectively. Such transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other favorable terms.

Deposits of officers and directors as of December 31, 2017 and 2016 totaled $35.3 million and $44.2 million, respectively.

NOTE 20 - Warrants

On December 31, 2008, as part of the Treasury's Troubled Asset Relief Program Capital Purchase Program ("TARP CPP"), the Company entered into a Letter Agreement and Securities Purchase Agreement with the Treasury, pursuant to which the Treasury purchased (i) shares of the Company's preferred stock (the "Original Preferred Shares") and (ii) the Treasury Warrant. On August 12, 2010, the Company entered into and Exchange Agreement with the Treasury, pursuant to which (i) the Treasury exchanged the Original Preferred Shares for newly issued shares of the Company's preferred stock, which the Treasury immediately converted into shares of the Company's common stock (the "Exchanged Shares"), and (ii) the terms of the Treasury Warrant were amended. The Treasury subsequently sold the Exchanged Shares in an underwritten public offering.

On September 13, 2017, the Company repurchased the Treasury Warrant from the Treasury for an aggregate cash purchase price of $1.7 million, the fair value of the Treasury Warrant as agreed upon by the Company and the Treasury, and canceled the Treasury Warrant. Following the Company's repurchase of the Treasury Warrant, the Treasury had no remaining equity interest in the Company.

At December 31, 2017, an aggregate of 247,289 warrants to purchase shares of the Company's common stock at an exercise price of $26.20 per share were outstanding. These warrants, which were assumed in the Legacy Xenith Merger, are exercisable immediately and expire on May 8, 2019.

NOTE 21 - Dividend Restrictions

Under Virginia law, no dividend may be declared or paid out of a Virginia chartered bank's paid-in capital. Xenith Bankshares, as the holding company for the Bank, may be prohibited under Virginia law from the payment of dividends if the Virginia Bureau of Financial Institutions determines that a limitation of dividends is in the public interest and is necessary to ensure the Company's financial soundness and may also permit the payment of dividends not otherwise allowed by Virginia law.

The terms of the Subordinated Notes further restrict the Company from paying a dividend while an event of default exists and from paying a cash dividend if certain regulatory capital ratios are below certain levels, as defined under the agreement.

NOTE 22 - Regulatory Matters

The Company is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items, as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Xenith Bankshares and the Bank to maintain minimum common equity Tier 1, Tier 1 leverage, Tier 1 risk-based capital and total risk-based capital ratios. In July 2013, the Federal Reserve, the FDIC and the Office of the Comptroller of the Currency (the "OCC") approved a final rule (the "Basel III Rules") establishing a regulatory capital framework that implements in the United States the Basel Committee's Revised Framework to the International Convergence of Capital Management and Capital Standards regulatory capital reforms from the Basel Committee on Banking Supervision (the "Basel Committee"). The Basel III Rules establish criteria that instruments must meet to be considered common equity Tier 1 capital, additional Tier 1 capital or Tier 2 capital, and also introduced a "capital conservation buffer" that is an addition of 2.5% to each minimum capital ratio requirement and is phased-in over a four-year period beginning in January 2016.

The Federal Reserve may also set higher capital requirements for holding companies whose circumstances warrant it. For example, holding companies experiencing internal growth or making acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets. Bank regulatory agencies could impose higher capital requirements to meet "well capitalized" standards and any future regulatory change could impose higher capital standards as a routine matter.

Under the Basel III Rules, for the purpose of calculating risk-based ratios, higher or more sensitive risk weights are assigned to various categories of assets, including certain credit facilities that finance the acquisition, development or construction of real property, certain exposures or credits that are 90 days past due or on nonaccrual, foreign exposures, and certain corporate exposures.

The Basel III Rules include certain exemptions to address concerns about the regulatory burden on community banks. For example, banking organizations with less than $15 billion in consolidated assets as of December 31, 2009 are permitted to include in Tier 1 capital trust preferred securities and cumulative perpetual preferred stock issued and included in Tier 1 capital prior to May 19, 2010 on a permanent basis, without any phase out. Community banks were able to elect on a one-time basis in their March 31, 2015 quarterly filings to permanently opt-out out of the requirement to include most AOCI components in the calculation of CET1 capital and, in effect, retain the AOCI treatment under the current capital rules. The Company made such election to exclude AOCI from capital.

As of December 31, 2017, the Xenith Bankshares and the Bank were considered to be "well capitalized" under the published regulatory definition of a well-capitalized bank. The Xenith Bankshares and the Bank satisfy the capital adequacy ratios under the Basel III Rules. In 2019, after the buffer is fully phased in, the "buffered" ratios will be higher than the "well capitalized" ratios. There are no conditions or events since December 31, 2017 that management believes has changed the Company's and the Bank's status as well-capitalized.

The following table presents the capital, for the various capital ratios and risk-weighted assets for the Bank and Xenith Bankshares as of the dates stated:

	December 31, 2017		December 31, 2016	
	Xenith Bank	Xenith Bankshares	Xenith Bank	Xenith Bankshares
Common equity Tier 1 capital	$ 334,025	$ 344,195	$ 314,873	$ 343,624
Tier 1 capital	334,025	358,724	314,873	343,624
Total risk-based capital	350,854	384,138	336,817	374,187
Risk-weighted assets	2,917,402	2,926,298	2,799,415	2,828,101

The following table presents capital ratios for the Bank and Xenith Bankshares, minimum capital ratios required and ratios defined as "well capitalized" by the Company's regulators as of the dates stated. Percentages in the regulatory minimum column include the phase-in of the capital conservation buffer for the periods stated.

	December 31, 2017				December 31, 2016			
	Xenith Bank	Xenith Bankshares	Regulatory Minimum	Well Capitalized	Xenith Bank	Xenith Bankshares	Regulatory Minimum	Well Capitalized
Common equity Tier 1 capital ratio	11.45%	11.76%	5.75%	> 6.50%	11.25%	12.15%	5.125%	> 6.50%
Tier 1 leverage ratio	10.68%	11.49%	4.00%	> 5.00%	9.93%	10.74%	4.00%	> 5.00%
Tier 1 risk-based capital ratio	11.45%	12.26%	7.25%	> 8.00%	11.25%	12.15%	6.625%	> 8.00%
Total risk-based capital ratio	12.03%	13.13%	9.25%	> 10.00%	12.03%	13.23%	8.625%	> 10.00%

NOTE 23 - Commitments and Contingencies

On September 19, 2017, Shannon Rowe, a purported shareholder of Xenith Bankshares, filed a putative class action lawsuit (the "Rowe Lawsuit") in the United States District Court for the Eastern District of Virginia (the "District Court") against the Company, the current members of the board of directors, and Union on behalf of all of the Company's public shareholders. The plaintiff in the Rowe Lawsuit alleges that Union's registration statement on Form S-4, as amended, filed with the SEC relating to the Union Merger omitted certain material information in violation of Section 14(a) of the Exchange Act and Rule 14a-9 promulgated thereunder, and further that the individual defendants are liable for those omissions under Section 20(a) of the Exchange Act. The relief sought in the Rowe Lawsuit includes preliminary and permanent injunction to prevent the completion of the Union Merger, rescission or rescissory damages if the Union Merger is completed, costs and attorneys' fees. On February 21, 2018, the District Court entered an order dismissing the Rowe Lawsuit with the consent of all parties.

In the ordinary course of operations, the Company is party to legal proceedings. Based upon information currently available, management believes that such legal proceedings, in the aggregate, will not have a material adverse effect on the Company's business, financial condition, results of operations or cash flows.

In the normal course of business, the Company has commitments under credit agreements to lend to customers as long as there is no material violation of any condition established in the contracts. These commitments generally have fixed expiration dates or other termination clauses and may require payments of fees. Because many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Additionally, the Company issues letters of credit, which are conditional commitments to guarantee the performance of customers to third parties. The credit risk involved in issuing letters of credit is the same as that involved in extending loans to customers.

These commitments represent outstanding off-balance sheet commitments. The following table presents unfunded loan commitments outstanding as of the dates stated:

	December 31, 2017	December 31, 2016
Commercial lines of credit	$ 436,674	$ 372,083
Construction	156,417	113,364
Commercial real estate	39,143	44,790
Residential real estate	113,117	93,981
Consumer	13,366	11,108
Letters of credit	26,669	20,476
Total commitments	$ 785,386	$ 655,802

The Company leases land and buildings upon and in which certain of its operating facilities are located. These leases are non-cancellable operating leases with initial remaining terms in excess of one year with options for renewal and expire at various dates through January 2034, with one lease expiring in 2049. In addition to minimum rents, certain leases have escalation clauses and include provisions for additional payments to cover taxes, insurance and maintenance. The effects of the scheduled rent increases, which are included in the minimum lease payments, are recognized on a straight-line basis over the lease term. For the years ended December 31, 2017 and 2016, rental expense was $3.0 million and $2.6 million, respectively.

Future minimum lease payments, by year and in the aggregate, under non-cancellable operating leases at December 31, 2017 were as follows:

Year	Commitment
2018	$ 3,184
2019	2,934
2020	2,543
2021	1,877
2022	1,093
Thereafter	9,509
Total lease commitments	$ 21,140

NOTE 24 - Concentration of Credit Risk

The Company has a diversified loan portfolio consisting of commercial, real estate and consumer loans. As of December 31, 2017 and 2016, the Company had loans secured by commercial and residential real estate located primarily within the Company's market area representing $1.6 billion, or 66% of total loans, and $1.5 billion, or 61% of total loans, respectively. A major factor in determining borrowers' ability to honor their agreements, as well as the Company's ability to realize the value of any underlying collateral, if necessary, is influenced by economic conditions in this market area.

The Company maintains cash balances with several financial institutions. These accounts are insured by the Federal Depository Insurance Corporation (FDIC) up to $250 thousand. At December 31, 2017, the Company had $5.7 million of uninsured funds in various financial institutions.

NOTE 25 - Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company classifies financial assets and liabilities measured at fair value in three levels based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

The categorization of an asset or liability within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Recurring Basis

The Company measures or monitors certain of its assets on a fair value basis. Fair value is used on a recurring basis for those assets and liabilities for which an election was made, as well as for certain assets and liabilities in which fair value is the primary basis of accounting. The following tables present the fair value of assets measured and reported at fair value on a recurring basis in the consolidated balance sheets as of the dates stated:

		Fair Value Measurements at Reporting Date Using		
	December 31, 2017	Level 1	Level 2	Level 3
Assets				
Securities available for sale				
Mortgage-backed securities				
Agencies	$ 119,803	$ —	$ 119,803	$ —
Collateralized	62,002	—	62,002	—
Collateralized mortgage obligations	25,865	—	25,865	—
Asset-backed securities	6,611	—	6,611	
Municipals				
Tax-exempt	62,895	—	62,895	—
Taxable	17,534	—	17,534	—
Corporate bonds	973	—	973	—
Equity securities	99	—	—	99
Total securities available for sale	295,782	—	295,683	99
Derivative loan commitments	—	—	—	—
Interest rate swaps	1,409	—	1,409	—
Rabbi trust	1,845	1,845	—	—
Total assets	$ 299,036	$ 1,845	$ 297,092	$ 99
Liabilities				
Interest rate swaps	$ 1,301	$ —	$ 1,301	$ —
Total liabilities	$ 1,301	$ —	$ 1,301	$ —

	December 31, 2016	Fair Value Measurements at Reporting Date Using Level 1	Level 2	Level 3
Assets				
Securities available for sale				
Mortgage-backed securities				
Agencies	$ 134,890	$ —	$ 134,890	$ —
Collateralized	62,753	—	62,753	
Collateralized mortgage obligations	19,810	—	19,810	
Asset-backed securities	14,758	—	14,758	—
Municipals				
Tax-exempt	64,755	—	64,755	—
Taxable	17,676	—	17,676	
Corporate bonds	984	—	984	—
Equity securities	1,817	1,718	—	99
Total securities available for sale	317,443	1,718	315,626	99
Derivative loan commitments	126	—	—	126
Interest rate swaps	1,223	—	1,223	—
Rabbi trust	$ 1,804	$ 1,804		
Total assets	$ 320,596	$ 3,522	$ 316,849	$ 225
Liabilities				
Interest rate swaps	$ 1,226	$ —	$ 1,226	$ —
Total liabilities	$ 1,226	$ —	$ 1,226	$ —

The following table presents a rollforward of recurring fair value measurements categorized within Level 3 of the fair value hierarchy for the periods stated:

	Activity in Level 3 Fair Value Measurements December 31, 2017		Activity in Level 3 Fair Value Measurements December 31, 2016	
	Investment Securities Available for Sale	Derivative Loan Commitments	Investment Securities Available for Sale	Derivative Loan Commitments
Balance at beginning of period	$ 99	$ 126	$ 99	$ 1,020
Unrealized gains included in:				
Earnings	—	—	—	—
Other comprehensive income	—	—	—	—
Purchases	—	—	—	—
Sales	—	—	—	—
Reclassification from level 3 to level 1	—	—	—	—
Issuances	—	—	—	470
Settlements	—	(126)	—	(1,364)
Balance at end of period	$ 99	$ —	$ 99	$ 126

The Company’s policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer.

The following describes the valuation techniques used to estimate the fair value of assets and liabilities that are measured on a recurring basis.

Investment Securities Available for Sale: Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly-liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities would include U.S. agency securities, mortgage-backed securities, obligations of states and political subdivisions, and certain corporate, asset-backed and other securities valued using third party quoted prices in markets that are not active. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy.

Derivative Loan Commitments: The Company originated mortgage loans for sale into the secondary market on a best efforts basis. Under the best efforts basis, the Company entered into commitments to originate mortgage loans whereby the interest rate is fixed prior to funding. These commitments, in which the Company intended to sell in the secondary market, were considered freestanding derivatives. The fair values of interest rate lock commitments, which were related to mortgage loan commitments and were categorized as Level 3, were based on quoted prices adjusted for commitments that the Company did not expect to fund.

Interest Rate Swaps: The Company uses observable inputs to determine fair value of its interest rate swaps. The valuation of these instruments is determined using widely-accepted valuation techniques that are based on discounted cash flow analysis using the expected cash flows of each derivative over the contractual terms of the derivatives, including the period to maturity and market-based interest rate curves. The fair value of the interest rate swaps is determined using a market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments were based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. Accordingly, the Company categorizes these financial instruments within Level 2 of the fair value hierarchy.

Rabbi Trust: Assets held by the Company in the rabbi trust consist of securities where quoted prices are available in active markets and are classified as Level 1 securities.

Nonrecurring Basis

Certain assets, specifically collateral dependent impaired loans and other real estate owned and repossessed assets, are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment and an allowance is established to adjust the asset to its estimated fair value). The adjustments are based on appraisals of underlying collateral or other observable market prices when current appraisals or observable market prices are available. If an appraisal that is less than 12 months old is not available, an existing appraisal or other valuation would be adjusted depending on the type of real estate and age of the appraisal to reflect current market conditions and, as such, may include significant management assumptions and input with respect to the determination of fair value.

The adjustments are based in part upon externally derived statistical data and upon management's knowledge of market conditions and prices of sales of other real estate owned. It is the Company's policy to classify these as Level 3 assets within the fair value hierarchy. Management periodically reviews the adjustments as compared to valuations from updated appraisals and modifies the adjustments accordingly should updated appraisals reflect valuations significantly different than those derived utilizing the adjustments. Management believes the valuations are reasonable for the collateral underlying the loan portfolio; however, while appraisals are indicators of fair value, the amount realized upon the sale of these assets could be significantly different.

The following tables present the fair value of assets measured and recognized at fair value on a nonrecurring basis in the consolidated balance sheets as of the dates stated:

	Assets Measured at Fair Value	Fair Value Measurements at December 31, 2017 Using		
		Level 1	Level 2	Level 3
Impaired loans	$ 37,256	$ —	$ —	$ 37,256
Other real estate owned and repossessed assets	4,214	—	—	4,214

	Assets Measured at Fair Value	Fair Value Measurements at December 31, 2016 Using		
		Level 1	Level 2	Level 3
Impaired loans	$ 49,378	$ —	$ —	$ 49,378
Other real estate owned and repossessed assets	5,345	—	—	5,345

The following describes the valuation techniques used to estimate fair value of assets that are required to be measured on a nonrecurring basis.

Impaired Loans: The majority of the Company's impaired loans are considered collateral dependent. For collateral dependent impaired loans, impairment is measured based upon the estimated fair value of the underlying collateral less costs of disposal.

Other Real Estate Owned and Repossessed Assets: The fair value of other real estate owned and repossessed assets is based primarily on appraisals of the real estate or other observable market prices. The Company's policy is to have current appraisals of these assets; however, if a current appraisal is not available, an existing appraisal would be adjusted to reflect changes in market conditions from the date of the existing appraisal and, as such, requires management to make assumptions in the determination of fair values.

Significant Unobservable Inputs

The following table presents the significant unobservable inputs used to value the Company's material Level 3 assets as of the date stated. These factors represent the significant unobservable inputs that were used in the measurement of fair value.

	Fair Value as of December 31, 2017	Significant Unobservable Inputs by Valuation Technique	Significant Unobservable Inputs as of December 31, 2017
Impaired loans	$ 37,256	Appraised value Average discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	9%
Other real estate owned	4,214	Appraised value Weighted average discounts to reflect current market conditions, abbreviated holding period and estimated costs to sell	10%

Other Fair Value Measurements

Accounting standards require the disclosure of the estimated fair value of financial instruments that are not recorded at fair value. For the financial instruments that the Company does not record at fair value, estimates of fair value are made at a point in time based on relevant market data and information about the financial instrument. No readily available market exists for a significant portion of the Company's financial instruments. Fair value estimates for these instruments are based on current economic conditions, interest rate risk characteristics and other factors. Many of these estimates involve uncertainties and matters of significant judgment and cannot be determined with precision; therefore, the calculated fair value estimates in many instances cannot be substantiated by comparison to independent markets and, in many cases, may not be realizable in a current sale of the instrument. In addition, changes in assumptions could significantly affect these fair value estimates. The following methods and assumptions were used by the Company in estimating fair value of these financial instruments.

Cash and Cash Equivalents: Cash and cash equivalents include cash and due from banks, interest-bearing deposits in other banks, and overnight funds sold and due from FRB. The carrying amount approximates fair value.

Investment Securities Available for Sale: Fair values are based on published market prices where available. If quoted market prices are not available, fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows. Investment securities available for sale are carried at their aggregate fair value.

Restricted Equity Securities: These investments are carried at cost. The carrying amount approximates fair value.

Loans Held For Sale: The carrying value of loans held for sale is a reasonable estimate of fair value since loans held for sale are expected to be sold within a short period that is typically between 30 and 90 days after a loan closing transaction. These loans are reported within discontinued operations.

Loans: To determine the fair values of loans other than those deemed impaired, the Company uses discounted cash flow analyses using discount rates that are similar to the interest rates and terms currently being offered to borrowers of similar terms and credit quality. In valuing acquired loans, the Company also uses valuation techniques that include default rates for similar risk rated loans and estimates of expected cash flows as well as other factors.

Interest Receivable and Interest Payable: The carrying amount approximates fair value.

Bank-owned Life Insurance: The carrying amount approximates fair value.

Deposits: The fair values disclosed for non-maturity deposits such as demand, including money market, and savings accounts are equal to the amount payable on demand at the reporting date (i.e., carrying values). Fair values for certificates of deposit are estimated using discounted cash flows that apply market interest rates on comparable instruments.

Borrowings: The fair value of FHLB borrowings approximates the carrying amount. Other borrowings include the Subordinated Notes and the junior subordinated debentures. The fair value of the Subordinated Notes approximates the carrying value. The fair value of the junior subordinated debentures approximates the par value of the borrowings.

Commitments to Extend Credit and Standby Letters of Credit: The only amounts recorded for commitments to extend credit and standby letters of credit are the deferred fees arising from these unrecognized financial instruments. These deferred fees are not deemed significant at December 31, 2017, and as such, the related fair values have not been estimated.

The following tables present the carrying amounts and fair values of those financial instruments that are not recorded at fair value or have carrying amounts that approximate fair value as of the dates stated:

	December 31, 2017				
	Carrying	Fair	Fair Value Measurements at Reporting Date Using		
	Amount	Value	Level 1	Level 2	Level 3
Financial Assets:					
Loans, net(1)	$ 2,489,760	$ 2,485,371	$ —	$ —	$ 2,485,371
Financial Liabilities:					
Deposits	2,545,547	2,541,537	—	2,541,537	—
FHLB borrowings	235,000	235,000	—	235,000	—
Other borrowings	39,331	65,288	—	65,288	—

	December 31, 2016				
	Carrying	Fair	Fair Value Measurements at Reporting Date Using		
	Amount	Value	Level 1	Level 2	Level 3
Financial Assets:					
Loans, net(1)	$ 2,442,116	$ 2,448,581	$ —	$ —	$ 2,448,581
Financial Liabilities:					
Deposits	2,571,970	2,573,070	—	2,573,070	—
FHLB borrowings	172,000	172,000	—	172,000	—
Other borrowings	38,813	65,303	—	65,303	—

(1) Carrying amount and fair value include impaired loans and carrying amount is net of the allowance for loan losses.

NOTE 26 - Parent Company Financial Statements

Xenith Bankshares, Inc. is the parent company of Xenith Bank. The following table presents the balance sheets of Xenith Bankshares, Inc. as of the dates stated:

	December 31, 2017	December 31, 2016
Assets		
Cash on deposit with subsidiaries	$ 25,976	$ 23,290
Equity securities available for sale	99	1,817
Investment in subsidiaries	434,124	467,217
Other assets	18,980	19,280
Total assets	$ 479,179	$ 511,604
Liabilities		
Other borrowings	$ 39,331	$ 38,813
Deferred tax liability	7,256	8,802
Other liabilities	2,851	808
Total liabilities	49,438	48,423
Shareholders' equity		
Common stock	234	231
Capital surplus	713,630	710,916
Accumulated deficit	(282,073)	(245,538)
Accumulated other comprehensive loss, net of tax	(2,050)	(2,428)
Total shareholders' equity	429,741	463,181
Total liabilities and shareholders' equity	$ 479,179	$ 511,604

The following table presents the statements of income of Xenith Bankshares, Inc. for the periods stated:

	December 31, 2017	December 31, 2016
Income		
Interest income	$ 68	$ 100
Other income	1,030	45
Total income	1,098	145
Expenses		
Interest expense	2,881	2,236
Other expense	2,096	1,544
Total expense	4,977	3,780
Loss before income taxes and equity in undistributed earnings of subsidiaries	(3,879)	(3,635)
Income tax benefit	(1,358)	(1,248)
Equity in undistributed (loss) earnings of subsidiaries	(34,213)	59,429
Net (loss) income attributable to Xenith Bankshares, Inc.	$ (36,734)	$ 57,042

The following table presents the statements of cash flows of Xenith Bankshares, Inc. for the periods stated:

	December 31, 2017	December 31, 2016
Cash flows from operating activities		
Net (loss) income	$ (36,734)	$ 57,042
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities		
Equity in undistributed earnings of subsidiaries	34,213	(59,429)
Amortization of purchase accounting adjustments	518	492
Share-based compensation expense	2,457	1,999
Change in other assets	527	(17,734)
Change in liabilities	1,445	7,871
Net cash provided by (used in) operating activities	2,426	(9,759)
Cash flows from financing activities		
Repurchase of warrants, net of sales	(1,651)	—
Dividend from subsidiary	—	20,000
Cash in lieu of issuance of common stock	—	(6)
Net settlement of restricted stock awards	(150)	(2,801)
Issuance of common stock for share-based awards	2,061	1,471
Net cash provided by financing activities	260	18,664
Increase in cash on deposit with subsidiaries	2,686	8,905
Cash on deposit with subsidiaries at beginning of period	23,290	14,385
Cash on deposit with subsidiaries at end of period	$ 25,976	$ 23,290

NOTE 27 - Recent Accounting Pronouncements

During the second quarter of 2014, the FASB issued Accounting Standard Update ("ASU") 2014-09,*Revenue from Contracts with Customers* ("ASU 2014-09"). ASU 2014-09 represents a comprehensive reform of many of the revenue recognition requirements in GAAP. ASU 2014-09 creates a new topic ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"). ASC 606 will supersede the current revenue recognition requirements in ASC 605,*Revenue Recognition*, and will supersede or amend much of the industry-specific revenue recognition guidance found throughout the ASC. The core principle of ASC 606 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. ASC 606 creates a five-step process for achieving that core principle: (1) identifying the contract with the customer; (2) identifying the performance obligations in the contract; (3) determining the transaction price; (4) allocating the transaction price to the performance obligations; and (5) recognizing revenue when an entity has completed the performance obligations. ASC 606 also requires additional disclosures that allow users of the financial statements to understand the nature, timing and uncertainty of revenue and cash flows resulting from contracts with customers. The effective date of ASC 606 is for the year beginning January 1, 2018. The new revenue standard permits the use of retrospective or cumulative effect transition methods. The Company has evaluated those revenue types that are specifically excluded from the application of ASC 606, including the majority of the Company's contracts with customers (i.e., financial instruments), and those revenue types that are not specifically excluded. The Company does not expect the adoption of this standard will have a material effect on the Company's consolidated financial statements.

In February 2016, the FASB issued ASC Topic 842,*Leases* ("ASC 842"), which replaces ASC 840, *Leases.* The core principle of ASC 842 is that a lessee should recognize the assets and liabilities that arise from leases. A lessee should recognize in its balance sheet a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it should recognize lease expense for such leases generally on a straight-line basis over the lease term. The recognition, measurement and presentation of expenses and cash flows arising from a lease by a lessee are as follows:

For finance leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position;

2. Recognize interest on the lease liability separately from amortization of the right-of-use asset in the statement of comprehensive income; and

3. Classify repayments of principal portion of the lease liability within financing activities and payments of interest on the lease liability and variable lease payments within operating activities in the statement of cash flows.

For operating leases, a lessee is required to do the following:

1. Recognize a right-of-use asset and a lease liability, initially measured at the present value of the lease payments, in the statement of financial position;

2. Recognize a single lease cost, calculated so that the cost of the lease is allocated over the lease term on a generally straight-line basis; and

3. Classify all cash payments within operating activities in the statement of cash flows.

The effective date for ASC 842 is for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted. The Company is evaluating whether adoption of this standard will have a material effect on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09,*Improvements to Employee Share-Based Payment Accounting* ("ASU 2016-09"), which is intended to improve the accounting for share-based payment transactions as part of the FASB's simplification initiative. ASU 2016-09 changed seven aspects of the accounting for share-based payment award transactions, including: (1) accounting for income taxes; (2) classification of excess tax benefits on the statement of cash flows; (3) forfeitures; (4) minimum statutory tax withholding requirements; (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax-withholding purposes; (6) practical expedient - expected term (nonpublic entities only); and (7) intrinsic value (nonpublic entities only). ASU 2016-09 was effective for fiscal years beginning after December 15, 2016 and interim periods within those years.

In accordance with ASU 2016-09, and beginning in 2017, the Company recognizes excess tax benefits and tax deficiencies as income tax benefit or expense, respectively, in the reporting period in which they occur. Prior to the adoption of this standard, the Company recognized excess tax benefits as capital surplus only when the amounts reduced taxes payable. The adoption of the standard resulted in a cumulative effect adjustment to accumulated deficit of $199 thousand, which represents the amount of excess tax benefits that had not been previously recognized due to the Company's net operating loss position.

In June 2016, the FASB issued ASU 2016-13,*Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"), which significantly changes the way entities recognize impairment of many financial assets by requiring immediate recognition of estimated credit losses expected to occur over their remaining life. The main objective of ASU 2016-13 is 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. To achieve this objective, the amendments in ASU 2016-13 replace 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 changes of ASU 2016-13 are effective for fiscal years beginning after December 15, 2019 and interim periods within those years. An entity may early adopt the standard for annual and interim periods in fiscal years beginning after December 15, 2019. It is anticipated that the implementation of this standard could have a significant effect on the Company's methodology for evaluating its allowance for loan losses and has begun planning for the implementation of this standard.

In August 2016, the FASB issued ASU 2016-15,*Statement of Cash Flows* ("ASU 2016-15"), which is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The guidance addresses: (1) debt prepayment on debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investments; (7) beneficial interest in securitizations transactions; and (8) separately identifiable cash flows and application of the predominance principle. The amendments in this update are effective for public business entities for fiscal years beginning after December 15, 2017 and interim periods within those years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of this standard will have a material effect on its consolidated statements of cash flows.

In January 2017, the FASB issued ASU 2017-01,*Business Combinations (Topic 805): Clarifying the Definition of a Business*("ASU 2017-01"), which provides a new framework for determining whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. ASU 2017-01 is effective for annual and interim periods in fiscal years beginning after December 15, 2017. Entities may early adopt ASU 2017-01 and apply it to transactions that have not been reported in financial statements that have been issued or made available for issuance. The Company does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04,*Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*("ASU 2017-04"), which requires an entity to no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured using the difference between the carrying amount and the fair value of the reporting unit. ASU 2017-04 is effective for annual and interim periods in fiscal years beginning after December 15, 2019. Entities may early adopt the standard for goodwill impairment tests with measurement dates after January 1, 2017. The Company does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In May 2017, the FASB issued ASU 2017-09,*Compensation - Stock Compensation (Topic 718): Scope of Modification Accounting*("ASU 2017-09"), which clarifies what constitutes a modification of a share-based payment award. ASU 2017-09 is effective for annual and interim periods in fiscal years beginning after December 15, 2017. Early adoption is permitted as of the beginning of an annual period for which financial statements (interim or annual) have not been issued or made available for issuance. The Company does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

In August 2017, the FASB issued ASU 2017-12,*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities*("ASU 2017-12"), which changes the recognition and presentation requirements of hedge accounting, including eliminating the requirement to separately measure and report hedge ineffectiveness and presenting all items that affect earnings in the same income statement line as the hedged item. The ASU also provides new alternatives for applying hedge accounting to additional hedging strategies, measuring the hedged items in fair value hedges of interest rate risk, reducing the cost and complexity of applying hedge accounting by easing the requirements for effectiveness testing, hedge documentation and application of the critical terms match method, and reducing the risk of material error correction if a company applies the shortcut method inappropriately. ASU 2017-12 is effective for annual and interim periods in fiscal years beginning after December 15, 2018. The Company does not expect the adoption of this standard will have a material effect on its consolidated financial statements.

NOTE 28 - Subsequent Events

Management has evaluated subsequent events through of March 9, 2018, which is the date the consolidated financial statements were available to be issued. Effective on January 1, 2018, the Union Merger was completed. Shortly thereafter, Xenith Bank was merged with and into Union Bank & Trust. See note 1 to the consolidated financial statements for additional discussion of the Union Merger.

Exhibit 99.2

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Access National Corporation
Reston, Virginia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Access National Corporation (the “Corporation”) as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders’ equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Corporation at December 31, 2017 and 2016, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (“PCAOB”), the Corporation’s internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”) and our report dated April 4, 2018 expressed an adverse opinion thereon.

Basis for Opinion

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

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

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

We have served as the Corporation’s auditor since 2004.

/S/ BDO USA, LLP

Richmond, Virginia
April 4, 2018

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors
Access National Corporation
Reston, Virginia

Opinion on Internal Control over Financial Reporting

We have audited Access National Corporation's (the "Corporation's") internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO criteria"). In our opinion, the Corporation did not maintain, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We do not express an opinion or any other form of assurance on management's statements referring to any corrective actions taken by the Corporation after the date of management's assessment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Corporation as of December 31, 2017 and 2016, the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as "the financial statements") and our report dated April 4, 2018, expressed an unqualified opinion thereon.

Basis for Opinion

The Corporation's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying "Item 9A, Report of Management's Assessment of Internal Control over Financial Reporting." Our responsibility is to express an opinion on the Corporation's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Corporation in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. A material weakness relating to internal controls surrounding the general ledger account reconciliations to timely identify and account for stale-dated and other uncollectable reconciling items has been identified and described in management's assessment. This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2017 financial statements, and this report does not affect our report dated April 4, 2018, on those financial statements.

Definition and Limitations of Internal Control over Financial Reporting

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

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

/S/ BDO USA, LLP

Richmond, Virginia
April 4, 2018

ACCESS NATIONAL CORPORATION
Consolidated Balance Sheets
(In Thousands, Except for Share and Per Share Data)

	December 31,	
	2017	**2016**
Assets		
Cash and due from banks	$ 29,855	$ 9,186
Interest-bearing deposits in other banks and federal funds sold	92,458	81,873
Total cash and cash equivalents	122,313	91,059
Securities available-for-sale, at fair value	407,446	194,090
Securities held-to-maturity, at amortized cost (fair value of $16,379 and $9,293)	15,721	9,200
Total investment securities	423,167	203,290
Restricted stock	16,572	10,092
Loans held for sale	31,999	35,676
Loans, net of allowance for loan losses 2017 - $15,805; 2016 - $16,008	1,963,104	1,033,690
Premises, equipment and land, net	27,797	7,084
Goodwill and intangibles	185,161	1,833
Accrued interest receivable and other assets	103,781	47,984
Total assets	$ 2,873,894	$ 1,430,708
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 744,960	$ 362,036
Savings and interest-bearing deposits	1,120,566	440,585
Time deposits	368,622	251,706
Total deposits	2,234,148	1,054,327
Short-term borrowings	145,993	186,009
Long-term borrowings	40,000	60,000
Trust preferred debentures	3,883	-
Other liabilities and accrued expenses	28,246	9,842
Total liabilities	2,452,270	1,310,178
Shareholders' Equity		
Common stock, par value $0.835, authorized 60,000,000 shares, issued and outstanding, 2017- 20,534,163 and 2016 - 10,636,242	17,146	8,881
Additional paid-in capital	307,670	21,779
Retained earnings	98,584	91,439
Accumulated other comprehensive loss, net	(1,776)	(1,569)
Total shareholders' equity	421,624	120,530
Total liabilities and shareholders' equity	$ 2,873,894	$ 1,430,708

See accompanying notes to consolidated financial statements.

ACCESS NATIONAL CORPORATION
Consolidated Statements of Income
(In Thousands, Except for Share and Per Share Data)

	Year Ended December 31,		
	2017	**2016**	**2015**
Interest and Dividend Income			
Loans	$ 84,572	$ 45,639	$ 40,055
Interest-bearing deposits and federal funds sold	1,199	337	129
Securities	9,709	4,039	3,482
Total interest and dividend income	95,480	50,015	43,666
Interest Expense			
Deposits	9,274	5,150	3,648
Short-term borrowings	822	402	252
Long-term borrowings	1,012	752	219
Total interest expense	11,108	6,304	4,119
Net interest income	84,372	43,711	39,547
Provision for loan losses	6,919	2,120	150
Net interest income after provision for loan losses	77,453	41,591	39,397
Noninterest Income			
Service fees on deposit accounts	1,998	971	903
Gain on sale of loans	20,080	25,164	19,633
Other income	10,014	5,668	5,529
Total noninterest income	32,092	31,803	26,065
Noninterest Expense			
Compensation and employee benefits	43,915	31,778	26,966
Occupancy	3,575	1,685	1,594
Furniture and equipment	3,303	1,359	1,446
Other	30,275	12,968	11,860
Total noninterest expense	81,068	47,790	41,866
Income before income taxes	28,477	25,604	23,596
Provision for income taxes	11,977	9,200	8,177
Net Income	$ 16,500	$ 16,404	$ 15,419
Earnings per common share:			
Basic	$ 0.92	$ 1.55	$ 1.46
Diluted	$ 0.92	$ 1.54	$ 1.46
Average outstanding shares:			
Basic	17,988,670	10,586,394	10,513,008
Diluted	18,076,304	10,677,561	10,581,871

See accompanying notes to consolidated financial statements.

ACCESS NATIONAL CORPORATION
Consolidated Statements of Comprehensive Income
(In Thousands)

	Year Ended December 31,		
	2017	**2016**	**2015**
Net income	$ 16,500	$ 16,404	$ 15,419
Other comprehensive loss:			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during period	(417)	(816)	(528)
Less: reclassification adjustment for gains included in net income	-	(52)	(188)
Unrealized gains on interest rate swaps	64	-	-
Tax effect	146	304	255
Net of tax amount	(207)	(564)	(461)
Comprehensive income	$ 16,293	$ 15,840	$ 14,958

See accompanying notes to consolidated financial statements.

ACCESS NATIONAL CORPORATION
Consolidated Statements of Changes in Shareholders' Equity
(In Thousands, Except for Share and Per Share Data)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Total
Balance, December 31, 2014	$ 8,742	$ 18,538	$ 72,168	$ (544)	$ 98,904
Comprehensive income:					
Net income	-	-	15,419	-	15,419
Other comprehensive loss	-	-	-	(461)	(461)
Stock options exercised (29,975 shares)	26	354	-	-	380
Issuance of restricted common stock (7,500 shares)	6	122	-	-	128
Dividend reinvestment plan shares issued from reserve (37,707 shares)	31	607	-	-	638
Cash dividends ($0.58 per share)	-	-	(6,202)	-	(6,202)
Stock-based compensation expense recognized in earnings	-	332	-	-	332
Balance, December 31, 2015	$ 8,805	$ 19,953	$ 81,385	$ (1,005)	$ 109,138
Comprehensive income:					
Net income	-	-	16,404	-	16,404
Other comprehensive loss	-	-	-	(564)	(564)
Stock options exercised (43,801 shares)	36	496	-	-	532
Issuance of restricted common stock (6,205 shares)	5	123	-	-	128
Dividend reinvestment plan shares issued from reserve (41,485 shares)	35	872	-	-	907
Cash dividends ($0.60 per share)	-	-	(6,350)	-	(6,350)
Stock-based compensation expense recognized in earnings	-	335	-	-	335
Balance, December 31, 2016	$ 8,881	$ 21,779	$ 91,439	$ (1,569)	$ 120,530
Comprehensive income:					
Net income	-	-	16,500	-	16,500
Other comprehensive loss	-	-	-	(207)	(207)
Stock options exercised (155,769 shares)	130	2,144	-	-	2,274
Issuance of common stock for business combination (9,516,097 shares)	7,946	277,727	-	-	285,673
Issuance of restricted common stock (4,549 shares)	4	125	-	-	129
Dividend reinvestment plan shares issued from reserve (221,506 shares)	185	5,453	-	-	5,638
Cash dividends ($0.60 per share)	-	-	(9,355)	-	(9,355)
Stock-based compensation expense recognized in earnings	-	442	-	-	442
Balance, December 31, 2017	$ 17,146	$ 307,670	$ 98,584	$ (1,776)	$ 421,624

See accompanying notes to consolidated financial statements.

ACCESS NATIONAL CORPORATION
Consolidated Statements of Cash Flows
(In Thousands)

	Years Ended December 31		
	2017	**2016**	**2015**
Cash Flows from Operating Activities			
Net income	$ 16,500	$ 16,404	$ 15,419
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	6,919	2,120	150
Amortization of intangibles	2,720	-	-
Accretion of unfavorable lease liability	(303)	-	-
Purchase accounting discount amortization	115	-	-
Provision for off balance sheet losses	50	-	109
Accretion of credit mark	(4,296)	-	-
Income from bank-owned life insurance	(1,201)	(558)	(460)
(Gain) loss on sale of securities	1	(109)	89
(Gain) loss on sale of other real estate owned	(109)	35	-
Deferred tax (benefit) expense	8,997	(698)	(534)
Stock-based compensation	442	335	332
Valuation (allowance) release on derivatives	402	(394)	(383)
Net amortization on securities	2,860	2,051	1,077
Depreciation and amortization fixed assets	1,462	515	507
Changes in assets and liabilities:			
Decrease (increase) in valuation of loans held for sale carried at fair value	(98)	669	240
Originations of loans held for sale	(432,678)	(537,076)	(484,747)
Proceeds from sales of loans held for sale	436,453	544,866	485,398
Increase in other assets	(9,223)	(2,113)	(1,470)
Increase in other liabilities	3,258	230	382
Net cash provided by operating activities	32,271	26,277	16,109
Cash Flows from Investing Activities			
Proceeds from maturities, calls and prepayments of securities available-for-sale	35,555	15,883	18,180
Proceeds from sale of available-for-sale securities	183,065	13,200	31,151
Purchases of securities available-for-sale	(201,365)	(65,734)	(86,264)
Proceeds from maturities, calls and prepayments of securities held-to-maturity	68	5,000	-
Purchases of Federal Reserve and Federal Home Loan Bank Stock	(32,579)	(9,761)	(13,843)
Proceeds from redemption of Federal Reserve and Federal Home Loan Bank Stock	30,218	6,928	15,545
Purchase of bank owned life insurance	-	(10,000)	-
Net increase in loans	(116,614)	(161,895)	(110,861)
Proceeds from the settlement of other real estate owned	4,222	463	-
Purchases of premises and equipment	(703)	(871)	(232)
Cash acquired in business combination	90,940	-	-
Net cash used in investing activities	(7,193)	(206,787)	(146,324)
Cash Flows from Financing Activities			
Net increase in demand, interest-bearing demand and savings deposits	211,873	201,113	114,860
Net (decrease) increase in time deposits	(88,678)	(60,530)	43,441
Net increase (decrease) in securities sold under agreement to repurchase	(31,990)	35,880	(4,506)
Net increase (decrease) in other short-term borrowings	(34,059)	59,000	(90,000)
Net (decrease) increase in long-term borrowings	(49,941)	5,000	55,000
Proceeds from issuance of common stock	8,326	1,567	1,146
Dividends paid	(9,355)	(6,350)	(9,866)
Net cash provided by financing activities	6,176	235,680	110,075
Increase (decrease) in cash and cash equivalents	31,254	55,170	(20,140)
Cash and Cash Equivalents			
Beginning	91,059	35,889	56,029
Ending	$ 122,313	$ 91,059	$ 35,889
Supplemental Disclosures of Cash Flow Information			
Cash payments for interest	$ 10,957	$ 6,324	$ 4,094
Cash payments for income taxes	$ 8,174	$ 10,020	$ 8,769
Supplemental Disclosures of Noncash Investing Activities			
Unrealized (loss) gain on securities available for sale	$ (415)	$ (868)	$ (709)
Transfers of loans held for investment to other real estate owned	$ -	$ 129	$ -
Other real estate owned transferred to other assets due to FHA guarantee	$ -	$ (129)	$ -
Purchased land transferred to other assets held for sale	$ (643)	$ -	$ -
Transactions Related to Business Combination			
Increase in assets and liabilities:			
Loans	(815,785)	-	-
Securities	(244,123)	-	-
Other assets	(358,860)	-	-
Noninterest-bearing deposits	282,752	-	-
Interest-bearing deposits	773,867	-	-
Trust preferred debentures	3,824	-	-
Borrowings	55,925	-	-
Other liabilities	16,721	-	-

See accompanying notes to consolidated financial statements.

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations - Access National Corporation (the "Corporation ") is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The holding company was formed on June 15, 2002. The Corporation has three active wholly owned subsidiaries: Access National Bank (the "Bank" or "ANB"); Middleburg Investment Group ("MIG"); and MFC Capital Trust II.

The Bank has three active wholly-owned subsidiaries: Access Real Estate LLC ("Access Real Estate"), a real estate company; ACME Real Estate LLC, a real estate holding company of foreclosed property; and Access Capital Management Holding, LLC ("ACM"), a holding company for Capital Fiduciary Advisors, L.L.C., Access Investment Services, L.L.C. and Access Insurance Group, L.L.C.

MIG has one active wholly-owned subsidiary being Middleburg Trust Company. Middleburg Trust Company was formed in 1994 and acquired by Access on April 1, 2017 in its merger with Middleburg Financial Corporation ("Middleburg"). Middleburg Trust Company is chartered under Virginia law and provides trust services to high net worth individuals,businesses and institutions.

MFC Capital Trust II was formed on December 12, 2003 for the purpose of issuing redeemable Capital Securities and was acquired by Access on April 1, 2017 in its merger with Middleburg.

Basis of Presentation - The accompanying consolidated financial statements include the accounts of Access National Corporation and its wholly-owned subsidiaries: Access National Bank and Middleburg Investment Group. All significant inter-company accounts and transactions have been eliminated in consolidation. The accounting and reporting policies of the Corporation and its subsidiaries conform to accounting principles generally accepted in the United States of America and to predominant practices within the banking industry.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those 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 fair values and impairments of financial instruments, the status of contingencies and the valuation of deferred tax assets.

Cash Flow Reporting - For purposes of the statements of cash flows, cash and cash equivalents consists of cash and due from banks, federal funds sold and interest-bearing deposits at other banks.

Restrictions on Cash and Cash Equivalents - As a member of the Federal Reserve System, the Bank is required to maintain certain average reserve balances. Those balances include usable vault cash and amounts on deposit with the Federal Reserve Bank of Richmond ("FRB"). At December 31, 2017 and 2016, the amount of daily average required balances was approximately $106.6 million and $43.6 million, respectively. The Mortgage Division held escrow deposits in conjunction with mortgage loans totaling $116 thousand and $196 thousand at December 31, 2017 and 2016, respectively.

Securities - Debt securities that management has both the positive intent and ability to hold to maturity are classified as "held-to-maturity" and are recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from net income and reported in other comprehensive income.

Note 1. Summary of Significant Accounting Policies (continued)

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities or call dates if applicable. Declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in net income as realized losses. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Stock - Restricted stock consists of Federal Home Loan Bank of Atlanta ("FHLB") stock and FRB stock. These stocks are classified as restricted stocks because their ownership is restricted to certain types of entities and they lack a market. Restricted stock is carried at cost on the Corporation's financial statements. Dividends are paid semiannually on FRB stock and quarterly on FHLB stock.

Other Than Temporary Impairment of Investment Securities - Securities are evaluated quarterly for potential other than temporary impairment. Management considers the facts of each security including the nature of the security, the amount and duration of the loss, credit quality of the issuer, the expectations for that security's performance, and the Corporation's intent and ability to hold the security until recovery. Declines in equity securities that are considered to be other than temporary are recorded as a charge to net income in the Consolidated Statements of Income. Declines in debt securities that are considered to be other than temporary are separated into (1) the amount of the total impairment related to credit loss and (2) the amount of the total impairment related to all other factors. The amount of the total other than temporary impairment related to the credit loss is recognized in net income. The amount of the total impairment related to all other factors is recognized in other comprehensive income.

Loans - The Corporation grants commercial, real estate, and consumer loans to customers in the community in and around the Central and Northern Virginia areas. The loan portfolio is well diversified and generally collateralized by assets of the customers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. The ability of the Corporation's debtors to honor their contracts is dependent upon the real estate and general economic conditions in the Corporation's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances less the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the effective interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. In all cases, loans are placed on non-accrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all of the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Note 1. Summary of Significant Accounting Policies (continued)

Interest Income on Loans - Interest on loans is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to meet payments as they become due. Upon such discontinuance, all unpaid accrued interest is reversed.

Loans Held for Sale - The Corporation accounts for all one to four unit residential loans originated and intended for sale in the secondary market in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 825-10. Loans held for sale are recorded at fair value, determined individually, as of the balance sheet date.

Allowance for Loan Losses - The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to net income. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance represents an amount that, in management's judgment, will be adequate to absorb any losses on existing loans that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans while taking into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions which may affect a borrower's ability to repay, overall portfolio quality, and review of specific potential losses. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific and general components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

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

Derivative Financial Instruments - The Mortgage Division enters into commitments to fund residential mortgage loans with the intention of selling them in the secondary market. The Mortgage Division also enters into forward sales agreements for certain funded loans and loan commitments. The Mortgage Division records unfunded commitments intended for loans held for sale and forward sales agreements at fair value with changes in fair value recorded as a component of other income. Loans originated and intended for sale in the secondary market are carried at fair value. For pipeline loans which are not pre-sold to an investor, the Mortgage Division manages the interest rate risk on rate lock commitments by entering into forward sale contracts of mortgage backed securities, whereby the Mortgage Division obtains the right to deliver securities to investors in the future at a specified price. Such contracts are accounted for as derivatives and are recorded at fair value in derivative assets or liabilities, with changes in fair value recorded in other income.

Note 1. Summary of Significant Accounting Policies (continued)

The Mortgage Division has determined these derivative financial instruments do not meet the hedging criteria required by FASB ASC 815 and has not designated these derivative financial instruments as hedges. Accordingly, changes in fair value are recognized currently in income.

Premises and Equipment - Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated over their estimated useful lives; leasehold improvements are amortized over the lives of the respective leases or the estimated useful life of the leasehold improvement, whichever is less. Depreciation is computed using the straight-line method over the estimated useful lives of 39 years for office buildings and 3 to 15 years for furniture, fixtures, and equipment. Costs of maintenance and repairs are expensed as incurred; improvements and betterments are capitalized. When items are retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any resulting gains or losses are included in the determination of net income.

Goodwill and Other Intangibles - Goodwill and other indefinite lived assets are not subject to amortization, but are subject to an annual assessment for impairment by applying a fair-value-based test as required by the FASB ASC 350, *Goodwill and Other Intangible Assets*. Acquired intangible assets are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. Intangible assets with finite lives are tested for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable.

Goodwill and indefinite lived assets are tested for impairment at the reporting unit level on an annual basis or more often if events or circumstances indicate there may be impairment. Testing is conducted in two steps: identifying the potential impairment and then, if necessary, identifying the amount of impairment. The first step (step 1) compares the fair value of the reporting unit to its carrying amount. If the fair value is less than the carrying amount, a second test is conducted by comparing the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess.

The second step (step 2) of impairment testing is necessary only if the reporting unit does not pass step 1. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting unit.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. Selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings most representative of fair value.

Intangible assets are amortized or tested for impairment based on whether they have finite or indefinite lives. Intangibles that have finite lives are amortized on a straight-line basis over their useful life and tested for impairment whenever events or circumstances indicate the carrying amount of the assets may not be recoverable. Intangibles with indefinite lives are tested annually for impairment. Note 19 provides additional information related to goodwill and other intangibles.

Real Estate Owned - Real estate properties acquired through loan foreclosures are recorded initially at fair value, less expected sales costs. Subsequent valuations are performed by management, and the carrying amount of a property is adjusted by a charge to expense to reflect any subsequent declines in estimated fair value. Fair value estimates are based on recent appraisals and current market conditions. Gains or losses on sales of real estate owned are recognized upon disposition. Real estate owned is included in other assets. At December 31, 2017 and 2016, the Corporation did not have any real estate owned due to foreclosure. The Corporation did have one property with a balance of $643 thousand at December 31, 2017, which had previously been included in premises and equipment reclassified to other real estate owned when it was determined by management the property was no longer needed. The property was subsequently sold in 2018.

Note 1. Summary of Significant Accounting Policies (continued)

Income Taxes - Income tax expense is the total of the current year income tax due or refundable, the change in deferred tax assets and liabilities, and any adjustments related to unrecognized tax benefits. Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Corporation has not identified any material uncertain tax positions.

Stock-Based Compensation Plans -In accordance with FASB ASC 718-10, the Corporation measures the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the grant date. That cost is recognized over the period during which the employee is required to provide service in exchange for the award, the requisite service period. No compensation expense is recognized for equity instruments for which employees do not render the requisite service. The Corporation determines the fair value of the employee stock options using the Black-Scholes option pricing model.

Earnings Per Share - Basic earnings per share represents income available to common shareholders divided by the weighted-average number of shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Common equivalent shares are excluded from the computation if their effect is anti-dilutive.

Fair Value Measurements - The Corporation records certain of its assets and liabilities at fair value. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value measurements are classified within one of three levels in a valuation hierarchy based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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 company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument’s categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. See Note 16 - Fair Value Measurements.

Securities Sold Under Agreements to Repurchase - Securities sold under agreements to repurchase are accounted for as collateralized financing transactions and are recorded at the amounts at which the securities were sold plus accrued interest. Securities, generally U.S. government and federal agency securities, pledged as collateral under these financing arrangements cannot be sold or re-pledged by the secured party.

Note 1. Summary of Significant Accounting Policies (continued)

Advertising Costs - The Corporation charges the costs of advertising to expense as incurred.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09,*Revenue from Contracts with Customers*. The ASU supersedes most of the existing revenue recognition requirements in GAAP and will require entities to recognize revenue at an amount that reflects the consideration to which the Corporation expects to be entitled in exchange for transferring goods or services to a customer. The new standard also requires significantly expanded disclosures regarding the qualitative and quantitative information of an entity's nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. On July 9, 2015, the FASB approved amendments deferring the effective date by one year. The pronouncement is now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Approximately 79% of the Corporation's revenue comes from net interest income and is explicitly out of scope of the guidance. Additionally, residential mortgage banking income accounts for approximately 16% of revenue and is also out of scope of the guidance. The Corporation has concluded the adoption of the accounting standard will not have a material impact on the Corporation's revenue recognition patterns or financial presentation and disclosures. The new standard is largely consistent with the existing guidance and current practices applied by our businesses with the primary impact related to a change in the timing of recognition of revenues derived from the Trust and Wealth Management segment. We will adopt this guidance using the modified retrospective approach in first quarter of 2018.

In January 2016, the FASB issued ASU 2016-1,*Financial Instruments - Overall (Subtopic 825-10)*. This ASU requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee). The amendments in this update also require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments in the ASU are effective beginning after December 15, 2017. The adoption of this guidance is not expected to have a material effect on the Corporation's financial condition or results of operations.

In February 2016, the FASB issued ASU No. 2016-02,*Leases (Topic 842)*. The ASU was issued in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for those leases classified as operating leases under previous GAAP. The ASU requires that a lessee should recognize a liability to make lease payments (the lease liability) and a right-of-use asset representing its right to use the underlying asset for the lease term on the balance sheet. The ASU is effective for interim and annual periods beginning after December 15, 2018, using a modified retrospective approach, and early adoption is permitted. The Corporation is currently evaluating the impact the pronouncement will have on its Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09,*Improvements to Employee Share-Based Payment Accounting*. The ASU amends ASC Topic 718, Compensation - Stock Compensation. The ASU simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The ASU was effective for interim and annual periods beginning after December 15, 2016. The Corporation adopted the accounting standard during the first quarter of 2017 with no material impact to the financial statements.

In June 2016, the FASB issued ASU No. 2016-13,*Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This ASU amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities by eliminating the probable initial recognition threshold (incurred loss methodology) and requiring entities to reflect its current estimate of all expected credit losses. The amendments in the ASU are effective beginning after December 15, 2019 and for interim periods within that year. Early adoption is permitted beginning after December 15, 2018. Entities will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings in the first period effective. Management is currently evaluating the potential impact of ASU 2016-13 on its financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

In August 2016, the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.* This ASU was issued to reduce diversity in how certain cash receipts and cash payments are being presented and classified in the statement of cash flows. Guidance provided in the ASU are specific to eight cash flow issues being: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt or other debt instruments with interest rates that are insignificant to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds received from the settlement of life insurance claims; proceeds received from the settlement of bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and application of the predominance principle. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. Early adoption is permitted. The amendments should be applied using a retrospective transition method to each period presented. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

In October 2016, the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. Under current GAAP, recognition of current and deferred income taxes for an intra-entity asset transfer is prohibited until the asset has been sold to a third party. The amendments in this ASU eliminate the exception for an intra-entity transfer of an asset other than inventory thereby requiring an entity to recognize the income tax consequences when the transfer occurs. The amendments in the ASU are effective beginning after December 15, 2017 and for interim periods within that year. Early adoption is permitted. Entities will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings in the first period effective. The adoption of this guidance should not have a material effect on the Corporation's financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-4, *Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment*. The ASU was issued with the intent to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit's fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-4 must be applied prospectively and is effective for the Corporation on January 1, 2020. Early adoption is permitted. The Corporation does not expect the new guidance to have a material impact on its Consolidated Financial Statements.

In February 2017, the FASB issued ASU 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets*, to clarify the scope of the guidance on nonfinancial asset derecognition as well as the accounting for partial sales of nonfinancial assets. The amendments conform the derecognition guidance on nonfinancial assets with the model for transactions in the new revenue standard. The amendments will be effective for the Corporation for reporting periods beginning after December 15, 2017. The Corporation does not expect these amendments to have a material effect on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, *Premium Amortization on Purchased Callable Debt Securities,* which is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Corporation for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Corporation does not expect these amendments to have a material effect on its consolidated financial statements.

Note 1. Summary of Significant Accounting Policies (continued)

In May 2017, the FASB issued ASU No. 2017-09,*Compensation - Stock Compensation,* which amended the requirements in the Compensation-Stock Compensation Topic of the ASC related to changes to the terms or conditions of a share-based payment award. The amendments provide guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting. The amendments will be effective for the Corporation for annual periods, and interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted. The Corporation does not expect these amendments to have a material effect on its financial statements.

In August 2017, the FASB issued ASU No. 2017-12,*Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.* The amendments in this update better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of hedge results. The ASU is effective for the Corporation in annual and interim periods beginning after December 15, 2018, with early adoption permitted. The Corporation is currently evaluating the impact of this guidance, but does not expect the guidance to have a material impact on its Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02,*Income Statement - Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income.* The ASU was issued to address the income tax accounting treatment of the stranded tax effects within accumulated other comprehensive income due to the prohibition of backward tracing due to an income tax rate change that was initially recorded in other comprehensive income. This issue came about from the enactment of the Tax Reform Act on December 22, 2017 that changed the Corporation's income tax rate from 35% to 21% effective January 1, 2018. The ASU changed current accounting whereby an entity may elect to reclassify the stranded tax effect from accumulated other comprehensive income to retained earnings. The ASU is effective for fiscal years, and interim periods within those years, beginning after December 31, 2018; however, public business entities are allowed to early adopt in any interim period for which the financial statements have not yet been issued. The amendments of the ASU may be applied either at the beginning of the period (annual or interim) of adoption or retrospectively to each of the period(s) in which the effect of the change in the U.S. federal corporate tax rate in the Tax Reform Act is recognized. The Corporation intends to early adopt the new standard during 2018 and plans to make an election to reclassify the stranded tax effects from accumulated other comprehensive loss to retaining earnings at the beginning of the period of adoption.

Note 2. Securities

The following tables provide the amortized costs and fair values for the categories of available-for-sale securities and held-to-maturity securities at December 31, 2017 and 2016. Held-to-maturity securities are carried at amortized cost, which reflects historical cost, adjusted for amortization of premiums and accretion of discounts. Available-for-sale securities are carried at estimated fair value with net unrealized gains or losses reported on an after tax basis as a component of accumulated other comprehensive income in shareholders' equity. The estimated fair value of available-for-sale securities is impacted by interest rates, credit spreads, market volatility, and liquidity.

Note 2. Securities (continued)

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasury notes	$ 50	$ -	$ -	$ 50
U.S. Government agencies	5,086	-	(21)	5,065
Mortgage backed securities	263,004	66	(2,615)	260,455
Corporate bonds	4,486	5	(9)	4,482
Asset Backed Securities	34,092	19	(511)	33,600
Certificates of deposit	1,976	5	-	1,981
Municipals	100,081	1,586	(1,233)	100,434
CRA Mutual fund	1,500	-	(121)	1,379
	$ 410,275	$ 1,681	$ (4,510)	$ 407,446
Held-to-maturity:				
U.S. Government agencies	$ 5,000	$ 9	$ -	$ 5,009
Municipals	10,721	675	(26)	11,370
	$ 15,721	$ 684	$ (26)	$ 16,379

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Estimated Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Government agencies	$ 5,106	$ -	$ (112)	$ 4,994
Mortgage backed securities	120,794	177	(1,164)	119,807
Corporate bonds	8,631	35	-	8,666
Asset Backed Securities	13,105	17	(258)	12,864
Certificates of deposit	1,976	33	-	2,009
Municipals	45,392	172	(1,205)	44,359
CRA Mutual fund	1,500	-	(109)	1,391
	$ 196,504	$ 434	$ (2,848)	$ 194,090
Held-to-maturity:				
U.S. Government agencies	$ 5,000	$ 46	$ -	$ 5,046
Municipals	4,200	66	(19)	4,247
	$ 9,200	$ 112	$ (19)	$ 9,293

Note 2. Securities (continued)

The amortized cost and estimated fair value of securities as of December 31, 2017 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because the securities may be called or prepaid without any penalties.

	December 31, 2017	
	Amortized Cost	Estimated Fair Value
	(In Thousands)	
Available-for-sale:		
US Treasury and Agencies:		
Due in one year or less	$ 50	$ 50
Due after one through five years	5,086	5,066
Municipals - nontaxable:		
Due in one year or less	723	729
Due after one through five years	7,587	7,482
Due after five through ten years	8,784	8,758
Due after ten through fifteen years	29,641	30,146
Due after fifteen years	53,346	53,318
Asset Backed Securities:		
Due after five through ten years	3,064	3,079
Due after ten through fifteen years	11,557	11,410
Due after fifteen years	19,471	19,111
Certificates of deposit:		
Due after one through five years	1,976	1,981
Corporate bonds:		
Due after one through five years	4,486	4,482
Mortgage backed securities:		
Due after one through five years	60,082	59,911
Due after five through ten years	90,107	89,165
Due after ten through fifteen years	4,424	4,314
Due after fifteen years	108,391	107,065
CRA Mutual fund	1,500	1,379
	$ 410,275	$ 407,446
Held-to-maturity:		
US Treasury and Agencies:		
Due in one year or less	$ 5,000	$ 5,009
Municipals:		
Due after one through five years	1,985	2,004
Due after five through ten years	1,606	1,639
Due after ten through fifteen years	552	529
Due after fifteen years	6,578	7,198
	$ 15,721	$ 16,379

The estimated fair value of securities pledged to secure public funds, securities sold under agreements to repurchase, and for other purposes amounted to $351.8 million and $178.7 million at December 31, 2017 and 2016, respectively.

Note 2. Securities (continued)

Restricted Stock

The Corporation's restricted stock consists of FHLB stock and FRB stock. The costs of the restricted stock as of December 31, 2017 and 2016 are as follows:

	December 31, 2017	December 31, 2016
	(In Thousands)	
Restricted Stock:		
FRB stock	$ 8,407	$ 999
FHLB stock	8,165	9,093
	$ 16,572	$ 10,092

Investment securities available-for-sale and held-to-maturity that had an unrealized loss position at December 31, 2017 and December 31, 2016 are detailed below.

	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
December 31, 2017	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In Thousands)					
Investment securities available-for-sale:						
Mortgage backed securities	$ 193,844	$ 1,531	$ 43,190	$ 1,084	$ 237,034	$ 2,615
U.S. Government agencies	5,066	21	-	-	5,066	21
Municipals	15,096	693	15,031	540	30,127	1,233
Corporate bonds	2,630	9	-	-	2,630	9
Asset backed securities	13,299	200	8,945	311	22,244	511
CRA Mutual fund	-	-	1,379	121	1,379	121
Total	$ 229,935	$ 2,454	$ 68,545	$ 2,056	$ 298,480	$ 4,510
Investment securities held-to-maturity:						
Municipals	$ 1,043	$ 3	$ 529	$ 23	$ 1,572	$ 26
Total	$ 1,043	$ 3	$ 529	$ 23	$ 1,572	$ 26

Note 2. Securities (continued)

December 31, 2016	Securities in a loss Position for less than 12 Months		Securities in a loss Position for 12 Months or Longer		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
			(In Thousands)			
Investment securities available-for-sale:						
Mortgage backed securities	$ 62,145	$ (541)	$ 19,768	$ (623)	$ 81,913	$ (1,164)
U.S. Government agencies	4,994	(112)	-	-	4,994	(112)
Municipals	28,147	(1,205)	-	-	28,147	(1,205)
Asset backed securities	1,286	(37)	7,077	(221)	8,363	(258)
CRA Mutual fund	-	-	1,391	(109)	1,391	(109)
Total	$ 96,572	$ (1,895)	$ 28,236	$ (953)	$ 124,808	$ (2,848)
Investment securities held-to-maturity:						
Municipals	$ 536	$ (19)	$ -	$ -	$ 536	$ (19)
Total	$ 536	$ (19)	$ -	$ -	$ 536	$ (19)

The Corporation evaluates securities for other than temporary impairment ("OTTI") on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to various factors in determining whether the Corporation anticipates a recovery in fair value such as: the length of time and extent to which the fair value has been less than cost, and the financial condition and underlying credit quality of the issuer. When analyzing an issuer's financial condition, the Corporation may consider whether the securities are issued by the federal government or its agencies, the sector or industry trends affecting the issuer, and whether any recent downgrades by bond rating agencies have occurred.

Mortgage-backed

The Corporation's unrealized losses on available-for-sale mortgage backed securities were caused by interest rate fluctuations. At December 31, 2017, fifty-nine securities had unrealized losses of $2.6 million. All fifty-nine securities are backed by the United States Government or a Government Sponsored Entity. The Corporation's intent is to hold these securities until a market price recovery or maturity, and it has been determined that it is more likely than not that the Corporation will not be required to sell these securities before their anticipated recovery. As such, the Corporation does not consider these investments other than temporarily impaired.

US Government agencies

The Corporation's unrealized loss on its U.S. Government Agency obligation was caused by interest rate fluctuations. On December 31, 2017, one available for sale security had an unrealized loss of $21 thousand. The severity and duration of this unrealized loss will fluctuate with interest rates in the economy. Based on the credit quality of the agency, the Corporation's intent to hold this security until a market price recovery or maturity, and the determination that it is more likely than not that the Corporation will not be required to sell the security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Note 2. Securities (continued)

Asset backed securities

The Corporation's unrealized losses on its other investments were caused by interest rate fluctuations. At December 31, 2017, thirteen securities had unrealized losses of $511 thousand. Based on the credit quality of the issuers, the Corporation's intent to hold these securities until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the securities before their anticipated recoveries, the Corporation does not consider these investments other than temporarily impaired.

Municipals

The Corporation's unrealized losses on its municipal investments were caused by interest rate fluctuations. At December 31, 2017, two held-to-maturity municipal had an unrealized loss of $26 thousand while twenty-seven available-for-sale municipals had unrealized losses of $1.2 million. Based on the credit quality of the issuers, the Corporation's intent to hold these securities until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the securities before their anticipated recovery, the Corporation does not consider these investments other than temporarily impaired.

Corporate bonds

The Corporation's unrealized losses on its corporate bonds were caused by interest rate fluctuations. At December 31, 2017, one security had an unrealized loss of $9 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Mutual fund

The Corporation's unrealized loss on its CRA mutual fund investment was caused by interest rate fluctuations. At December 31, 2017, one security had an unrealized loss of $121 thousand. Based on the credit quality of the issuer, the Corporation's intent to hold this security until a market price recovery, and the determination that it is more likely than not that the Corporation will not be required to sell the security before its anticipated recovery, the Corporation does not consider this investment other than temporarily impaired.

Securities Sold Under Agreements to Repurchase (Repurchase Agreements)

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability in the Corporation's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

Note 2. Securities (continued)

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a third-party financial institution in the Corporation's custodial account. The Corporation has the right to sell or repledge the investment securities. The risks and rewards associated with the investment securities pledged as collateral (e.g. a decline or rise in the fair value of the investments) remains with the Corporation. As of December 31, 2017 and 2016, the obligations outstanding under these repurchase agreements totaled $51.1 million and $17.0 million, respectively, and were comprised of overnight sweep accounts. The fair value of the securities pledged in connection with these repurchase agreements at December 31, 2017 was $63.3 million in total and consisted of $11.6 million in municipal securities, $47.4 million in mortgage-backed securities, $1.7 million in corporate bonds, $1.2 million in asset-backed securities, and $1.4 million in CRA mutual funds. The fair value of the securities pledged in connection with these repurchase agreements at December 31, 2016 was $21.4 million in total and consisted of $4.7 million in municipal securities, $6.9 million in mortgage backed securities, $5.9 million in corporate bonds, and $2.5 million in asset-backed securities.

Note 3. Loans and the Allowance for Loan Losses

The composition of net loans is summarized as follows:

	Year Ended December 31,			
(Dollars In Thousands)	**2017**	**Percentage of Total**	**2016**	**Percentage of Total**
Commercial real estate - owner occupied	$ 467,082	23.60%	$ 250,440	23.87%
Commercial real estate - non-owner occupied	436,083	22.04	184,688	17.59
Residential real estate	489,669	24.74	204,413	19.47
Commercial	463,652	23.43	311,486	29.67
Real estate construction	97,481	4.93	91,822	8.75
Consumer	24,942	1.26	6,849	0.65
Total loans	$ 1,978,909	100.00%	$ 1,049,698	100.00%
Less allowance for loan losses	15,805		16,008	
Net loans	$ 1,963,104		$ 1,033,690	

Unearned income and net deferred loan fees and costs totaled $3.1 million and $2.4 million at December 31, 2017 and 2016, respectively. Loans pledged to secure borrowings at the FHLB totaled $492.2 million and $266.6 million at December 31, 2017 and 2016, respectively.

Allowance for Loan Losses

The allowance for loan losses totaled $15.8 million and $16.0 million at year end December 31, 2017 and 2016, respectively. The allowance for loan losses was equivalent to 0.80% and 1.53% of total loans held for investment at December 31, 2017 and 2016, respectively. Adequacy of the allowance is assessed and the allowance is increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible.

The methodology by which the Corporation systematically determines the amount of its allowance is set forth by the Board of Directors in its Loan Policy and implemented by management. The results of the analysis are documented, reviewed, and approved by the Board of Directors no less than quarterly.

Note 3. Loans and the Allowance for Loan Losses (continued)

The level of the allowance for loan losses is determined by management through an ongoing, detailed analysis of historical loss rates and risk characteristics. During each quarter, management evaluates the collectability of all loans in the portfolio and ensures an accurate risk rating is assigned to each loan. The risk rating scale and definitions commonly adopted by the Federal Banking Agencies is contained within the framework prescribed by the Bank's Loan Policy. Any loan that is deemed to have potential or well defined weaknesses that may jeopardize collection in full is then analyzed to ascertain its level of weakness. If appropriate, the loan may be charged-off or a specific reserve may be assigned if the loan is deemed to be impaired.

During the risk rating verification process, each loan identified as inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged is considered impaired and is placed on non-accrual status. On these loans, management analyzes the potential impairment of the individual loan and may set aside a specific reserve. Any amounts deemed uncollectible during that analysis are charged-off.

For the remaining loans in each segment, the Bank calculates the probability of loss as a group using the risk rating for each of the following loan types: Commercial Real Estate - Owner Occupied, Commercial Real Estate - Non-Owner Occupied, Residential Real Estate, Commercial, Real Estate Construction, and Consumer. Management calculates the historical loss rate in each group by risk rating using a period of at least six years. This historical loss rate may then be adjusted based on management's assessment of internal and external environmental factors. While management may consider other factors, the analysis generally includes factors such as unemployment, office vacancy rates, and any concentrations that exist within the portfolio. This adjustment is meant to account for changes between the historical economic environment and current conditions and for changes in the ongoing management of the portfolio which affects the loans' potential losses.

Once complete, management compares the condition of the portfolio using several different characteristics, as well as its experience, to the experience of other banks in its peer group in order to determine if it is directionally consistent with others' experience in our area and line of business. Based on that analysis, management aggregates the probabilities of loss of the remaining portfolio based on the specific and general allowances and may provide additional amounts to the allowance for loan losses as needed. Since this process involves estimates, the allowance for loan losses may also contain an amount that is non-material which is not allocated to a specific loan or to a group of loans but is deemed necessary to absorb additional losses in the portfolio.

Management and the Board of Directors subject the reserve adequacy and methodology to a review on a regular basis by internal auditors and bank regulators, and such reviews have not resulted in any material adjustment to the allowance.

Note 3. Loans and the Allowance for Loan Losses (continued)

The following provides detailed information about the changes in the allowance for loan losses for the years ended December 31, 2017, 2016 and 2015 as well as the recorded investment in loans at December 31, 2017 and 2016.

Allowance for Loan Losses

Twelve months ended December 31, 2017	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning Balance	$ 2,943	$ 2,145	$ 2,510	$ 7,053	$ 1,277	$ 80	$ 16,008
Charge-offs	-	-	-	(7,457)	-	(27)	(7,484)
Recoveries	17	-	131	209	-	5	362
Provisions	1,320	959	(460)	5,645	(571)	26	6,919
Ending Balance	$ 4,280	$ 3,104	$ 2,181	$ 5,450	$ 706	$ 84	$ 15,805

Twelve months ended December 31, 2016	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning Balance	$ 3,042	$ 1,862	$ 2,862	$ 4,612	$ 1,056	$ 129	$ 13,563
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	40	285	-	-	325
Provisions	(99)	283	(392)	2,156	221	(49)	2,120
Ending Balance	$ 2,943	$ 2,145	$ 2,510	$ 7,053	$ 1,277	$ 80	$ 16,008

Twelve months ended December 31, 2015	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
	(In Thousands)						
Allowance for loan losses:							
Beginning Balance	$ 3,229	$ 1,894	$ 3,308	$ 4,284	$ 596	$ 88	$ 13,399
Charge-offs	-	-	-	(186)	-	-	(186)
Recoveries	-	-	61	102	37	-	200
Provisions	(187)	(32)	(507)	412	423	41	150
Ending Balance	$ 3,042	$ 1,862	$ 2,862	$ 4,612	$ 1,056	$ 129	$ 13,563

Note 3. Loans and the Allowance for Loan Losses (continued)

Loans acquired in a transfer, including in business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments, are accounted for as purchased credit impaired loans. Purchased credit impaired loans are initially recorded at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the historical allowance for loan losses related to these loans is not carried over.

Accounting for purchased credit impaired loans involves estimating fair value, at acquisition, using the principal and interest cash flows expected to be collected discounted at the prevailing market rate of interest. The excess of cash flows expected to be collected over the estimated fair value at the acquisition date is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loans. The difference between contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference and is not recorded. Any decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment and assumptions) will be charged to the provision for loan losses, resulting in an increase to the allowance for loan losses.

The following table present the changes in the accretable yield for purchased credit impaired loans for the year ended December 31, 2017:

(In Thousands)	2017
Accretable yield, beginning of period	$ -
Additions	557
Accretion	(313)
Reclassification from (to) nonaccretable difference	-
Other changes, net	-
Accretable yield, end of period	$ 244

Note 3. Loans and the Allowance for Loan Losses (continued)

December 31, 2017	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
	Recorded Investment in Loans (In Thousands)						
Allowance							
Ending balance:	$ 4,280	$ 3,104	$ 2,181	$ 5,450	$ 706	$ 84	$ 15,805
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ 234	$ 186	$ -	$ 420
Ending balance: collectively evaluated for impairment	$ 4,280	$ 3,104	$ 2,181	$ 5,216	$ 520	$ 84	$ 15,385
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans							
Ending balance:	$ 467,082	$ 436,083	$ 489,669	$ 463,652	$ 97,481	$ 24,942	$ 1,978,909
Ending balance: individually evaluated for impairment	$ 1,393	$ -	$ 166	$ 3,107	$ 865	$ 182	$ 5,713
Ending balance: collectively evaluated for impairment	$ 464,030	$ 435,109	$ 487,390	$ 460,369	$ 96,616	$ 24,713	$ 1,968,227
Ending balance: loans acquired with deteriorated credit quality	$ 1,659	$ 974	$ 2,113	$ 176	$ -	$ 47	$ 4,969

Note 3. Loans and the Allowance for Loan Losses (continued)

December 31, 2016	Commercial real estate - owner occupied	Commercial real estate - non-owner occupied	Residential real estate	Commercial	Real estate construction	Consumer	Total
				(In Thousands)			
Allowance							
Ending balance:	$ 2,943	$ 2,145	$ 2,510	$ 7,053	$ 1,277	$ 80	$ 16,008
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ 2,805	$ 221	$ -	$ 3,026
Ending balance: collectively evaluated for impairment	$ 2,943	$ 2,145	$ 2,510	$ 4,248	$ 1,056	$ 80	$ 12,982
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans							
Ending balance:	$ 250,440	$ 184,688	$ 204,413	$ 311,486	$ 91,822	$ 6,849	$ 1,049,698
Ending balance: individually evaluated for impairment	$ 335	$ -	$ 606	$ 6,182	$ 940	$ -	$ 8,063
Ending balance: collectively evaluated for impairment	$ 250,105	$ 184,688	$ 203,807	$ 305,304	$ 90,882	$ 6,849	$ 1,041,635
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 3. Loans and the Allowance for Loan Losses (continued)

Identifying and Classifying Portfolio Risks by Risk Rating

At origination, loans are categorized into risk categories based upon original underwriting. Subsequent to origination, management evaluates the collectability of all loans in the portfolio and assigns a proprietary risk rating on a quarterly basis as of the 15th of the last month in the quarter. Ratings range from the highest to lowest quality based on factors including measurements of ability to pay, collateral type and value, borrower stability, management experience, and credit enhancements. These ratings are consistent with the bank regulatory rating system.

A loan may have portions of its balance in one rating and other portions in a different rating. The Bank may use these “split ratings” when factors cause loan loss risk to exist for part but not all of the principal balance. Split ratings may also be used where cash collateral or a government agency has provided a guaranty that partially covers a loan.

For clarity of presentation, the Corporation’s loan portfolio is profiled below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:

Pass - The condition of the borrower and the performance of the loan are satisfactory or better.

Special mention - A special mention asset has one or more potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date.

Substandard - A substandard asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful - An asset classified doubtful has all the weaknesses inherent in one classified 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.

Loss - Assets classified loss are considered uncollectible and their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, and a partial recovery may be effected in the future.

The Bank did not have any loans classified as loss or doubtful at December 31, 2017 and 2016. It is the Bank’s policy to charge-off any loan once the risk rating is classified as loss.

The profile of the loan portfolio, as indicated by risk rating, as of December 31, 2017 and 2016 is shown below.

Note 3. Loans and the Allowance for Loan Losses (continued)

Credit Risk Profile by Risk Rating	December 31, 2017						
	Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ 465,464	$ 1,639	$ 758	$ -	$ -	$ (779)	$ 467,082
Commercial real estate - non-owner occupied	437,087	-	-	-	-	(1,004)	436,083
Residential real estate	487,800	189	1,835	-	-	(155)	489,669
Commercial	461,091	1,615	1,750	-	-	(804)	463,652
Real estate construction	92,522	5,349	-	-	-	(390)	97,481
Consumer	24,928	-	10	-	-	4	24,942
Total	$ 1,968,892	$ 8,792	$ 4,353	$ -	$ -	$ (3,128)	$ 1,978,909

Credit Risk Profile by Risk Rating	December 31, 2016						
	Pass	Special Mention	Substandard	Doubtful	Loss	Unearned Income	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ 247,001	$ 1,213	$ 2,807	$ -	$ -	$ (581)	$ 250,440
Commercial real estate - non-owner occupied	185,020	300	-	-	-	(632)	184,688
Residential real estate	202,762	932	878	-	-	(159)	204,413
Commercial	287,978	4,544	19,561	-	-	(597)	311,486
Real estate construction	91,296	-	940	-	-	(414)	91,822
Consumer	6,848	-	-	-	-	1	6,849
Total	$ 1,020,905	$ 6,989	$ 24,186	$ -	$ -	$ (2,382)	$ 1,049,698

Note 3. Loans and the Allowance for Loan Losses (continued)

Loans listed as non-performing are also placed on non-accrual status. The accrual of interest is discontinued at the time a loan is 90 days delinquent or when the credit deteriorates and there is doubt that the credit will be paid as agreed, unless the credit is well-secured and in process of collection. Once the loan is on non-accrual status, all accrued but unpaid interest is also charged-off, and all payments are used to reduce the principal balance. Once the principal balance is repaid in full, additional payments are taken into income. A loan may be returned to accrual status if the borrower shows renewed willingness and ability to repay under the term of the loan agreement. The risk profile based upon payment activity is shown below.

	December 31, 2017		
Credit Risk Profile Based on Payment Activity	**Performing**	**Non-Performing**	**Total Loans**
	(In Thousands)		
Commercial real estate - owner occupied	$ 466,016	$ 1,066	$ 467,082
Commercial real estate - non-owner occupied	436,083	-	436,083
Residential real estate	489,669	-	489,669
Commercial	461,139	2,513	463,652
Real estate construction	96,616	865	97,481
Consumer	24,760	182	24,942
Total	$ 1,974,283	$ 4,626	$ 1,978,909

	December 31, 2016		
Credit Risk Profile Based on Payment Activity	**Performing**	**Non-Performing**	**Total Loans**
	(In Thousands)		
Commercial real estate - owner occupied	$ 250,440	$ -	$ 250,440
Commercial real estate - non-owner occupied	184,688	-	184,688
Residential real estate	203,982	431	204,413
Commercial	305,935	5,551	311,486
Real estate construction	90,882	940	91,822
Consumer	6,849	-	6,849
Total	$ 1,042,776	$ 6,922	$ 1,049,698

Loans are considered past due if a contractual payment is not made by the calendar day after the payment is due. For reporting purposes, however, loans past due 1 to 29 days are excluded. The delinquency status of the loans in the portfolio is shown below as of December 31, 2017 and 2016. Loans that were on non-accrual status are not included in any past due amounts.

Note 3. Loans and the Allowance for Loan Losses (continued)

Age Analysis of Past Due Loans December 31, 2017	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 1,066	$ 466,016	$ 467,082
Commercial real estate - non-owner occupied	-	-	-	-	-	436,083	436,083
Residential real estate	655	140	213	1,008	-	488,661	489,669
Commercial	138	19	-	157	2,513	460,982	463,652
Real estate construction	-	-	-	-	865	96,616	97,481
Consumer	81	2	-	83	182	24,677	24,942
Total	$ 874	$ 161	$ 213	$ 1,248	$ 4,626	$ 1,973,035	$ 1,978,909

12/31/2016	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Non-accrual Loans	Current Loans	Total Loans
	(In Thousands)						
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ -	$ 250,440	$ 250,440
Commercial real estate - non-owner occupied	-	-	-	-	-	184,688	184,688
Residential real estate	-	97	-	97	431	203,885	204,413
Commercial	438	-	-	438	5,551	305,497	311,486
Real estate construction	-	-	-	-	940	90,882	91,822
Consumer	-	-	-	-	-	6,849	6,849
Total	$ 438	$ 97	$ -	$ 535	$ 6,922	$ 1,042,241	$ 1,049,698

Impaired Loans

A loan is classified as impaired when it is deemed probable by management's analysis that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, or the recorded investment in the impaired loan is greater than the present value of expected future cash flows, discounted at the loan's effective interest rate. In the case of an impaired loan, management conducts an analysis which identifies if a quantifiable potential loss exists, and takes the necessary steps to record that loss when it has been identified as uncollectible.

As the ultimate collectability of the total principal of an impaired loan is in doubt, the loan is placed on nonaccrual status with all payments applied to principal under the cost-recovery method. As such, the Bank did not recognize any interest income on its impaired loans for the years ended December 31, 2017, 2016 and 2015.

Note 3. Loans and the Allowance for Loan Losses (continued)

The table below shows the results of management's analysis of impaired loans as of December 31, 2017 and 2016.

	Impaired Loans					
	December 31, 2017			December 31, 2016		
	Recorded investment	Unpaid principal balance	Related allowance	Recorded investment	Unpaid principal balance	Related allowance
	(In Thousands)					
With no specific related allowance recorded:						
Commercial real estate - owner occupied	$ 1,066	$ 1,092	$ -	$ -	$ -	$ -
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	431	431	-
Commercial	747	1,080	-	2,748	3,771	-
Real estate construction	-	-	-	-	-	-
Consumer	145	155	-	-	-	-
With a specific related allowance recorded:						
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Commercial	1,766	1,817	234	2,803	1,400	2,805
Real estate construction	865	952	186	940	994	221
Consumer	37	38	-	-	-	-
Total:						
Commercial real estate - owner occupied	$ 1,066	$ 1,092	$ -	$ -	$ -	$ -
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	431	431	-
Commercial	2,513	2,897	234	5,551	5,171	2,805
Real estate construction	865	952	186	940	994	221
Consumer	182	193	-	-	-	-
	$ 4,626	$ 5,134	$ 420	$ 6,922	$ 6,596	$ 3,026

Note 3. Loans and the Allowance for Loan Losses (continued)

The table below shows the average recorded investment in impaired loans for the years ended December 31, 2017, 2016 and 2015.

	Twelve Months Ended		
	December 31, 2017	December 31, 2016	December 31, 2015
	Average Recorded Investment	Average Recorded Investment	Average Recorded Investment
		(In Thousands)	
Commercial real estate - owner occupied	$ 1,075	$ 59	$ -
Commercial real estate - non-owner occupied	-	2,099	5,572
Residential real estate	-	120	163
Commercial	3,395	4,885	917
Real estate construction	923	1,009	1,086
Consumer	179	-	-
	$ 5,572	$ 8,172	$ 7,738

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") is a formal restructure of a loan when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to a borrower. The Bank classifies these transactions as a TDR if the transaction meets the following conditions: an existing credit agreement must be formally renewed, extended and/or modified; the borrower must be experiencing financial difficulty; and the Bank has granted a concession that it would not otherwise consider.

Once identified as a TDR, a loan is considered to be impaired, and an impairment analysis is performed for the loan individually, rather than under a general loss allowance based on the loan type and risk rating. Any resulting shortfall is charged off. This method is used consistently for all segments of the portfolio.

Normally, loans identified as TDRs would be placed on non-accrual status and considered non-performing until sufficient history of timely collection or payment has occurred that allows them to return to performing status, generally 6 months.

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Note 3. Loans and the Allowance for Loan Losses (continued)

During 2017, one commercial loan totaling $91 thousand at December 31, 2017 was modified in connection with a troubled debt restructuring. The modification granted the borrower an extension of the maturity date and was deemed to have no material financial effects as a direct result of this modification. Two construction loan totaling $2.0 million at the time of restructure were modified in connection with a troubled debt restructuring during the year ended December 31, 2016. The modification granted the borrower reduced payments for a period of two years as well as a reduction in the interest rate. There were no material financial effects as a direct result of this modification.

No payment defaults occurred during the year ended December 31, 2017 or December 31, 2016 for loans restructured during the preceding 12 month period.

The table below shows the results of management's analysis of troubled debt restructurings as of December 31, 2017 and 2016.

	Troubled Debt Restructurings					
	December 31, 2017			December 31, 2016		
	Number of loans	Outstanding balance	Recorded investment	Number of loans	Outstanding balance	Recorded investment
	(Dollars in Thousands)					
Performing						
Commercial real estate - owner occupied	-	$ -	$ -	-	$ -	$ -
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	1	208	166	1	217	175
Commercial	2	921	921	2	967	967
Real estate construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Non-Performing						
Commercial real estate - owner occupied	-	$ -	$ -	-	$ -	$ -
Commercial real estate - non-owner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Commercial	2	956	956	2	2,000	2,000
Real estate construction	-	-	-	1	994	940
Consumer	-	-	-	-	-	-
Total	**5**	**$ 2,085**	**$ 2,043**	**6**	**$ 4,178**	**$ 4,082**

Note 4. Premises and Equipment

Premises and equipment, net, are summarized as follows:

	December 31, 2017	December 31, 2016
	(In Thousands)	
Land	$ 6,810	$ 1,342
Premises	14,556	5,832
Leasehold improvements	6,802	1,351
Furniture and equipment	5,884	4,661
Construction in process	1,159	-
	35,211	13,186
Less accumulated depreciation	(7,414)	(6,102)
	$ 27,797	$ 7,084

Depreciation and amortization expense included in operating expenses for the years ended December 31, 2017, 2016, and 2015, was $1.4 million, $515 thousand, and $507 thousand, respectively.

Note 5. Deposits

The composition of deposits is summarized as follows at December 31:

	2017		2016	
	Amount	Percentage of Total	Amount	Percentage of Total
	(Dollars In Thousands)			
Interest-bearing demand deposits	$ 486,621	21.78%	$ 126,189	11.97%
Savings and money market	580,827	26.00	270,310	25.64
CDARS - time deposits	21,582	0.97	34,290	3.25
CDARS/ICS non-maturity deposits	48,011	2.15	40,925	3.88
Brokered deposits	51,028	2.28	57,389	5.44
Time deposits	301,119	13.48	163,188	15.48
Total interest-bearing deposits	1,489,188	66.66	692,291	65.66
Noninterest-bearing demand deposits	744,960	33.34	362,036	34.34
Total deposits	$ 2,234,148	100.00%	$ 1,054,327	100.00%

Note 5. Deposits (continued)

The aggregate amount of time deposits with a minimum denomination of $250,000 was $167.0 million for 2017 and $96 million for 2016.

At December 31, 2017, the scheduled maturities of time deposits were as follows:

Year	Amount (In Thousands)
2018	$ 181,913
2019	136,645
2020	24,751
2021	9,103
2022	6,469
Later years	9,741
	$ 368,622

Brokered deposits totaled $120.621 million and $132.604 million at December 31, 2017 and 2016, respectively, which includes $69.593 million and $75.215 million, respectively, in CDARS deposits.

Note 6. Borrowings

The Bank is a member of the FHLB and may borrow funds based on criteria established by the FHLB. The FHLB may call these borrowings if the adjusted collateral balance falls below the borrowing level. The borrowing arrangements available from the FHLB could be either short-term or long-term borrowings, depending upon the Bank's related cost and needs.

Advances from the FHLB for the years ended December 31, 2017 and 2016 are summarized below:

	2017	2016
	(Dollars In Thousands)	
Balance outstanding at end of year	$ 135,000	$ 189,000
Average balance outstanding	$ 124,301	$ 125,047
Maximum outstanding at any month-end	$ 185,000	$ 189,000
Average interest rate during the year	1.15%	0.91%
Average interest rate at end of year	1.36%	0.91%

The scheduled maturity dates and related fixed interest rates on advances from the FHLB at December 31, 2017 are summarized as follows (dollars in thousands):

Maturity Date	Interest Rate	Outstanding Amount
3/13/2018	1.47%	$ 65,000
3/27/2018	1.22%	10,000
10/2/2018	1.02%	10,000
11/26/2018	1.43%	10,000
4/4/2019	1.13%	20,000
10/2/2019	1.32%	10,000
10/2/2020	1.54%	10,000
		$ 135,000

Note 6. Borrowings (continued)

Information concerning securities sold under agreements to repurchase and federal funds purchased for the years ended December 31, 2017 and 2016 is summarized below:

	2017		2016	
	(Dollars In Thousands)			
Balance outstanding at end of year	$	51,052	$	57,009
Average balance outstanding	$	38,191	$	16,270
Maximum outstanding at any month-end	$	62,651	$	57,009
Average interest rate during the year		0.10%		0.10%
Average interest rate at end of year		0.10%		0.68%

Repurchase agreements totaled $51.1 million and $17.0 million at December 31, 2017 and 2016, respectively. They are classified as secured borrowings and generally mature within one business day from the transaction date. They are reflected as the amount of cash received in connection with the transaction. In addition, nothing in federal funds lines with other financial institutions were outstanding at December 31, 2017, leaving $62.5 million available for short-term funding needs. Federal funds purchased are overnight, unsecured borrowings.

The Bank has remaining lines of credit available with the FHLB which totaled $254.0 million at December 31, 2017. The FHLB advances are secured by a blanket floating lien on certain 1-4 family residential, HELOCS, second mortgages, commercial mortgages and investment securities with carrying values of $492.2 million at December 31, 2017.

On December 12, 2003, MFC Capital Trust II, a wholly owned subsidiary of the Corporation which was acquired on April 1, 2017, was formed for the purpose of issuing redeemable Capital Securities. On December 19, 2003, $5.0 million of trust-preferred securities were issued through a pooled underwriting totaling approximately $344 million. The securities have a LIBOR-indexed floating rate of interest.

During 2017, the interest rates ranged from 3.89% to 4.23%. For the year ended December 31, 2017, the weighted-average interest rate was 4.09%. The securities have a mandatory redemption date of January 23, 2034, and are subject to varying call provisions beginning January 23, 2009. The principal asset of the trust is $5.2 million of the Corporation's junior subordinated debt securities with like maturities and like interest rates to the Capital Securities.

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. The portion of the trust preferred securities not considered as Tier 1 Capital may be included in Tier 2 Capital. On December 31, 2017, all of the Corporation's trust preferred securities are included in Tier I Capital.

The obligations of the Corporation with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Corporation of the trust's obligations with respect to the Capital Securities.

Subject to certain exceptions and limitations, the Corporation may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities. There were no deferred interest payments on the junior subordinated debt securities at December 31, 2017.

Note 7. Income Taxes

Current income tax expense represents the amounts expected to be reported on the Corporation's income tax returns, and deferred tax expense or benefit represents the change in net deferred tax assets and liabilities. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates that will be in effect when these differences reverse. Valuation allowances are recorded as appropriate to reduce deferred tax assets to the amount considered likely to be realized.

On December 22, 2017, the President of the United States signed into law the Tax Reform Act. The legislation made key changes to U.S. tax law, including the reduction of the U.S. federal corporate tax rate from 35% to 21%, effective January 1, 2018.

The Corporation uses the asset and liability method of accounting for income taxes. Under this method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to reverse. As a result of the reduction in the U.S. corporate income tax rate from 35% to 21% under the Tax Reform Act, the Corporation revalued its ending net deferred tax assets at December 31, 2017, and recognized a provisional $3.5 million tax expense in the Corporation's consolidated statement of income for the year ended December 31, 2017. We are still analyzing certain aspects of the new law and refining our calculations, which could affect the measurement of these assets and liabilities or give rise to new deferred tax amounts. The accounting is expected to be complete when the 2017 U.S. corporate income tax return is filed in 2018. The Corporation's evaluation of the impact of the Tax Reform Act is subject to refinement for up to one year after the enactment per the guidance under *ASC 740, Accounting for Uncertainty in Income Taxes*, and SAB 118.

Net deferred tax assets consisted of the following components as of December 31, 2017 and 2016:

	December 31,	
	2017	2016
	(In Thousands)	
Deferred tax assets:		
Allowance for loan losses	$ 3,446	$ 5,760
Deferred fees	682	857
Allowance for loan losses on mortgage loans sold	339	557
Allowance for off balance sheet losses	174	270
Stock options	44	79
Securities available for sale	617	869
Fair value adjustment for acquired assets/liabilities	698	-
Acquisition accounting adjustments	6,008	-
Other	144	197
	$ 12,152	$ 8,589
Deferred tax liability:		
Depreciation	$ 347	$ 147
Acquisition accounting adjustments	6,067	-
Other	192	88
	$ 6,606	$ 235
Net deferred tax assets included in other assets	$ 5,546	$ 8,354

The provision for income taxes charged to operations for the years ended December 31, 2017, 2016, and 2015 consisted of the following:

Note 7. Income Taxes (continued)

	Year Ended December 31,		
	2017	**2016**	**2015**
		(In Thousands)	
Current tax expense	$ 2,980	$ 9,898	$ 8,711
Deferred tax (benefit)	8,997	(698)	(534)
	$ 11,977	$ 9,200	$ 8,177

The income tax provision differs from the amount of income tax determined by applying the U.S. Federal income tax rate to pretax income for the years ended December 31, 2017, 2016, and 2015 as follows:

	Year Ended December 31,		
	2017	**2016**	**2015**
		(In Thousands)	
Computed “expected” tax expense	$ 9,967	$ 8,961	$ 8,259
Increase (decrease) in income taxes resulting from:			
Tax reform	3,524	-	-
State income taxes, net of federal benefit	127	117	92
Tax exempt income and interest	(1,305)	(409)	(257)
Merger related expenses, nondeductible	550	344	-
Low income housing tax credits	(586)	-	-
Other	(300)	187	83
	$ 11,977	$ 9,200	$ 8,177

As of December 31, 2017 and 2016, the Corporation did not have any unrecognized tax benefits. The Corporation does not expect a significant increase or decrease in the next 12 months of unrecognized tax benefits. The Corporation recognizes interest and penalties related to unrecognized tax benefits as Interest Expense and Other Noninterest Expense, respectively, and not as part of the tax provision. The Corporation did not recognize a material amount of interest expense or penalties for the years ended December 31, 2017, 2016, and 2015. In addition, there were no interest or penalties accrued at December 31, 2017 or 2016. The Corporation is no longer subject to examination for federal and state purposes for tax years prior to 2014.

Note 8. Commitments and Contingent Liabilities

The Corporation is committed under non-cancelable and month-to-month operating leases for its office locations. Rent expense associated with these operating leases for the years ended December 31, 2017, 2016, and 2015 totaled $2.2 million, $878.0 thousand, and $807.0 thousand, respectively.

The following is a schedule of future minimum lease payments required under operating leases that have initial or remaining lease terms in excess of one year.

Note 8. Commitments and Contingent Liabilities (continued)

Year	Amount (In Thousands)
2018	$ 1,693
2019	1,775
2020	1,780
2021	1,740
2022	1,708
Thereafter	16,499
	$ 25,195

In the normal course of business, there are outstanding various commitments and contingent liabilities, which are not reflected in the accompanying financial statements. The Corporation does not anticipate any material loss as a result of these transactions. See Note 9 for additional information.

As part of its mortgage banking activities, the Mortgage Division enters into interest rate lock commitments, which are commitments to originate loans whereby the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Mortgage Division then either locks the loan and rate in with an investor and commits to deliver the loan if settlement occurs ("Best Efforts") or commits to deliver the locked loan in a binding ("Mandatory") delivery program with an investor. Certain loans under rate lock commitments are covered under forward sales contracts of mortgage backed securities ("MBS"). Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in noninterest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Mortgage Division determines the fair value of rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates and taking into consideration the probability that the rate lock commitments will close or will be funded.

Since the Mortgage Division's derivative instruments are not designated as hedging instruments, the fair value of the derivatives are recorded as a freestanding asset or liability with the change in value being recognized in current net income during the period of change.

At December 31, 2017 and 2016 the Mortgage Division had open forward contracts with notional values of $39.3 million and $54.3 million, respectively. At December 31, 2017 and 2016, the Mortgage Division did not have any open mandatory delivery contracts. The open forward delivery contracts are composed of forward sales of MBS. The fair value of these open forward contracts was $56 thousand and $102 thousand at December 31, 2017 and 2016, respectively. Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Mortgage Division does not expect any counterparty to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that if the Mortgage Division does not close the loans subject to interest rate risk lock commitments, they will be obligated to deliver MBS to the counterparty under the forward sales agreement. Should this be required, the Mortgage Division could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations in future periods.

Interest rate lock commitments totaled $20.0 million and $37.9 million at December 31, 2017 and 2016, respectively, and included $3.2 million and $7.3 million that were made on a Best Efforts basis at December 31, 2017 and 2016, respectively. Fair values of these best efforts commitments were $23 thousand and $82 thousand at December 31, 2017 and 2016, respectively. The remaining hedged interest rate lock commitments totaling $16.8 million and $30.6 million at December 31, 2017 and 2016 had a fair value of $297 thousand and $484 thousand, respectively.

Note 8. Commitments and Contingent Liabilities (continued)

The Mortgage Division makes representations and warranties that loans sold to investors meet their program's guidelines and that the information provided by the borrowers is accurate and complete. In the event of a default on a loan sold, the investor may make a claim for losses due to document deficiencies, program compliance, early payment default, and fraud or borrower misrepresentations. The Mortgage Division maintains a reserve in other liabilities for potential losses on mortgage loans sold. At December 31, 2017 and 2016 the balance in this reserve totaled $953 thousand and $1,029 thousand, respectively.

Allowance For Losses on Mortgage Loans Sold

	Year Ended December 31,	
	2017	2016
	(In Thousands)	
Balance at beginning of year	$ 1,029	$ 1,029
Provision charged to operating expense	-	-
Recoveries	-	-
Charge-offs	(76)	-
Balance at end of year	$ 953	$ 1,029

Note 9. Financial Instruments with Off-Balance-Sheet Risk

The Corporation 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 consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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 generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral, if any, deemed necessary by the Corporation upon extension of credit is based on management's credit evaluation of the counterparty. Collateral normally consists of real property, liquid assets or business assets. The Corporation had approximately $82.8 million and $25.1 million in outstanding commitments at December 31, 2017 and 2016, respectively.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Corporation had approximately $468.2 million and $330.0 million in unfunded lines of credit whose contract amounts represent credit risk at December 31, 2017 and 2016, respectively.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. The Corporation had standby letters of credit outstanding in the amount of $14.3 million and $9.6 million at December 31, 2017 and 2016, respectively.

Note 9. Financial Instruments with Off-Balance-Sheet Risk (continued)

The Bank has a letter of credit agreement with the Commonwealth of Virginia Treasury Board pertaining to its public deposits program. Under the terms of the letters of credit agreement, the Commonwealth of Virginia Treasury Board in accordance with the Security for Public Deposits Act has approved the use of a letter of credit issued by the FHLB as collateral by the Bank. The maximum amount available under the letter of credit is $65 million. The letter of credit expired in August 2017 with an automatic one-year extension until August 2018.

In addition to the above, the Corporation is subject to risks related to the mortgage origination operations of the Mortgage Division of the Bank. See Note 8 for a discussion of those risks.

Note 10. Related Party Transactions

The Corporation has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families and affiliated companies in which they are principal shareholders (commonly referred to as related parties), on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with parties not related to the Corporation and which did not present more than the normal risk of collectability or other unfavorable terms. These related parties were indebted to the Corporation for loans totaling $19.2 million at December 31, 2017, and $10.8 million at December 31, 2016. During 2017, total principal additions were $320 thousand and total principal payments and changes in related parties' debt were $412 thousand. The Corporation also has outstanding unused commitments to related parties amounting to $650 thousand at December 31, 2017. The aggregate amount of deposits at December 31, 2017 and 2016 from directors and officers or their immediate family members was $88.2 million and $35.6 million, respectively.

Note 11. Share Based Compensation Plans

The Corporation established the Access National Corporation 2009 Stock Option Plan ("the 2009 Plan") which was approved by shareholders on May 19, 2009. The 2009 Plan reserved 975,000 shares of the Corporation's common stock, $0.835 par value, for issuance under the plan. The 2009 Plan allowed for stock options to be granted with an exercise price equal to the fair market value at the date of grant. The expiration dates on options granted under this plan were generally five years from the grant date.

Total compensation cost for share-based payment arrangements recognized in 2017, 2016, and 2015 was $442 thousand, $335 thousand, and $332 thousand, respectively.

Cash received from option exercises under share-based payment arrangements for 2017, 2016, and 2015 was $2.3 million, $532 thousand, and $380 thousand, respectively.

Changes in the stock options outstanding under the 2009 Plan, for the years ended December 31, 2017, 2016 and 2015 are summarized as follows:

Note 11. Share Based Compensation Plans (continued)

	Year Ended December 31,								
	2017			2016			2015		
	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price	Number of Options		Weighted Average Exercise Price
Outstanding at beginning of year	481,381	$	16.52	407,832	$	15.33	316,423	$	14.02
Granted	185,600		27.85	129,550		18.77	125,434		18.03
Exercised	(155,769)		14.60	(43,801)		12.15	(29,975)		12.62
Lapsed or canceled	(3,720)		15.69	(12,200)		16.54	(4,050)		16.40
Outstanding at end of year	507,492	$	21.26	481,381	$	16.52	407,832	$	15.33
Options exercisable at end of year	142,859	$	16.65	173,781	$	14.49	105,889	$	12.99

Options outstanding and exercisable at year end 2017 were as follows:

	Options Outstanding						Options Exercisable					
Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life (in yrs)		Weighted Average Exercise Price		Intrinsic Value	Number Exercisable	Weighted-Average Remaining Contractual Life (in yrs)		Weighted Average Exercise Price		Intrinsic Value
$12.79-$19.85	311,142	1.89	$	17.24	$	3,297	139,484	1.26	$	16.50	$	1,582
$20.34-$28.17	196,350	4.32		27.62		56	3,375	3.45		22.99		17
	507,492	2.83	$	21.26	$	3,353	142,859	2.91	$	16.65	$	1,599

The fair value of stock options granted was estimated using the Black Scholes option pricing model with the following weighted average assumptions:

Note 11. Share Based Compensation Plans (continued)

	Year Ended December 31,		
	2017	2016	2015
Expected life of options granted	5.00 Years	4.12 Years	4.09 Years
Risk-free interest rate	1.49%	1.25%	1.06%
Expected volatility of stock	29%	30%	30%
Annual expected dividend yield	3%	3%	3%
Fair value of granted options	$ 1,143,434	$ 473,272	$ 357,456
Nonvested Options	364,633	307,600	301,943

The total intrinsic value of options exercised during the years ended December 31, 2017, 2016, and 2015 was $2.0 million, $340 thousand, and $239 thousand, respectively. The weighted average grant date fair value of options granted during the years 2017, 2016, and 2015 were $6.16, $4.12, and $2.85, respectively.

The total unrecognized compensation cost related to non-vested share based compensation arrangements granted under the 2009 Plan as of December 31, 2017 was $1.1 million. The cost is expected to be recognized over a weighted average period of 1.6 years.

In August 2017 the Corporation established the Access National Corporation 2017 Equity Compensation Plan ("the 2017 Plan") which was approved by shareholders on October 26, 2017. The 2017 Plan authorizes the granting of stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance cash awards. Awards may be granted under the 2017 Plan to key employees, non-employee directors, consultants and advisors to the Corporation and certain of its subsidiaries. The 2017 Plan reserves 1.5 million shares of the Corporation's common stock, $0.835 par value, for issuance under the 2017 Plan. As of December 31, 2017, no equity awards had been granted under the 2017 Plan. Awards previously granted under the 2009 Plan will remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2009 Plan.

Note 12. Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of the Corporation's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and the Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and Bank to maintain minimum amounts and ratios (set forth in the table below) of total Tier 1, and Common Equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2017 and 2016, that the Corporation and the Bank meet all capital adequacy requirements to which they are subject.

At December 31, 2017 the Corporation and Bank exceeded the minimum required ratios for "well capitalized" as defined by the federal banking regulators. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, Tier 1 risk-based, Common Equity Tier 1 risk-based and Tier 1 leverage ratios as set forth in the table. There are no conditions or events that management believes have changed the institutions' category.

Note 12. Capital Requirements (continued)

The Corporation's and Bank's actual capital amounts and ratios as of December 31, 2017 and 2016 are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars In Thousands)			
December 31, 2017						
Total Capital						
(to Risk-Weighted Assets)						
Corporation	$ 257,139	12.25%	$ 183,670	8.750%	$ 209,909	10.00%
Bank	$ 243,301	11.66%	$ 182,517	8.750%	$ 208,591	10.00%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	$ 240,535	11.46%	$ 141,689	6.750%	$ 167,927	8.00%
Bank	$ 225,743	10.82%	$ 140,799	6.750%	$ 166,873	8.00%
Tier 1 Capital						
(to Average Assets)						
Corporation	$ 240,535	8.48%	$ 148,986	5.250%	$ 141,892	5.00%
Bank	$ 225,743	8.51%	$ 139,313	5.250%	$ 132,679	5.00%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	$ 240,535	11.46%	$ 83,964	4.00%	$ 136,441	6.50%
Bank	$ 225,743	10.82%	$ 83,436	4.00%	$ 135,584	6.50%
December 31, 2016						
Total Capital						
(to Risk-Weighted Assets)						
Corporation	$ 135,009	11.51%	$ 93,866	8.63%	$ 117,333	10.00%
Bank	$ 124,149	10.58%	$ 93,866	8.63%	$ 117,332	10.00%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	$ 120,317	10.25%	$ 70,400	6.63%	$ 93,866	8.00%
Bank	$ 109,457	9.33%	$ 70,399	6.63%	$ 93,866	8.00%
Tier 1 Capital						
(to Average Assets)						
Corporation	$ 120,317	8.90%	$ 52,800	5.13%	$ 58,667	5.00%
Bank	$ 109,457	8.11%	$ 60,793	5.13%	$ 67,547	5.00%
Common Equity Tier 1 Capital						
(to Risk-Weighted Assets)						
Corporation	$ 120,317	10.25%	$ 54,068	4.00%	$ 87,861	6.50%
Bank	$ 109,457	9.33%	$ 46,933	4.00%	$ 76,266	6.50%

Note 13. Earnings Per Share

The following table shows the weighted average number of shares used in computing earnings per share and the effect on weighted average number of shares of potential diluted common stock. Potential dilutive common stock has no effect on income available to common shareholders.

	Year Ended December 31,								
	2017			2016			2015		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
	(In Thousands, Except for Per Share Data)								
Earnings per share									
Basic	$ 16,500	17,988,670	$ 0.92	$ 16,404	10,586,394	$ 1.55	$ 15,419	10,513,008	$ 1.46
Effect of dilutive securities:									
Stock options and warrants	-	87,634	-	-	91,167	-	-	68,863	-
Diluted earnings per share	$ 16,500	18,076,304	$ 0.92	$ 16,404	10,677,561	$ 1.54	$ 15,419	10,581,871	$ 1.46

Note 14. Employee Benefits

The Corporation maintains a Defined Contribution 401(k) Profit Sharing Plan (the “401(k) Plan”), which authorizes a maximum voluntary salary deferral of up to IRS limitations. All full-time employees are eligible to participate after 6 months of employment. The Corporation reserves the right to make an annual discretionary contribution to the account of each eligible employee based in part on the Corporation’s profitability for a given year, and on each participant’s yearly earnings. Approximately $1.1 million, $759 thousand, and $638 thousand were charged to expense under the 401(k) Plan for 2017, 2016, and 2015, respectively.

Note 15. Other Income and Other Operating Expenses

The Corporation had the following other expenses for the years ended December 31, 2017, 2016, and 2015:

Note 15. Other Income and Other Operating Expenses (continued)

	2017	2016	2015
		(In Thousands)	
Management fees	$ 369	$ 1,187	$ 1,151
Amortization of intangibles	2,671	49	8
Merger related costs	6,794	984	-
Business and franchise tax	1,803	953	875
Data processing	2,779	947	1,029
FDIC insurance	1,485	789	634
Investor fees	613	759	570
Advertising and promotional expense	790	735	754
Consulting fees	1,202	681	618
Accounting and auditing service	956	613	612
Telephone	703	385	346
Director fees	703	352	395
Stock option expense	442	335	332
Business development, meals, and travel	337	293	260
Regulatory examinations	418	282	257
Credit report	375	281	197
Publication and subscription	268	280	249
Early payoff	132	260	133
Insurance	434	255	206
Disaster recovery	292	199	190
Stationary and supplies	405	197	294
Employee education and development	85	186	198
FRB and Bank analysis charges	260	163	147
Verification fees	164	150	106
SBA guarantee fee	137	145	160
Postage	105	97	93
Dues and memberships	152	95	108
Common stock expense	73	95	97
Legal fees	400	79	363
Donations	44	64	73
Courier	149	57	59
Impairment of goodwill	1,491	-	-
Other	3,244	1,021	1,346
	$ 30,275	$ 12,968	$ 11,860

Note 15. Other Income and Other Operating Expenses (continued)

The Corporation had the following other income for the years ended December 31, 2017, 2016, and 2015:

	2017	2016	2015
		(In Thousands)	
Trust income	$ 3,449	$ -	$ -
Wealth Management income	2,539	3,034	2,671
Bank owned life insurance income	1,201	558	460
Miscellaneous loan fees	719	599	461
Fair value marks on loans held for sale	1,170	1,646	2,614
Hedging gains (losses), net	(751)	(1,329)	(1,105)
ATM transaction fees	727	225	221
Other	960	935	207
	$ 10,014	$ 5,668	$ 5,529

Note 16. Fair Value Measurements

FASB ASC 820-10 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC 820-10 also 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. Transfers between levels of the fair value hierarchy are recognized on the actual dates of the event or circumstances that caused the transfer, which generally coincides with the Corporation's monthly and or quarterly valuation process. The standard describes three levels of inputs that may be used to measure fair values:

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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods to determine the fair value of each type of financial instrument:

Investment securities: The fair values for investment securities are determined by quoted market prices for similar securities from active markets (Level 2) or by independent valuations (Level 3) for securities not traded in active markets.

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for a similar asset, adjusted for specific attributes of that loan (Level 2).

Derivative financial instruments: Derivative instruments are used to hedge residential mortgage loans held for sale and the related interest-rate lock commitments and include forward commitments to sell mortgage loans and mortgage backed securities. The fair values of derivative financial instruments are based on derivative market data inputs as of the valuation date and the underlying value of mortgage loans for rate lock commitments (Level 3).

Note 16. Fair Value Measurements (continued)

Impaired loans: The fair values of impaired loans are measured for impairment using the fair value of the collateral for collateral-dependent loans on a non-recurring basis. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The use of discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral (Level 3).

Other real estate owned: The fair value of other real estate owned, which is included in other assets on the balance sheet, consists of real estate that has been foreclosed. Foreclosed real estate is recorded at the lower of fair value less selling expenses or the book balance prior to foreclosure. Write downs are provided for subsequent declines in value and are recorded in other noninterest expense (Level 2).

Assets and liabilities measured at fair value under FASB ASC 820-10 on a recurring and non-recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option, are summarized below:

Description	Carrying Value	Fair Value Measurement at December 31, 2017 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(In Thousands)		
Financial Assets-Recurring				
Available-for-sale investment securities				
U.S. Treasury notes	$ 50	$ 50	$ -	$ -
US Government agency	5,065	-	5,065	-
Mortgage backed	260,455	-	260,455	-
Corporate bonds	4,482	-	4,482	-
Asset backed securities	33,600	-	29,321	4,279
Certificates of deposit	1,981	-	1,981	-
Municipals	100,434	-	100,434	-
CRA Mutual fund	1,379	-	1,379	-
Total available-for-sale investment securities	407,446	50	403,117	4,279
Residential loans held for sale	31,999	-	31,999	-
Derivative assets	420	-	-	420
Total Financial Assets-Recurring	$ 439,865	$ 50	$ 435,116	$ 4,699
Financial Liabilities-Recurring				
Derivative liabilities	$ 195	$ -	$ -	$ 195
Total Financial Liabilities-Recurring	$ 195	$ -	$ -	$ 195
Financial Assets-Non-Recurring				
Impaired loans (1)	$ 4,626	$ -	$ -	$ 4,626
Long-lived asset held for sale	643		-	643
Total Financial Assets-Non-Recurring	$ 5,269	$ -	$ -	$ 5,269

(1) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan's effective interest rate.

Note 16. Fair Value Measurements (continued)

Description	Carrying Value	Fair Value Measurement at December 31, 2016 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Financial Assets-Recurring				
Available-for-sale investment securities				
US Government agency	$ 4,994	$ -	$ 4,994	$ -
Mortgage backed	119,807	-	119,807	-
Corporate bonds	8,666	-	8,666	-
Asset backed securities	12,864	-	8,364	4,500
Certificates of deposit	2,009	-	2,009	-
Municipals - nontaxable	44,359	-	44,359	-
CRA Mutual fund	1,391	-	1,391	-
Total available-for-sale investment securities	194,090	-	189,590	4,500
Residential loans held for sale	35,676	-	35,676	-
Derivative assets	993	-	-	993
Total Financial Assets-Recurring	$ 230,759	$ -	$ 225,266	$ 5,493
Financial Liabilities-Recurring				
Derivative liabilities	$ 325	$ -	$ -	$ 325
Total Financial Liabilities-Recurring	$ 325	$ -	$ -	$ 325
Financial Assets-Non-Recurring				
Impaired loans (1)	$ 6,922	$ -	$ -	$ 6,922
Total Financial Assets-Non-Recurring	$ 6,922	$ -	$ -	$ 6,922

(1) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan’s effective interest rate.

Note 16. Fair Value Measurements (continued)

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows for the twelve month period ended December 31, 2017 and 2016.

	Net Derivatives	Securities Available-For-Sale	Total
		(In Thousands)	
Balance January 1, 2017	$ 668	$ 4,500	$ 5,168
Realized and unrealized losses included in earnings	(486)	-	(486)
Unrealized gains (losses) included in other comprehensive income	43	(221)	(178)
Purchases, settlements, paydowns, and maturities	-	-	-
Transfer into Level 3	-	-	-
Balance December 31, 2017	$ 225	$ 4,279	$ 4,504

	Net Derivatives	Securities Available-For-Sale	Total
		(In Thousands)	
Balance January 1, 2016	$ 273	$ -	$ 273
Realized and unrealized gains included in earnings	395	-	395
Unrealized gains (losses) included in other comprehensive income	-	-	-
Purchases, settlements, paydowns, and maturities	-	-	-
Transfer into Level 3	-	4,500	4,500
Balance December 31, 2016	$ 668	$ 4,500	$ 5,168

During the fourth quarter of 2016, management transferred two asset backed securities into Level 3 from Level 2 due to the lack of readily available pricing information on these particular securities. Pricing for these securities is now obtained through an independent valuation service.

The following table presents qualitative information about Level 3 fair value measurements for financial instruments measured at fair value at December 31, 2017 and 2016:

Note 16. Fair Value Measurements (continued)

	2017				
Description	**Fair Value Estimate**		**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
	(In Thousands)				
Financial Assets - Recurring					
Asset-backed securities	$	4,279	Valuation service	Discounted cash flows	3% - 6% (5.0%)
Derivative assets	$	420	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Derivative liabilities	$	195	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Financial Assets - Non-recurring					
Impaired loans - Real estate secured	$	2,736	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 15% (10%)
Impaired loans - Non-real estate secured	$	1,890	Cash flow basis	Liquidation expenses (2)	0% - 10% (5%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

Note 16. Fair Value Measurements (continued)

2016					
Description		**Fair Value Estimate**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
		(In Thousands)			
Financial Assets - Recurring					
Asset-backed securities	$	4,500	Valuation service	Discounted cash flows	3% - 6% (5.0%)
Derivative assets	$	993	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Derivative liabilities	$	325	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Financial Assets - Non-recurring					
Impaired loans - Real estate secured	$	1,371	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 15% (10%)
Impaired loans - Non-real estate secured	$	5,551	Cash flow basis	Liquidation expenses (2)	0% - 10% (5%)

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

Financial instruments recorded using FASB ASC 825-10

Under FASB ASC 825-10, the Corporation may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election, with respect to an item, may not be revoked once an election is made.

The following tables reflect the difference between the fair value carrying amount of residential mortgage loans held for sale, measured at fair value under FASB ASC 825-10, and the aggregate unpaid principal amount the Corporation is contractually entitled to receive at maturity.

Note 16. Fair Value Measurements (continued)

	December 31, 2017		
(In Thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential mortgage loans held for sale	$ 31,999	$ 1,102	$ 30,897

	December 31, 2016		
(In Thousands)	Aggregate Fair Value	Difference	Contractual Principal
Residential mortgage loans held for sale	$ 35,676	$ 1,004	$ 34,672

The Corporation has elected to account for residential loans held for sale at fair value to eliminate the mismatch that would occur by recording changes in market value on derivative instruments used to hedge loans held for sale while carrying the loans at the lower of cost or market.

The following methods and assumptions not previously presented were used in estimating the fair value of financial assets and financial liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value. As such they are classified as Level 1 for noninterest-bearing deposits and Level 2 for interest-bearing deposits due from banks or federal funds sold.

Restricted Stock

It is not practical to determine the fair value of restricted stock due to the restrictions placed on its transferability.

Loans, Net of Allowance

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics resulting in a Level 3 classification. The fair value of other types of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities resulting in a Level 3 classification.

Deposits and Borrowings

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date resulting in a Level 1 classification. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities also resulting in a Level 1 classification. The fair value of all other deposits and borrowings is determined using the discounted cash flow method thereby resulting in a Level 2 classification. The discount rate was equal to the rate currently offered on similar products.

Note 16. Fair Value Measurements (continued)

Accrued Interest

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification depending upon the level of the asset or liability, with which, the accrual is associated.

Off-Balance-Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed interest rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

At December 31, 2017 and 2016, the majority of off-balance-sheet items are variable rate instruments or convert to variable rate instruments if drawn upon. Therefore, the fair value of these items is largely based on fees, which are nominal and immaterial.

The carrying amounts and estimated fair values of financial instruments at December 31, 2017 and 2016 were as follows:

	December 31,			
	2017		2016	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	$ 122,313	$ 122,313	$ 91,059	$ 91,059
Securities available-for-sale	407,446	407,446	194,090	194,090
Securities held-to-maturity	15,721	16,379	9,200	9,293
Restricted stock	16,572	16,572	10,092	10,092
Loans, net of allowance	1,995,103	2,016,530	1,069,366	1,080,820
Derivatives	420	420	993	993
Total financial assets	$ 2,557,575	$ 2,579,660	$ 1,374,800	$ 1,386,347
Financial liabilities:				
Deposits	$ 2,234,148	$ 2,161,134	$ 1,054,327	$ 1,040,402
Short-term borrowings	145,993	145,396	186,009	185,910
Long-term borrowings	43,883	43,703	60,000	59,954
Derivatives	195	195	325	325
Total financial liabilities	$ 2,424,219	$ 2,350,428	$ 1,300,661	$ 1,286,591

Note 16. Fair Value Measurements (continued)

Current accounting pronouncements require disclosure of the estimated fair value of financial instruments. Effective January 1, 2008, fair value is defined in accordance with FASB ASC 820-10 as disclosed above. Given the current market conditions, a portion of our loan portfolio is not readily marketable and market prices do not exist. We have not attempted to market our loans to potential buyers, if any exist, to determine the fair value of those instruments in accordance with the definition of FASB ASC 820-10. Since negotiated prices in illiquid markets depends upon the then present motivations of the buyer and seller, it is reasonable to assume that actual sales prices could vary widely from any estimate of fair value made without the benefit of negotiations. Additionally, changes in market interest rates can dramatically impact the value of financial instruments in a short period of time. Accordingly, the fair value measurements for loans included in the table above are unlikely to represent the instruments' liquidation values.

Note 17. Segment Reporting

The Corporation has three reportable segments: traditional commercial banking, a mortgage banking business and a wealth management business. Revenues from commercial banking operations consist primarily of interest earned on loans and investment securities and fees from deposit services. Mortgage banking operating revenues consist principally of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income. Wealth management operating revenues consist primarily of transactional fees charged to clients as well as fees for portfolio asset management.

The commercial banking segment provides the mortgage banking segment ("Mortgage Division") with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest based on a premium over their cost to borrow funds. These transactions are eliminated in the consolidation process.

The following table presents segment information for the years ended December 31, 2017, 2016, and 2015.

	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
			(In Thousands)			
2017						
Revenues:						
Interest income	$ 94,577	$ 1,141	$ 7	$ 25	$ (270)	$ 95,480
Gain on sale of loans	136	19,944	-	-	-	20,080
Other revenues	6,270	(307)	5,988	1,453	(1,392)	12,012
Total operating income	100,983	20,778	5,995	1,478	(1,662)	127,572
Expenses:						
Interest expense	10,912	(6)	-	472	(270)	11,108
Salaries and employee benefits	28,108	11,958	3,849	-	-	43,915
Other expenses	28,998	4,338	3,460	8,668	(1,392)	44,072
Total operating expenses	68,018	16,290	7,309	9,140	(1,662)	99,095
Income (loss) before income taxes	$ 32,965	$ 4,488	$ (1,314)	$ (7,662)	$ -	$ 28,477
Total assets	$ 2,827,041	$ 31,999	$ 10,967	$ 21,727	$ (17,840)	$ 2,873,894
Capital expenditures	$ 1,566	$ -	$ 1	$ 27	$ -	$ 1,594

Note 17. Segment Reporting (continued)

	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
	(In Thousands)					
2016						
Revenues:						
Interest income	$ 49,063	$ 1,767	$ -	$ 20	$ (835)	$ 50,015
Gain on sale of loans	-	25,164	-	-	-	25,164
Other revenues	3,893	(424)	3,034	1,401	(1,265)	6,639
Total operating income	52,956	26,507	3,034	1,421	(2,100)	81,818
Expenses:						
Interest expense	6,324	548	-	267	(835)	6,304
Salaries and employee benefits	16,015	13,541	2,222	-	-	31,778
Other expenses	9,232	5,354	1,034	3,777	(1,265)	18,132
Total operating expenses	31,571	19,443	3,256	4,044	(2,100)	56,214
Income (loss) before income taxes	$ 21,385	$ 7,064	$ (222)	$ (2,623)	$ -	$ 25,604
Total assets	$ 1,394,061	$ 39,356	$ 2,841	$ 18,037	$ (23,587)	$ 1,430,708
Capital expenditures	$ 826	$ 3	$ 2	$ 40	$ -	$ 871

Note 17. Segment Reporting (continued)

	Commercial Banking	Mortgage Banking	Wealth Management	Other	Eliminations	Consolidated Totals
			(In Thousands)			
2015						
Revenues:						
Interest income	$ 42,763	$ 1,650	$ -	$ 16	$ (763)	$ 43,666
Gain on sale of loans	-	19,633	-	-	-	19,633
Other revenues	3,229	388	2,671	1,391	(1,247)	6,432
Total operating income	45,992	21,671	2,671	1,407	(2,010)	69,731
Expenses:						
Interest expense	4,135	467	-	280	(763)	4,119
Salaries and employee benefits	13,519	11,470	1,977	-	-	26,966
Other expenses	7,732	5,087	1,116	2,362	(1,247)	15,050
Total operating expenses	25,386	17,024	3,093	2,642	(2,010)	46,135
Income (loss) before income taxes	$ 20,606	$ 4,647	$ (422)	$ (1,235)	$ -	$ 23,596
Total assets	$ 1,133,916	$ 46,077	$ 3,205	$ 16,837	$ (21,487)	$ 1,178,548
Capital expenditures	$ 252	$ 15	$ 24	$ 9	$ -	$ 300

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements

Note 18. Parent Corporation Only Statements

ACCESS NATIONAL CORPORATION
(Parent Corporation Only)
Balance Sheets

	Year Ended December 31,	
	2017	2016
	(In Thousands)	
Assets		
Cash	$ 10,949	$ 11,339
Investment in subsidiaries	410,981	109,825
Other assets	1,792	585
Total assets	$ 423,722	$ 121,749
Liabilities		
Other liabilities	$ 2,098	$ 1,219
Total liabilities	2,098	1,219
Shareholders' Equity		
Common stock	17,146	8,881
Capital surplus	307,614	21,779
Retained earnings	98,584	91,439
Accumulated other comprehensive loss	(1,720)	(1,569)
Total shareholders' equity	421,624	120,530
Total liabilities and shareholders' equity	$ 423,722	$ 121,749

ACCESS NATIONAL CORPORATION
(Parent Corporation Only)
Statements of Income

	Year Ended December 31,		
	2017	2016	2015
	(In Thousands)		
Income			
Dividends from subsidiaries	$ 4,500	$ 8,000	$ 8,625
Interest	25	20	15
Other	222	134	113
	4,747	8,154	8,753
Expenses			
Other expenses	7,981	3,079	1,660
Total expenses	7,981	3,079	1,660
Income (loss) before income taxes and undistributed income of subsidiaries	(3,234)	5,075	7,093
Income tax benefit	(2,242)	(588)	(467)
Income (loss) before undistributed income of subsidiaries	(992)	5,663	7,560
Undistributed income of subsidiaries	17,492	10,741	7,859
Net income	$ 16,500	$ 16,404	$ 15,419

Note 18. Parent Corporation Only Statements (continued)

ACCESS NATIONAL CORPORATION
(Parent Corporation Only)
Statements of Comprehensive Income
(In Thousands)

	Year Ended December 31,		
	2017	2016	2015
Net income	$ 16,500	$ 16,404	$ 15,419
Other comprehensive income:			
Unrealized gains (losses) on securities			
Unrealized holding gains (losses) arising during period	(417)	(816)	(528)
Less: reclassification adjustment for gains included in net income	-	(52)	(188)
Unrealized gains on interest rate swaps	64	-	-
Tax effect	146	304	255
Net of tax amount	(207)	(564)	(461)
Comprehensive income	$ 16,293	$ 15,840	$ 14,958

ACCESS NATIONAL CORPORATION
(Parent Corporation Only)
Statements of Cash Flows

	Year Ended December 31,		
	2017	2016	2015
		(In Thousands)	
Cash Flows from Operating Activities			
Net income	$ 16,500	$ 16,404	$ 15,419
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed income of subsidiaries	(17,492)	(10,741)	(7,859)
(Increase) decrease in other assets	(990)	3	12
Increase (decrease) in other liabilities	1,418	51	(75)
Stock-based compensation	495	335	332
Net cash provided by (used in) operating activities	(69)	6,052	7,829
Cash Flows from Investing Activities			
Payments for investments in and advances to subsidiaries	146	(127)	(592)
Cash acquired in business combination	3	-	-
Cash paid in business combination	(608)	-	-
Sale or repayment of investments in and advances to subsidiaries	1,167	728	968
Net cash provided by investing activities	708	601	376
Cash Flows from Financing Activities			
Net proceeds from issuance of common stock	8,326	1,567	1,145
Dividends paid	(9,355)	(6,350)	(9,866)
Net cash provided by (used in) financing activities	(1,029)	(4,783)	(8,721)
Increase (decrease) in cash and cash equivalents	(390)	1,870	(516)
Cash and Cash Equivalents			
Beginning	11,339	9,469	9,985
Ending	$ 10,949	$ 11,339	$ 9,469

Note 19. Goodwill and Intangible Assets

The following table summarizes the Corporation's carrying amount for finite intangible assets:

(In Thousands)	December 31, 2017		
Intangible assets subject to amortization:	Cost	Accumulated Amortization	Net Book Value
Core deposit intangible	$ 16,057	$ (2,408)	$ 13,649
Customer lists	5,214	(308)	4,906
Non-compete agreements	117	(60)	57
Total	$ 21,388	$ (2,776)	$ 18,612

(In Thousands)	December 31, 2016		
Intangible assets subject to amortization:	Cost	Accumulated Amortization	Net Book Value
Customer lists	$ 364	$ (43)	$ 321
Non-compete agreements	25	(14)	11
Total	$ 389	$ (57)	$ 332

Amortization expense was $2.7 million, $49 thousand, and $8 thousand for the twelve months ended December 31, 2017 2017, 2016, and 2015, respectively, in connection with the above finite intangible assets.

The following table presents the amortization of the intangibles expected to be recognized over the years ending December 31:

Year	Amount (In Thousands)
2018	$ 3,341
2019	2,949
2020	2,581
2021	2,224
2022	1,868
Thereafter	5,649
	$ 18,612

Note 19. Goodwill and Intangible Assets (continued)

Changes in the carrying amount of indefinite lived assets are summarized in the table as follows:

(In Thousands)		
Balance, December 31, 2015	$	1,501
Additions		-
Impairments		-
Balance, December 31, 2016	$	1,501
Additions - acquisition of Middleburg		166,539
Impairments		(1,491)
Balance, December 31, 2017	$	166,549

The goodwill impairment was in relation to a reporting unit within the Wealth Management segment. The unexpected departure of underperforming personnel and the loss of accounts associated with those individuals caused management to evaluate the goodwill associated with that reporting unit at an interim basis rather than at the annual impairment evaluation date previously utilized. While the departure dates of the personnel were second quarter 2017, the financial impacts of the departing accounts associated with those individuals was not felt until the third quarter of 2017 thus creating the need for the impairment charge.

The impairment charge was determined using a combination of the present value and market approaches and is included in Other Operating Expenses on the Consolidated Statements of Income for the year ended December 31, 2017.

Note 20. Bank-Owned Life Insurance

The Corporation had $51.6 million and $26.4 million in bank-owned life insurance ("BOLI") at December 31, 2017 and 2016, respectively. The Corporation recognized interest income, which is included in other noninterest income, of $1.2 million, $558 thousand, and $460 thousand in 2017, 2016, and 2015, respectively.

Note 21. Derivatives

The Corporation utilizes derivative instruments as a part of its asset-liability management program to control fluctuation of market values and cash flows to changes in interest rates associated with certain financial instruments. The Corporation accounts for derivatives in accordance with ASC 815, "Derivatives and Hedging". Under current guidance, derivative transactions are classified as either cash flow hedges or fair value hedges or they are not designated as hedging instruments. The Corporation obtained several designated derivative instruments as a result of the merger with Middleburg and continues to account for these items on a basis consistent with when the items were established by Middleburg which is in accordance with this guidance. Information concerning each of the Corporation's categories of derivatives as of December 31, 2017 is presented below.

Derivatives designated as cash flow hedges

During 2010, Middleburg entered into an interest rate swap which has been designated as a cash flow hedge intended to hedge the variability of cash flows associated with the trust preferred debentures. The swap hedges the cash flow associated with the trust preferred capital notes wherein the Corporation receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 2.59% to the same counterparty. The swap is calculated on a notional amount of $5.2 million. The term of the swap is10 years and commenced on October 23, 2010. Cash collateral was reserved for this swap in the amount of $400 thousand as of December 31, 2017. The swap was entered into with a counterparty that met the Corporation's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in the contract is not significant.

Note 21. Derivatives (continued)

During 2013, Middleburg entered into an interest rate swap which has been designated as a cash flow hedge intended to hedge the variability of cash flows associated with FHLB borrowings. The swap hedges the cash flows associated with the FHLB borrowings wherein the Corporation receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 1.43% to the same counterparty. The swap is calculated on a notional amount of $10.0 million. The term of the swap is 5 years and commenced on November 25, 2013. Collateral was reserved for this swap in the amount of $600 thousand as of December 31, 2017. The swap was entered into with a counterparty that met the Corporation's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in the contract is not significant.

Amounts receivable or payable are recognized as accrued under the terms of the agreement, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. The Corporation has assessed the effectiveness of the hedging relationships by comparing the changes in cash flows on the designated hedged item. As a result of this assessment, there was no hedge ineffectiveness identified for the year ended December 31, 2017.

The amounts included in accumulated other comprehensive income as unrealized losses (fair value, net of tax) were $8 thousand as of December 31, 2017.

Information concerning the derivatives designated as a cash flow hedges at December 31, 2017 is presented in the following tables:

	December 31, 2017						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 5,155	$ -	$ 81	1.36%	2.59%	2.9
Pay fixed - receive floating interest rate swap	1	$ 10,000	$ 29	$ -	1.49%	1.43%	0.9

Note 21. Derivatives (continued)

Derivatives not designated as hedging instruments

Two-way client loan swaps
During 2012 and 2014, Middleburg entered into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which we enter into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each swap transaction, the Corporation agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on an identical notional amount at a fixed interest rate. At the same time, the Corporation agrees to pay the counterparty the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customers to effectively convert a variable rate loan into a fixed rate loan. Because the Corporation acts as an intermediary for its customers, changes in the fair value of the underlying derivatives contracts offset each other and do not significantly impact its results of operations.

Certain additional risks arise from interest rate swap contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Corporation does not expect any counterparty to fail to meet its obligations.

Information concerning two-way client interest rate swaps not designated as either fair value or cash flow hedges is presented in the following table:

	December 31, 2017						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 3,224	$ 96	$ -	1 month LIBOR plus 200 BP	3.90%	9.8
Pay fixed - receive floating interest rate swap	1	1,615	-	22	1 month LIBOR plus 180 BP	4.09%	7.0
Pay floating - receive fixed interest rate swap	1	3,224	-	96	3.90%	1 month LIBOR plus 200 BP	9.8
Pay floating - receive fixed interest rate swap	1	1,615	22	-	4.09%	1 month LIBOR plus 180 BP	7.0
Total derivatives not designated		$ 9,886	$ 44	$ 44			

Rate Cap Transaction
During 2017, the Corporation had one derivative instrument in the form of an interest rate cap agreement with a notional amount of $10.0 million. The notional amount of the financial derivative instrument does not represent exposure to credit loss. The Corporation is exposed to credit loss only to the extent the counterparty defaults in its responsibility to pay interest under the terms of the agreement. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counterparty. The Corporation does not expect any counterparty to fail to meet its obligations.

Note 21. Derivatives (continued)

The details of the interest rate cap agreement as of are summarized below:

December 31, 2017 (Dollars in thousands)						
Notional Amount	Termination Date	3-Month LIBOR Strike Rate	Premium Paid	Unamortized Premium at December 31, 2015	Fair Value December 31, 2015	Cumulative Cash Flows Received
$ 10,000	September 8, 2018	2.00%	$ 70	$ 70	$ 1	$ -

The interest rate cap agreement was purchased to limit the Corporation's exposure to rising interest rates. Under the terms of the agreement, the Corporation paid a premium of $70 thousand for the right to receive cash flow payments if the 3-month LIBOR rises above the cap of 2.00%, thus effectively ensuring interest expense is capped at a maximum rate of 2.00% for the duration of the agreement. The interest rate cap agreement is a derivative not designated as a hedging instrument.

At December 31, 2017, the total fair value of the interest rate cap agreement was $1 thousand. The fair value of the interest rate cap agreement is included in other assets on the Corporation's consolidated balance sheets. Changes in fair value are recorded in earnings in other operating expenses. For the year ended December 31, 2017, $6 thousand was recognized in other operating expenses.

The premium paid on the interest rate cap agreement is recognized as a decrease in interest income over the duration of the agreement using the caplet method. For the year ended December 31, 2017, no premium amortization was required.

Note 22. Merger with Middleburg Financial Corporation

On April 1, 2017 (the "Acquisition Date"), the Corporation completed the acquisition of Middleburg, a bank holding company based in Middleburg, Virginia, in an all-stock transaction. Management expects that the acquisition will enhance scale, improve efficiency, and provides for a well-diversified business model. Middleburg's common shareholders received 1.3314 shares of the Corporation's common stock in exchange for each share of Middleburg's common stock, resulting in the Corporation issuing 9,516,097 shares of common stock at a fair value of $285.7 million. In addition, holders of outstanding Middleburg stock options received cash for the difference between the strike price and ending share price of Middleburg stock immediately before the merger, being $40.04. A total of 23,362 shares were converted to cash for a total of $608 thousand. As a result of the transaction and on the same date, Middleburg's former bank subsidiary, Middleburg Bank, became a division of the Corporation's wholly-owned bank subsidiary, Access National Bank.

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 Date.

In connection with the acquisition, the consideration paid, and the fair value of identifiable assets acquired and liabilities assumed as of the Acquisition Date are summarized in the following table (dollars in thousands):

Note 22. Merger with Middleburg Financial Corporation (continued)

Consideration paid:		
Common shares issued (9,516,097)	$	285,679
Cash paid to shareholders		608
Value of consideration		286,287
Fair value of assets acquired:		
Cash and cash equivalents	$	90,940
Investment securities		244,123
Restricted stock		4,119
Loans		815,785
Bank premises and equipment		21,920
OREO		3,919
Intangibles		21,436
Bank owned life insurance		24,080
Other assets		26,343
Total assets		1,252,665
Fair value of liabilities assumed:		
Deposits		1,056,619
Short-term borrowings		26,033
Long-term borrowings		29,892
Trust preferred debentures		3,824
Other liabilities		16,721
Total liabilities		1,133,089
Net assets acquired		119,576
Goodwill resulting from merger with Middleburg	$	166,103

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

Loans

The acquired loans were recorded at fair value at the Acquisition Date without carryover of Middleburg's previously established allowance for loan losses. The fair value of the loans was 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. In this regard, the acquired loans were segregated into pools based on loan type and credit risk. Loan type was determined based on collateral type, purpose, and lien position. Credit risk characteristics included risk rating groups (pass rated loans and adversely classified loans), nonaccrual status, and past due status. For valuation purposes, these pools were further disaggregated by maturity, pricing characteristics (e.g., fixed-rate, adjustable-rate), and re-payment structure (e.g., interest only, fully amortizing, balloon).

The acquired loans were divided into loans with evidence of credit quality deterioration which are accounted for under ASC 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality (acquired impaired or PCI) and loans that do not meet this criteria, which are accounted for under ASC 310-20, Receivables - Nonrefundable Fees and Other Costs (acquired performing). The fair values of the acquired performing loans were $810.9 million and the fair values of the acquired impaired loans were $4.2 million. The gross contractually required principal and interest payments receivable for acquired performing loans was $7.8 million. The best estimate of contractual cash flows not expected to be collected related to the acquired performing loans is $3.4 million.

Note 22. Merger with Middleburg Financial Corporation (continued)

The following table presents the acquired impaired loans receivable at the Acquisition Date (dollars in thousands):

Contractual principal and interest at acquisition	$	7,835
Nonaccretable difference		(3,427)
Expected cash flows at acquisition		4,408
Accretable yield		(186)
Fair value of purchased impaired loans	$	4,222

Bank Premises
The fair value of Middleburg's premises, including land, buildings, and improvements, was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located. These appraisals were based upon the highest and best use of the underlying asset(s) with final values determined based upon an analysis of the cost, sales comparison, and income capitalization approaches for each property appraised. The Corporation also engaged independent appraisers to value the leasehold interests. The fair value of the leasehold interest was not material to the consolidated financial statements. The fair value adjustment related to bank premises was $2.5 million.

An independent appraiser also reviewed leases pertaining to bank premises to determine if the leases were deemed favorable or unfavorable at the time of acquisition. In accordance with this review, an unfavorable lease liability of $5.3 million was recorded in other liabilities and will be amortized over the remaining lives of the leases.

Core Deposit Intangible
The fair value of the core deposit intangible was determined based on a blended market approach and discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through the FHLB. The life of the deposit base and projected deposit attrition rates were determined using Middleburg's historical deposit data. The core deposit intangible will be amortized over nine years using the sum-of-years digits method.

Time Deposits
The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately $293.6 thousand is being amortized into income over the remaining life of the time deposits.

Long-term Borrowings
The Corporation assumed long-term borrowings in the form of FHLB advances and trust preferred capital notes in connection with the merger. The fair value of the trust preferred capital notes assumed was valued using an income approach with consideration of the market approach. The contractual cash flows were projected and discounted using a prevailing market rate. The market rate was developed using a third-party broker opinion, implied market yields for recent subordinated debt sales, and new subordinated debt issuances for instruments with similar durations and pricing characteristics. The fair value of FHLB advances represents contractual repayments discounted using interest rates currently available on borrowings with similar characteristics and remaining maturities. The FHLB advances were valued at a discount of $107.6 thousand which is being amortized into income over 1.7 years using the effective interest method. The trust preferred capital notes were valued at discount of $1.3 million which is being amortized over 16.8 years using the effective interest method.

Note 22. Merger with Middleburg Financial Corporation (continued)

The following table presents unaudited pro forma results of operations for the periods presented as if the Middleburg merger had been completed on January 1, 2016. These results combine the historical results of the Corporation in the Corporation's Consolidated Statements of Income and Middleburg and, while certain adjustments were made for the estimated impact of certain fair value adjustments and other acquisition-related activity, they are not indicative of what would have occurred had the acquisition taken place on January 1, 2016. In particular, no adjustments have been made to eliminate the amount of Middleburg's provision for credit losses that would not have been necessary had the acquired loans been recorded at fair value as of January 1, 2016. The Corporation expects to achieve further operating cost savings and other business synergies, including branch closures, as a result of the acquisition which are not reflected in the pro forma amounts below:

(In Thousands Except for Per Share Data)	Pro Forma for the Year Ended December 31, 2017	Pro Forma for the Year Ended December 31, 2016
Revenues (net interest income plus noninterest income)	$ 128,049	125,203
Net income	20,814	20,246
Net income per diluted share	$ 1.02	$ 1.00

Acquisition-related expenses associated with the acquisition of Middleburg were $6.8 million for the year ended December 31, 2017. Such costs include legal and accounting fees, lease and contract termination expenses, system conversion, operations integration, and employee severances, which have been expensed as incurred.

Exhibit 99.3

ACCESS NATIONAL CORPORATION
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except for Share and Per Share Data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Cash and due from banks	$ 14,062	$ 29,855
Interest-bearing balances and federal funds sold	110,308	92,458
Total cash and cash equivalents	124,370	122,313
Investment securities:		
Available-for-sale, at fair value	424,445	406,067
Marketable equity, at fair value	-	1,379
Held-to-maturity, at amortized cost (fair value of $28,278 and $28,940, respectively)	28,353	28,272
Total investment securities	452,798	435,718
Restricted stock, at amortized cost	21,192	16,572
Loans held for sale, at fair value	36,600	31,999
Loans held for investment, net of allowance for loan losses of $17,349 and $15,805, respectively	2,076,921	1,950,553
Premises, equipment and land, net	27,768	27,797
Goodwill and intangibles	184,028	185,161
Other real estate owned, net of valuation allowance	643	643
Bank owned life insurance	52,604	51,632
Other assets	44,399	51,506
Total assets	$ 3,021,323	$ 2,873,894
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES		
Noninterest-bearing deposits	$ 757,900	$ 744,960
Interest-bearing demand deposits	481,676	496,677
Savings and money market deposits	711,262	623,889
Time deposits	344,026	368,622
Total deposits	2,294,864	2,234,148
Short-term borrowings	212,561	145,993
Long-term borrowings	45,000	40,000
Trust preferred debentures	3,942	3,883
Other liabilities and accrued expenses	23,013	28,246
Total liabilities	2,579,380	2,452,270
SHAREHOLDERS' EQUITY		
Common stock $0.835 par value; 60,000,000 shares authorized; 20,920,262 and 20,534,163 issued and outstanding, respectively	17,468	17,146
Additional paid in capital	317,626	307,670
Retained earnings	115,973	98,584
Accumulated other comprehensive loss, net	(9,124)	(1,776)
Total shareholders' equity	441,943	421,624
Total liabilities and shareholders' equity	$ 3,021,323	$ 2,873,894

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
(In Thousands, Except for Share and Per Share Data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
INTEREST AND DIVIDEND INCOME				
Interest and fees on loans	$ 25,687	$ 24,306	$ 73,241	$ 60,251
Interest on federal funds sold and bank balances	578	394	1,532	746
Interest and dividends on securities	3,047	2,992	8,369	7,388
Total interest and dividend income	29,312	27,692	83,142	68,385
INTEREST EXPENSE				
Interest on deposits	3,902	2,639	9,717	6,560
Interest on other borrowings	1,345	459	3,100	1,366
Total interest expense	5,247	3,098	12,817	7,926
Net interest income	24,065	24,594	70,325	60,459
Provision for loan losses	700	900	2,102	3,200
Net interest income after provision for loan losses	23,365	23,694	68,223	57,259
NONINTEREST INCOME				
Service charges and fees	485	560	1,456	1,509
Gain on sale of loans	4,465	5,594	11,453	14,985
Other income	2,494	2,369	11,020	6,917
Total noninterest income	7,444	8,523	23,929	23,411
NONINTEREST EXPENSE				
Salaries and benefits	11,113	11,100	35,370	31,800
Occupancy and equipment	2,000	3,019	5,881	5,820
Other operating expenses	5,853	8,674	18,115	23,594
Total noninterest expense	18,966	22,793	59,366	61,214
Income before income taxes	11,843	9,424	32,786	19,456
Income tax expense	2,233	2,422	6,128	6,001
NET INCOME	$ 9,610	$ 7,002	$ 26,658	$ 13,455
Earnings per common share:				
Basic	$ 0.46	$ 0.34	$ 1.28	$ 0.77
Diluted	$ 0.46	$ 0.34	$ 1.28	$ 0.77
Average outstanding shares:				
Basic	20,847,319	20,409,696	20,734,621	17,156,521
Diluted	20,925,247	20,508,875	20,821,096	17,273,367

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
Net income	$ 9,610	$ 7,002	$ 26,658	$ 13,455
Other comprehensive income (loss):				
Unrealized holding gains (losses) arising during the period	(2,514)	(616)	(9,019)	553
Unrealized gains (losses) on interest rate swaps	(2)	22	87	18
Tax effect	532	211	1,837	(194)
Total other comprehensive (loss) income	(1,984)	(383)	(7,095)	377
Total comprehensive income	$ 7,626	$ 6,619	$ 19,563	$ 13,832

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(In Thousands, Except for Share and Per Share Data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance January 1, 2018	$ 17,146	$ 307,670	$ 98,584	$ (1,776)	$ 421,624
Net income	-	-	26,658	-	26,658
Other comprehensive loss	-	-	-	(7,095)	(7,095)
Cash dividends ($0.46 per share)	-	-	(9,522)	-	(9,522)
Reclassification of the Income Tax Effects of the Tax Cuts and Jobs Act from AOCI	-	-	374	(374)	-
Amounts reclassified as cumulative effect of adoption of new accounting pronouncement	-	-	(121)	121	-
Dividend reinvestment plan shares issued from reserve (298,699 shares)	249	8,142	-	-	8,391
Exercise of stock options (87,400 shares)	73	1,355	-	-	1,428
Stock-based compensation	-	459	-	-	459
Balance September 30, 2018	$ 17,468	$ 317,626	$ 115,973	$ (9,124)	$ 441,943
Balance January 1, 2017	$ 8,881	$ 21,779	$ 91,439	$ (1,569)	$ 120,530
Net income	-	-	13,455	-	13,455
Other comprehensive income	-	-	-	377	377
Cash dividends ($0.45 per share)	-	-	(6,287)	-	(6,287)
Exercise of stock options (143,092 shares)	120	1,940	-	-	2,060
Dividend reinvestment plan shares issued from reserve (149,758 shares)	125	3,801	-	-	3,926
Issuance of restricted common stock (4,549 shares)	4	125	-	-	129
Issuance of common stock (9,516,097 shares)	7,946	277,727	-	-	285,673
Stock-based compensation	-	310	-	-	310
Balance September 30, 2017	$ 17,076	$ 305,682	$ 98,607	$ (1,192)	$ 420,173

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities		
Net income	$ 26,658	$ 13,455
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,241	2,011
Provision for loan losses	2,102	3,200
Provision for off balance sheet losses	210	50
Originations of loans held for sale	(292,655)	(319,164)
Proceeds from sales of loans held for sale	287,933	328,587
Amortization of intangibles	2,517	1,642
Amortization on purchase accounting discounts	(2,219)	(2,977)
Decrease in valuation of loans held for sale carried at fair value	121	19
Deferred tax expense	(182)	120
Decrease in valuation allowance on derivatives	6	258
Loss on sale of available-for-sale equity security	9	-
Amortization of securities discounts and premiums, net	3,659	1,984
Accretion of unfavorable lease liability	(303)	-
Stock-based compensation	459	310
Losses on sale of other real estate owned, net	16	-
Impairment of other real estate owned	310	-
Income from bank owned life insurance	(972)	(869)
Changes in assets and liabilities:		
Decrease (increase) in other assets	6,332	(6,475)
(Decrease) increase in other liabilities	(5,105)	2,645
Net cash provided by operating activities	$ 30,137	$ 24,796
Cash Flows from Investing Activities		
Proceeds from maturities, calls, principal repayments and sales of securities available-for-sale	28,230	188,716
Proceeds from sale of available-for-sale equity security	1,331	-
Purchases of securities available-for-sale	(58,979)	(162,623)
Proceeds from sales, maturities and calls of securities held-to-maturity	49	4,273
(Purchase) redemption of restricted stock, net	(4,620)	3,052
Purchases of premises, equipment and land, net	(460)	(1,263)
Increase in loans, net	(127,470)	(123,353)
Proceeds from sale of other real estate owned	1,169	2,258
Cash paid in business combination	-	(608)
Cash acquired in business combination	-	90,940
Net cash provided by (used in) investing activities	$ (160,750)	$ 1,392
Cash Flows from Financing Activities		
Increase in demand, interest-bearing demand and savings deposits	85,313	178,531
Decrease in time deposits	(24,556)	(3,266)
Increase in securities sold under agreements to repurchase	(13,480)	(2,407)
Increase (decrease) in short-term borrowings	80,096	(160,000)
Increase in long-term borrowings	5,000	-
Payment of dividends on common stock	(9,522)	(6,287)
Proceeds from issuance of common stock	9,819	6,115
Net cash provided by financing activities	$ 132,670	$ 12,686
Increase in cash and cash equivalents	2,057	38,874
Cash and cash equivalents at beginning of the period	122,313	91,059
Cash and cash equivalents at end of the period	$ 124,370	$ 129,933

ACCESS NATIONAL CORPORATION
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)

	For the Nine Months Ended September 30,	
	2018	2017
Cash Flows From Operating Activities		
Supplemental Disclosures of Cash Flow Information		
Interest paid	12,775	6,338
Income taxes	(4,340)	5,561
Supplemental Disclosure of Non-Cash Transactions		
Unrealized gains (losses) on securities available for sale	(9,019)	364
Change in fair value of interest rate swaps	87	18
Transfer of loans held for investment to other real estate owned	1,180	-
Transfer of bank owned property to other real estate owned	315	-
Common stock issued for acquisition	-	285,673
Transactions related to bank acquisitions		
Increase in assets and liabilities:		
Loans	$ -	$ (815,817)
Securities	-	(243,679)
Other Assets	-	(258,306)
Noninterest bearing deposits	-	282,752
Interest bearing deposits	-	773,867
Borrowings	-	3,824
Trust preferred debentures	-	55,925
Other liabilities	-	10,206

See accompanying notes to the consolidated financial statements (unaudited).

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Note 1. Basis of Presentation

Access National Corporation (the "Corporation") is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Corporation owns all of the stock of its three active wholly-owned subsidiaries: Access National Bank (the "Bank"), which is an independent commercial bank chartered under federal laws as a national banking association; Middleburg Investment Group ("MIG"), which was formed in 2005 and acquired by the Corporation on April 1, 2017 in its merger with Middleburg Financial Corporation ("Middleburg") and is a non-bank holding company chartered under Virginia law; and MFC Capital Trust II formed in 2003 for the purpose of issuing redeemable capital securities and acquired by Access on April 1, 2017 in its merger with Middleburg. The Bank has three active wholly owned subsidiaries: Access Real Estate LLC ("Access Real Estate"), a real estate company; ACME Real Estate LLC, a real estate holding company of foreclosed property; and Access Capital Management Holding LLC ("ACM"), a holding company for Capital Fiduciary Advisors, L.L.C., Middleburg Investment Services, L.L.C., and Access Insurance Group, L.L.C. MIG has one active wholly-owned subsidiary being Middleburg Trust Company.

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") for interim financial information and with rules and regulations of the Securities and Exchange Commission ("SEC"). The statements do not include all of the information and footnotes required by GAAP for complete financial statements. All adjustments have been made which, in the opinion of management, are necessary for a fair presentation of the results for the interim periods presented. Such adjustments are all of a normal and recurring nature. All significant inter-company accounts and transactions have been eliminated in consolidation. Certain prior period amounts have been reclassified to conform to the current period presentation. An approximate $12.6 million reclassification adjustment has been made to the Consolidated Balance Sheet for pools of SBA guaranteed loans now classified as investment debt securities - held to maturity for the fiscal year ended December 31, 2017. This reclassification had no material impact on the reported results of operations as there was no change in overall interest income reported. The results of operations for the three and nine months ended September 30, 2018 are not necessarily indicative of the results that may be expected for the full year. These consolidated financial statements should be read in conjunction with the Corporation's audited financial statements and the notes thereto as of December 31, 2017, included in the Corporation's Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

The Corporation has evaluated subsequent events for potential recognition and/or disclosure in this Quarterly Report on Form 10-Q through the date these consolidated financial statements were issued.

During the third quarter of 2018, the Corporation evaluated the accounting for its low income housing tax credits as well as investments in small business investment company funds ("SBICs") and elected to change the policy for these investments. The Corporation believes the changes better reflect the economic interest in these investments. Management believes the results of these changes are immaterial to the results of operations. As such, the adjustments were recorded through the current period as a one-time after-tax gain of $882 thousand. This includes $608 thousand ($445 thousand pre-tax credit to income with a $163 thousand credit to income tax provision) related to low income housing tax credits and a $466 thousand pre-tax gain related to equity investments. These amounts were the impact of the change in accounting principles and the correction of immaterial errors that were identified during the evaluation of the change in accounting principles.

Note 2. Share Based Compensation Plans

The Access National Corporation 2009 Stock Option Plan (the "2009 Plan"), which was approved by shareholders on May 19, 2009, reserved 975,000 shares of the Corporation's common stock, $0.835 par value, for issuance under the 2009 Plan. The 2009 Plan allowed for stock options to be granted with an exercise price equal to the fair market value at the grant date. The expiration dates on options granted under the 2009 Plan were generally five years from the grant date.

In August 2017, the Corporation established the Access National Corporation 2017 Equity Compensation Plan (the "2017 Plan") which was approved by shareholders on October 26, 2017. The 2017 Plan provides for the grant to key employees, non-employee directors, consultants and advisors of awards that may include one or more of the following: stock options, restricted stock, restricted stock units, stock appreciation rights, performance units and performance cash awards. No awards may be granted under the 2017 Plan after October 25, 2027. Awards previously granted under the 2009 Plan will remain outstanding and valid in accordance with their terms, but no new awards will be granted under the 2009 Plan after October 26, 2017. The 2017 Plan reserves 1.5 million shares of the Corporation's common stock, $0.835 par value, for issuance under the 2017 Plan.

During the first nine months of 2018, the Corporation granted 161,625 stock options to officers, directors, and employees under the 2017 Plan. For the first nine months of 2017, the Corporation granted 130,600 stock options under the 2009 Stock Option Plan. Options granted under the 2017 Plan and the 2009 Stock Option Plan have an exercise price equal to the fair market value as of the grant date. Options granted under the 2017 Plan vest over 4.0 years and expire one year after the full vesting date. Stock-based compensation expense recognized in other operating expense during the nine month periods ended September 30, 2018 and 2017 was $459 thousand and $310 thousand, respectively. The fair value of options is estimated on the grant date using a Black Scholes option-pricing model with the assumptions noted below.

Total unrecognized compensation cost related to non-vested stock-based compensation arrangements granted under all active plans as of September 30, 2018 was $1.60 million. The cost is expected to be recognized over a weighted average period of 1.57 years.

A summary of stock option activity under all active plans, which include the 2009 Plan and the 2017 Plan, for the nine months ended September 30, 2018 and 2017 is presented as follows:

	For the Nine Months Ended September 30,	
	2018	2017
Expected life of options granted, in years	4.52	4.42
Risk-free interest rate	2.42%	1.49%
Expected volatility of stock	27.25%	29.64%
Annual expected dividend yield	2.26%	3.00%
Fair value of granted options	$ 1,056,185	$ 806,422
Non-vested options	390,855	316,946

The following table summarizes options outstanding under all active plans for the nine months ended September 30, 2018 and 2017:

	September 30, 2018			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at beginning of period	507,492	$ 21.26	2.83	$ 3,352,772
Granted	161,625	29.33	4.52	-
Exercised	(87,400)	16.34	0.66	1,078,653.4
Lapsed or canceled	(23,150)	23.97	2.70	-
Outstanding September 30, 2018	558,567	$ 24.24	3.04	$ 2,084,702.4
Exercisable at September 30, 2018	167,712	$ 19.32	1.64	$ 1,328,139.61

	September 30, 2017			
	Number of Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value
Outstanding at beginning of period	481,381	$ 16.52	2.50	$ 5,412,143
Granted	130,600	27.76	4.42	-
Exercised	(143,092)	14.40	0.95	1,815,112
Lapsed or canceled	(3,720)	15.69	1.44	-
Outstanding September 30, 2017	465,169	$ 20.34	2.82	$ 3,872,525
Exercisable at September 30, 2017	148,223	$ 16.51	1.51	$ 1,801,644

Note 3. Securities

The following tables provide the amortized cost and fair value of securities held-to-maturity at September 30, 2018 and December 31, 2017. Held-to-maturity securities are carried at amortized cost, which reflects historical cost, adjusted for amortization of premium and accretion of discounts.

	September 30, 2018			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Held-to-maturity				
U.S. Government agencies	$ 5,000	$ -	$ (5)	$ 4,995
Mortgage backed securities	12,039	75	(62)	12,052
Municipals	11,314	13	(96)	11,231
Total	$ 28,353	$ 88	$ (163)	$ 28,278

	December 31, 2017			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Held-to-maturity				
U.S. Government agencies	$ 5,000	$ 9	$ -	$ 5,009
Mortgage backed securities	12,551	105	(95)	12,561
Municipals	10,721	675	(26)	11,370
Total	$ 28,272	$ 789	$ (121)	$ 28,940

The amortized cost and fair value of securities held-to-maturity as of September 30, 2018 and December 31, 2017 by contractual maturities are shown below. Actual maturities may differ from contractual maturities because some of the securities may be called or prepaid prior to their contractual maturities.

	September 30, 2018		December 31, 2017	
(In Thousands)	**Amortized Cost**	**Fair Value**	**Amortized Cost**	**Fair Value**
Held-to-maturity				
U.S. Government agencies:				
Due in one year or less	$ 5,000	$ 4,995	$ 5,000	$ 5,009
Mortgage backed securities:				
Due after one year through five years	3,697	3,711	3,854	3,862
Due after five years through ten years	2,617	2,586	2,725	2,758
Due after ten years through fifteen years	5,725	5,755	5,972	5,941
Municipals:				
Due after one year through five years	434	432	1,985	2,004
Due after five years through ten years	2,855	2,841	1,606	1,639
Due after ten years through fifteen years	791	771	552	529
Due after fifteen years	7,234	7,187	6,578	7,198
Total	$ 28,353	$ 28,278	$ 28,272	$ 28,940

The following tables provide the amortized cost and fair value of debt securities available-for-sale. Non-equity available-for-sale securities are carried at fair value with net unrealized gains or losses reported on an after tax basis as a component of accumulated other comprehensive income (loss) in shareholders' equity.

	September 30, 2018			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale Debt Securities:				
U.S. Treasury securities	$ 4,435	$ -	$ (24)	$ 4,411
U.S. Government agencies	5,071	-	(184)	4,887
Mortgage backed securities	296,662	-	(8,505)	288,157
Corporate bonds	4,518	-	(25)	4,493
Asset backed securities	32,936	3	(819)	32,120
Certificates of deposit	1,976	-	(17)	1,959
Municipals	90,573	73	(2,228)	88,418
Total	$ 436,171	$ 76	$ (11,802)	$ 424,445

	December 31, 2017			
(In Thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Available-for-sale Debt Securities:				
U.S. Treasury securities	$ 50	$ -	$ -	$ 50
U.S. Government agencies	5,086	-	(21)	5,065
Mortgage backed securities	263,004	66	(2,615)	260,455
Corporate bonds	4,486	5	(9)	4,482
Asset backed securities	34,092	19	(511)	33,600
Certificates of deposit	1,976	5	-	1,981
Municipals	100,081	1,586	(1,233)	100,434
	408,775	1,681	(4,389)	406,067
Available-for-sale Equity Securities:				
CRA mutual fund	1,500	-	(121)	1,379
Total	$ 410,275	$ 1,681	$ (4,510)	$ 407,446

As of December 31, 2017, a marketable equity security with a fair value of $1.4 million was recorded within investment securities available-for-sale with unrealized losses recorded through comprehensive income and accumulated other comprehensive income. On January 1, 2018, the Corporation adopted ASU 2016-01, “Recognition and Measurement of Financial Assets and Financial Liabilities” and reclassified its marketable equity security from investments available-for-sale into a separate component of investment securities. The ASU requires marketable equity securities to be reported at fair value with changes recorded through earnings. As a result of the adoption, the Corporation reclassified $121 thousand in net unrealized losses included in accumulated other comprehensive loss as of December 31, 2017 to retained earnings on January 1, 2018. During the third quarter of 2018 one marketable equity security was sold for an $8 thousand loss.

The amortized cost and fair value of debt securities available-for-sale as of September 30, 2018 and December 31, 2017 by contractual maturities, are shown below. Actual maturities may differ from contractual maturities because some of the securities may be called or prepaid prior to their contractual maturities.

	September 30, 2018		December 31, 2017	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
	(In Thousands)			
Available-for-sale:				
U.S. Treasury securities:				
Due in one year or less	$ -	$ -	$ 50	$ 50
Due after one year through five years	4,435	4,411	-	-
U.S. Government agencies:				
Due after one year through five years	5,071	4,887	5,086	5,066
Mortgage backed securities:				
Due after one year through five years	70,200	68,255	60,082	59,911
Due after five years through ten years	90,525	86,707	90,107	89,165
Due after ten years through fifteen years	5,523	5,308	4,424	4,314
Due after fifteen years	130,414	127,887	108,391	107,065
Corporate bonds:				
Due in one year or less	2,686	2,672	-	-
Due after one year through five years	1,832	1,821	4,486	4,482
Asset backed securities:				
Due after one year through five years	3,055	3,059	-	-
Due after five years through ten years	-	-	3,064	3,079
Due after ten years through fifteen years	11,955	11,672	11,557	11,410
Due after fifteen years	17,926	17,389	19,471	19,111
Certificates of deposit:				
Due in one year or less	494	492	-	-
Due after one year through five years	1,482	1,467	1,976	1,981
Municipals:				
Due in one year or less	185	185	723	729
Due after one year through five years	1,018	1,033	7,587	7,482
Due after five years through ten years	11,965	11,685	8,784	8,758
Due after ten years through fifteen years	35,336	34,520	29,641	30,146
Due after fifteen years	42,069	40,995	53,346	53,318
Total	$ 436,171	$ 424,445	$ 408,775	$ 406,067

The fair value of securities pledged to secure public funds, securities sold under agreements to repurchase, credit lines with the Federal Reserve Bank ("FRB"), and debtor-in-possession accounts amounted to $362.6 million and $351.8 million at September 30, 2018 and December 31, 2017, respectively.

Securities available-for-sale and held-to-maturity that had an unrealized loss position at September 30, 2018 and December 31, 2017 are as follow:

(In Thousands)	Less than Twelve Months		Twelve Months or Greater		Total	
September 30, 2018	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Held-to-maturity						
U.S. Government agencies	$ 4,995	$ (5)	$ -	$ -	$ 4,995	$ (5)
Mortgage backed securities	3,956	(62)	-	-	3,956	(62)
Municipals	7,286	(76)	515	(20)	7,801	(96)
Total	$ 16,237	$ (143)	$ 515	$ (20)	$ 16,752	$ (163)
Available-for-sale						
U.S. Treasury Securities	$ 4,411	$ (24)	$ -	$ -	$ 4,411	$ (24)
U.S. Government agencies	-	-	4,887	(184)	4,887	(184)
Mortgage backed securities	103,398	(1,369)	184,747	(7,136)	288,145	(8,505)
Corporate bonds	4,292	(24)	100	(1)	4,392	(25)
Asset backed securities	10,361	(148)	18,700	(671)	29,061	(819)
Certificates of deposit	1,959	(17)	-	-	1,959	(17)
Municipals	53,633	(1,058)	18,486	(1,170)	72,119	(2,228)
Total	$ 178,054	$ (2,640)	$ 226,920	$ (9,162)	$ 404,974	$ (11,802)

(In Thousands)	Less than Twelve Months		Twelve Months or Greater		Total	
December 31, 2017	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**	**Estimated Fair Value**	**Gross Unrealized Losses**
Held-to-maturity						
Mortgage backed securities	$ 4,124	$ (95)	$ -	$ -	$ 4,124	$ (95)
Municipals	1,043	(3)	529	(23)	1,572	(26)
Total	$ 5,167	$ (98)	$ 529	$ (23)	$ 5,696	$ (121)
Available-for-sale						
U.S. Government agencies	$ 5,066	$ (21)	$ -	$ -	$ 5,066	$ (21)
Mortgage backed securities	193,844	(1,531)	43,190	(1,084)	237,034	(2,615)
Corporate bonds	2,630	(9)	-	-	2,630	(9)
Asset backed securities	13,299	(200)	8,945	(311)	22,244	(511)
Municipals	15,096	(693)	15,031	(540)	30,127	(1,233)
CRA mutual fund	-	-	1,379	(121)	1,379	(121)
Total	$ 229,935	$ (2,454)	$ 68,545	$ (2,056)	$ 298,480	$ (4,510)

The Corporation evaluates securities for other-than-temporary impairment ("OTTI") on a quarterly basis and more frequently when economic or market conditions warrant such evaluation. Consideration is given to various factors in determining whether the Corporation anticipates a recovery in fair value such as: the length of time and extent to which the fair value has been less than cost, and the financial condition and underlying credit quality for the issuer. When analyzing an issuer's financial condition, the Corporation may consider whether the securities are issued by the federal government or its agencies, the sector or industry trends affecting the issuer, and whether any recent downgrades by bond rating agencies have occurred.

At September 30, 2018, there were 166 available-for-sale securities with unrealized losses totaling $11.8 million and thirteen held-to-maturity securities with unrealized losses of $163 thousand. The Corporation evaluated the investment portfolio for possible other-than-temporary impairment losses and concluded the unrealized losses were caused by interest rate fluctuations with no adverse change in cash flows noted. Based on this analysis and because the Corporation does not intend to sell securities in an unrealized loss position and it is more likely than not the Corporation will not be required to sell any securities before recovery of amortized cost basis, which may be at maturity, the Corporation does not consider any portfolio securities to be other-than-temporarily impaired.

Restricted stock

The Corporation's investment in the Federal Home Loan Bank of Atlanta ("FHLB") stock totaled $11.9 million and $8.2 million at September 30, 2018 and December 31, 2017, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted security which is carried at cost because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Corporation does not consider this investment to be other-than-temporarily impaired at September 30, 2018, and no impairment has been recognized. FHLB stock is shown in restricted stock on the consolidated balance sheets.

The Corporation also has an investment in FRB stock which totaled $9.3 million and $8.4 million at September 30, 2018 and December 31, 2017, respectively. The investment in FRB stock is a required investment and is carried at cost since there is no ready market. The Corporation does not consider this investment to be other-than-temporarily impaired at September 30, 2018, and no impairment has been recognized. FRB stock is shown in restricted stock on the consolidated balance sheets.

Securities Sold Under Agreements to Repurchase (Repurchase Agreements)

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets. As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is classified as a short-term borrowing in the Corporation's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is no offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a third-party financial institution in the Corporation's custodial account. The Corporation has the right to sell or re-pledge the investment securities. The risks and rewards associated with the investment securities pledged as collateral (e.g. a decline or rise in the fair value of the investments) remains with the Corporation. As of September 30, 2018 and December 31, 2017, the obligations outstanding under these repurchase agreements totaled $37.6 million and $51.1 million, respectively, and were comprised of overnight sweep accounts. The fair value of the securities pledged in connection with these repurchase agreements at September 30, 2018 was $65.8 million in total and consisted of $19.4 million in municipal securities, $43.6 million in mortgage backed securities, $1.6 million in corporate bonds, and $1.2 million in certificates of deposit. The fair value of the securities pledged in connection with these repurchase agreements at December 31, 2017 was $63.3 million in total and consisted of $11.6 million in municipal securities, $47.4 million in mortgage backed securities, $1.7 million in corporate bonds, $1.2 million in asset backed securities and $1.4 million in the CRA mutual fund.

Note 4. Loans

The following table presents the composition of the loans held for investment portfolio at September 30, 2018 and December 31, 2017:

	September 30, 2018		December 31, 2017	
(In Thousands)	**Outstanding Amount**	**Percent of Total Portfolio**	**Outstanding Amount**	**Percent of Total Portfolio**
Commercial real estate - owner occupied	$ 525,047	25.07%	$ 467,082	23.75%
Commercial real estate - nonowner occupied	467,495	22.32	436,083	22.18
Residential real estate	459,989	21.96	489,669	24.90
Commercial	507,269	24.22	451,101	22.94
Real estate construction	113,790	5.43	97,481	4.96
Consumer	20,680	1.00	24,942	1.27
Total loans	$ 2,094,270	100.00%	$ 1,966,358	100.00%
Less allowance for loan losses	17,349		15,805	
Net loans	$ 2,076,921		$ 1,950,553	

Unearned income and net deferred loan fees and costs totaled $3.9 million and $3.1 million at September 30, 2018 and December 31, 2017, respectively. Loans pledged to secure borrowings at the FHLB totaled $448.5 million and $492.2 million at September 30, 2018 and December 31, 2017, respectively.

Loans acquired in a transfer, including in business combinations, where there is evidence of credit deterioration since origination and it is probable at the date of acquisition that the Corporation will not collect all contractually required principal and interest payments, are accounted for as purchased impaired loans. Purchased impaired loans are initially recorded at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, the historical allowance for credit losses related to these loans is not carried over.

Accounting for purchased impaired loans involves estimating fair value, at acquisition, using the principal and interest cash flows expected to be collected discounted at the prevailing market rate of interest. The excess of cash flows expected to be collected over the estimated fair value at the acquisition date is referred to as the accretable yield and is recognized in interest income using an effective yield method over the remaining life of the loans. The difference between contractually required payments and the cash flows expected to be collected at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference and is not recorded. Any decreases in cash flows expected to be collected (other than due to decreases in interest rate indices and changes in prepayment assumptions) will be charged to the provision for loan losses, resulting in an increase to the allowance for loan losses.

The following table presents the changes in the accretable yield for purchased impaired loans for the three and nine month periods ended September 30, 2018:

	September 30, 2018	
(In Thousands)	**Three Months Ended**	**Nine Months Ended**
Accretable yield, beginning of period	$ 1,250	$ 244
Additions	-	-
Accretion	(170)	(306)
Reclassification from (to) nonaccretable difference	9	748
Other changes, net	57	460
Accretable yield, end of period	$ 1,146	$ 1,146

At September 30, 2018, none of the purchased non-credit impaired loans were classified as nonperforming assets. Therefore, interest income, through accretion of the difference between the carrying amount of the loans and the expected cash flows, is being recognized on all purchased non-credit impaired loans.

Loans are considered past due if a contractual payment is not made by the calendar day after the payment is due. However, for reporting purposes loans past due 1 to 29 days are excluded from loans past due and are included in the total for current loans in the table below. The delinquency status of the loans in the portfolio is shown below as of September 30, 2018 and December 31, 2017. Loans that were on non-accrual status are not included in any past due amounts.

	September 30, 2018						
(In Thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Non-accrual Loans**	**Current Loans**	**Total Loans**
Commercial real estate - owner occupied	$ 1,096	$ -	$ -	$ 1,096	$ 1,510	$ 522,441	$ 525,047
Commercial real estate - nonowner occupied	311	-	-	311	-	467,184	467,495
Residential real estate	1,024	-	-	1,024	1,161	457,804	459,989
Commercial	1,408	-	-	1,408	2,160	503,701	507,269
Real estate construction	-	-	-	-	614	113,176	113,790
Consumer	4	32	66	102	18	20,560	20,680
Total	$ 3,843	$ 32	$ 66	$ 3,941	$ 5,463	$ 2,084,866	$ 2,094,270

	December 31, 2017						
(In Thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater than 90 Days**	**Total Past Due**	**Non-accrual Loans**	**Current Loans**	**Total Loans**
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 1,066	$ 466,016	$ 467,082
Commercial real estate - non-owner occupied	-	-	-	-	-	436,083	436,083
Residential real estate	655	140	213	1,008	-	488,661	489,669
Commercial	138	19	-	157	2,513	448,431	451,101
Real estate construction	-	-	-	-	865	96,616	97,481
Consumer	81	2	-	83	182	24,677	24,942
Total	$ 874	$ 161	$ 213	$ 1,248	$ 4,626	$ 1,960,484	$ 1,966,358

The following table includes an aging analysis of the recorded investment of purchased impaired loans included in the table above:

	September 30, 2018						
(In Thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Non-accrual Loans**	**Current Loans**	**Total Loans**
Commercial real estate - owner occupied	$ -	$ -	$ 349	$ 349	$ -	$ 1,089	$ 1,438
Commercial real estate - nonowner occupied	-	-	-	-	-	934	934
Residential real estate	128	-	-	128	-	1,900	2,028
Commercial	9	-	-	9	99	-	108
Real estate construction	-	-	-	-	-	-	-
Consumer	-	-	-	-	-	-	-
Total	$ 137	$ -	$ 349	$ 486	$ 99	$ 3,923	$ 4,508

Loans listed as non-performing are also placed on non-accrual status. The accrual of interest is discontinued at the time a loan is 90 days delinquent or when the credit deteriorates and there is doubt that the credit will be paid as agreed, unless the credit is well-secured and in process of collection. Once the loan is on non-accrual status, all accrued but unpaid interest is also charged-off, and all payments are used to reduce the principal balance. Once the principal balance is repaid in full, additional payments are taken into income. A loan may be returned to accrual status if the borrower shows renewed willingness and ability to repay under the terms of the loan agreement. The risk profile based upon payment activity is shown below.

	September 30, 2018			December 31, 2017		
(In Thousands)	**Non-performing**	**Performing**	**Total Loans**	**Non-performing**	**Performing**	**Total Loans**
Commercial real estate - owner occupied	$ 1,510	$ 523,537	$ 525,047	$ 1,066	$ 466,016	$ 467,082
Commercial real estate - nonowner occupied	-	467,495	467,495	-	436,083	436,083
Residential real estate	1,161	458,828	459,989	-	489,669	489,669
Commercial	2,160	505,109	507,269	2,513	448,588	451,101
Real estate construction	614	113,176	113,790	865	96,616	97,481
Consumer	18	20,662	20,680	182	24,760	24,942
Total	$ 5,463	$ 2,088,807	$ 2,094,270	$ 4,626	$ 1,961,732	$ 1,966,358

Identifying and Classifying Portfolio Risks by Risk Rating

At origination, loans are categorized into risk categories based upon original underwriting. Subsequent to origination, management evaluates the collectability of all loans in the portfolio and assigns a proprietary risk rating. Ratings range from the highest to lowest quality based on factors including measurements of ability to pay, collateral type and value, borrower stability, management experience, and credit enhancements. These ratings are consistent with the bank regulatory rating system.

A loan may have portions of its balance in one rating and other portions in a different rating. The Bank may use these “split ratings” when factors cause loan loss risk to exist for part, but not all of the principal balance. Split ratings may also be used where cash collateral or a government agency has provided a guaranty that partially covers a loan.

For clarity of presentation, the Corporation's loan portfolio is profiled below in accordance with the risk rating framework that has been commonly adopted by the federal banking agencies. The definitions of the various risk rating categories are as follows:

Pass: The condition of the borrower and the performance of the loan are satisfactory or better.

Special Mention: Loans with one or more potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in the deterioration of the repayment prospects for the asset or in the borrower's credit position at some future date.

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

Doubtful: Loans have all the weaknesses inherent in one classified 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.

Loss: Loans are considered uncollectible and their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, and a partial recovery may be effected in the future. It is the Bank's policy to charge-off any loan once the risk rating is classified as loss.

The following tables present the recorded investment of loans that have been risk rated in accordance with the internal classification system:

September 30, 2018

(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Residential Real Estate	Commercial	Real Estate Construction	Consumer	Total
Pass	$ 523,837	$ 468,660	$ 457,591	$ 503,703	$ 109,493	$ 20,659	$ 2,083,943
Special Mention	722	-	636	1,877	4,351	-	7,586
Substandard	1,510	-	1,911	2,438	614	18	6,491
Doubtful	-	-	-	134	-	-	134
Loss	-	-	-	-	-	-	-
Unearned income	(1,022)	(1,165)	(149)	(883)	(668)	3	(3,884)
Ending Balance	$ 525,047	$ 467,495	$ 459,989	$ 507,269	$ 113,790	$ 20,680	$ 2,094,270

December 31, 2017

(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-Owner Occupied	Residential Real Estate	Commercial	Real Estate Construction	Consumer	Total
Pass	$ 465,464	$ 437,087	$ 487,800	$ 448,540	$ 92,522	$ 24,928	$ 1,956,341
Special Mention	1,639	-	189	1,615	5,349	-	8,792
Substandard	758	-	1,835	1,750	-	10	4,353
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Unearned income	(779)	(1,004)	(155)	(804)	(390)	4	(3,128)
Ending Balance	$ 467,082	$ 436,083	$ 489,669	$ 451,101	$ 97,481	$ 24,942	$ 1,966,358

Impaired Loans

A loan is classified as impaired when it is deemed probable by management's analysis that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement, or the recorded investment in the impaired loan is greater than the present value of expected future cash flows, discounted at the loan's effective interest rate. In the case of an impaired loan, management conducts an analysis which identifies if a quantifiable potential loss exists, and takes the necessary steps to record that loss when it has been identified as uncollectible.

As the ultimate collectability of the total principal of an impaired loan is in doubt, the loan is placed on non-accrual status with all payments applied to principal under the cost-recovery method. As the Bank does not utilize the cash-basis method of accounting for impaired loans, the Bank did not recognize interest income in association with its impaired loans during the first three or nine months of 2018 and 2017.

The table below shows the results of management's analysis of impaired loans, excluding purchased impaired loans, as of September 30, 2018 and December 31, 2017:

	September 30, 2018		
(In Thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**
With no specific related allowance recorded:			
Commercial real estate - owner occupied	$ 1,510	$ 1,651	$ -
Commercial real estate - nonowner occupied	-	-	-
Residential real estate	1,000	1,052	-
Commercial	369	685	-
Real estate construction	614	734	-
Consumer	16	17	-
Total with no specific related allowance	$ 3,509	$ 4,139	$ -
With a specific related allowance recorded:			
Commercial real estate loans - owner occupied	$ -	$ -	$ -
Commercial real estate loans - nonowner occupied	-	-	-
Residential real estate	161	163	5
Commercial	1,791	1,793	340
Real estate construction	-	-	-
Consumer	2	2	3
Total with a specific related allowance	$ 1,954	$ 1,958	$ 348
Total	$ 5,463	$ 6,097	$ 348

(In Thousands)	December 31, 2017 Recorded Investment	Unpaid Principal Balance	Related Allowance
With no specific related allowance recorded:			
Commercial real estate - owner occupied	$ 1,066	$ 1,092	$ -
Commercial real estate - nonowner occupied	-	-	-
Residential real estate	-	-	-
Commercial	747	1,080	-
Real estate construction	-	-	-
Consumer	145	155	-
Total with no specific related allowance	$ 1,958	$ 2,327	$ -
With a specific related allowance recorded:			
Commercial real estate - owner occupied	$ -	$ -	$ -
Commercial real estate - nonowner occupied	-	-	-
Residential real estate	-	-	-
Commercial	1,766	1,817	234
Real estate construction	865	952	186
Consumer	37	38	-
Total with a specific related allowance	$ 2,668	$ 2,807	$ 420
Total	$ 4,626	$ 5,134	$ 420

The table below shows the average recorded investment in impaired loans, excluding purchased impaired loans, by class of loan:

	Average Recorded Investment			
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
(In Thousands)	2018	2017	2018	2017
Commercial real estate - owner occupied	$ 1,656	$ 194	$ 1,741	$ 1,075
Commercial real estate - nonowner occupied	-	1,002	-	-
Residential real estate	824	960	756	-
Commercial	2,528	1,339	3,066	3,395
Real estate construction	751	3,487	869	923
Consumer	21	3	22	179
Total	$ 5,780	$ 6,985	$ 6,454	$ 5,572

The “Recorded Investment” amounts in the table above represent the outstanding principal balance net of charge-offs and non-accrual payments to principal on each loan represented in the table. The “Unpaid Principal Balance” represents the outstanding principal balance on each loan represented in the table plus any amounts that have been charged-off on each loan and non-accrual payments applied to principal.

Troubled Debt Restructurings ("TDR")

A TDR is a formal restructure of a loan when the Bank, for economic or legal reasons related to the borrower's financial difficulties, grants a concession to a borrower. The Bank classifies these transactions as a TDR if the transaction meets the following conditions: an existing credit agreement must be formally renewed, extended and/or modified; the borrower must be experiencing financial difficulty; and the Bank has granted a concession that it would not otherwise consider.

Once identified as a TDR, a loan is considered to be impaired, and an impairment analysis is performed for the loan individually, rather than under a general loss allowance based on the loan type and risk rating. Any resulting shortfall is charged-off. This method is used consistently for all segments of the portfolio.

Normally, loans identified as TDRs would be placed on non-accrual status and considered non-performing until sufficient history of timely collection or payment has occurred that allows them to return to performing status, generally six months.

One residential real estate loan with a balance of $86 thousand was modified in connection with a TDR during the nine month period ended September 30, 2018. The modification granted the borrower reduced payments for the period of one year. There were no material financial effects as a direct result of this modification. Two commercial loans with balances totaling $956 thousand were modified during the three month and nine month periods ended September 30, 2017. The modifications granted these borrowers restructured payment terms and did not have a material financial effect as a direct result of these modifications. There were no loans modified in connection with a TDR during the three months ended September 2018.

The table below shows the results of management's analysis of troubled debt restructurings as of September 30, 2018 and December 31, 2017.

	September 30, 2018			December 31, 2017		
(In Thousands)	**Number of Loans**	**Outstanding Balance**	**Recorded Investment**	**Number of Loans**	**Outstanding Balance**	**Recorded Investment**
Performing:						
Commercial real estate - owner occupied	1	$ 320	$ 320	1	$ 327	$ 327
Commercial real estate - nonowner occupied	-	-	-	-	-	-
Residential real estate	1	85	85	1	208	166
Commercial	-	-	-	1	594	594
Real estate construction	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Non-performing:						
Commercial real estate - owner occupied	-	-	-	-	-	-
Commercial real estate - nonowner occupied	-	-	-	-	-	-
Residential real estate	-	-	-	-	-	-
Commercial	2	550	263	2	769	511
Real estate construction	1	733	614	1	865	865
Consumer	-	-	-	-	-	-
Total	5	$ 1,688	$ 1,282	6	$ 2,763	$ 2,463

The specific valuation allowance related to TDRs was $10 thousand as of September 30, 2018 and $186 thousand at December 31, 2017.

There were no outstanding commitments to lend additional amounts to TDR borrowers at September 30, 2018 or December 31, 2017.

There were no TDR payment defaults during the nine months ended September 30, 2018 and 2017. For purposes of this disclosure, a TDR payment default occurs when, within twelve months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 or more past due.

Note 5. Allowance for Loan and Lease Losses

The allowance for loan and lease losses totaled $17.3 million and $15.8 million at September 30, 2018 and December 31, 2017, respectively. The allowance for loan and lease losses was equivalent to 0.83% and 0.80% of total loans held for investment at September 30, 2018 and December 31, 2017, respectively. Adequacy of the allowance is assessed and the allowance is increased by provisions for loan losses charged to expense no less than quarterly. Charge-offs are taken when a loan is identified as uncollectible.

The methodology by which we systematically determine the amount of our allowance is set forth by the Board of Directors in our Credit Risk Management Policy and implemented by management. The results of the analysis are documented, reviewed, and approved by the Board of Directors no less than quarterly. Quarterly, or more frequently if warranted, the Bank analyzes the collectability of its loan and leases held for investment portfolio. This analysis results in an ALLL level that the Bank's management deems appropriate and consistent with regulatory guidance and generally accepted accounting principles. Regulatory guiding principles originate from the Interagency Policy Statement on the Allowance for Loan and Lease Losses.

The level of the allowance for loan and lease losses is determined by management through an ongoing, detailed analysis of historical loss rates and risk characteristics. Management evaluates the collectability of the portfolio through several methods: review of relationships with revolving credit facilities, internal loan review and third party review by auditors and regulators. A conventional risk rating scale and definitions are contained within the framework prescribed by the Bank's Credit Risk Management Policy. Any loan that is deemed to have potential or well defined weaknesses that may jeopardize collection in full is analyzed and may be charged off or a specific reserve may be assigned if the loan is deemed to be impaired.

During the risk rating verification process, each loan identified as inadequately protected by the paying capacity of the obligor or of the collateral pledged is considered impaired and is placed on non-accrual status. On these loans, management measures the potential impairment of the individual loan and may set aside a specific reserve. Any amounts deemed uncollectible during that analysis are charged-off.

For the remaining loans, Bank management calculates the probability of loss using the risk rating for each of the following loan types: Commercial Real Estate - Owner Occupied, Commercial Real Estate - Non-Owner Occupied, Residential Real Estate, Commercial, Real Estate Construction, and Consumer. Management calculates the historical loss rate in each group by risk rating using a period of at least six years. This historical loss rate may then be adjusted based on management's assessment of internal and external environmental factors which include, but are not limited to unemployment, office vacancy rates, and any concentrations that exist within the portfolio. This adjustment is intended to account for changes between the historical and current economic environment in addition to changes in the ongoing management of the portfolio which affects potential losses.

Once complete, management uses several characteristics in addition to its experience to compare the condition of the portfolio and determine if it is directionally consistent with other banks in its peer group. Based on this analysis, management aggregates the probability of loss of the remaining portfolio based on the specific and general allowances and may reserve additional amounts to the allowance as needed.

At the request of management and the Board of Directors, internal auditors, independent consultants engaged by the Bank and regulators review the adequacy and methodology on a regular basis, and no material adjustments to the allowance have been required.

The following tables provide detailed information about the allowance for loan losses as of and for the periods indicated.

(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Residential Real Estate	Commercial	Real Estate Construction	Consumer	Total
As of and for the Three Months Ended September 30, 2018							
Balance at June 30, 2018	$ 3,093	$ 3,344	$ 1,695	$ 7,464	$ 856	$ 91	$ 16,543
Charge-offs	-	-	(6)	(30)	-	(7)	(43)
Recoveries	-	-	57	90	-	2	149
Provision	669	(552)	49	474	37	23	700
Balance at September 30, 2018	$ 3,762	$ 2,792	$ 1,795	$ 7,998	$ 893	$ 109	$ 17,349
As of and for the Nine Months Ended September 30, 2018							
Balance at December 31, 2017	$ 4,280	$ 3,104	$ 2,181	$ 5,450	$ 706	$ 84	$ 15,805
Charge-offs	(58)	(677)	(6)	(31)	-	(129)	(901)
Recoveries	-	-	85	254	-	4	343
Provision	(460)	365	(465)	2,325	187	150	2,102
Balance at September 30, 2018	$ 3,762	$ 2,792	$ 1,795	$ 7,998	$ 893	$ 109	$ 17,349
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 5	$ 340	$ -	$ 3	$ 348
Collectively evaluated for impairment	3,762	2,792	1,790	7,658	893	106	17,001
Total ending allowance balance	$ 3,762	$ 2,792	$ 1,795	$ 7,998	$ 893	$ 109	$ 17,349
Individually evaluated for impairment	$ 1,510	$ -	$ 1,161	$ 2,160	$ 614	$ 18	$ 5,463
Collectively evaluated for impairment	522,099	466,561	456,800	505,001	113,176	20,662	2,084,299
Purchased impaired loans	1,438	934	2,028	108	-	-	4,508
Total ending loans balance	$ 525,047	$ 467,495	$ 459,989	$ 507,269	$ 113,790	$ 20,680	$ 2,094,270

	As of and for the Twelve Months Ended December 31, 2017						
(In Thousands)	**Commercial Real Estate Owner Occupied**	**Commercial Real Estate Nonowner Occupied**	**Residential Real Estate**	**Commercial**	**Real Estate Construction**	**Consumer**	**Total**
Balance at December 31, 2016	$ 2,943	$ 2,145	$ 2,510	$ 7,053	$ 1,277	$ 80	$ 16,008
Charge-offs	-	-	-	(7,457)	-	(27)	(7,484)
Recoveries	17	-	131	209	-	5	362
Provision	1,320	959	(460)	5,645	(571)	26	6,919
Balance at December 31, 2017	$ 4,280	$ 3,104	$ 2,181	$ 5,450	$ 706	$ 84	$ 15,805
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 234	$ 186	$ -	$ 420
Collectively evaluated for impairment	4,280	3,104	2,181	5,216	520	84	15,385
Total ending allowance balance	$ 4,280	$ 3,104	$ 2,181	$ 5,450	$ 706	$ 84	$ 15,805
Individually evaluated for impairment	$ 1,066	$ -	$ -	$ 2,513	$ 865	$ 182	$ 4,626
Collectively evaluated for impairment	464,357	435,109	487,556	448,412	96,616	24,713	1,956,763
Purchased impaired loans	1,659	974	2,113	176	-	47	4,969
Total ending loans balance	$ 467,082	$ 436,083	$ 489,669	$ 451,101	$ 97,481	$ 24,942	$ 1,966,358

(In Thousands)	Commercial Real Estate Owner Occupied	Commercial Real Estate Nonowner Occupied	Residential Real Estate	Commercial	Real Estate Construction	Consumer	Total
As of and for the Three Months Ended September 30, 2017							
Balance at June 30, 2017	$ 3,037	$ 2,691	$ 2,382	$ 5,595	$ 877	89	$ 14,671
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	-	107	14	-	-	121
Provision	670	651	(178)	(52)	(188)	(3)	900
Balance at September 30, 2017	$ 3,707	$ 3,342	$ 2,311	$ 5,557	$ 689	$ 86	$ 15,692
As of and for the Nine Months Ended September 30, 2017							
Balance at December 31, 2016	$ 2,943	$ 2,145	$ 2,510	$ 7,053	$ 1,277	80	$ 16,008
Charge-offs	-	-	(1)	(3,828)	-	(6)	(3,835)
Recoveries	18	-	128	171	-	2	319
Provision	746	1,197	(326)	2,161	(588)	10	3,200
Balance at September 30, 2017	$ 3,707	$ 3,342	$ 2,311	$ 5,557	$ 689	$ 86	$ 15,692
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ -	$ 477	$ 223	$ -	$ 700
Collectively evaluated for impairment	3,707	3,342	2,311	5,080	466	86	14,992
Total ending allowance balance	$ 3,707	$ 3,342	$ 2,311	$ 5,557	$ 689	$ 86	$ 15,692
Individually evaluated for impairment	$ -	$ -	$ 572	$ 5,236	$ 26	$ 3	$ 5,837
Collectively evaluated for impairment	442,033	434,261	509,674	444,120	104,167	25,078	1,959,333
Purchased impaired loans	$ 1,095	$ 920	$ 2,375	$ 94	$ -	$ 6	$ 4,490
Total ending loans balance	$ 443,128	$ 435,181	$ 512,621	$ 449,450	$ 104,193	$ 25,087	$ 1,969,660

ACCESS NATIONAL CORPORATION
Notes to Consolidated Financial Statements (Unaudited)

Note 6. Earnings Per Share

The following table shows the calculation of both basic and diluted earnings per share ("EPS") for the three and nine months ended September 30, 2018 and 2017, respectively. The numerator of both the basic and diluted EPS is equivalent to net income. The weighted average number of shares outstanding used as the denominator for diluted EPS is increased over the denominator used for basic EPS by the effect of potentially dilutive common stock options utilizing the treasury stock method.

	For the Three Months Ended September 30,	
(In thousands, except for share and per share data)	**2018**	**2017**
Basic earnings per share:		
Net income	$ 9,610	$ 7,002
Weighted average shares outstanding	20,847,319	20,409,696
Basic earnings per share	$ 0.46	$ 0.34
Diluted earnings per share:		
Net income	$ 9,610	$ 7,002
Weighted average shares outstanding	20,847,319	20,409,696
Dilutive effect of stock options	77,928	99,179
Weighted average diluted shares outstanding	20,925,247	20,508,875
Diluted earnings per share	$ 0.46	$ 0.34

(In thousands, except for share and per share data)	For the Nine Months Ended September 30, 2018	2017
Basic earnings per share:		
Net income	$ 26,658	$ 13,455
Weighted average shares outstanding	20,734,621	17,156,521
Basic earnings per share	$ 1.28	$ 0.77
Diluted earnings per share:		
Net income	$ 26,658	$ 13,455
Weighted average shares outstanding	20,734,621	17,156,521
Dilutive effect of stock options	86,475	116,846
Weighted average diluted shares outstanding	20,821,096	17,273,367
Diluted earnings per share	$ 1.28	$ 0.77

None of the stock options were considered anti-dilutive as of September 30, 2018 and 2017.

Note 7. Segment Reporting

The Corporation has three reportable segments: commercial banking, mortgage banking, and trust and wealth management. Revenues from commercial banking operations consist primarily of interest earned on loans and securities and fees from deposit services. Mortgage banking operating revenues consist principally of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income. Trust and wealth management operating revenues consist principally of transactional fees charged to clients as well as fees for portfolio asset management.

The commercial banking segment provides the mortgage banking segment ("Mortgage Division") with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the mortgage banking segment interest based on the prime rate. These transactions are eliminated in the consolidation process.

The "Other" column in the following table includes the operations of the Corporation and Access Real Estate. The primary source of income for the Corporation is derived from dividends from the Bank and its primary expense relates to costs incurred by the Corporation in connection with its annual audits, directors' fees, and other professional fees and expenses associated with being a publicly held entity. The primary source of income for Access Real Estate is derived from rents received from the Bank.

The following tables present segment information as of and for the three months ended September 30, 2018 and 2017:

(In Thousands)	September 30, 2018 Commercial Banking	Mortgage Banking	Trust & Wealth Management	Other	Eliminations	Consolidated Totals
Revenues:						
Interest income	$ 28,957	$ 451	$ 4	$ 9	$ (109)	$ 29,312
Gain on sales of loans	-	4,465	-	-	-	4,465
Other revenues	2,152	(743)	1,688	219	(337)	2,979
Total operating revenues	31,109	4,173	1,692	228	(446)	36,756
Expenses:						
Interest expense	5,169	41	-	146	(109)	5,247
Salaries and employee benefits	7,800	2,284	979	-	50	11,113
Other expenses	6,684	819	552	885	(387)	8,553
Total operating expenses	19,653	3,144	1,531	1,031	(446)	24,913
Income (loss) before income taxes	$ 11,456	$ 1,029	$ 161	$ (803)	$ -	$ 11,843
Total assets	$ 2,978,843	$ 38,763	$ 13,166	$ 26,808	$ (36,257)	$ 3,021,323

(In Thousands)	Commercial Banking	Mortgage Banking	Trust & Wealth Management	Other	Eliminations	Consolidated Totals
	September 30, 2017					
Revenues:						
Interest income	$ 27,429	$ 299	$ 4	$ 5	$ (45)	$ 27,692
Gain on sales of loans	-	5,594	-	-	-	5,594
Other revenues	1,977	(740)	1,617	312	(237)	2,929
Total operating revenues	29,406	5,153	1,621	317	(282)	36,215
Expenses:						
Interest expense	3,072	(25)	-	96	(45)	3,098
Salaries and employee benefits	7,334	2,898	868	-	-	11,100
Other expenses	8,724	1,149	1,850	1,107	(237)	12,593
Total operating expenses	19,130	4,022	2,718	1,203	(282)	26,791
Income (loss) before income taxes	$ 10,276	$ 1,131	$ (1,097)	$ (886)	$ -	$ 9,424
Total assets	$ 2,810,037	$ 26,485	$ 41,002	$ 19,756	$ (24,211)	$ 2,873,069

The following table presents segment information as of and for the nine months ended September 30, 2018 and 2017.

(In Thousands)	Commercial Banking	Mortgage Banking	Trust & Wealth Management	Other	Eliminations	Consolidated Totals
	September 30, 2018					
Revenues:						
Interest income	$ 82,085	$ 1,155	$ 9	$ 21	$ (128)	$ 83,142
Gain on sales of loans	-	11,453	-	-	-	11,453
Other revenues	5,291	899	6,155	1,128	(997)	12,476
Total operating revenues	87,376	13,507	6,164	1,149	(1,125)	107,071
Expenses:						
Interest expense	12,593	(72)	-	424	(128)	12,817
Salaries and employee benefits	24,052	8,291	3,002	-	25	35,370
Other expenses	20,261	2,496	1,694	2,669	(1,022)	26,098
Total operating expenses	56,906	10,715	4,696	3,093	(1,125)	74,285
Income (loss) before income taxes	$ 30,470	$ 2,792	$ 1,468	$ (1,944)	$ -	$ 32,786
Total assets	$ 2,978,843	$ 38,763	$ 13,166	$ 26,808	$ (36,257)	$ 3,021,323

(In Thousands)	Commercial Banking	Mortgage Banking	Trust & Wealth Management	Other	Eliminations	Consolidated Totals
	September 30, 2017					
Revenues:						
Interest income	$ 67,740	$ 846	$ 7	$ 17	$ (225)	$ 68,385
Gain on sales of loans	-	14,985	-	-	-	14,985
Other revenues	4,445	(306)	4,195	975	(883)	8,426
Total operating revenues	72,185	15,525	4,202	992	(1,108)	91,796
Expenses:						
Interest expense	7,796	18	-	337	(225)	7,926
Salaries and employee benefits	19,992	9,122	2,686	-	-	31,800
Other expenses	20,173	3,246	2,541	7,537	(883)	32,614
Total operating expenses	47,961	12,386	5,227	7,874	(1,108)	72,340
Income (loss) before income taxes	$ 24,224	$ 3,139	$ (1,025)	$ (6,882)	$ -	$ 19,456
Total assets	$ 2,810,037	$ 26,485	$ 41,002	$ 19,756	$ (24,211)	$ 2,873,069

Note 8. Fair Value Measurements

Fair value pursuant to *FASB ASC 820-10, Fair Value Measurements and Disclosures*, is the exchange price, in an orderly transaction that is not a forced liquidation or distressed sale, between market participants to sell an asset or transfer a liability in the market in which the reporting entity would transact for the asset or liability, that is, the principal or most advantageous market for the asset or liability. The transaction to sell the asset or transfer the liability is a hypothetical transaction at the measurement date, considered from the perspective of a market participant that holds the asset or liability. FASB ASC 820-10 provides a consistent definition of fair value which focuses on exit price and prioritizes, within a measurement of fair value, the use of market-based inputs over entity specific inputs. In addition, FASB ASC 820-10 provides a framework for measuring fair value and establishes a three-level hierarchy for fair value measurements based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. Transfers between levels of the fair value hierarchy are recognized on the actual dates of the event or circumstances that caused the transfer, which generally coincides with the Corporation's monthly and/or quarterly valuation process.

The standard describes three levels of inputs that may be used to measure fair values:

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 company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Corporation used the following methods to determine the fair value of each type of financial instrument:

Investment securities: Fair values for securities available-for-sale are obtained from an independent pricing service. The prices are not adjusted. The independent pricing service uses industry-standard models to price U.S. Government agency obligations and mortgage backed securities that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating.

Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace (Level 2). For securities not traded in active markets, the Corporation utilizes the services of an independent valuation firm (Level 3).

CRA mutual fund: The fair value of the CRA mutual fund is determined by the net asset value of the fund (Level 1). This asset was sold during the third quarter of 2018.

Residential loans held for sale: The fair value of loans held for sale is determined using quoted prices for similar assets, adjusted for specific attributes of that loan (Level 2).

Derivative financial instruments: Derivative instruments are used to hedge residential mortgage loans held for sale and the related interest-rate lock commitments and include forward commitments to sell mortgage loans and mortgage backed securities as further described in Note 11. The fair values of derivative financial instruments are based on derivative market data inputs as of the valuation date and the underlying value of mortgage loans for interest rate lock commitments (Level 3).

Derivative instruments are also in the form of interest rate swaps and an interest rate cap. Interest rate swaps and the cap are recorded at fair value based on third party vendors who compile prices from various sources and may determine fair value of identical or similar instruments by using pricing models that consider observable market data (Level 2). The interest rate swaps and cap are further described in Note 16.

Impaired loans: The fair values of impaired loans are measured on a nonrecurring basis as the fair value of the loan's collateral for collateral-dependent loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The use of discounted cash flow models and management's best judgment are significant inputs in arriving at the fair value measure of the underlying collateral (Level 3).

Other real estate owned: The fair value of other real estate owned, which consists of real estate that has been foreclosed, is recorded at the lower of fair value less selling expenses or the book balance prior to foreclosure. Write downs are provided for subsequent declines in value and are recorded in other operating expenses (Level 3).

Assets and liabilities measured at fair value under FASB ASC 820-10 on a recurring and non-recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option as of September 30, 2018 and December 31, 2017 are summarized below:

Description	Fair Value Measurement at September 30, 2018 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Financial Assets-Recurring				
Available-for-sale investment securities				
U.S. Treasury	$ 4,411	$ -	$ 4,411	$ -
U.S. Government agencies	4,887	-	4,887	-
Mortgage backed	288,157	-	288,157	-
Corporate bonds	4,493	-	4,493	-
Asset backed securities	32,120	-	27,880	4,240
Certificates of deposit	1,959	-	1,959	-
Municipals	88,418	-	88,418	-
Total available-for-sale investment securities	424,445	-	420,205	4,240
CRA Mutual fund	-	-	-	-
Residential loans held for sale	36,600	-	36,600	-
Derivative assets	618	-	-	618
Total Financial Assets-Recurring	$ 461,663	$ -	$ 456,805	$ 4,858
Financial Liabilities-Recurring				
Derivative liabilities	$ 224	$ -	$ -	$ 224
Total Financial Liabilities-Recurring	$ 224	$ -	$ -	$ 224
Financial Assets-Non-Recurring				
Impaired loans (1)	$ 1,507	$ -	$ -	$ 1,507
OREO	-	-	-	-
Total Financial Assets-Non-Recurring	$ 1,507	$ -	$ -	$ 1,507

(1) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan's effective interest rate.

Description	Fair Value Measurement at December 31, 2017 Using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(In Thousands)			
Financial Assets-Recurring				
Available-for-sale investment securities				
U.S. Treasury notes	$ 50	$ 50	$ -	$ -
U.S. Government agency	5,065	-	5,065	-
Mortgage backed	260,455	-	260,455	-
Corporate bonds	4,482	-	4,482	-
Asset backed securities	33,600	-	29,321	4,279
Certificates of deposit	1,981	-	1,981	-
Municipals	100,434	-	100,434	-
CRA Mutual fund	1,379	1,379	-	-
Total available-for-sale investment securities	407,446	1,429	401,738	4,279
Residential loans held for sale	31,999	-	31,999	-
Derivative assets	420	-	-	420
Total Financial Assets-Recurring	$ 439,865	$ 1,429	$ 433,737	$ 4,699
Financial Liabilities-Recurring				
Derivative liabilities	$ 195	$ -	$ -	$ 195
Total Financial Liabilities-Recurring	$ 195	$ -	$ -	$ 195
Financial Assets-Non-Recurring				
Impaired loans (1)	$ 2,248	$ -	$ -	$ 2,248
OREO	-	-	-	-
Total Financial Assets-Non-Recurring	$ 2,248	$ -	$ -	$ 2,248

(1) Represents the carrying value of loans for which adjustments are based on the appraised value of the collateral, if collateral dependent, or the present value of expected future cash flows, discounted at the loan's effective interest rate.

The changes in Level 3 assets and liabilities measured at fair value on a recurring basis are summarized as follows for three and nine month periods ended September 30, 2018 and 2017:

	Derivative Assets	Derivative Liabilities	Securities Available-for-Sale	Total
		(In Thousands)		
Balance July 1, 2018	$ 616	$ (476)	$ 4,232	$ 4,372
Realized and unrealized gains (losses) included in earnings	(20)	282	-	262
Unrealized gains (losses) included in other comprehensive income	22	(30)	8	-
Purchases, settlements, paydowns, and maturities	-	-	-	-
Transfer into Level 3	-	-	-	-
Balance September 30, 2018	$ 618	$ (224)	$ 4,240	$ 4,634

	Derivative Assets	Derivative Liabilities	Securities Available-for-Sale	Total
		(In Thousands)		
Balance July 1, 2017	$ 688	$ (222)	$ 4,226	$ 4,692
Realized and unrealized gains (losses) included in earnings	(207)	9	-	(198)
Unrealized gains (losses) included in other comprehensive income	6	21	95	122
Purchases, settlements, paydowns, and maturities	-	-	-	-
Transfer into Level 3	-	-	-	-
Balance September 30, 2017	$ 487	$ (192)	$ 4,321	$ 4,616

	Derivative Assets	Derivative Liabilities	Securities Available-for-Sale	Total
		(In Thousands)		
Balance January 1, 2018	$ 420	$ (195)	$ 4,279	$ 4,504
Realized and unrealized gains (losses) included in earnings	43	36	-	79
Unrealized gains (losses) included in other comprehensive income	155	(65)	(39)	51
Purchases, settlements, paydowns, and maturities	-	-	-	-
Transfer into Level 3	-	-	-	-
Balance September 30, 2018	$ 618	$ (224)	$ 4,240	$ 4,634

	Derivative Assets	Derivative Liabilities	Securities Available-for-Sale	Total
		(In Thousands)		
Balance January 1, 2017	$ 993	$ (325)	$ 4,500	$ 5,168
Realized and unrealized gains (losses) included in earnings	(557)	298	-	(259)
Unrealized gains (losses) included in other comprehensive income	51	(165)	(179)	(293)
Purchases, settlements, paydowns, and maturities	-	-	-	-
Transfer into Level 3	-	-	-	-
Balance September 30, 2017	$ 487	$ (192)	$ 4,321	$ 4,616

The following tables present quantitative information as of September 30, 2018 and December 31, 2017 about Level 3 fair value measurements for assets measured at fair value:

	September 30, 2018				
Description		**Fair Value**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
			(In Thousands)		
Financial Assets - Recurring					
Asset-backed securities	$	4,240	Discounted cash flows	Discount rate	3% - 6% (5.0%)
Derivative assets		618	Market pricing (3)	Estimated pullthrough	75% - 90% (83.6%)
Derivative liabilities		224	Market pricing (3)	Estimated pullthrough	75% - 90% (83.6%)
Financial Assets - Non-recurring					
Impaired loans - Real estate secured	$	156	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 15% (10%)
Impaired loans - Non-real estate secured	$	1,451	Discounted cash flows	Discount rate and liquidation expenses (2)	3% - 6% (5.0%) 0% - 10% (10.0%)
OREO	$	-	Appraisal of collateral (1)	Discounts to reflect current market conditions and estimated selling costs	10%

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various Level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

		December 31, 2017		
Description	**Fair Value**	**Valuation Techniques**	**Unobservable Input**	**Range (Weighted Average)**
		(In Thousands)		
Financial Assets - Recurring				
Asset-backed securities	$ 4,279	Discounted cash flows	Discount rate	3% - 6% (5.0%)
Derivative assets	$ 420	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Derivative liabilities	$ 195	Market pricing (3)	Estimated pullthrough	75% - 90% (89.0%)
Financial Assets - Non-recurring				
Impaired loans - Real estate secured	$ 2,211	Appraisal of collateral (1)	Liquidation expenses (2)	0% - 15% (10%)
Impaired loans - Non-real estate secured	$ 37	Discounted cash flows	Discount rate and liquidation expenses (2)	3% - 6% (5.0) 0% - 10% (5%)
OREO	$ -	Appraisal of collateral (1)	Discounts to reflect current market conditions and estimated selling costs	10%

(1) Fair value is generally determined through independent appraisals of the underlying collateral on real estate secured loans, which generally include various Level 3 inputs which are not identifiable.

(2) Valuations of impaired loans may be adjusted by management for qualitative factors such as liquidation expenses. The range and weighted average of liquidation expense adjustments are presented as a percent of the appraisal.

(3) Market pricing on derivative assets and liabilities is adjusted by management for the anticipated percent of derivative assets and liabilities that will create a realized gain or loss. The range and weighted average of estimated pull-through is presented.

Financial instruments recorded using FASB ASC 825-10

Under FASB ASC 825-10, the Corporation may elect to report most financial instruments and certain other items at fair value on an instrument-by-instrument basis with changes in fair value reported in net income. After the initial adoption, the election is made at the acquisition of an eligible financial asset, financial liability or firm commitment or when certain specified reconsideration events occur. The fair value election, with respect to an item, may not be revoked once an election is made.

The following tables reflect the difference between the fair value carrying amount of residential mortgage loans held for sale, measured at fair value under FASB ASC 825-10, and the aggregate unpaid principal amount the Corporation is contractually entitled to receive at maturity.

	September 30, 2018		
(In Thousands)	**Aggregate Fair Value**	**Difference**	**Contractual Principal**
Residential mortgage loans held for sale	$ 36,600	$ 981	$ 35,619

	December 31, 2017		
(In Thousands)	**Aggregate Fair Value**	**Difference**	**Contractual Principal**
Residential mortgage loans held for sale	$ 31,999	$ 1,102	$ 30,897

The Corporation has elected to account for residential loans held for sale at fair value to eliminate the mismatch that would occur by recording changes in market value on derivative instruments used to hedge loans held for sale while carrying the loans at the lower of cost or market.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments (not previously described) for which it is practicable to estimate that value:

Cash and Short-Term Investments

For those short-term instruments, the carrying amount is a reasonable estimate of fair value. As such they are classified as Level 1 for noninterest-bearing deposits and Level 2 for interest-bearing deposits due from banks or federal funds sold.

Restricted Stock

It is not practical to determine the fair value of restricted stock due to the restrictions placed on its transferability.

Loans, Net of Allowance

For certain homogeneous categories of loans, such as some residential mortgages, and other consumer loans, fair value is estimated from the standpoint of an exit price which is the estimated price that would be paid by a prospective buyer and received by the Corporation on the sale of the loans resulting in a Level 3 classification. Unlike an entry price, where the fair value of a loan is calculated by discounting projected cash-flows using current offering rates on similar new product offerings, exit pricing reflects the fair value from the perspective of a market participant/prospective buyer.

Prior to January 1, 2018 and the adoption of ASU 2016-01, the Corporation estimated fair value of these same loans using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics resulting in a Level 3 classification. The fair value of other types of loans was estimated by discounting the future cash flows using the then current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities resulting in a Level 3 classification.

Deposits and Borrowings

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date resulting in a Level 1 classification. The fair value of fixed-maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities also resulting in a Level 1 classification. The fair value of all other deposits and borrowings is determined using the discounted cash flow method thereby resulting in a Level 2 classification. The discount rate was equal to the rate currently offered on similar products.

Trust Preferred Debentures

The fair values of the Corporation's trust preferred debentures are estimated using discounted cash flow analysis based on the Corporation's incremental borrowing rates for similar types of borrowing arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value resulting in a Level 2 or Level 3 classification depending upon the level of the asset or liability, with which, the accrual is associated.

Off-Balance Sheet Financial Instruments

The fair value of commitments to extend credit is estimated using the fees currently charged to enter similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed interest rates. The fair value of stand-by letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At September 30, 2018 and December 31, 2017, the majority of off-balance-sheet items are variable rate instruments or convert to variable rate instruments if drawn upon. Therefore, the fair value of these items is largely based on fees, which are nominal and immaterial.

Fair Value of Financial Instruments

The estimated fair values, and related carrying amounts, of the Corporation's financial instruments are as follows:

	September 30, 2018		December 31, 2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(In Thousands)			
Financial assets:				
Cash and short-term investments	$ 124,370	$ 124,370	$ 122,313	$ 122,313
Securities available-for-sale	424,445	424,445	406,067	406,067
Marketable equity	-	-	1,379	1,379
Securities held-to-maturity	28,353	28,278	28,272	28,940
Restricted stock	21,192	21,192	16,572	16,572
Loans held for sale	36,600	36,600	31,999	31,999
Loans, net of allowance	2,076,921	2,085,345	1,950,553	1,971,970
Derivatives	618	618	420	420
Total financial assets	$ 2,712,499	$ 2,720,848	$ 2,557,575	$ 2,579,660
Financial liabilities:				
Deposits	$ 2,294,864	$ 2,192,590	$ 2,234,148	$ 2,161,134
Short-term borrowings	212,561	211,601	145,993	145,396
Long-term borrowings	45,000	44,765	40,000	39,764
Trust preferred debentures	3,942	3,941	3,883	3,939
Derivatives	224	224	195	195
Total financial liabilities	$ 2,556,591	$ 2,453,121	$ 2,424,219	$ 2,350,428

Note 9. Financial Instruments with Off-Balance Sheet Risk

The Corporation 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 consist primarily of commitments to extend credit. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments.

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 generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Corporation evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral, if any, deemed necessary by the Corporation upon extension of credit is based on management’s credit evaluation of the counterparty. Collateral normally consists of real property, liquid assets or business assets. The Corporation had $78.2 million and $82.8 million in outstanding commitments at September 30, 2018 and December 31, 2017, respectively.

The Corporation’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. The Corporation had $521.3 million and $468.2 million in unfunded lines of credit whose contract amounts represent credit risk at September 30, 2018 and December 31, 2017, respectively.

Standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary. The Corporation had standby letters of credit outstanding in the amount of $20.2 million and $14.3 million at September 30, 2018 and December 31, 2017, respectively.

The Bank maintains a reserve for potential off-balance sheet credit losses that is included in other liabilities on the balance sheet. At September 30, 2018 and December 31, 2017 the balance in this reserve totaled $1.0 million and $800 thousand, respectively.

The Bank has a letter of credit agreement with the Commonwealth of Virginia Treasury Board pertaining to its public deposits program. Under the terms of the agreement, the Commonwealth of Virginia Treasury Board in accordance with the Security for Public Deposits Act has approved the use of two letters of credit issued by the FHLB as collateral by the Bank. The maximum aggregate amount available under both letters of credit is $60.0 million. One letter of credit was extended during the third quarter of 2018 for an additional two years and now expires in August 2020. The second letter of credit expires in May 2021.

The Mortgage Division of the Bank makes representations and warranties that loans sold to investors meet its program's guidelines and that the information provided by the borrowers is accurate and complete. In the event of a default on a loan sold, the investor may make a claim for losses due to document deficiencies, program compliance, early payment default, and fraud or borrower misrepresentations. The Mortgage Division maintains a reserve in other liabilities for potential losses on mortgage loans sold. Management performs a quarterly analysis to determine the adequacy of the reserve. At September 30, 2018 and December 31, 2017, the balance in this reserve totaled $953 thousand and $953 thousand, respectively.

The following table shows the changes to the allowance for losses on mortgage loans sold.

(In Thousands)	For the Nine Months Ended September 30, 2018	For the Nine Months Ended September 30, 2017	For the Year Ended December 31, 2017
Balance, beginning of period	$ 953	$ 1,029	$ 1,029
Provision charged to operating expenses	-	-	-
Recoveries	-	-	-
Charge-offs	-	(42)	(76)
Balance, end of period	$ 953	$ 987	$ 953

Note 10. Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, "Revenue from Contracts with Customers (Topic 606)". This ASU supersedes the revenue recognition requirements in Topic 605, "Revenue Recognition" as well as most industry-specific guidance. The amendments also create a new Subtopic 340-40 "Other Assets and Deferred Costs - Contracts with Customers". In summary, entities are to recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The provisions of ASU 2014-09 were originally effective for annual periods beginning after December 15, 2016 and interim periods within 2017; however, a one year deferral was issued which now makes the provisions effective for annual periods beginning after December 15, 2017 and interim periods within 2018. The Corporation completed its overall assessment of revenue streams and review of related contracts potentially affected by the ASU, including trust and asset management fees, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Based on this assessment, the Corporation concluded that ASU 2014-09 did not materially change the method in which the Corporation currently recognizes revenue for these revenue streams. The Corporation also completed its evaluation of certain costs related to these revenue streams to determine whether such costs should be presented as expenses or contra-revenue (i.e., gross vs. net). Based on its evaluation, the Corporation determined that the classification of certain debit and credit card related costs were being recognized on a net basis. The Corporation adopted ASU 2014-09 and its related amendments on its required effective date of January 1, 2018 utilizing the modified retrospective approach. Since there was no net income impact upon adoption of the new guidance, a cumulative effect adjustment to opening retained earnings was not deemed necessary.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10)". This ASU requires all equity investments to be measured at fair value with changes in the fair value recognized through net income (other than those accounted for under equity method of accounting or those that result in consolidation of the investee); requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; as well as requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments. The amendments in the ASU are effective beginning after December 15, 2017. The adoption of this guidance did not have a material effect on the Corporation's financial condition or results of operations. In accordance with this ASU, the Corporation measures the fair value of its loan portfolio using an exit price notion (see Note 8 Fair Value Measurements) as well as reclassifying and presenting its equity security at fair value (see Note 3 Securities).

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)". This ASU specifies the accounting for leases in an effort to increase transparency and comparability among organizations. Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases): 1) a lease liability, which is the present value of a lessee's obligation to make lease payments, and 2) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Corporation expects the new guidance will require these lease agreements to be recognized on the consolidated statements of condition as a right-of-use asset and a corresponding lease liability. Therefore, the Corporation's preliminary evaluation indicates the provisions of ASU No. 2016-02 are expected to impact the Corporation's consolidated statements of condition, along with its regulatory capital ratios. The amendments in the ASU are effective beginning after December 15, 2018. The Corporation continues to evaluate the impact this guidance will have on its consolidated financial statements and has hired a firm to assist in this process so as to be able to determine the impact this ASU will have on the Corporation.

In June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU amends guidance on reporting credit losses for assets held at amortized cost basis and available-for-sale debt securities by eliminating the probable initial recognition threshold (incurred loss methodology) and requiring entities to reflect its current estimate of all expected credit losses. The amendments in the ASU are effective beginning after December 15, 2019 and for interim periods within that year. Early adoption is permitted beginning after December 15, 2018. Entities will apply the amendments in this ASU through a cumulative-effect adjustment to retained earnings in the first period effective. Management is currently evaluating the potential impact of ASU 2016-13 on the Corporation's consolidated financial statements.

In August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments.” This ASU was issued to reduce diversity in how certain cash receipts and cash payments are being presented and classified in the statement of cash flows. Guidance provided in the ASU are specific to eight cash flow issues being: debt prepayment or debt extinguishment costs; settlement of zero-coupon debt or other debt instruments with interest rates that are insignificant to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds received from the settlement of life insurance claims; proceeds received from the settlement of bank-owned life insurance policies; distributions received from equity method investees; beneficial interests in securitization transactions; and application of the predominance principle. The amendments in the ASU are effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Corporation adopted this guidance on its required effective date of January 1, 2018. The adoption of this guidance did not have a material effect on the Corporation’s financial condition or results of operations.

In January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment." The ASU was issued with the intent to simplify goodwill impairment testing by eliminating the second step of the analysis under which the implied fair value of goodwill is determined as if the reporting unit were being acquired in a business combination. The update instead requires entities to compare the fair value of a reporting unit with its carrying amount and recognize an impairment charge for any amount by which the carrying amount exceeds the reporting unit’s fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit. ASU 2017-04 must be applied prospectively and is effective for the Corporation on January 1, 2020. Early adoption is permitted. The Corporation does not expect the new guidance to have a material impact on its consolidated financial statements.

In March 2017, the FASB issued ASU No. 2017-08, "Premium Amortization on Purchased Callable Debt Securities", which is intended to enhance the accounting for the amortization of premiums for purchased callable debt securities. The amendments shorten the amortization period for the premium to the earliest call date. The amendments will be effective for the Corporation for interim and annual periods beginning after December 15, 2018. Early adoption is permitted. The Corporation does not expect these amendments to have a material effect on its consolidated financial statements.

In February 2018, the FASB issued ASU No. 2018-02, "Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income." This ASU allows a reclassification from accumulated other comprehensive income (“AOCI”) to retained earnings for certain income tax effects stranded in AOCI as a result of the Tax Act and Jobs Act (the "Tax Relief Act"). Consequently, the reclassification eliminates the stranded tax effects resulting from the Tax Relief Act and is intended to improve the usefulness of information reported to financial statement users. However, because the ASU only relates to the reclassification of the income tax effects of the Tax Relief Act, the underlying guidance that requires the effect of a change in tax laws or rates to be included in income from continuing operations is not affected. ASU No. 2018-02 is effective for the Corporation's reporting period beginning on January 1, 2019; early adoption is permitted. The Corporation elected to early adopt ASU No. 2018-02 during the first quarter of 2018, and elected to reclassify the income tax effects of the Tax Relief Act from AOCI to retained earnings. The reclassification decreased AOCI and increased retained earnings by $374 thousand, with zero net effect on total shareholders’ equity. The Corporation utilizes the individual securities approach when releasing income tax effects from AOCI for its investment securities.

In February 2018, the FASB issued AS No. 2018-03, "Technical Corrections and Improvements to Financial Instruments - Overall (Subtopic 825-10)." The amendments in this ASU provide clarification on certain aspects related to the guidance issued in ASU 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. The areas for correction or improvement include (1) equity securities without a readily determinable fair value - discontinuation; (2) equity securities without a readily determinable fair value - adjustments; (3) forward contracts and purchased options; (4) presentation requirements for certain fair value option liabilities; (5) fair value option liabilities denominated in a foreign currency; and (6) transition guidance for equity securities without a readily determinable fair value. This ASU is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years beginning after June 15, 2018. Early adoption is permitted. The adoption of this guidance is not expected to be material to the consolidated financial statements.

In July 2018, the FASB issued ASU No. 2018-11, “Leases - Targeted Improvements” to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU No. 2016-02. Specifically, under the amendments in ASU 2018-11: (1) entities may elect not to recast the comparative periods presented when transitioning to the new leasing standard, and (2) lessors may elect not to separate lease and non-lease components when certain conditions are met. The amendments have the same effective date as ASU 2016-02 (i.e., January 1, 2019 for the Corporation). ASU 2018-11 is not expected to have a material impact on the Corporation’s consolidated financial statements. The Corporation continues to evaluate the impact this guidance will have on its consolidated financial statements

In August 2018, the FASB issued ASU No. 2018-13, “Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU No. 2018-13 is effective for interim and annual reporting periods beginning after December 15, 2019. As ASU No. 2018-13 only revises disclosure requirements, the Corporation does not expect it to have a material impact on its consolidated financial statements.

Note 11. Commitments and Contingent Liabilities

As part of its mortgage banking activities, the Mortgage Division enters into interest rate lock commitments, which are commitments to originate loans where the interest rate on the loan is determined prior to funding and the customers have locked into that interest rate. The Mortgage Division then locks in the loan and interest rate with an investor and commits to deliver the loan if settlement occurs (“best efforts”) or commits to deliver the locked loan in a binding (“mandatory”) delivery program with an investor. Certain loans under interest rate lock commitments are covered under forward sales contracts of mortgage backed securities (“MBS”). Forward sales contracts of MBS are recorded at fair value with changes in fair value recorded in noninterest income. Interest rate lock commitments and commitments to deliver loans to investors are considered derivatives. The market value of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because they are not actively traded in stand-alone markets. The Mortgage Division determines the fair value of interest rate lock commitments and delivery contracts by measuring the fair value of the underlying asset, which is impacted by current interest rates, taking into consideration the probability that the interest rate lock commitments will close or will be funded.

Certain additional risks arise from these forward delivery contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Mortgage Division does not expect any counterparty to any MBS to fail to meet its obligation. Additional risks inherent in mandatory delivery programs include the risk that, if the Mortgage Division does not close the loans subject to interest rate risk lock commitments, it will still be obligated to deliver MBS to the counterparty under the forward sales agreement. Should this be required, the Mortgage Division could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations.

Since the Mortgage Division’s derivative instruments are not designated as hedging instruments, the fair value of the derivatives are recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change. The Corporation has not elected to apply hedge accounting to the Mortgage Division’s derivative instruments as provided in Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) 815, Derivatives and Hedging.

At September 30, 2018 and December 31, 2017, the Mortgage Division had open forward contracts with a notional value of $38.8 million and $39.3 million, respectively. At September 30, 2018 and December 31, 2017, the Mortgage Division had no open mandatory delivery contracts. The open forward delivery contracts are composed of forward sales of mortgage backed securities. The fair value of these open forward contracts was $139 thousand and $(56) thousand at September 30, 2018 and December 31, 2017, respectively.

Interest rate lock commitments totaled $27.3 million and $20.0 million at September 30, 2018 and December 31, 2017, respectively, and included $9.8 million and $3.2 million that were made on a best efforts basis at September 30, 2018 and December 31, 2017, respectively. Fair values of these best efforts commitments were $46 thousand and $23 thousand at September 30, 2018 and December 31, 2017, respectively. The remaining hedged interest rate lock commitments totaling $17.5 million and $16.8 million at September 30, 2018 and December 31, 2017, respectively, had a fair value of $159 thousand and $297 thousand, respectively.

Included in other noninterest income for the nine months ended September 30, 2018 and 2017 was a net loss of $87 thousand and a net loss of $88 thousand, respectively, relating to derivative instruments. The amount included in other noninterest income for the nine months ended September 30, 2018 and 2017 pertaining to its hedging activities was a net realized gain of $208 thousand and a net realized loss of $777 thousand, respectively.

Note 12. Low Income Housing Tax Credits

The Corporation was invested in five separate housing equity funds at September 30, 2018 and December 31, 2017. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds were recorded as other assets on the consolidated balance sheets and were $11.7 million and $10.4 million at September 30, 2018 and December 31, 2017, respectively. Additional capital calls expected for the funds totaled $4.7 million at September 30, 2018, and are included in other liabilities on the consolidated balance sheets. The expected terms of these investments and the related tax benefits run through 2034.

Note 13. Bank Owned Life Insurance

The Corporation had $52.6 million and $51.6 million in bank owned life insurance ("BOLI") at September 30, 2018 and December 31, 2017, respectively. The Corporation recognized interest income, which is included in other noninterest income of $327 thousand and $342 thousand for the three months ended September 30, 2018 and 2017, respectively and $972 thousand and $869 thousand for the nine months ended September 30, 2018 and 2017, respectively.

Note 14. Mergers and Acquisitions

Acquisition of Middleburg Financial Corporation

On April 1, 2017 (the "Acquisition Date"), the Corporation completed the acquisition of Middleburg Financial Corporation (“Middleburg”), a bank holding company based in Middleburg, Virginia, in an all-stock transaction. Management expects that the acquisition will enhance scale, improve efficiency, and provides for a well-diversified business model. Middleburg’s common shareholders received 1.3314 shares of the Corporation’s common stock in exchange for each share of Middleburg’s common stock, resulting in the Corporation issuing 9,516,097 shares of common stock at a fair value of $285.7 million. In addition, holders of outstanding Middleburg stock options received cash for the difference between the strike price and ending share price of Middleburg stock immediately before the merger, being $40.04. A total of 23,362 shares were converted to cash for a total of $608 thousand. As a result of the transaction and on the same date, Middleburg’s former bank subsidiary, Middleburg Bank, became a division of the Corporation’s wholly-owned bank subsidiary, Access National Bank.

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 were preliminary and subject to refinement for up to one year after the closing date of the Acquisition Date being March 31, 2018.

In connection with the acquisition, the consideration paid, and the final purchase price allocation of the fair values of identifiable assets acquired and liabilities assumed as of the Acquisition Date are summarized in the following table (dollars in thousands):

Consideration paid:		
Common shares issued (9,516,097)	$	285,679
Cash paid to shareholders		608
Value of consideration		286,287
Fair value of assets acquired:		
Cash and cash equivalents	$	90,940
Investment securities		241,170
Restricted stock		4,119
Loans		815,785
Bank premises and equipment		22,914
OREO		3,919
Intangibles		21,436
Bank owned life insurance		24,080
Other assets		26,020
Total assets		1,250,383
Fair value of liabilities assumed:		
Deposits		1,056,691
Short-term borrowings		26,033
Long-term borrowings		29,892
Trust preferred debentures		3,824
Other liabilities		15,751
Total liabilities		1,132,191
Net assets acquired		118,192
Goodwill resulting from merger with Middleburg	$	167,487

During the quarter ended March 31, 2018, adjustments were made to the purchase price allocations that resulted in a decrease to the initial fair value estimate of investment securities of $3.0 million, an increase in bank premises and equipment of $994 thousand, a decrease in other assets of $323 thousand, an increase in deposits of $72 thousand, and a decrease in other liabilities of $970 thousand, resulting in a decrease to acquired net assets of $1.4 million. The Corporation made these measurement period adjustments to reflect facts and circumstances that existed as of the Acquisition Date and did not result from intervening events subsequent to such date. The revised fair value estimates resulted in an increase to goodwill of $1.4 million. As of March 31, 2018, the Corporation finalized its valuation of all assets and liabilities acquired.

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

Loans

The acquired loans were recorded at fair value at the Acquisition Date without carryover of Middleburg's previously established allowance for loan losses. The fair value of the loans was 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. In this regard, the acquired loans were segregated into pools based on loan type and credit risk. Loan type was determined based on collateral type, purpose, and lien position. Credit risk characteristics included risk rating groups (pass rated loans and adversely classified loans), nonaccrual status, and past due status. For valuation purposes, these pools were further disaggregated by maturity, pricing characteristics (e.g., fixed-rate, adjustable-rate), and re-payment structure (e.g., interest only, fully amortizing, balloon).

The acquired loans were divided into loans with evidence of credit quality deterioration which are accounted for under ASC 310-30, Receivables - Loans and Debt Securities Acquired with Deteriorated Credit Quality (acquired impaired or PCI) and loans that do not meet these criteria, which are accounted for under ASC 310-20, Receivables - Nonrefundable Fees and Other Costs (acquired performing). The fair values of the acquired performing loans were $810.9 million and the fair values of the acquired impaired loans were $4.9 million. The gross contractually required principal and interest payments receivable for acquired performing loans was $7.8 million. The best estimate of contractual cash flows not expected to be collected related to the acquired performing loans is $3.4 million.

The following table presents the acquired impaired loans receivable at the Acquisition Date (dollars in thousands):

Contractual principal and interest at acquisition	$	7,835
Nonaccretable difference		(3,427)
Expected cash flows at acquisition		4,408
Accretable yield		(186)
Fair value of purchased impaired loans	$	4,222

Bank Premises

The fair value of Middleburg's premises, including land, buildings, and improvements, was determined based upon independent third-party appraisals performed by licensed appraisers in the market in which the premises are located. These appraisals were based upon the highest and best use of the underlying asset(s) with final values determined based upon an analysis of the cost, sales comparison, and income capitalization approaches for each property appraised. The Corporation also engaged independent appraisers to value the leasehold interests. The fair value of the leasehold interest was not material to the consolidated financial statements. The fair value adjustment related to bank premises was $3.5 million.

An independent appraiser also reviewed leases pertaining to bank premises to determine if the leases were deemed favorable or unfavorable at the time of acquisition. In accordance with this review, an unfavorable lease liability of $5.3 million was recorded in other liabilities and will be amortized over the remaining lives of the leases.

Core Deposit Intangible

The fair value of the core deposit intangible was determined based on a blended market approach and discounted cash flow analysis using a discount rate commensurate with market participants. To calculate cash flows, deposit account servicing costs (net of deposit fee income) and interest expense on deposits were compared to the cost of alternative funding sources available through the FHLB. The life of the deposit base and projected deposit attrition rates were determined using Middleburg's historical deposit data. The core deposit intangible will be amortized over nine years using the sum-of-years digits method.

Time Deposits

The fair value adjustment for time deposits represents a discount from the value of the contractual repayments of fixed-maturity deposits using prevailing market interest rates for similar-term time deposits. The time deposit discount of approximately $293.6 thousand is being amortized into income over the remaining life of the time deposits.

Long-term Borrowings

The Corporation assumed long-term borrowings in the form of FHLB advances and trust preferred capital notes in connection with the merger. The fair value of the trust preferred capital notes assumed was valued using an income approach with consideration of the market approach. The contractual cash flows were projected and discounted using a prevailing market rate. The market rate was developed using a third-party broker opinion, implied market yields for recent subordinated debt sales, and new subordinated debt issuances for instruments with similar durations and pricing characteristics. The fair value of FHLB advances represents contractual repayments discounted using interest rates currently available on borrowings with similar characteristics and remaining maturities. The FHLB advances were valued at a discount of $107.6 thousand which is being amortized into income over 1.7 years using the effective interest method. The trust preferred capital notes were valued at discount of $1.3 million which is being amortized over 16.8 years using the effective interest method.

Pending Merger With Union Bankshares Corporation

On October 5, 2018, the Corporation announced the signing of a definitive agreement and plan of reorganization, dated as of October 4, 2018, pursuant to which Union Bankshares Corporation ("Union Bankshares") and the Corporation will merge.

Under the terms of the merger agreement, the Corporation shareholders will receive a fixed exchange ratio of 0.75 Union Bankshares shares for each share of the Corporation common stock owned. For more information on this pending acquisition refer to the Corporation's Current Report on Form 8-K filed with the SEC on October 5, 2018.

Note 15. Other Income and Other Operating Expenses

The Corporation had the following other income for the three and nine month periods ended September 30, 2018 and 2017.

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In Thousands)		(In Thousands)	
Trust	$ 1,166	$ 1,130	$ 4,782	$ 2,287
Wealth Management	522	487	1,373	1,908
Bank owned life insurance	327	342	972	869
Miscellaneous loan fees	143	315	539	704
Fair value marks on loans held for sale	(250)	(177)	(93)	(265)
Hedging gains (losses)	(328)	(223)	208	(777)
ATM transaction fees	320	329	1,006	623
Other	594	166	2,233	1,568
	$ 2,494	$ 2,369	$ 11,020	$ 6,917

The Corporation had the following other operating expenses for the three and nine month periods ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
	(In Thousands)			
Merger related expenses	$ 13	$ 1,012	$ 74	$ 6,747
Data processing	784	77	2,378	1,226
Business and franchise tax	602	515	1,664	985
FDIC insurance	248	387	842	1,248
Consulting fees	244	314	700	870
Advertising and promotional	280	211	808	548
Accounting and auditing	284	255	859	694
Investor fees	130	162	380	463
Telephone	220	256	686	519
Regulatory examinations	139	100	414	282
Stock option	175	107	459	310
Director fees	226	192	571	496
Credit report	102	106	336	292
Legal fees	170	158	365	285
Insurance	153	99	450	322
Publication and subscription	84	118	272	281
Disaster recovery	55	93	99	204
Office supplies-stationary print	75	136	308	288
FRB and bank analysis charges	65	87	176	179
Dues and memberships	35	38	115	109
Management fees	107	137	304	295
Travel	61	39	183	156
SBA guarantee fee	31	36	104	104
Business development and meals	37	21	114	79
Amortization of intangibles	810	839	2,517	1,642
Courier	62	31	221	79
Impairment of other real estate owned	310	-	310	-
Education and training	33	26	83	57
Bank paid closing costs	6	8	56	55
Postage	30	6	83	95
Goodwill impairment	-	1,491	-	1,491
Other	282	1,617	2,184	3,193
	$ 5,853	$ 8,674	$ 18,115	$ 23,594

Note 16. Derivatives

The Corporation utilizes derivative instruments as a part of its asset-liability management program to control fluctuation of market values and cash flows to changes in interest rates associated with certain financial instruments. The Corporation accounts for derivatives in accordance with ASC 815, "Derivatives and Hedging". Under current guidance, derivative transactions are classified as either cash flow hedges or fair value hedges or they are not designated as hedging instruments. The Corporation obtained several designated derivative instruments as a result of the merger with Middleburg and continues to account for these items on a basis consistent with when the items were established by Middleburg which is in accordance with this guidance. Information concerning each of the Corporation's categories of derivatives as of September 30, 2018 and December 31, 2017 are presented below.

Derivatives designated as cash flow hedges

During 2010, Middleburg entered into an interest rate swap which has been designated as a cash flow hedge intended to hedge the variability of cash flows associated with the trust preferred debentures. The swap hedges the cash flow associated with the trust preferred capital notes wherein the Corporation receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 2.59% to the same counterparty. The swap is calculated on a notional amount of $5.2 million. The term of the swap is 10 years and commenced on October 23, 2010. Cash collateral was reserved for this swap in the amount of $400 thousand as of September 30, 2018 and December 31, 2017. The swap was entered into with a counterparty that met the Corporation’s credit standards and the agreement contains collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in the contract is not significant.

During 2013, Middleburg entered into an interest rate swap which has been designated as a cash flow hedge intended to hedge the variability of cash flows associated with FHLB borrowings. The swap hedges the cash flows associated with the FHLB borrowings wherein the Corporation receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 1.43% to the same counterparty. The swap is calculated on a notional amount of $10.0 million. The term of the swap is 5 years and commenced on November 25, 2013. Collateral was reserved for this swap in the amount of $600 thousand as of September 30, 2018 and December 31, 2017. The swap was entered into with a counterparty that met the Corporation's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Corporation believes that the credit risk inherent in the contract is not significant.

Amounts receivable or payable are recognized as accrued under the terms of the agreement, with the effective portion of the derivative’s unrealized gain or loss recorded as a component of other comprehensive income. The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. The Corporation has assessed the effectiveness of the hedging relationships by comparing the changes in cash flows on the designated hedged item. As a result of this assessment, there was no hedge ineffectiveness identified for the nine months ended September 30, 2018.

The amounts included in accumulated other comprehensive income as unrealized losses (fair value, net of tax) were $69 thousand and $8 thousand as of September 30, 2018 and December 31, 2017.

Information concerning the derivatives designated as cash flow hedges at September 30, 2018 and December 31, 2017 is presented in the following table:

	September 30, 2018						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 5,155	$ 37	$ -	2.35%	2.59%	2.1
Pay fixed - receive floating interest rate swap	1	$ 10,000	$ 13	$ -	2.22%	1.43%	0.2

	December 31, 2017						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 5,155	$ -	$ 81	1.36%	2.59%	2.9
Pay fixed - receive floating interest rate swap	1	$ 10,000	$ 29	$ -	1.49%	1.43%	0.9

Derivatives not designated as hedging instruments

Two-way client loan swaps

During 2012 and 2014, Middleburg entered into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which we enter into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each swap transaction, the Corporation agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on an identical notional amount at a fixed interest rate. At the same time, the Corporation agrees to pay the counterparty the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our customers to effectively convert a variable rate loan into a fixed rate loan. Because the Corporation acts as an intermediary for its customers, changes in the fair value of the underlying derivatives contracts offset each other and do not significantly impact its results of operations.

Certain additional risks arise from interest rate swap contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. The Corporation does not expect any counterparty to fail to meet its obligations.

Information concerning two-way client interest rate swaps not designated as either fair value or cash flow hedges is presented in the following table:

	September 30, 2018						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 3,042	$ -	$ 138	1 month LIBOR plus 200 BP	3.90%	9.1
Pay fixed - receive floating interest rate swap	1	1,584	-	51	1 month LIBOR plus 180 BP	4.09%	6.2
Pay floating - receive fixed interest rate swap	1	3,042	138	-	3.90%	1 month LIBOR plus 200 BP	9.1
Pay floating - receive fixed interest rate swap	1	1,584	51	-	4.09%	1 month LIBOR plus 180 BP	6.2
Total derivatives not designated		$ 9,252	$ 189	$ 189			

	December 31, 2017						
	Positions (#)	Notional Amount (in thousands)	Asset (in thousands)	Liability (in thousands)	Receive Rate	Pay Rate	Life (Years)
Pay fixed - receive floating interest rate swap	1	$ 3,224	$ 96	$ -	1 month LIBOR plus 200 BP	3.90%	9.8
Pay fixed - receive floating interest rate swap	1	1,615	-	22	1 month LIBOR plus 180 BP	4.09%	7.0
Pay floating - receive fixed interest rate swap	1	3,224	-	96	3.90%	1 month LIBOR plus 200 BP	9.8
Pay floating - receive fixed interest rate swap	1	1,615	22	-	4.09%	1 month LIBOR plus 180 BP	7.0
Total derivatives not designated		$ 9,678	$ 118	$ 118			

Rate Cap Transaction

During 2018, the Corporation had one derivative instrument in the form of an interest rate cap agreement with a notional amount of $10.0 million. The interest rate cap agreement was terminated as scheduled on September 8, 2018.

The interest rate cap agreement was purchased to limit the Corporation's exposure to rising interest rates. Under the terms of the agreement, the Corporation paid a premium of $70 thousand for the right to receive cash flow payments if the 3-month LIBOR rises above the cap of 2.00%, thus effectively ensuring interest expense is capped at a maximum rate of 2.00% for the duration of the agreement. The interest rate cap agreement was a derivative not designated as a hedging instrument.

Note 17. Goodwill and Intangible Assets

The following table summarizes the Corporation's carrying amount for intangible assets:

	September 30, 2018			December 31, 2017		
(Dollars in thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net Book Value**
Intangible assets subject to amortization						
Core deposit intangible	$ 16,057	$ (4,639)	$ 11,418	$ 16,057	$ (2,408)	$ 13,649
Customer lists	5,214	(561)	4,653	5,214	(308)	4,906
Non-Compete agreements	117	(94)	23	117	(60)	57
Total	$ 21,388	$ (5,294)	$ 16,094	$ 21,388	$ (2,776)	$ 18,612

Amortization expense was $810 thousand and $839 thousand for the three months ended September 30, 2018 and 2017, respectively and $2.5 million and $1.6 million for the nine months ended September 30, 2018 and 2017, respectively.

Changes in the carrying amount of indefinite lived assets for the nine month periods ended September 30, 2018 and 2017 are summarized in the table as follows:

(Dollars in thousands)	**2018**	**2017**
Balance, January 1	$ 166,549	$ 1,501
Adjustment period refinements - Middleburg merger goodwill	1,384	167,131
Balance, September 30	$ 167,933	$ 168,632

Note 18. Revenue Recognition

On January 1, 2018, the Corporation adopted *ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. As stated in Note 10 - Recent Accounting Pronouncements, the implementation of the new standard did not have a material impact on the measurement or recognition of revenue; as such, a cumulative effect adjustment to opening retained earnings was not deemed necessary. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts were not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.

The core principle of the new standard is that a company should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The majority of the Corporation's revenue is derived primarily from interest income from receivables (loans) and securities. Other revenues are derived from fees received in connection with deposits, gains from the sale of loans and loan origination fees, and investment advisory services. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. The Corporation adopted ASC 606 using the modified retrospective transition approach which does not require restatement of prior periods. The method was selected given that there were no material changes in the timing of revenue recognition which would result in comparability issues with prior periods. This adoption method is considered a change in accounting principle which requires additional disclosure of the nature of and reason for the change, which is solely a result of the adoption of the required standard. By electing this approach, the Corporation recognized no cumulative effect adjustment to the opening balance sheet of retained earnings as of January 1, 2018. When applying the modified retrospective approach under ASC 606, the Corporation has elected, as a practical expedient, to apply the revenue standard only to contracts that are not completed as of January 1, 2018. A completed contract is considered to be a contract for which all (or substantially all) of the revenue was recognized in accordance with revenue guidance that is in effect before January 1, 2018. There were no uncompleted contracts as of January 1, 2018 for which application of the new standard required an adjustment to retained earnings as the recognition of these revenue streams did not change significantly upon adoption of Topic 606.

The following disclosures related to ASC Topic 606 involve income derived from contracts with customers. Within the scope of ASC Topic 606, the Corporation maintains contracts to provide services, primarily for investment advisory and/or custody. Through the Corporation's wholly-owned subsidiary, Middleburg Investment Group, the holding company for Middleburg Trust Company, we contract with our customers to perform trust and/or custody services. Through our wholly-owned subsidiary Access Capital Management Holding, LLC, the holding company for Access Investment Services, LLC, we contract with our customers to perform IRA and/or custody and agency advisory services. Through our wholly-owned subsidiary Access Capital Management Holding, LLC, the holding company for Capital Fiduciary Advisors, LLC, we contract with our customers to perform discretionary or nondiscretionary investment services coupled with or without financial planning. The Bank, Access National Bank, contracts with the Corporation's customers to perform deposit account services.

Noninterest revenue streams in-scope of Topic 606 are discussed below.

Trust and Asset Management

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Corporation’s performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers’ accounts. The Corporation does not earn performance-based incentives.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Corporation’s performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Corporation’s performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers’ accounts.

Fees, Exchange, and Other Service Charges

Fees, exchange, and other service charges are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Corporation’s debit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Corporation cardholder uses a non-Corporation ATM or a non-Corporation cardholder uses a Corporation ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier’s checks, and other services. The Corporation’s performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Annuity and Insurance

Annuity and insurance income primarily consists of commissions received on annuity product sales. The Corporation acts as an intermediary between the Corporation’s customer and the insurance carrier. The Corporation's performance obligation is generally satisfied upon the issuance of the annuity policy. Shortly after the policy is issued, the carrier remits the commission payment to the Corporation, and the Corporation recognizes the revenue. The Corporation does not earn a significant amount of periodic service fees (i.e., trailer fees) on annuity sales. The majority of the trailer fees relates to variable annuity products and are calculated based on a percentage of market value at period end. Revenue is not recognized until the annuity’s market value can be determined.

Other

Other noninterest income consists of other recurring revenue streams such as commissions from sales of mutual funds and other investments, investment advisor fees, safety deposit box rental fees, and other miscellaneous revenue streams. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Corporation has satisfied its performance obligation. The Corporation also receives periodic service fees (i.e., trailers) from mutual fund companies typically based on a percentage of net asset value. Trailer revenue is recorded over time, usually monthly or quarterly, as net asset value is determined. Investment advisor fees are earned over time and based on an annual percentage rate of the net asset value. The investment advisor fees are charged to the customer’s account in advance on the first month of the quarter, and the revenue is recognized over the following three-month period. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Corporation determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	**2017**	**2018**	**2017**
	(In Thousands)			
Noninterest Income				
In-scope of Topic 606:				
Trust and asset management	$ 1,165	$ 1,130	$ 4,782	$ 2,287
Service charges on deposit accounts	485	560	1,456	1,509
Fees, exchange, and other service charges	348	175	1,098	301
Annuity and insurance	149	61	316	156
Other	378	426	1,130	1,724
Noninterest income (in-scope of Topic 606)	2,525	2,352	8,782	5,977
Noninterest income (out-of scope of Topic 606)	4,919	6,171	15,147	17,434
Total Noninterest Income	$ 7,444	$ 8,523	$ 23,929	$ 23,411

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Corporation's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Corporation satisfies its performance obligation and revenue is recognized. The Corporation does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. During the first half of 2018, we had one estate settlement that generated a fee of $1.1 million.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Corporation utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Corporation did not capitalize any contract acquisition cost.

Exhibit 99.4

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Middleburg Financial Corporation
Middleburg, Virginia

We have audited the accompanying consolidated balance sheets of Middleburg Financial Corporation and subsidiaries as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Middleburg Financial Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Middleburg Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 15, 2017 expressed an unqualified opinion on the effectiveness of Middleburg Financial Corporation and subsidiaries' internal control over financial reporting.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
Middleburg Financial Corporation
Middleburg, Virginia

We have audited Middleburg Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Middleburg Financial Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Middleburg Financial Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets as of December 31, 2016 and 2015 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of Middleburg Financial Corporation and subsidiaries, and our report dated March 15, 2017 expressed an unqualified opinion.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 15, 2017

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except for share and per share data)

	December 31, 2016		December 31, 2015
ASSETS			
Cash and due from banks	$	6,989	$ 5,489
Interest bearing deposits with other banks		21,555	33,739
Total cash and cash equivalents		28,544	39,228
Securities held to maturity, fair value of $10,095 and $4,163, respectively		10,683	4,207
Securities available for sale, at fair value		301,567	374,571
Restricted securities, at cost		4,542	6,411
Loans, net of allowance for loan losses of $11,404 and $11,046, respectively		848,693	794,635
Premises and equipment, net		19,021	19,531
Goodwill and identified intangibles, net		3,465	3,636
Other real estate owned, net of valuation allowance		5,073	3,345
Bank owned life insurance		23,925	23,273
Accrued interest receivable and other assets		27,130	26,026
TOTAL ASSETS	$	1,272,643	$ 1,294,863
LIABILITIES			
Deposits:			
Non-interest bearing demand deposits	$	248,567	$ 235,897
Savings and interest bearing demand deposits		578,851	560,328
Time deposits		225,640	244,575
Total deposits		1,053,058	1,040,800
Securities sold under agreements to repurchase		34,864	26,869
Federal Home Loan Bank borrowings		39,500	85,000
Subordinated notes		5,155	5,155
Accrued interest payable and other liabilities		13,387	13,485
TOTAL LIABILITIES		1,145,964	1,171,309
Commitments and contingencies			
SHAREHOLDERS' EQUITY			
Common stock ($2.50 par value; 20,000,000 shares authorized; 7,205,066 and 7,085,217 issued and outstanding, respectively)		17,636	17,330
Capital surplus		45,688	44,155
Retained earnings		64,755	60,392
Accumulated other comprehensive income (loss), net		(1,400)	1,677
TOTAL SHAREHOLDERS' EQUITY		126,679	123,554
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	1,272,643	$ 1,294,863

See accompanying notes to the consolidated financial statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except for per share data)

	Years Ended December 31, 2016	2015	2014
INTEREST INCOME			
Interest and fees on loans	$ 33,795	$ 32,479	$ 33,833
Interest and dividends on securities			
Taxable	7,406	7,628	6,900
Tax-exempt	1,700	1,803	2,137
Dividends	310	265	293
Interest on deposits with other banks and federal funds sold	164	106	162
Total interest and dividend income	43,375	42,281	43,325
INTEREST EXPENSE			
Interest on deposits	3,535	3,462	3,889
Interest on securities sold under agreements to repurchase	3	64	318
Interest on FHLB borrowings and other debt	886	681	1,036
Total interest expense	4,424	4,207	5,243
NET INTEREST INCOME	38,951	38,074	38,082
Provision for loan losses	1,853	2,293	1,960
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	37,098	35,781	36,122
NON-INTEREST INCOME			
Service charges on deposit accounts	1,154	1,061	1,163
Trust services income	4,643	4,785	4,362
ATM fee income, net	762	797	739
Gains (losses) on sales of loans held for sale, net	32	(1)	4,860
Gains on sales of securities available for sale, net	1,554	140	186
Commissions on investment sales	555	547	611
Bank owned life insurance	652	656	662
Gain on sale of majority interest in consolidated subsidiary	-	-	24
Other operating income	1,386	1,636	1,659
Total non-interest income	10,738	9,621	14,266
NON-INTEREST EXPENSE			
Salaries and employee benefits	18,757	18,435	22,601
Occupancy and equipment	4,881	5,106	6,177
Advertising	200	288	365
Amortization	1,211	1,001	791
Computer operations	2,582	2,337	1,893
Other real estate owned, net	363	284	256
Other taxes	947	915	849
Federal deposit insurance	748	786	899
Audits and exams	589	585	630
Legal and advisory fees	1,202	1,029	1,324
Merger related expenses	1,289	-	-
Other operating expenses	4,190	4,091	4,776
Total non-interest expense	36,959	34,857	40,561
Income before income taxes	10,877	10,545	9,827
Income tax expense	2,813	2,715	2,341
NET INCOME	8,064	7,830	7,486
Net loss attributable to non-controlling interest	-	-	98
Net income attributable to Middleburg Financial Corporation	$ 8,064	$ 7,830	$ 7,584
Earnings per share:			
Basic	$ 1.13	$ 1.10	$ 1.07
Diluted	$ 1.13	$ 1.09	$ 1.06

See accompanying notes to the consolidated financial statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years Ended December 31,		
	2016	2015	2014
Net income	$ 8,064	$ 7,830	$ 7,486
Other comprehensive income (loss), net of tax:			
Unrealized holding gains (losses) arising during the period, net of tax of $1,091, $1,037, and ($1,979), respectively	(2,116)	(2,015)	3,841
Reclassification adjustment for gains included in net income, net of tax of $528, $48, and $63, respectively	(1,026)	(92)	(123)
Unrealized gains (losses) on interest rate swaps, net of tax of ($34), $3, and $82, respectively	65	(6)	(160)
Reclassification adjustment for (gain) loss on interest rate swap ineffectiveness included in net income, net of tax of $0, $2 and ($2), respectively	-	(4)	4
Total other comprehensive income (loss)	(3,077)	(2,117)	3,562
Total comprehensive income	4,987	5,713	11,048
Comprehensive loss attributable to non-controlling interest	-	-	98
Comprehensive income attributable to Middleburg Financial Corporation	$ 4,987	$ 5,713	$ 11,146

See accompanying notes to the consolidated financial statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands, except for share and per share data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Non-Controlling Interest	Total
Balance December 31, 2013	$ 17,403	$ 44,251	$ 50,689	$ 232	$ 2,498	$ 115,073
Net income	-	-	7,584	-	(98)	7,486
Other comprehensive income, net of tax	-	-	-	3,562	-	3,562
Cash dividends - ($0.34 per share)	-	-	(2,419)	-	-	(2,419)
Sale of majority interest in consolidated subsidiary	-	-	-	-	(2,400)	(2,400)
Restricted stock vesting (15,425 shares)	39	(39)	-	-	-	-
Repurchase of restricted stock (4,732 shares)	(12)	(113)	-	-	-	(125)
Exercise of stock options (25,501 shares)	64	330	-	-	-	394
Share-based compensation	-	463	-	-	-	463
Balance December 31, 2014	$ 17,494	$ 44,892	$ 55,854	$ 3,794	$ -	$ 122,034
Net income	-	-	7,830	-	-	7,830
Other comprehensive loss, net of tax	-	-	-	(2,117)	-	(2,117)
Cash dividends - ($0.46 per share)	-	-	(3,292)	-	-	(3,292)
Restricted stock vesting (16,359 shares)	41	(41)	-	-	-	-
Repurchase of restricted stock (4,576 shares)	(11)	(72)	-	-	-	(83)
Share-based compensation	-	605	-	-	-	605
Repurchase of common stock (77,500 shares)	(194)	(1,229)	-	-	-	(1,423)
Balance December 31, 2015	$ 17,330	$ 44,155	$ 60,392	$ 1,677	$ -	$ 123,554
Net income	-	-	8,064	-	-	8,064
Other comprehensive loss, net of tax	-	-	-	(3,077)	-	(3,077)
Cash dividends - ($0.52 per share)	-	-	(3,701)	-	-	(3,701)
Restricted stock vesting (53,908 shares)	135	(135)	-	-	-	-
Repurchase of restricted stock (15,351 shares)	(38)	(315)	-	-	-	(353)
Share-based compensation	-	939	-	-	-	939
Exercise of stock options (6,650 shares)	16	76	-	-	-	92
Exercise of stock warrant (104,101 shares)	260	1,390	-	-	-	1,650
Repurchase of common stock (26,800 shares)	(67)	(422)	-	-	-	(489)
Balance December 31, 2016	$ 17,636	$ 45,688	$ 64,755	$ (1,400)	$ -	$ 126,679

See accompanying notes to the consolidated financial statements.

MIDDLEBURG FINANCIAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	Years Ended December 31, 2016	2015	2014
Cash Flows From Operating Activities			
Net income	$ 8,064	$ 7,830	$ 7,486
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,584	2,352	2,339
Provision for loan losses	1,853	2,293	1,960
Gains on sales of securities available for sale, net	(1,554)	(140)	(186)
Loss on disposal of assets, net	115	67	59
Originations of mortgage loans held for sale	(3,346)	(1,597)	-
Proceeds from sales of mortgage loans held for sale	3,378	1,596	38,035
(Gains) losses on sales of mortgage loans held for sale, net	(32)	1	(4,860)
Premium amortization on securities, net	4,956	4,042	2,981
Deferred income tax expense	746	109	1,181
Gain on sale of majority interest in consolidated subsidiary	-	-	(24)
Share-based compensation	925	605	426
(Gains) losses on sales of other real estate owned, net	(66)	100	14
Valuation adjustments on other real estate owned	310	79	(3)
Valuation adjustments on other assets held for sale	200	-	200
Increase in bank owned life insurance cash surrender value	(652)	(656)	(662)
Changes in assets and liabilities:			
Increase in other assets	(1,406)	(4,826)	(2,604)
Increase (decrease) in other liabilities	(98)	448	2,447
Net cash provided by operating activities	$ 15,977	$ 12,303	$ 48,789
Cash Flows from Investing Activities			
Proceeds from maturity, calls, principal repayments and sales of securities available for sale	155,485	106,154	132,286
Proceeds from maturity, calls, and principal repayments of held to maturity	44	43	-
Purchases of securities held to maturity	(6,520)	(2,750)	(1,500)
Purchases of securities available for sale	(90,644)	(139,556)	(149,287)
(Purchases) redemptions of restricted stock, net	1,869	(1,132)	1,501
(Purchases) sales of bank premises and equipment, net	(978)	(2,137)	321
Loan originations, net	(26,687)	(13,941)	(5,748)
Proceeds from sales of loans	4,412	1,124	5,492
Purchases of loans	(36,321)	(42,035)	(34,042)
Proceeds from sale of majority interest in consolidated subsidiary, net	-	-	3,618
Proceeds from sale of other real estate owned and repossessed assets	713	893	2,666
Net cash provided by (used in) investing activities	$ 1,373	$ (93,337)	$ (44,693)
Cash Flows from Financing Activities			
Increase in demand, interest-bearing demand and savings deposits	$ 31,193	$ 56,083	$ 25,686
Decrease in certificates of deposit	(18,935)	(4,363)	(19,002)
Increase (decrease) in securities sold under agreements to repurchase	7,995	(11,682)	4,012
Increase (decrease) in FHLB borrowings	(45,500)	30,000	(25,000)
Payment of dividends on common stock	(3,701)	(3,292)	(2,419)
Proceeds from exercise of options and warrant	1,742	-	394
Excess tax benefit on share-based compensation	14	-	37
Repurchases of common stock	(842)	(1,506)	(125)
Net cash provided by (used in) provided by financing activities	$ (28,034)	$ 65,240	$ (16,417)
Decrease in cash and cash equivalents	(10,684)	(15,794)	(12,321)
Cash and cash equivalents at beginning of year	39,228	55,022	67,343
Cash and cash equivalents at end of year	$ 28,544	$ 39,228	$ 55,022
Supplemental Disclosures of Cash Flow Information			
Interest paid	$ 4,447	$ 4,200	$ 5,341
Income taxes	$ 1,525	$ 3,710	$ 800
Supplemental Disclosure of Non-Cash Transactions			
Unrealized gains (losses) on securities available for sale	$ (4,761)	$ (3,192)	$ 5,634
Change in market value of interest rate swaps	$ 99	$ (15)	$ (236)
Transfer of loans to other real estate owned and repossessed assets	$ 2,645	$ 984	$ 4,438
Transfer of other real estate owned to premises and equipment	$ -	$ 697	$ -

See accompanying notes to the consolidated financial statements.

Note 1. Nature of Banking Activities and Significant Accounting Policies

Middleburg Financial Corporation (the "Company") is a bank holding company and through its banking subsidiary, Middleburg Bank, grants commercial, financial, agricultural, residential and consumer loans to customers principally in Loudoun County, Fauquier County and Fairfax County, Virginia as well as the City of Williamsburg and the City of Richmond. The loan portfolio is well diversified and generally is collateralized by assets of the borrowers. The loans are expected to be repaid from cash flow or proceeds from the sale of selected assets of the borrowers. Middleburg Trust Company is a non-banking subsidiary of Middleburg Financial Corporation which offers a comprehensive range of fiduciary and investment management services to individuals and businesses. On May 15, 2014, Middleburg Financial Corporation, through its banking subsidiary, Middleburg Bank, sold all of its majority interest in Southern Trust Mortgage LLC, which originated and sold mortgages secured by personal residences primarily in the southeastern United States.

The accounting and reporting policies of the Company conform to U. S. generally accepted accounting principles and to accepted practices within the banking industry.

Pending Merger with Access National Corporation

On October 24, 2016, the Company and Access National Corporation ("Access") announced a definitive agreement to combine in a strategic merger (the "Merger Agreement") pursuant to which the Company will merge with and into Access (the "Merger"). As a result of the Merger, the holders of shares of the Company's common stock will receive 1.3314 shares of Access common stock for each share of the Company's common stock held immediately prior to the effective date of the Merger. The transaction is expected to be completed in the second quarter of 2017, subject to approval of both companies' shareholders, regulatory approvals and other customary closing conditions.

Principles of Consolidation

The consolidated financial statements of Middleburg Financial Corporation and its wholly owned subsidiaries, Middleburg Bank, Middleburg Investment Group, Inc., Middleburg Trust Company and Middleburg Bank Service Corporation include the accounts of all companies. Through May 15, 2014, the Company owned 62.3% of the issued and outstanding membership interest units of Southern Trust Mortgage, through its subsidiary, Middleburg Bank. Accounting Standards Codification Topic 810, *Consolidation*, requires that the Company no longer eliminate through consolidation the equity investment in MFC Capital Trust II, which was $155,000 at December 31, 2016 and 2015. The subordinated debt of the trust preferred entity is reflected as a liability of the Company. All material intercompany balances and transactions have been eliminated in consolidation.

Securities

Certain debt securities that management has the positive intent and ability to hold until maturity are classified as "held-to-maturity" and recorded at amortized cost. Securities not classified as held-to-maturity, including equity securities with readily determinable fair values, are classified as "available-for-sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss). Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity investments in the Federal Home Loan Bank of Atlanta ("FHLB") and the Federal Reserve Bank of Richmond ("FRB") are separately classified as restricted securities and are carried at cost.

Impairment of securities occurs when the fair value of a security is less than its amortized cost. For debt securities, impairment is considered other-than-temporary and recognized in its entirety in net income if either (i) the intent is to sell the security or (ii) it is more likely than not that it will be necessary to sell the security prior to recovery of its amortized cost. If, however, management's intent is not to sell the security and it is not more than likely that management will be required to sell the security before recovery, management must determine what portion of the impairment is attributable to credit loss, which occurs when the amortized cost of the security exceeds the present value of the cash flows expected to be collected from the security. If there is no credit loss, there is no other-than-temporary impairment. If there is a credit loss, other-than-temporary impairment exists and the credit loss must be recognized in net income and the remaining portion of impairment must be recognized in other comprehensive income (loss).

For equity securities carried at cost as restricted securities, impairment is considered to be other-than-temporary based on our ability and intent to hold the investment until a recovery of fair value. Other-than-temporary impairment of an equity security results in a write-down that must be included in income. We regularly review each security for other-than-temporary impairment based on criteria that includes the extent to which cost exceeds market price, the duration of that market decline, the financial health of and specific prospects for the issuer, our best estimate of the present value of cash flows expected to be collected from debt securities, the intention with regards to holding the security to maturity and the likelihood that we would be required to sell the security before recovery.

Loans

The Company grants mortgage, commercial, and consumer loans to clients. The loan portfolio is segmented into commercial loans, real estate loans, and consumer loans. Real estate loans are further divided into the following classes: construction; farmland; 1-4 family residential; and other real estate loans. Descriptions of the Company's loan classes are as follows:

Commercial Loans: Commercial loans are typically secured with non-real estate commercial property. The Company makes commercial loans primarily to middle market businesses located within our market area.

Real Estate Loans - Construction: The Company originates construction loans for the acquisition and development of land and construction of condominiums, townhomes, and 1-4 family residences. This class also includes acquisition, development and construction loans for retail and other commercial purposes, primarily in our market areas.

Real Estate Loans- Farmland: Loans secured by agricultural property and not included in Real Estate - Other.

Real Estate Loans - 1-4 Family: This class of loans includes loans secured by 1-4 family homes. The Company's general practice is to sell the majority of its newly originated fixed-rate residential real estate loans in the secondary mortgage market, and to hold in its portfolio adjustable rate residential real estate loans and loans in close proximity to its financial service centers.

Real Estate Loans - Other: This loan class consists primarily of loans secured by multi-unit residential property and owner and non-owner occupied commercial and industrial property. This class also includes loans secured by real estate which do not fall into other classifications.

Consumer Loans: Consumer loans include all loans made to individuals for consumer or personal purposes. They include new and used auto loans, unsecured loans, and lines of credit.

The ability of the debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. For all classes of loans, the Company considers loans to be past due when a payment is not received by the payment due date according to the contractual terms of the loan. The Company monitors past due loans according to the following categories: less than 30 days past due, 30 - 59 days past due, 60 - 89 days past due, and 90 days or greater past due. The accrual of interest on all classes of loans is discontinued at the time the loans are 90 days delinquent unless they are well-secured and in the process of collection.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Deferred fees and costs include discounts and premiums on syndicated and guaranteed loans purchased. Interest income is accrued on the unpaid principal balance. Loan origination and commitment fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the loan yield over the life of the related loan.

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

Allowance for Loan Losses

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. Management uses a disciplined process and methodology to establish the allowance for loan losses each quarter. To determine the total allowance for loan losses, the Company estimates the reserves needed for each segment of the portfolio, including loans analyzed individually and loans analyzed on a pooled basis. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio; (ii) the real estate portfolio; and (iii) the consumer loan portfolio.

To determine the allowance for loan losses, loans are pooled by portfolio segment and losses are modeled using historical experience, and quantitative and other mathematical techniques over the loss emergence period. Each class of loan requires exercising significant judgment to determine the estimation that fits the credit risk characteristics of its portfolio segment. The Company uses internally developed models in this process. Management must use judgment in establishing additional input metrics for the modeling processes. The models and assumptions used to determine the allowance are reviewed to ensure that their theoretical foundation, assumptions, data integrity, computational processes, reporting practices, and end user controls are appropriate and properly documented.

The establishment of the allowance for loan losses relies on a consistent process that requires multiple layers of management review and judgment and responds to changes in economic conditions, customer behavior, and collateral value, among other influences. From time to time, events or economic factors may affect the loan portfolio, causing management to provide additional amounts to or release balances from the allowance for loan losses. Qualitative factors considered in the allowance for loan losses evaluation include the levels and trends in delinquencies and nonperforming loans, trends in volume and terms of loans, the effects of any changes in lending policies, the experience, ability, and depth of management, national and local economic trends and conditions, concentrations of credit, the quality of the Company's loan review system, competition and regulatory requirements. The Company's allowance for loan losses is sensitive to risk ratings, economic assumptions and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced senior credit officers.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged-off amounts are credited to the allowance for loans losses.

Loan Charge-off Policies

Commercial and consumer loans are generally charged off when:

- they are 90 days past due;
- the collateral is repossessed; or
- the borrower has filed bankruptcy.

All classes of real estate loans are charged down to the net realizable value when the Company determines that the sole source of repayment is liquidation of the collateral.

Impaired Loans

For all classes of loans, a loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

For all classes of loans, impairment is measured on a loan-by-loan basis by comparing the loan balance to either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Any variance in values is charged-off when determined.

Troubled Debt Restructurings

A troubled debt restructuring ("TDR") occurs in situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. All identified TDRs are considered to be impaired loans.

Management considers troubled debt restructurings and subsequent defaults of restructured loans in the determination of the adequacy of the Company's allowance for loan losses. When identified as a TDR, a loan is evaluated for potential loss as noted above for impaired loans. Loans identified as TDRs frequently are on nonaccrual status at the time of the restructuring and, in some cases, partial charge-offs may have already been taken against the loan and a specific reserve may have already been established for the loan. As a result of any modification as a TDR, the specific reserve associated with the loan may be increased.

Additionally, loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future defaults. If loans modified in a TDR subsequently default, the Company evaluates them for possible further impairment. As a result, any specific reserve may be increased, adjustments may be made in the allocation of the total allowance balance, or partial charge-offs may be taken to further write-down the carrying value of the loan. Management exercises significant judgment in developing estimates for potential losses associated with TDRs.

Mortgage Loans Held for Sale
Mortgage loans held for sale are carried at the lower of aggregate cost or fair value. The fair value of mortgage loans held for sale is determined using current secondary market prices for loans with similar coupons, maturities, and credit quality and fair value of loans committed at year-end.

Premises and Equipment
Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed principally on the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10-40
Furniture and equipment	3-15

Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale, or other disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts and gain or loss is included in income.

Other Real Estate Owned and Repossessed Assets
Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure. Subsequent to foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of like properties, length of time the properties have been held, and our ability and intention with regard to continued ownership of the properties. The Company may incur additional write-downs of foreclosed assets to fair value less costs to sell if valuations indicate a further deterioration in market conditions. Revenue and expenses from operations and changes in the property valuations are included in net expenses from foreclosed assets and improvements are capitalized.

Goodwill and Intangible Assets
With the adoption of Accounting Standards Update (ASU) 2011-08, "Intangible-Goodwill and Other-Testing Goodwill for Impairment", the Company is no longer required to perform a test for impairment unless, based on an assessment of qualitative factors related to goodwill, the Company determines that it is more likely than not that the fair value is less than its carrying amount. If the likelihood of impairment is more than 50%, the Company must perform a test for impairment and may be required to record impairment charges.

Additionally, acquired intangible assets (customer relationships) are separately recognized and amortized over their useful life of 15 years.

Bank-Owned Life Insurance
The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset increases in the costs of various fringe benefit plans, including healthcare. The cash surrender value of these policies is included as an asset on the consolidated balance sheets, and any increase in cash surrender value is recorded as non-interest income on the consolidated statements of income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit which would be recorded as other income.

Income Taxes
Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured, as described above, is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the consolidated statements of income. No liabilities for unrecognized tax benefits have been recognized as of December 31, 2016 or 2015.

Trust Company Assets
Securities and other properties held by Middleburg Trust Company in a fiduciary or agency capacity are not assets of the Company and are not included in the accompanying consolidated financial statements.

Earnings Per Share
Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Nonvested restricted shares are included in basic earnings per share because of dividend participation rights. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. As of December 31, 2016 potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from other banks and federal funds sold. Generally, federal funds are sold and purchased for one-day periods.

Use of Estimates
The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, impairment of goodwill and intangible assets, valuation of other real estate owned, and other-than-temporary impairment of securities.

Advertising Costs
The Company follows the policy of charging the costs of advertising to expense as incurred.

Comprehensive Income
Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, and changes in the fair value of interest rate swaps, are reported as a separate component of the equity section of the consolidated balance sheets, such items, along with net income, are components of comprehensive income.

Securities Sold Under Agreements to Repurchase
Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company does not account for repurchase agreement transactions as sales. All repurchase agreement transactions entered into by the Company are accounted for as collateralized financings. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Derivative Financial Instruments
The Company utilizes derivative financial instruments as a part of its asset-liability management program to control exposure to interest rate changes and fluctuations in market values and cash flows associated with certain financial instruments. The Company accounts for derivatives in accordance with ASC 815, "Derivatives and Hedging". Under current guidance, derivative transactions are classified as either cash flow hedges or fair value hedges or they are not designated as hedging instruments. The Company designates each transaction at its inception.

The Company documents all relationships between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value hedges or cash flow hedges to specific assets or liabilities on the balance sheet. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are effective in offsetting changes in fair values or cash flows of hedged items.

As of December 31, 2016, the Company had both fair value and cash flow hedges on its balance sheet as well as derivative financial instruments that have not been designated as hedging instruments. The derivatives are reported at fair value as of each balance sheet date. For designated cash flow hedges, the effective portions of changes in the fair value of the derivative are recorded in other comprehensive income (loss) and are recognized in the income statement when the hedged item affects earnings. Ineffective portions of changes in the fair value of cash flow hedges are recognized in earnings as are changes in market value of derivatives not designated as hedging instruments.

Information concerning each of the Company's categories of derivatives as of December 31, 2016 and 2015 is presented in Note 24 to the consolidated financial statements.

Reclassifications
Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation. No reclassifications were significant and there was no effect on net income.

Transfers of Financial Assets
Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Share-Based Employee Compensation Plan
At December 31, 2016, the Company had a share-based employee compensation plan which is described more fully in Note 8 to the consolidated financial statements. Compensation cost relating to share-based payment transactions is recognized in the consolidated financial statements. That cost is measured based on the fair value of the equity instruments issued and recognized over the applicable vesting period. The Company recognized $925,000, $605,000, and $426,000 in compensation expense during 2016, 2015, and 2014, respectively.

Recent Accounting Pronouncements
In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This update is intended to provide guidance about management's responsibility to evaluate whether there is substantial doubt about an entity's ability to continue as a going concern and to provide related footnote disclosures. Management is required under the new guidance to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year after the date the financial statements are issued when preparing financial statements for each interim and annual reporting period. If conditions or events are identified, the ASU specifies the process that must be followed by management and also clarifies the timing and content of going concern footnote disclosures in order to reduce diversity in practice. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2016. Early adoption is permitted. The Company does not expect the adoption of ASU 2014-15 to have a material impact on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities." The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements.

During March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships." The amendments in this ASU clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument does not, in and of itself, require dedesignation of that hedging relationship provided that all other hedge accounting criteria remain intact. The amendments are effective for public business entities for financial statements issued for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-05 to have a material impact on its consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-07, "Investments - Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting." The amendments in this ASU eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. In addition, the amendments in this ASU require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income (loss) at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. The Company does not expect the adoption of ASU 2016-07 to have a material impact on its consolidated financial statements.

During March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting." The amendments in this ASU simplify several aspects of the accounting for share-based payment award transactions including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for public companies for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The Company is currently assessing the impact that ASU 2016-09 will have on its consolidated financial statements.

During June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements.

During August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments", to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business-inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a "set") that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

During January 2017, the FASB issued ASU No. 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are U.S. Securities and Exchange Commission (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Public business entities that are not SEC filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2020. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

Note 2. Securities

Amortized costs and fair values of securities being held to maturity as of December 31, 2016 and 2015, are summarized as follows:

	December 31, 2016			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Held to Maturity				
Obligations of states and political subdivisions	$ 6,433	$ -	$ (594)	$ 5,839
Corporate securities	4,250	21	(15)	4,256
Total	$ 10,683	$ 21	$ (609)	$ 10,095

(Dollars in thousands)	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to Maturity				
Obligations of states and political subdivisions	$ 1,457	$ -	$ (38)	$ 1,419
Corporate securities	2,750	24	(30)	2,744
Total	$ 4,207	$ 24	$ (68)	$ 4,163

The amortized cost and fair value of securities being held to maturity as of December 31, 2016, by contractual maturity are shown below.

(Dollars in thousands)	December 31, 2016 Amortized Cost	Fair Value
Held to Maturity		
Due after five years through ten years	$ 4,250	$ 4,256
Due after ten years	6,433	5,839
Total	$ 10,683	$ 10,095

Amortized costs and fair values of securities available for sale as of December 31, 2016 and 2015, are summarized as follows:

(Dollars in thousands)	December 31, 2016 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	$ 73,546	$ 209	$ (571)	$ 73,184
Obligations of states and political subdivisions	62,896	1,019	(542)	63,373
Mortgage-backed securities:				
Agency	98,549	646	(1,144)	98,051
Non-agency	9,991	16	(74)	9,933
Other asset backed securities	41,860	361	(616)	41,605
Corporate securities	16,648	-	(1,227)	15,421
Total	$ 303,490	$ 2,251	$ (4,174)	$ 301,567

(Dollars in thousands)	December 31, 2015 Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for Sale				
U.S. government agencies	$ 79,005	$ 315	$ (380)	$ 78,940
Obligations of states and political subdivisions	74,071	1,956	(434)	75,593
Mortgage-backed securities:				
Agency	129,360	3,046	(745)	131,661
Non-agency	12,782	33	(38)	12,777
Other asset backed securities	58,958	426	(603)	58,781
Corporate securities	17,557	22	(760)	16,819
Total	$ 371,733	$ 5,798	$ (2,960)	$ 374,571

The amortized cost and fair value of securities available for sale as of December 31, 2016, by contractual maturity are shown below. Maturities may differ from contractual maturities in corporate and mortgage-backed securities because the securities and mortgages underlying the securities may be called or repaid without any penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

(Dollars in thousands)	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Available for Sale		
Due in one year or less	$ 777	$ 777
Due after one year through five years	9,020	9,219
Due after five years through ten years	25,004	24,174
Due after ten years	118,289	117,808
Mortgage-backed securities	108,540	107,984
Other asset backed securities	41,860	41,605
Total	$ 303,490	$ 301,567

Proceeds from sales of securities available for sale during 2016, 2015, and 2014 were $79.3 million, $11.6 million, and $58.9 million, respectively. Proceeds from calls and principal repayments of securities available for sale during 2016, 2015, and 2014 were $76.2 million, $89.9 million and $73.4 million, respectively. Gross gains on sales and calls of securities available for sale were $1.5 million, and $49,000 in 2016, respectively, $172,000 and $5,000 in 2015, respectively and $770,000 and none in 2014, respectively. Gross losses on sales and calls of securities available for sale were $28,000, and $9,000 in 2016, respectively, $37,000 and none in 2015, respectively and $584,000 and none in 2014 respectively. There were no losses recognized for impaired securities in 2016, 2015, and 2014. The tax expense applicable to these net realized gains amounted to $528,000, $48,000, and $63,000, for 2016, 2015 and 2014, respectively.

The carrying value of securities pledged to qualify for fiduciary powers, to secure public monies and for other purposes as required by law amounted to $115.7 million and $113.1 million at December 31, 2016 and 2015, respectively.

At December 31, 2016 and 2015, investments in an unrealized loss position that are temporarily impaired are as follows:

(Dollars in thousands)	Less than Twelve Months		Twelve Months or Greater		Total	
2016	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held to Maturity						
Obligations of states and political subdivisions	$ 5,839	$ (594)	$ -	$ -	$ 5,839	$ (594)
Corporate securities	1,485	(15)	-	-	1,485	(15)
Total	$ 7,324	$ (609)	$ -	$ -	$ 7,324	$ (609)
Available for Sale						
U.S. government agencies	$ 46,700	$ (495)	$ 7,174	$ (76)	$ 53,874	$ (571)
Obligations of states and political subdivisions	12,670	(257)	6,968	(285)	19,638	(542)
Mortgage-backed securities:						
Agency	51,018	(634)	13,020	(510)	64,038	(1,144)
Non-agency	5,379	(68)	1,944	(6)	7,323	(74)
Other asset backed securities	7,007	(284)	16,388	(332)	23,395	(616)
Corporate securities	5,912	(241)	9,262	(986)	15,174	(1,227)
Total	$ 128,686	$ (1,979)	$ 54,756	$ (2,195)	$ 183,442	$ (4,174)

(Dollars in thousands)	Less than Twelve Months		Twelve Months or Greater		Total	
2015	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Held to Maturity						
Obligations of states and political subdivisions	$ 1,419	$ (38)	$ -	$ -	$ 1,419	$ (38)
Corporate securities	1,970	(30)	-	-	1,970	(30)
Total	$ 3,389	$ (68)	$ -	$ -	$ 3,389	$ (68)
Available for Sale						
U.S. government agencies	$ 46,000	$ (304)	$ 4,223	$ (76)	$ 50,223	$ (380)
Obligations of states and political subdivisions	16,559	(324)	1,082	(110)	17,641	(434)
Mortgage-backed securities:						
Agency	27,627	(402)	9,911	(343)	37,538	(745)
Non-agency	7,842	(37)	671	(1)	8,513	(38)
Other asset backed securities	25,399	(276)	12,037	(327)	37,436	(603)
Corporate securities	10,740	(378)	4,866	(382)	15,606	(760)
Total	$ 134,167	$ (1,721)	$ 32,790	$ (1,239)	$ 166,957	$ (2,960)

A total of 256 securities have been identified by the Company as temporarily impaired at December 31, 2016. Of the 256 securities, 251 are investment grade and five are speculative grade. Market prices change daily and are affected by conditions beyond the control of the Company. Although the Company has the ability to hold these securities until the temporary loss is recovered, decisions by management may necessitate a sale before the loss is fully recovered. No such sales were anticipated or required as of December 31, 2016. Investment decisions reflect the strategic asset/liability objectives of the Company. The investment portfolio is analyzed frequently by the Company and managed to provide an overall positive impact to the Company's income statement and balance sheet.

Other-than-temporary impairment losses

At December 31, 2016, the Company evaluated the investment portfolio for possible other-than-temporary impairment losses and concluded that no adverse change in cash flows occurred and did not consider any portfolio securities to be other-than-temporarily impaired. Based on this analysis and because the Company does not intend to sell securities in an unrealized loss position and it is more likely than not the Company will not be required to sell any securities before recovery of amortized cost basis, which may be at maturity, the Company does not consider any portfolio securities to be other-than-temporarily impaired. For debt securities related to corporate securities, the Company determined that there was no other adverse change in the cash flows as viewed by a market participant; therefore, the Company does not consider the investments in these assets to be other-than-temporarily impaired at December 31, 2016. However, there is a risk that the Company's continuing reviews could result in recognition of other-than-temporary impairment charges in the future. For the years ended December 31, 2016, 2015, and 2014, no credit related impairment losses were recognized by the Company.

Restricted securities
The Company's investment in FHLB stock totaled $2.8 million and $4.7 million at December 31, 2016 and 2015, respectively. FHLB stock is generally viewed as a long-term investment and as a restricted security which is carried at cost because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Company does not consider this investment to be other-than-temporarily impaired at December 31, 2016, and no impairment has been recognized. FHLB stock is shown in restricted securities on the consolidated balance sheets and is not part of the available for sale portfolio.

The Company also had an investment in FRB stock which totaled $1.7 million at December 31, 2016 and 2015, respectively. The investment in FRB stock is a required investment and is carried at cost since there is no ready market. The Company does not consider this investment to be other-than-temporarily impaired at December 31, 2016 and no impairment has been recognized. FRB stock is shown in the restricted securities line item on the consolidated balance sheets and is not part of the available for sale securities portfolio.

Note 3. Loans, Net

The Company segregates its loan portfolio into three primary loan segments: Real Estate Loans, Commercial Loans, and Consumer Loans. Real estate loans are further segregated into the following classes: construction loans, loans secured by farmland, loans secured by 1-4 family residential real estate, and other real estate loans. Other real estate loans include commercial real estate loans. The consolidated loan portfolio was composed of the following:

	2016		2015	
(Dollars in thousands)	**Outstanding Balance**	**Percent of Total Portfolio**	**Outstanding Balance**	**Percent of Total Portfolio**
Real estate loans:				
Construction	$ 35,627	4.1%	$ 39,673	4.9%
Secured by farmland	16,768	2.0	19,062	2.4
Secured by 1-4 family residential	314,045	36.5	280,096	34.8
Other real estate loans	283,613	33.0	258,035	32.0
Commercial loans	190,767	22.2	190,482	23.6
Consumer loans	19,277	2.2	18,333	2.3
Total Gross Loans [1]	860,097	100.0%	805,681	100.0%
Less allowance for loan losses	11,404		11,046	
Net loans	$ 848,693		$ 794,635	

(1) Includes net deferred loan costs and premiums of $3.3 million and $3.5 million, respectively.

The Company had no mortgages held for sale at December 31, 2016 and 2015.

During the year ended December 31, 2016, net proceeds received on the sale of $4.3 million in four problem loans totaled $4.4 million, resulting in a net recovery of $127,000 of amounts previously charged-off related to those loans. These loans were sold on a non-recourse basis. Of this amount, $1.2 million were on nonaccrual status, as well as 28 loans with no outstanding recorded investment as they had been fully charged-off in prior periods. There were $339,000 in specific reserves associated with these loans. During the year ended December 31, 2015, the Company received net proceeds of $1.1 million on the sale of $1.0 million in portfolio loans on a non-recourse basis, resulting in a net recovery of $100,000 of amounts previously charged-off related to those loans. Of this amount, $1.0 million were on nonaccrual status and were classified as TDRs. There were no specific reserves associated with these loans.

The following tables present a contractual aging of the recorded investment in past due loans by class of loans as of December 31, 2016 and December 31, 2015, respectively:

	December 31, 2016					
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Current**	**Total Loans**
Real estate loans:						
Construction	$ -	$ -	$ -	$ -	$ 35,627	$ 35,627
Secured by farmland	-	199	-	199	16,569	16,768
Secured by 1-4 family residential	-	-	514	514	313,531	314,045
Other real estate loans	312	-	2,104	2,416	281,197	283,613
Commercial loans	146	10	2,518	2,674	188,093	190,767
Consumer loans	88	4	1,871	1,963	17,314	19,277
Total	$ 546	$ 213	$ 7,007	$ 7,766	$ 852,331	$ 860,097

	December 31, 2015					
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days Or Greater**	**Total Past Due**	**Current**	**Total Loans**
Real estate loans:						
Construction	$ 69	$ -	$ -	$ 69	$ 39,604	$ 39,673
Secured by farmland	-	-	-	-	19,062	19,062
Secured by 1-4 family residential	259	-	1,117	1,376	278,720	280,096
Other real estate loans	325	-	248	573	257,462	258,035
Commercial loans	1,242	15	31	1,288	189,194	190,482
Consumer loans	4	17	-	21	18,312	18,333
Total	$ 1,899	$ 32	$ 1,396	$ 3,327	$ 802,354	$ 805,681

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing by class of loans as of December 31, 2016 and 2015, respectively:

	2016		2015	
(Dollars in thousands)	**Nonaccrual**	**Past due 90 days or more and still accruing**	**Nonaccrual**	**Past due 90 days or more and still accruing**
Real estate loans:				
Construction	$ 29	$ -	$ 204	$ -
Secured by 1-4 family residential	296	303	4,460	-
Other real estate loans	1,976	128	1,186	248
Commercial loans	4,187	350	1,036	30
Consumer loans	1,871	-	1,898	-
Total	$ 8,359	$ 781	$ 8,784	$ 278

If interest on nonaccrual loans had been accrued, such income would have approximated $362,000, $342,000, and $544,000 for the years ended December 31, 2016, 2015, and 2014, respectively. The Company sold $4.3 million and $1.0 million in loans during 2016 and 2015, respectively, of which, $1.2 million and $1.0 million were on nonaccrual status, respectively.

The Company utilizes an internal asset classification system as a means of measuring and monitoring credit risk in the loan portfolio. Under the Company's classification system, problem and potential problem loans are classified as "Special Mention", "Substandard", and "Doubtful".

Special Mention: Loans with potential weaknesses that deserve management's close attention. If left uncorrected, the potential weaknesses may result in the deterioration of the repayment prospects for the credit.

Substandard: Loans with well-defined weaknesses that jeopardize the liquidation of the debt. Either the paying capacity of the borrower or the value of the collateral may be inadequate to protect the Company from potential losses.

Doubtful: Loans with a very high possibility of loss. However, because of important and reasonably specific pending factors, classification as a loss is deferred until a more exact status may be determined.

Loss: Loans are deemed uncollectible and are charged off immediately.

The following tables present the recorded investment in loans by class of loan that have been classified according to the internal classification system as of December 31, 2016 and 2015, respectively:

December 31, 2016

(Dollars in thousands)	Real Estate Construction	Real Estate Secured by Farmland	Real Estate Secured by 1-4 Family Residential	Other Real Estate Loans	Commercial	Consumer	Total
Pass	$ 30,065	$ 8,796	$ 310,233	$ 274,591	$ 185,030	$ 17,342	$ 826,057
Special Mention	5,534	-	932	2,287	1,390	25	10,168
Substandard	28	7,972	2,584	4,759	2,179	1,909	19,431
Doubtful	-	-	125	1,976	2,168	-	4,269
Loss	-	-	171	-	-	1	172
Ending Balance	$ 35,627	$ 16,768	$ 314,045	$ 283,613	$ 190,767	$ 19,277	$ 860,097

December 31, 2015

(Dollars in thousands)	Real Estate Construction	Real Estate Secured by Farmland	Real Estate Secured by 1-4 Family Residential	Other Real Estate Loans	Commercial	Consumer	Total
Pass	$ 30,114	$ 10,566	$ 271,721	$ 243,768	$ 183,532	$ 16,347	$ 756,048
Special Mention	9,024	-	896	7,254	3,638	42	20,854
Substandard	535	8,496	6,818	5,827	2,301	1,943	25,920
Doubtful	-	-	661	1,186	1,011	-	2,858
Loss	-	-	-	-	-	1	1
Ending Balance	$ 39,673	$ 19,062	$ 280,096	$ 258,035	$ 190,482	$ 18,333	$ 805,681

The following tables present loans individually evaluated for impairment by class of loan as of and for the year ended December 31, 2016 and 2015:

	December 31, 2016				
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Real estate loans:					
Construction	$ 28	$ 28	$ -	$ 28	$ -
Secured by farmland	7,972	7,972	-	7,951	239
Secured by 1-4 family residential	72	108	-	72	2
Other real estate loans	1,976	1,976	-	1,976	-
Commercial loans	585	3,585	-	706	16
Consumer loans	-	-	-	-	-
Total with no related allowance	$ 10,633	$ 13,669	$ -	$ 10,733	$ 257
With an allowance recorded:					
Real estate loans:					
Construction	$ -	$ -	$ -	$ -	$ -
Secured by farmland	-	-	-	-	-
Secured by 1-4 family residential	1,275	1,326	251	1,239	49
Other real estate loans	2,971	2,971	206	2,975	151
Commercial loans	4,019	4,019	2,539	5,088	-
Consumer loans	1,871	1,871	842	1,871	-
Total with a related allowance	$ 10,136	$ 10,187	$ 3,838	$ 11,173	$ 200
Total	$ 20,769	$ 23,856	$ 3,838	$ 21,906	$ 457

	December 31, 2015				
(Dollars in thousands)	**Recorded Investment**	**Unpaid Principal Balance**	**Related Allowance**	**Average Recorded Investment**	**Interest Income Recognized**
With no related allowance recorded:					
Real estate loans:					
Construction	$ 100	$ 100	$ -	$ 106	$ -
Secured by farmland	7,903	7,903	-	7,903	237
Secured by 1-4 family residential	701	736	-	703	-
Other real estate loans	-	-	-	-	-
Commercial loans	458	493	-	490	17
Consumer loans	-	-	-	-	-
Total with no related allowance	$ 9,162	$ 9,232	$ -	$ 9,202	$ 254
With an allowance recorded:					
Real estate loans:					
Construction	$ 103	$ 103	$ 53	$ 109	$ -
Secured by farmland	-	-	-	-	-
Secured by 1-4 family residential	4,426	4,478	1,120	4,547	27
Other real estate loans	4,196	4,196	464	4,224	157
Commercial loans	1,059	4,059	27	2,315	100
Consumer loans	1,898	1,898	1,000	2,449	-
Total with a related allowance	$ 11,682	$ 14,734	$ 2,664	$ 13,644	$ 284
Total	$ 20,844	$ 23,966	$ 2,664	$ 22,846	$ 538

The “Recorded Investment” amounts in the table above represent the outstanding principal balance net of charge-offs and nonaccrual payments of interest applied to principal on each loan represented in the table. The “Unpaid Principal Balance” represents the outstanding principal balance on each loan represented in the table plus any amounts that have been charged-off on each loan and nonaccrual payments applied to principal.

Included in certain loan categories of impaired loans are troubled debt restructurings (“TDRs”). The total balance of TDRs at December 31, 2016 was $14.4 million of which $2.0 million were included in the Company’s nonaccrual loan totals at that date and $12.4 million represented loans performing as agreed according to the restructured terms. This compares with $15.5 million in total restructured loans at December 31, 2015. The amount of the valuation allowance related to TDRs was $1.1 million and $1.6 million as of December 31, 2016 and 2015 respectively.

Loan modifications that were classified as TDRs during the years ended December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	Year Ended December 31,					
	2016			2015		
Class of Loan	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real estate loans:						
Construction	1	$ 38	$ 38	-	$ -	$ -
Secured by farmland	-	-	-	1	7,903	7,903
Secured by 1-4 family residential	2	809	806	-	-	-
Other real estate loans	2	1,240	1,240	4	4,283	3,872
Total real estate loans	5	2,087	2,084	5	12,186	11,775
Commercial loans	-	-	-	1	50	46
Consumer loans	-	-	-	1	3,000	3,000
Total	5	$ 2,087	$ 2,084	7	$ 15,236	$ 14,821

The interest only payment terms were extended for one of the contracts and the maturity dates were extended for four of the contracts classified as TDRs during 2016. There were no outstanding commitments to lend additional amounts to troubled debt restructured borrowers at December 31, 2016.

There were no TDR payment defaults as of December 31, 2016 and December 31, 2015. For purposes of this disclosure, a TDR payment default occurs when, within 12 months of the original TDR modification, either a full or partial charge-off occurs or a TDR becomes 90 days or more past due.

Note 4. Allowance for Loan Losses

The following table presents the total allowance for loan losses, the allowance by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment), the total loans and loans by impairment methodology (individually evaluated for impairment or collectively evaluated for impairment).

	December 31, 2016						
(Dollars in thousands)	Real Estate Construction	Real Estate Secured by Farmland	Real Estate Secured by 1-4 Family Residential	Other Real Estate Loans	Commercial	Consumer	Total
Allowance for loan losses:							
Balance December 31, 2015	$ 905	$ 192	$ 3,341	$ 3,761	$ 1,706	$ 1,141	$ 11,046
Charge-offs	(388)	-	(1,021)	(126)	(639)	(20)	(2,194)
Recoveries	129	-	395	32	85	58	699
Provision	293	(65)	(453)	(500)	2,781	(203)	1,853
Balance December 31, 2016	$ 939	$ 127	$ 2,262	$ 3,167	$ 3,933	$ 976	$ 11,404
Ending allowance:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 251	$ 206	$ 2,539	$ 842	$ 3,838
Collectively evaluated for impairment	939	127	2,011	2,961	1,394	134	7,566
Total ending allowance balance	$ 939	$ 127	$ 2,262	$ 3,167	$ 3,933	$ 976	$ 11,404
Loans:							
Individually evaluated for impairment	$ 28	$ 7,972	$ 1,347	$ 4,947	$ 4,604	$ 1,871	$ 20,769
Collectively evaluated for impairment	35,599	8,796	312,698	278,666	186,163	17,406	839,328
Total ending loans balance	$ 35,627	$ 16,768	$ 314,045	$ 283,613	$ 190,767	$ 19,277	$ 860,097

(Dollars in thousands)	Real Estate Construction	Real Estate Secured by Farmland	Real Estate Secured by 1-4 Family Residential	Other Real Estate Loans	Commercial	Consumer	Total
	December 31, 2015						
Allowance for loan losses:							
Balance at December 31, 2014	$ 550	$ 179	$ 3,966	$ 3,916	$ 2,354	$ 821	$ 11,786
Charge-offs	-	-	(344)	(9)	(3,281)	(57)	(3,691)
Recoveries	246	-	359	28	14	11	658
Provision	109	13	(640)	(174)	2,619	366	2,293
Balance at December 31, 2015	$ 905	$ 192	$ 3,341	$ 3,761	$ 1,706	$ 1,141	$ 11,046
Ending allowance:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 53	$ -	$ 1,120	$ 464	$ 27	$ 1,000	$ 2,664
Collectively evaluated for impairment	852	192	2,221	3,297	1,679	141	8,382
Total ending allowance balance	$ 905	$ 192	$ 3,341	$ 3,761	$ 1,706	$ 1,141	$ 11,046
Loans:							
Individually evaluated for impairment	$ 203	$ 7,903	$ 5,127	$ 4,196	$ 1,517	$ 1,898	$ 20,844
Collectively evaluated for impairment	39,470	11,159	274,969	253,839	188,965	16,435	784,837
Total ending loans balance	$ 39,673	$ 19,062	$ 280,096	$ 258,035	$ 190,482	$ 18,333	$ 805,681

	December 31, 2014						
(Dollars in thousands)	Real Estate Construction	Real Estate Secured by Farmland	Real Estate Secured by 1-4 Family Residential	Other Real Estate Loans	Commercial	Consumer	Total
Allowance for loan losses:							
Balance at December 31, 2013	$ 847	$ 166	$ 6,734	$ 3,506	$ 1,890	$ 177	$ 13,320
Adjustment for the sale of majority interest in consolidated subsidiary	-	-	(95)	-	-	-	(95)
Charge-offs	(1,186)	-	(1,380)	(747)	(959)	(36)	(4,308)
Recoveries	258	-	342	110	104	95	909
Provision	631	13	(1,635)	1,047	1,319	585	1,960
Balance at December 31, 2014	$ 550	$ 179	$ 3,966	$ 3,916	$ 2,354	$ 821	$ 11,786
Ending allowance:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 66	$ -	$ 1,370	$ 294	$ 292	$ 647	$ 2,669
Collectively evaluated for impairment	484	179	2,596	3,622	2,062	174	9,117
Total ending allowance balance	$ 550	$ 179	$ 3,966	$ 3,916	$ 2,354	$ 821	$ 11,786
Loans:							
Individually evaluated for impairment	$ 246	$ 7,903	$ 5,613	$ 4,531	$ 846	$ 3,019	$ 22,158
Collectively evaluated for impairment	32,804	11,805	259,603	250,705	162,423	15,348	732,688
Total ending loans balance	$ 33,050	$ 19,708	$ 265,216	$ 255,236	$ 163,269	$ 18,367	$ 754,846

Note 5. Premises and Equipment, Net

Premises and equipment consists of the following:

(Dollars in thousands)	2016	2015
Land	$ 2,068	$ 2,068
Facilities	22,873	22,849
Furniture, fixtures, and equipment	11,729	11,676
Construction in process and deposits on equipment and land	1,842	1,455
	38,512	38,048
Less accumulated depreciation	(19,491)	(18,517)
Total	$ 19,021	$ 19,531

Depreciation expense was $1.4 million for the year ended December 31, 2016, $1.3 million for the year ended December 31, 2015, and $1.5 million for the year ended December 31, 2014.

Pursuant to the terms of non-cancelable lease agreements in effect at December 31, 2016, pertaining to banking premises, future minimum rent commitments under various operating leases are as follows:

(Dollars in thousands)	December 31, 2016
2017	$ 1,666
2018	1,617
2019	1,624
2020	1,444
2021	1,408
Thereafter	13,388
	$ 21,147

Rent expense was $1.8 million, $2.0 million, and $2.8 million for the years ended December 31, 2016, 2015, and 2014, respectively, and is included in occupancy and equipment expense on the consolidated statements of income.

Note 6. Deposits

The Company has developed an interest bearing product that integrates the use of the cash within client accounts at Middleburg Trust Company for overnight funding at Middleburg Bank. The overall balance of this product was $43.2 million and $34.0 million at December 31, 2016 and 2015, respectively.

The aggregate amount of jumbo time deposits, each with a minimum denomination of $250,000, was approximately $84.5 million and $91.0 million at December 31, 2016 and 2015, respectively.

At December 31, 2016, the scheduled maturities of time deposits are as follows:

(Dollars in thousands)	December 31, 2016
2017	$ 151,293
2018	38,370
2019	25,494
2020	7,115
2021	3,368
	$ 225,640

At December 31, 2016 and 2015, overdraft demand deposits reclassified to loans totaled $142,000 and $358,000, respectively.

Middleburg Bank obtains certain deposits through the efforts of third-party brokers. At December 31, 2016 and 2015, brokered deposits totaled $36.5 million and $38.7 million, respectively, and were included in time deposits.

Note 7. Borrowings

As of December 31, 2016, Middleburg Bank had remaining credit availability in the amount of $334.3 million at the Federal Home Loan Bank of Atlanta ("FHLB"). This line may be utilized for short and/or long-term borrowing. Advances on the line are secured by all of the Company's first lien residential real estate loans on 1-4 unit, single-family dwellings; home equity lines of credit; and eligible commercial real estate loans. The amount of the available credit is limited to a percentage of the estimated market value of the loans as determined periodically by the FHLB. Any borrowings in excess of the qualifying collateral require pledging of additional assets. As of December 31, 2016, Middleburg Bank also had a letter of credit in the amount of $25.0 million with the FHLB. This letter of credit was issued as collateral for public fund depository accounts and is reflected in the remaining credit availability.

The Company had $39.5 million of FHLB advances outstanding as of December 31, 2016. The interest rates on these advances ranged from 0.63% to 0.93% and the weighted-average rate was 0.78%. The Company's FHLB advances totaled $85.0 million at December 31, 2015. The weighted-average interest rate on these advances at December 31, 2015 was 0.66%.

The contractual maturities of the Company's long-term debt are as follows:

(Dollars in thousands)		December 31, 2016
Due in 2017	$	29,500
Due in 2018		10,000
Total	$	39,500

Securities sold under agreements to repurchase consist of secured transactions with customers which generally mature the day following the day sold totaling $34.9 million and $26.9 million at December 31, 2016 and December 31, 2015, respectively.

The outstanding balances and related information for securities sold under agreements to repurchase are summarized as follows:

(Dollars in thousands)	Securities sold under agreements to repurchase	
At December 31:		
2016	$	34,864
2015		26,869
Weighted-average interest rate at year-end:		
2016		0.01%
2015		0.01
Maximum amount outstanding at any month's end:		
2016	$	35,660
2015		34,253
Average amount outstanding during the year:		
2016	$	31,076
2015		30,095
Weighted-average interest rate during the year:		
2016		0.01%
2015		0.21

The Company also has a line of credit with the Federal Reserve Bank of Richmond of $33.4 million of which there was no outstanding balance at December 31, 2016.

The Company has an additional $45.0 million in lines of credit available from other institutions at December 31, 2016.

Note 8. Share-Based Compensation Plan

The Company sponsored one share-based compensation plan, the 2006 Equity Compensation Plan, which provided for the granting of stock options, stock appreciation rights, stock awards, performance share awards, incentive awards, and stock units. The 2006 Equity Compensation Plan was approved by the Company's shareholders at the Annual Meeting held on April 26, 2006, and has succeeded the Company's 1997 Stock Incentive Plan. The plan expired by its own terms in February 2016, before which, the Company granted share-based compensation to its directors, officers, employees, and other persons the Company determined to have contributed to the profits or growth of the Company. The number of shares reserved for issuance totaled 430,000 shares.

The Company granted 49,100 shares of restricted stock during 2016 to certain employees and executive officers. Of the 49,100 shares, 31,750 shares are in the form of performance-accelerated restricted stock and 17,350 shares are in the form of time-based restricted stock. During 2016, the Company's board of directors also awarded 11 directors 400 shares of restricted stock for a total of 4,400 restricted shares. These shares will vest at 100% in April 2017.

For the performance-accelerated restricted stock granted to certain employees and executive officers, in order for a recipient to earn and have vested 100% of granted shares, the Company must achieve certain financial performance targets during predefined monitoring periods as compared to a selected peer group and the recipient must be employed by the Company or one of its subsidiaries at the end of the predefined vesting period. Vested shares are distributed to recipients immediately after performance targets are certified. Partial share vesting may be achieved for interim periods during the predefined monitoring periods, however no vesting may occur before the end of 2018. If any shares remain unvested, 50% of the unvested shares will be forfeited. Any remaining shares vest at the end of the predefined monitoring period provided that the recipient remained employed by the Company or one of its subsidiaries over the entire performance and vesting period.

For the time-based restricted stock granted to certain employees and executive officers, in order for a recipient to earn and have vested 100% of the granted shares, the recipient must be employed by the Company or one of its subsidiaries at the time of vesting.

For the years ended December 31, 2016, 2015, and 2014, the Company recorded $925,000, $605,000, and $426,000, respectively, in share-based compensation expense related to restricted stock and option grants. The total income tax benefit related to share-based compensation was $5,000, $117,000, and $63,000 in 2016, 2015, and 2014, respectively.

The following table summarizes restricted stock awarded under the 2006 Equity Compensation Plan:

	December 31,								
	2016			2015			2014		
(Dollars in thousands)	**Shares**	**Weighted-Average Grant Date Fair Value**	**Aggregate Value**	**Shares**	**Weighted-Average Grant Date Fair Value**	**Aggregate Value**	**Shares**	**Weighted-Average Grant Date Fair Value**	**Aggregate Value**
Non-vested at the beginning of the year	153,399	$ 17.17		134,108	$ 16.66		119,250	$ 16.39	
Granted	53,500	20.76		36,150	18.50		41,533	17.65	
Vested	(53,908)	16.88		(16,359)	15.91		(15,425)	15.59	
Forfeited or expired	(2,250)	19.91		(500)	18.07		(11,250)	16.05	
Non-vested at end of the year	150,741	$ 18.50	$ 5,238	153,399	$ 17.17	$ 2,835	134,108	$ 16.66	$ 2,415

The weighted-average remaining contractual term for non-vested grants at December 31, 2016, 2015, and 2014 was 2.5 , 2.7, and 3.5 years, respectively. As of December 31, 2016, there was $1.6 million of total unrecognized compensation expense related to the non-vested service awards granted under the 2006 Equity Compensation Plan.

Stock options may be granted periodically to certain officers and employees under the Company’s share-based compensation plan at prices equal to the market value of the stock on the date the options are granted. Options granted vest over a three-year time period over which 25% vests on each of the first and second anniversaries of the grant and 50% on the third anniversary of the grant. As of December 31, 2016, all outstanding option awards were vested and, accordingly, there was no unrecognized compensation expense related to unvested stock-based option awards. Shares issued in connection with stock option exercises may be issued from available treasury shares or from market purchases. There were no stock option awards granted during the years ended December 31, 2016, 2015 or 2014.

The following table summarizes options outstanding under the 2006 Equity Compensation Plan at the end of the reportable periods:

	2016		2015		2014	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at beginning of year	30,012	$ 14.00	30,012	$ 14.00	58,513	$ 15.30
Granted	-	-	-	-	-	-
Exercised	(6,650)	14.00	-	-	(25,501)	14.00
Forfeited or expired	-	-	-	-	(3,000)	39.40
Outstanding at end of year	23,362	$ 14.00	30,012	$ 14.00	30,012	$ 14.00
Options exercisable at year end	23,362	$ 14.00	30,012	$ 14.00	30,012	$ 14.00

The total intrinsic value of options exercised was $88,000 and $126,500 during 2016 and 2014, respectively. There were no options exercised during 2015. There was $484,800, $134,500, and $120,300 aggregate intrinsic value of options outstanding at December 31, 2016, 2015 and 2014, respectively.

The aggregate intrinsic value represents the amount by which the current market value of the underlying stock exceeds the exercise price. This amount changes based on changes in the market value of the Company's common stock.

As of December 31, 2016, options outstanding and exercisable are summarized as follows:

Range of Exercise Prices	Options Outstanding	Weighted-Average Remaining Contractual Life (years)	Options Exercisable
$ 14.00	18,362	2.22	18,362
$ 14.00	5,000	2.85	5,000
$ 14.00	23,362	2.36	23,362

Note 9. Employee Benefit Plans

401(k) Plan

The Company has a 401(k) plan whereby a majority of employees participate in the plan. Employees may contribute up to 100% of their compensation subject to certain limits based on federal tax laws. The Company makes matching contributions equal to 50% of the first 6% of an employee's compensation contributed to the plan. Matching contributions vest to the employee equally over a five year period. For the years ended December 31, 2016, 2015, and 2014, expense attributable to the plan amounted to $364,000, $351,000 and $340,000, respectively.

Money Purchase Pension Plan (MPPP)

The Middleburg Financial Corporation Defined Benefit Pension Plan was replaced by a Money Purchase Pension Plan effective on January 1, 2010. Employees who have attained age 21 and completed one year of service are eligible to participate in the plan as of the first day of the month following the completion of such eligibility provisions. Employees earn a year of service if they complete one thousand hours of service in a plan year. Service with Middleburg Financial Corporation and its subsidiaries prior to the effective date of the Plan counts toward a participant's initial eligibility to participate in the plan.

Each year, a participant receives an allocation of an employer contribution equal to 3.00% of total compensation (up to the statutory maximum) plus an additional contribution of 2.75% of compensation in excess of the Social Security taxable wage base (up to the statutory maximum). To receive an allocation, the participant must complete one thousand hours of service in the plan year and be employed on the last day of the plan year. The requirement to be employed on the last day of the plan year does not apply if a participant dies, retires, or becomes disabled during the plan year.

Participants become vested in their employer contributions according to a schedule which allows for graduated vesting and full vesting after five years of service. Service with Middleburg Financial Corporation and its subsidiaries prior to the effective date of the Plan count toward a participant's vested percentage.

Assets are held in a pooled investment account managed by Middleburg Trust Company, a wholly owned subsidiary of the Company. Distributions may be made upon termination of employment, death or disability.

The plan is administered by the Benefits Committee of the Company. The plan may be amended from time to time by the Board or its delegate and may be terminated by the Board at any time for any reason.

For the years ended December 31, 2016, 2015, and 2014 expense attributable to the plan was $545,000, $926,000, and $898,000, respectively.

Deferred Compensation Plans

The Company has adopted several deferred compensation plans; including a defined benefit SERP, an elective deferral plan for the former Chairman, and a defined contribution SERP for certain executive officers. The two plans for the former Chairman made installment payouts in 2016, 2015 and 2014. The defined contribution SERP for executive officers includes a vesting schedule, and is currently credited at a rate using the 10-year treasury plus 1.5%. The deferred compensation expense for 2016, 2015, and 2014, was $245,000, $226,000, and $222,000, respectively. The plans are unfunded; however, life insurance has been acquired on the life of the executive officers in amounts sufficient to help meet the costs of the obligations.

Note 10. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Virginia and various other states. With few exceptions, the Company is no longer subject to U.S. federal or state income tax examinations by tax authorities for years prior to 2013.

The Company believes it is more likely than not that the benefit of deferred tax assets will be realized. Consequently, no valuation allowance for deferred tax assets was deemed necessary at December 31, 2016 and 2015.

Net deferred tax assets consist of the following components as of December 31, 2016 and 2015:

(Dollars in thousands)	**2016**	**2015**
Deferred tax assets:		
Allowance for loan losses	$ 3,877	$ 3,756
Deferred compensation	687	647
Interest rate swap	67	99
Other real estate owned	288	257
Securities available for sale	654	-
Property and equipment	-	49
Other	1,427	2,028
Total deferred tax assets	$ 7,000	$ 6,836
Deferred tax liabilities:		
Deferred loan costs, net	$ 526	$ 317
Securities available for sale	-	965
Property and equipment	79	-
Total deferred tax liabilities	$ 605	$ 1,282
Net deferred tax assets	$ 6,395	$ 5,554

The provision for income taxes charged to operations for the years ended December 31, 2016, 2015, and 2014, consists of the following:

(Dollars in thousands)	2016	2015	2014
Current tax expense	$ 2,067	$ 2,606	$ 1,160
Deferred tax expense	746	109	1,181
Total income tax expense	$ 2,813	$ 2,715	$ 2,341

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2016, 2015, and 2014, due to the following:

(Dollars in thousands)	2016	2015	2014
Computed "expected" tax expense	$ 3,698	$ 3,585	$ 3,374
Increase (decrease) in income taxes resulting from:			
Tax-exempt income	(796)	(829)	(959)
Low income housing tax credits	(408)	(120)	(211)
Merger related expenses	267	-	-
Other, net	52	79	137
	$ 2,813	$ 2,715	$ 2,341

Note 11. Related Party Transactions

The Company's commercial and retail banking segment has, and may be expected to have in the future, banking transactions in the ordinary course of business with principal owners, directors, principal officers, their immediate families and affiliated companies in which they are principal stockholders, commonly referred to as related parties. Any loans made to related parties were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time of origination for comparable loans with persons not related to the lender; and did not involve more than the normal risk of collectability or present other unfavorable features. Loans outstanding to directors and executive officers at December 31, 2016 and 2015 were:

(Dollars in thousands)	2016	2015
Balance, January 1	$ 1,369	$ 3,804
Decrease due to status changes	-	(2,375)
Principal additions	352	439
Principal payments	(130)	(499)
Balance, December 31	$ 1,591	$ 1,369

Additionally, unused commitments to extend credit to related parties were $1.1 million at December 31, 2016 and $2.3 million at December 31, 2015.

Related party deposits totaled $5.0 million and $5.9 million at December 31, 2016 and 2015, respectively.

Note 12. Contingent Liabilities and Commitments

In the normal course of business, there are various outstanding commitments and contingent liabilities, which are not reflected in the accompanying consolidated financial statements. The Company does not anticipate any material loss as a result of these transactions.

See Note 15 with respect to financial instruments with off-balance sheet risk.

The Company must maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. For the final weekly reporting period in the years ended December 31, 2016 and 2015, the aggregate amount of gross daily average required reserves was approximately $3.5 million and $3.1 million, respectively.

Note 13. Earnings Per Share

The following shows the weighted-average number of shares used in computing earnings per share and the effect on weighted-average number of shares of diluted potential common stock. Nonvested restricted shares are included in basic earnings per share because of dividend participation rights. Potential dilutive common stock had no effect on income available to common stockholders.

	2016		2015		2014	
	Shares	Per Share Amount	Shares	Per Share Amount	Shares	Per Share Amount
Earnings per share, basic	7,107,403	$ 1.13	7,147,390	$ 1.10	7,106,171	$ 1.07
Effect of dilutive securities:						
Stock options	11,461		6,805		6,939	
Warrant (See note 23)	32,026		13,192		13,491	
Earnings per share, diluted	7,150,890	$ 1.13	7,167,387	$ 1.09	7,126,601	$ 1.06

In 2016, 2015, and 2014, there were no shares that would have been considered anti-dilutive.

On September 15, 2015, the Company's Board of Directors authorized the repurchase of up to $10 million of the Company's common stock. The repurchase program was effective immediately and runs through December 31, 2017. This program replaces the previous repurchase program adopted in 1999, pursuant to which the Company had 24,084 shares remaining eligible for repurchase. As of December 31, 2016, the Company had executed and settled transactions to repurchase 104,300 shares, totaling $1.9 million, for an average price of $18.34, of which 26,800 shares totaling $489,000 were executed and settled during the first quarter of 2016 at an average price of $18.29.

Note 14. Retained Earnings

Transfers of funds from the banking subsidiary to the Parent Company in the form of loans, advances, and cash dividends are restricted by federal and state regulatory authorities. Federal regulations limit the payment of dividends to the sum of a bank's current net retained income and retained net income of the two prior years. As of December 31, 2016, the subsidiary bank had approximately $12.9 million in excess of regulatory limitations available for transfer to the Parent Company.

Note 15. Financial Instruments With Off-Balance Sheet Risk and Credit Risk

The Company 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 and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, standby letters of credit, and interest rate swaps. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. See Note 24 for more information regarding the Company's use of derivatives.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2016 and 2015, is as follows:

(Dollars in thousands)	2016	2015
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 132,669	$ 153,806
Standby letters of credit	4,998	3,718

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 generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. Those lines of credit may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds certificates of deposit, deposit accounts, and real estate as collateral supporting those commitments for which collateral is deemed necessary.

The Company had approximately $3.4 million in deposits in financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) at December 31, 2016.

Note 16. Fair Value Measurements

The Company follows ASC 820, "Fair Value Measurements" to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

ASC 820 specifies a hierarchy of valuation techniques based on whether the inputs are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. The three levels of the fair value hierarchy under ASC 820 based on these two types of inputs are as follows:

Level I. Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II. Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III. Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management’s best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Measured on a recurring basis

The following describes the valuation techniques and inputs used by the Company in determining the fair value of certain assets recorded at fair value on a recurring basis in the financial statements.

Securities Available for Sale

The Company primarily values its investment portfolio using Level II fair value measurements, but may also use Level I or Level III measurements if required by the composition of the portfolio. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level II). In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified as Level III of the valuation hierarchy.

Interest Rate Swaps and Interest Rate Cap

Interest rate swaps and cap are recorded at fair value based on third party vendors who compile prices from various sources and may determine fair value of identical or similar instruments by using pricing models that consider observable market data (Level II).

The following tables present the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and 2015.

(Dollars in thousands)	December 31, 2016			
Description	Total	Level I	Level II	Level III
Assets:				
U.S. government agencies	$ 73,184	$ -	$ 73,184	$ -
Obligations of states and political subdivisions	63,373	-	63,373	-
Mortgage-backed securities:				
Agency	98,051	-	98,051	-
Non-agency	9,933	-	9,933	-
Other asset backed securities	41,605	-	41,605	-
Corporate securities	15,421	-	15,421	-
Interest rate swaps	44	-	44	-
Interest rate cap	9	-	9	-
Liabilities:				
Interest rate swaps	242	-	242	-

(Dollars in thousands)	December 31, 2015			
Description	Total	Level I	Level II	Level III
Assets:				
U.S. government agencies	$ 78,940	$ -	$ 78,940	$ -
Obligations of states and political subdivisions	75,593	-	75,593	-
Mortgage-backed securities:				
Agency	131,661	-	131,661	-
Non-agency	12,777	-	12,777	-
Other asset backed securities	58,781	-	58,781	-
Corporate securities	16,819	-	16,819	-
Interest rate swaps	73	-	73	-
Interest rate cap	39	-	39	-
Liabilities:				
Interest rate swaps	370	-	370	-

Measured on nonrecurring basis

The Company may be required, from time to time, to measure and recognize certain other assets at fair value on a nonrecurring basis in accordance with GAAP. The following describes the valuation techniques and inputs used by the Company in determining the fair value of certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Impaired Loans
Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Any given loan may have multiple types of collateral. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level II). However, if the collateral 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 III. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level III). Impaired loans allocated to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the consolidated statements of income.

Other Real Estate Owned ("OREO")
OREO is measured at fair value less estimated costs to sell, based on an appraisal conducted by an independent, licensed appraiser outside of the Company. If the collateral 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 III. The initial fair value of OREO is based on an appraisal done at the time of foreclosure. Subsequent fair value adjustments are recorded in the period incurred and included in non-interest expense on the consolidated statements of income.

Repossessed Assets
The value of repossessed assets is determined by the Company based on marketability and other factors and is considered Level III.

The following table summarizes the Company's non-financial assets that were measured at fair value on a nonrecurring basis during the period.

(Dollars in thousands)	**December 31, 2016**			
	Total	**Level I**	**Level II**	**Level III**
Assets:				
Impaired loans	$ 6,298	$ -	$ -	$ 6,298
Other real estate owned	$ 5,073	$ -	$ -	$ 5,073
Repossessed assets	$ 843	$ -	$ -	$ 843

(Dollars in thousands)	**December 31, 2015**			
	Total	**Level I**	**Level II**	**Level III**
Assets:				
Impaired loans	$ 9,018	$ -	$ -	$ 9,018
Other real estate owned	$ 3,345	$ -	$ -	$ 3,345
Repossessed assets	$ 1,043	$ -	$ -	$ 1,043

The following table presents quantitative information as of December 31, 2016 and 2015 about Level III fair value measurements for assets measured at fair value on a nonrecurring basis:

2016	**Fair Value (in thousands)**	**Valuation Technique**	**Unobservable Inputs**	**Range (Weighted Average)**
Impaired loans	$ 1,134	Appraisals	Discount to reflect current market conditions and estimated selling costs	0% - 100% (14%)
Impaired loans	$ 5,164	Present value of cash flows	Discount rate	6% - 8% (6%)
Other real estate owned	$ 5,073	Appraisals	Discount to reflect current market conditions and estimated selling costs	10%
Repossessed assets	$ 843	Market analysis	Discount to reflect current market conditions and estimated selling costs	70%

2015	Fair Value (in thousands)		Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans	$	5,434	Appraisals	Discount to reflect current market conditions and estimated selling costs	0% - 100% (17%)
Impaired loans	$	3,584	Present value of cash flows	Discount rate	6% - 8% (7%)
Other real estate owned	$	3,345	Appraisals	Discount to reflect current market conditions and estimated selling costs	10%
Repossessed assets	$	1,043	Market analysis	Historical sales activity	50%

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. U.S. generally accepted accounting principles excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments (not previously described) for which it is practicable to estimate that value:

Cash and Cash Equivalents
For cash and cash equivalents, the carrying amount is a reasonable estimate of fair value.

Securities held to maturity
Certain debt securities that management has the positive intent and ability to hold until maturity are recorded at amortized cost. Fair values are determined in a manner that is consistent with securities available for sale.

Restricted Securities
The restricted security category is comprised of FHLB and Federal Reserve Bank stock. These stocks are classified as restricted securities because their ownership is restricted to certain types of entities and they lack a market. When the FHLB or Federal Reserve Bank repurchases stock, they repurchase at the stock's book value. Therefore, the carrying amounts of restricted securities approximate fair value.

Loans, Net
For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. For fixed rate loans, the fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value. Fair value for impaired loans is described above.

Bank Owned Life Insurance
The carrying amount of bank owned life insurance is a reasonable estimate of fair value.

Accrued Interest Receivable and Payable
The carrying amounts of accrued interest approximate fair values.

Deposits
The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. For all other deposits, the fair value is determined using the discounted cash flow method. The discount rate is equal to the rate currently offered on similar products.

Securities Sold Under Agreements to Repurchase
The carrying amounts approximate fair values.

FHLB Borrowings and Subordinated Debt
For variable rate long-term debt, fair values are based on carrying values. For fixed rate debt, fair values are estimated based on observable market prices and discounted cash flow analysis using interest rates for borrowings of similar remaining maturities and characteristics. The fair values of the Company's Subordinated Debentures are estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types of borrowing arrangements.

Off-Balance Sheet Financial Instruments
The fair value of commitments to extend credit is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of standby letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date. At December 31, 2016 and 2015, the fair values of loan commitments and standby letters of credit were deemed immaterial; therefore, they have not been included in the tables below.

Fair Value of Financial Instruments
The estimated fair values, and related carrying amounts, of the Company's financial instruments are as follows:

(Dollars in thousands)	**December 31, 2016**				
			Fair value measurements using:		
	Carrying Amount	**Total Fair Value**	**Level I**	**Level II**	**Level III**
Financial assets:					
Cash and cash equivalents	$ 28,544	$ 28,544	$ 28,544	$ -	$ -
Securities held to maturity	10,683	10,095	-	10,095	-
Securities available for sale	301,567	301,567	-	301,567	-
Loans, net	848,693	852,280	-	-	852,280
Bank owned life insurance	23,925	23,925	-	23,925	-
Accrued interest receivable	5,093	5,093	-	5,093	-
Interest rate swaps	44	44	-	44	-
Interest rate cap	9	9	-	9	-
Financial liabilities:					
Deposits	$ 1,053,058	$ 1,051,245	$ -	$ 1,051,245	$ -
Securities sold under agreements to repurchase	34,864	34,864	-	34,864	-
FHLB borrowings	39,500	39,530	-	39,530	-
Subordinated notes	5,155	5,159	-	5,159	-
Accrued interest payable	387	387	-	387	-
Interest rate swaps	242	242	-	242	-

(Dollars in thousands)	December 31, 2015				
			Fair value measurements using:		
	Carrying Amount	Total Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and cash equivalents	$ 39,228	$ 39,228	$ 39,228	$ -	$ -
Securities held to maturity	4,207	4,163	-	4,163	-
Securities available for sale	374,571	374,571	-	374,571	-
Loans, net	794,635	802,535	-	-	802,535
Bank owned life insurance	23,273	23,273	-	23,273	-
Accrued interest receivable	5,204	5,204	-	5,204	-
Interest rate swaps	73	73	-	73	-
Interest rate cap	39	39	-	39	-
Financial liabilities:					
Deposits	$ 1,040,800	$ 1,040,016	$ -	$ 1,040,016	$ -
Securities sold under agreements to repurchase	26,869	26,869	-	26,869	-
FHLB borrowings	85,000	85,033	-	85,033	-
Subordinated notes	5,155	5,157	-	5,157	-
Accrued interest payable	410	410	-	410	-
Interest rate swaps	370	370	-	370	-

The Company assumes interest rate risk as a result of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, which may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 17. Capital Requirements

The Company, on a consolidated basis, and Middleburg Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company’s and Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Middleburg Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Middleburg Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and Middleburg Bank to maintain minimum amounts and ratios, as set forth in the table below. Management believes, as of December 31, 2016 and 2015, that the Company and Middleburg Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2016, the most recent notification from the Federal Reserve Bank categorized Middleburg Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum capital requirements as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's and Middleburg Bank's actual capital amounts and ratios are also presented in the following table.

(Dollars in thousands)	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2016						
Total Capital (to Risk- Weighted Assets):						
Consolidated	$ 139,419	17.9%	$ 62,436	8.0%	N/A	N/A
Middleburg Bank	131,725	17.0%	61,994	8.0%	$ 77,492	10.0%
Tier 1 Capital (to Risk- Weighted Assets):						
Consolidated	$ 129,642	16.6%	$ 46,827	6.0%	N/A	N/A
Middleburg Bank	122,016	15.8%	46,495	6.0%	$ 61,994	8.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Consolidated	$ 124,642	16.0%	$ 35,121	4.5%	N/A	N/A
Middleburg Bank	122,016	15.8%	34,872	4.5%	$ 50,370	6.5%
Tier 1 Capital (to Average Assets):						
Consolidated	$ 129,642	10.0%	$ 52,142	4.0%	N/A	N/A
Middleburg Bank	122,016	9.4%	51,909	4.0%	$ 64,886	5.0%
As of December 31, 2015						
Total Capital (to Risk- Weighted Assets):						
Consolidated	$ 132,481	17.5%	$ 60,495	8.0%	N/A	N/A
Middleburg Bank	127,418	17.0%	60,055	8.0%	$ 75,068	10.0%
Tier 1 Capital (to Risk- Weighted Assets):						
Consolidated	$ 123,008	16.3%	$ 45,371	6.0%	N/A	N/A
Middleburg Bank	118,013	15.7%	45,041	6.0%	$ 60,055	8.0%
Common Equity Tier 1 Capital (to Risk-Weighted Assets):						
Consolidated	$ 118,008	15.6%	$ 34,028	4.5%	N/A	N/A
Middleburg Bank	118,013	15.7%	33,781	4.5%	$ 48,794	6.5%
Tier 1 Capital (to Average Assets):						
Consolidated	$ 123,008	9.6%	$ 51,301	4.0%	N/A	N/A
Middleburg Bank	118,013	9.2%	51,067	4.0%	$ 63,834	5.0%

In addition to the minimum regulatory capital required for capital adequacy purposes included in the table above, the Company is required to maintain a minimum Capital Conservation Buffer, in the form of common equity, in order to avoid restrictions on capital distributions and discretionary bonuses. The required amount of the Capital Conservation Buffer was 0.625% on January 1, 2016 and will increase by 0.625% each year until it reaches 2.5% on January 1, 2019. The Capital Conservation Buffer is applicable to all ratios except the leverage ratio, which is noted above as Tier 1 Capital to Average Assets.

On January 1, 2015, the Company and the Bank applied changes to the regulatory capital framework that were approved on July 9, 2013 by the federal banking agencies (the Basel III Final Rule). The regulatory risk-based capital amounts presented above include: (1) common equity tier 1 capital (CET1) which consists principally of common stock (including surplus) and retained earnings with adjustments for goodwill, intangible assets and deferred tax assets; (2) Tier 1 capital which consists principally of CET1 plus the Company's "grandfathered" trust preferred securities; and (3) Tier 2 capital which consists principally of Tier 1 capital plus a limited amount of the allowance for loan losses. In addition, the Company has made the one-time irrevocable election to continue treating accumulated other comprehensive income (loss) under regulatory standards that were in place prior to the Basel III Final Rule in order to eliminate volatility of regulatory capital that can result from fluctuations in accumulated other comprehensive income (loss) and the inclusion of accumulated other comprehensive income (loss) in regulatory capital, as would otherwise be required under the Basel III Capital Rule. The table above also reflects the minimum regulatory and certain prompt corrective action capital levels that began on January 1, 2015.

Note 18. Goodwill and Intangibles Assets

As of December 31, 2016 and 2015, goodwill and intangible assets relate to the Company's acquisition of Middleburg Trust Company and Middleburg Investment Advisors. On May 15, 2014, the Company sold all of its majority interest in Southern Trust Mortgage and on this date the related goodwill was eliminated.

Goodwill is not amortized and the Company is no longer required to perform a test for impairment unless, based on an assessment of qualitative factors related to goodwill, the Company determines that it is more likely than not that the fair value is less than its carrying amount. If the likelihood of impairment is more than 50%, the Company must perform a test for impairment and may be required to record impairment charges.

Identifiable intangible assets are being amortized over the period of expected benefit, which is 15 years.

Information concerning goodwill and intangible assets is presented in the following table:

	December 31, 2016		December 31, 2015	
(Dollars In thousands)	**Gross Carrying Value**	**Accumulated Amortization**	**Gross Carrying Value**	**Accumulated Amortization**
Identifiable intangibles	$ 3,734	$ 3,690	$ 3,734	$ 3,519
Unamortizable goodwill	3,421	-	3,421	-

Amortization expense of intangible assets for each of the three years ended December 31, 2016, and 2015, and 2014 totaled $171,000. Estimated amortization expense of identifiable intangibles for the years ended December 31 follows:

(Dollars in thousands)	
2017	$ 44
	$ 44

Note 19. Subordinated Notes

On December 12, 2003, MFC Capital Trust II, a wholly owned subsidiary of the Company, was formed for the purpose of issuing redeemable Capital Securities. On December 19, 2003, $5.0 million of trust-preferred securities were issued through a pooled underwriting totaling approximately $344 million. The securities have a LIBOR-indexed floating rate of interest.

During 2016, the interest rates ranged from 3.17% to 3.74%. For the year ended December 31, 2016, the weighted-average interest rate was 3.54%. The securities have a mandatory redemption date of January 23, 2034, and are subject to varying call provisions beginning January 23, 2009. The principal asset of the trust is $5.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Capital Securities. See Note 24 for information regarding an interest rate swap entered into by the Company to manage the cash flows associated with these trust preferred securities.

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. The portion of the trust preferred securities not considered as Tier 1 Capital may be included in Tier 2 Capital. On December 31, 2016, all of the Company's trust preferred securities are included in Tier I Capital.

The obligations of the Company with respect to the issuance of the Capital Securities constitute a full and unconditional guarantee by the Company of the trusts' obligations with respect to the Capital Securities.

Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Capital Securities. There were no deferred interest payments on our junior subordinated debt securities at December 31, 2016, 2015 and 2014.

Note 20. Ownership of Southern Trust Mortgage

In May 2008, Middleburg Bank acquired the membership interest units of one of the partners of Southern Trust Mortgage for $1.6 million. As a result, the Company's ownership interest exceeded 50% of the issued and outstanding membership units. Prior to the sale, the Company owned 62.3% of the issued and outstanding membership interest units of Southern Trust Mortgage, through its subsidiary, Middleburg Bank. On May 15, 2014, the Company sold 100% of its ownership interest in Southern Trust Mortgage.

Note 21. Condensed Financial Information - Parent Corporation Only

BALANCE SHEETS

(Dollars in thousands)	**December 31, 2016**	**2015**
ASSETS		
Cash on deposit with subsidiary bank	$ 2,154	$ 1,403
Investment in subsidiaries	126,694	125,900
Other assets	3,199	1,686
TOTAL ASSETS	$ 132,047	$ 128,989
LIABILITIES		
Subordinated notes	$ 5,155	$ 5,155
Other liabilities	213	280
TOTAL LIABILITIES	5,368	5,435
SHAREHOLDERS' EQUITY		
Common stock	17,636	17,330
Capital surplus	45,688	44,155
Retained earnings	64,755	60,392
Accumulated other comprehensive income (loss), net	(1,400)	1,677
TOTAL SHAREHOLDERS' EQUITY	126,679	123,554
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 132,047	$ 128,989

STATEMENTS OF INCOME

(Dollars in thousands)	**2016**	**Year End December 31, 2015**	**2014**
INCOME:			
Dividends from subsidiaries	$ 6,870	$ 5,383	$ 3,440
Interest and dividends from investments	-	-	15
Other income	2	17	-
Total income	6,872	5,400	3,455
EXPENSES:			
Salaries and employee benefits	1,240	919	746
Legal and advisory fees	1,506	164	91
Directors fees	352	274	280
Interest expense	280	279	279
Other	426	416	366
Total expenses	3,804	2,052	1,762
Income before allocated tax benefits and undistributed income of subsidiaries	3,068	3,348	1,693
Income tax benefit	(1,081)	(715)	(753)
Income before equity in undistributed income of subsidiaries	4,149	4,063	2,446
Equity in undistributed income of subsidiaries	3,915	3,767	5,138
Net income	$ 8,064	$ 7,830	$ 7,584

STATEMENTS OF CASH FLOWS

(Dollars in thousands)	December 31, 2016	2015	2014
Cash Flows from Operating Activities			
Net income	$ 8,064	$ 7,830	$ 7,584
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	(3,915)	(3,767)	(5,138)
Share-based compensation	925	605	426
(Increase) decrease in other assets	(1,469)	957	(1,099)
(Decrease) increase in other liabilities	(67)	13	213
Net cash provided by operating activities	3,538	5,638	1,986
Cash Flows from Investing Activities			
Proceeds from sales, calls and maturities of available for sale securities	-	-	44
Net cash provided by investing activities	-	-	44
Cash Flows from Financing Activities			
Net proceeds from issuance of common stock	1,742	-	394
Cash dividends paid on common stock	(3,701)	(3,292)	(2,419)
Repurchases of stock	(828)	(1,506)	(88)
Net cash used in financing activities	(2,787)	(4,798)	(2,113)
Increase (decrease) in cash and cash equivalents	751	840	(83)
Cash and Cash Equivalents at beginning of year	1,403	563	646
Cash and Cash Equivalents at end of year	$ 2,154	$ 1,403	$ 563

Note 22. Segment Reporting

The Company operates its principal business activities of retail banking services and wealth management services in a decentralized fashion. Revenue from retail banking activity consists primarily of interest and fees earned on loans, including mortgage banking activity, interest earned on investment securities and service charges on deposit accounts. Revenue from the wealth management activities is comprised of fees based upon the market value of the accounts under administration as well as commissions on investment transactions.

Middleburg Bank and the Company have assets in custody with Middleburg Trust Company and accordingly pay Middleburg Trust Company a monthly fee. Middleburg Bank also pays interest to Middleburg Trust Company on deposit accounts with Middleburg Bank. Middleburg Trust Company pays rental and other miscellaneous occupancy expenses to Middleburg Bank. Transactions related to these relationships are eliminated to reach consolidated totals.

In 2014, revenue from the mortgage banking activities is comprised of interest earned on loans and fees received as a result of the mortgage origination process. The Company recognized gains on the sale of loans as part of other income. On May 15, 2014, the Company sold all of its majority interest in Southern Trust Mortgage and as a result, any mortgage banking activity for the Company subsequent to the sale date is included with the results of the retail banking segment. Mortgage banking activities for the twelve months ended December 31, 2014 are the result of Southern Trust Mortgage activity that was consolidated with the Company through the date of sale. In 2014, Middleburg Bank provided a warehouse line, office space, data processing and accounting services to Southern Trust Mortgage for which it received income. Transactions related to these relationships are eliminated to reach consolidated totals.

Information about reportable segments and reconciliation to the consolidated financial statements follows:

	2016				
(Dollars in thousands)	**Commercial & Retail Banking**	**Wealth Management**	**Mortgage Banking**	**Intercompany Eliminations**	**Consolidated**
Revenues:					
Interest income	$ 43,365	$ 10	$ -	$ -	$ 43,375
Trust services income	-	4,806	-	(163)	4,643
Other income	6,204	-	-	(109)	6,095
Total operating income	49,569	4,816	-	(272)	54,113
Expenses:					
Interest expense	4,424	-	-	-	4,424
Salaries and employee benefits	16,473	2,284	-	-	18,757
Provision for loan losses	1,853	-	-	-	1,853
Other expense	17,556	918	-	(272)	18,202
Total operating expenses	40,306	3,202	-	(272)	43,236
Income before income taxes	9,263	1,614	-	-	10,877
Income tax expense	2,203	610	-	-	2,813
Net income	$ 7,060	$ 1,004	$ -	$ -	$ 8,064
Total assets	$ 1,270,222	$ 6,693	$ -	$ (4,272)	$ 1,272,643
Capital expenditures	$ 978	$ -	$ -	$ -	$ 978
Goodwill and other intangibles	$ -	$ 3,465	$ -	$ -	$ 3,465

	2015				
(Dollars in thousands)	**Commercial & Retail Banking**	**Wealth Management**	**Mortgage Banking**	**Intercompany Eliminations**	**Consolidated**
Revenues:					
Interest income	$ 42,270	$ 11	$ -	$ -	$ 42,281
Trust services income	-	4,951	-	(166)	4,785
Other income	5,605	-	-	-	5,605
Total operating income	47,875	4,962	-	(166)	52,671
Expenses:					
Interest expense	4,207	-	-	-	4,207
Salaries and employee benefits	16,130	2,305	-	-	18,435
Provision for loan losses	2,293	-	-	-	2,293
Other expense	16,237	1,120	-	(166)	17,191
Total operating expenses	38,867	3,425	-	(166)	42,126
Income before income taxes	9,008	1,537	-	-	10,545
Income tax expense	2,131	584	-	-	2,715
Net income	$ 6,877	$ 953	$ -	$ -	$ 7,830
Total assets	$ 1,291,708	$ 6,700	$ -	$ (3,545)	$ 1,294,863
Capital expenditures	$ 2,137	$ -	$ -	$ -	$ 2,137
Goodwill and other intangibles	$ -	$ 3,636	$ -	$ -	$ 3,636

	2014				
(Dollars in thousands)	Commercial & Retail Banking	Wealth Management	Mortgage Banking	Intercompany Eliminations	Consolidated
Revenues:					
Interest income	$ 43,149	$ 14	$ 450	$ (288)	$ 43,325
Trust services income	-	4,516	-	(154)	4,362
Other income	5,349	-	5,121	(46)	10,424
Total operating income	48,498	4,530	5,571	(488)	58,111
Expenses:					
Interest expense	5,227	-	304	(288)	5,243
Salaries and employee benefits	16,567	2,262	3,772	-	22,601
Provision for loan losses	1,926	-	34	-	1,960
Other expense	15,818	1,140	1,722	(200)	18,480
Total operating expenses	39,538	3,402	5,832	(488)	48,284
Income before income taxes and non-controlling interest	8,960	1,128	(261)	-	9,827
Income tax expense	1,894	447	-	-	2,341
Net income	7,066	681	(261)	-	7,486
Non-controlling interest in consolidated subsidiary	-	-	98	-	98
Net income attributable to Middleburg Financial Corporation	$ 7,066	$ 681	$ (163)	$ -	$ 7,584
Total assets	$ 1,218,452	$ 7,152	$ -	$ (2,747)	$ 1,222,857
Capital expenditures	$ 911	$ 6	$ 3	$ -	$ 920
Goodwill and other intangibles	$ -	$ 3,807	$ -	$ -	$ 3,807

Note 23. Capital Purchase Program and Stock Warrant

On January 30, 2009, as part of the Capital Purchase Program established by the U.S. Department of the Treasury (the "Treasury") under the Emergency Economic Stabilization Act of 2008, the Company entered into a Letter Agreement and Securities Purchase Agreement-Standard Terms (collectively, the "Purchase Agreement") with the Treasury, pursuant to which the Company sold (i) 22,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series A, par value $2.50 per share, having a liquidation preference of $1,000 per share (the "Preferred Stock") and (ii) a warrant (the "Warrant") to purchase 208,202 shares of the Company's common stock, par value $2.50 per share, at an initial exercise price of $15.85 per share. As a result of the completion of a public stock offering in 2009, the number of shares of common stock underlying the Warrant was reduced by one-half to 104,101 and the Company redeemed all 22,000 shares of Preferred Stock pursuant to the Purchase Agreement. During 2011, the Warrant was sold by the U.S. Treasury at public auction and, on November 3, 2016, was exercised in full for a total cash consideration of $1.65 million.

Note 24. Derivatives

The Company utilizes derivative instruments as a part of its asset-liability management program to control fluctuation of market values and cash flows to changes in interest rates associated with certain financial instruments. The Company accounts for derivatives in accordance with ASC 815, "Derivatives and Hedging". Under current guidance, derivative transactions are classified as either cash flow hedges or fair value hedges or they are not designated as hedging instruments. The Company designates each derivative instrument at the inception of the derivative transaction in accordance with this guidance. Information concerning each of the Company's categories of derivatives as of December 31, 2016 and 2015 is presented below.

Derivatives designated as cash flow hedges

During 2010, the Company entered into an interest rate swap agreement as part of the interest rate risk management process. The swap was designated as a cash flow hedge intended to hedge the variability of cash flows associated with the Company's trust preferred capital securities described in Note 19, "Subordinated Notes". The swap hedges the cash flow associated with the trust preferred capital notes wherein the Company receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 2.59% to the same counterparty. The swap is calculated on a notional amount of $5.2 million. The term of the swap is 10 years and commenced on October 23, 2010. The Company has cash collateral reserved for this swap in the amount of $400,000 as of December 31, 2016 and 2015, respectively. The swap was entered into with a counterparty that met the Company's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant.

During 2013, the Company entered into an interest rate swap agreement as part of the interest rate risk management process. The swap has been designated as a cash flow hedge intended to hedge the variability of cash flows associated with the Company's FHLB borrowings described in Note 7, "Borrowings". The swap hedges the cash flows associated with the FHLB borrowings wherein the Company receives a floating rate based on LIBOR from a counterparty and pays a fixed rate of 1.43% to the same counterparty. The swap is calculated on a notional amount of $10 million. The term of the swap is 5 years and commenced on November 25, 2013. The Company has cash collateral reserved for this swap in the amount of $600,000 and $300,000 as of December 31, 2016 and 2015, respectively. The swap was entered into with a counterparty that met the Company's credit standards and the agreement contains collateral provisions protecting the at-risk party. The Company believes that the credit risk inherent in the contract is not significant.

Amounts receivable or payable are recognized as accrued under the terms of the agreement, with the effective portion of the derivative's unrealized gain or loss recorded as a component of other comprehensive income (loss). The ineffective portion of the unrealized gain or loss, if any, would be recorded in other expense. The Company has assessed the effectiveness of the hedging relationship by comparing the changes in cash flows on the designated hedged item. As a result of this assessment, there was no hedge ineffectiveness identified during 2016 and 2015. At December 31, 2014, $6,000 of hedge ineffectiveness identified for this interest rate swap and was classified as other operating expenses on the consolidated statements of income.

The amounts included in accumulated other comprehensive income (loss) as unrealized losses (market value net of tax) were $130,000 and $195,000 as of December 31, 2016 and 2015, respectively.

Information concerning the derivatives designated as a cash flow hedges at December 31, 2016 and 2015 is presented in the following tables:

	December 31, 2016						
(Dollars in thousands)	**Positions (#)**	**Notional Amount**	**Asset**	**Liability**	**Receive Rate**	**Pay Rate**	**Life (Years)**
Pay fixed - receive floating interest rate swap	1	$ 5,155	$ -	$ 160	0.87%	2.59%	3.8
Pay fixed - receive floating interest rate swap	1	$ 10,000	$ -	$ 38	0.60%	1.43%	2.0

	December 31, 2015						
(Dollars in thousands)	**Positions (#)**	**Notional Amount**	**Asset**	**Liability**	**Receive Rate**	**Pay Rate**	**Life (Years)**
Pay fixed - receive floating interest rate swap	1	$ 5,155	$ -	$ 226	0.32%	2.59%	4.8
Pay fixed - receive floating interest rate swap	1	$ 10,000	$ -	$ 71	0.23%	1.43%	3.0

Derivatives not designated as hedging instruments

Two-way client loan swaps

During the fourth quarter of 2014 and 2012, the Company entered into certain interest rate swap contracts that are not designated as hedging instruments. These derivative contracts relate to transactions in which we enter into an interest rate swap with a customer while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each swap transaction, the Company agrees to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on an identical notional amount at a fixed interest rate. At the same time, the Company agrees to pay the counterparty the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows our clients to effectively convert a variable rate loan into a fixed rate loan. Because the Company acts as an intermediary for our customers, changes in the fair value of the underlying derivatives contracts offset each other and do not significantly impact our results of operations. The Company had no undesignated interest rate swaps at December 31, 2016 and December 31, 2015.

Certain additional risks arise from interest rate swap contracts in that the counterparties to the contracts may not be able to meet the terms of the contracts. We do not expect any counterparty to fail to meet its obligations.

Information concerning two-way client interest rate swaps not designated as either fair value or cash flow hedges is presented in the following table:

	December 31, 2016						
(Dollars in thousands)	**Positions (#)**	**Notional Amount**	**Asset**	**Liability**	**Receive Rate**	**Pay Rate**	**Life (Years)**
Pay fixed - receive floating interest rate swap	1	$ 3,508	$ 15	$ -	1 month LIBOR plus 200 BP	3.90%	10.9
Pay fixed - receive floating interest rate swap	1	1,663	-	29	1 month LIBOR plus 180 BP	4.09%	7.9
Pay floating - receive fixed interest rate swap	1	3,508	-	15	3.90%	1 month LIBOR plus 200 BP	10.9
Pay floating - receive fixed interest rate swap	1	1,663	29	-	4.09%	1 month LIBOR plus 180 BP	7.9
Total derivatives not designated		$ 10,342	$ 44	$ 44			

	December 31, 2015						
(Dollars in thousands)	**Positions (#)**	**Notional Amount (in thousands)**	**Asset**	**Liability**	**Receive Rate**	**Pay Rate**	**Life (Years)**
Pay fixed - receive floating interest rate swap	1	$ 3,760	$ -	$ 21	1 month LIBOR plus 200 BP	3.90%	11.9
Pay fixed - receive floating interest rate swap	1	1,706	-	52	1 month LIBOR plus 180 BP	4.09%	8.9
Pay floating - receive fixed interest rate swap	1	3,760	21	-	3.90%	1 month LIBOR plus 200 BP	11.9
Pay floating - receive fixed interest rate swap	1	1,706	52	-	4.09%	1 month LIBOR plus 180 BP	8.9
Total derivatives not designated		$ 10,932	$ 73	$ 73			

Rate Cap Transaction

At December 31, 2016, the Company had one derivative instrument in the form of an interest rate cap agreement with a notional amount of $10.0 million. The notional amount of the financial derivative instrument does not represent exposure to credit loss. The Company is exposed to credit loss only to the extent the counterparty defaults in its responsibility to pay interest under the terms of the agreement. The credit risk in derivative instruments is mitigated by entering into transactions with highly-rated counterparties that management believes to be creditworthy and by limiting the amount of exposure to each counterparty. We do not expect any counterparty to fail to meet its obligations.

The details of the interest rate cap agreement as of December 31, 2016 is summarized below:

December 31, 2016 (Dollars in thousands)						
Notional Amount	Termination Date	3-Month LIBOR Strike Rate	Premium Paid	Unamortized Premium at December 31, 2016	Fair Value December 31, 2016	Cumulative Cash Flows Received
$ 10,000	September 8, 2018	2.00%	$ 70	$ 70	$ 9	$ -

December 31, 2015 (Dollars in thousands)						
Notional Amount	Termination Date	3-Month LIBOR Strike Rate	Premium Paid	Unamortized Premium at December 31, 2015	Fair Value December 31, 2015	Cumulative Cash Flows Received
$ 10,000	September 8, 2018	2.00%	$ 70	$ 70	$ 39	-

In the third quarter of 2015, the interest rate cap agreement was purchased to limit the Company's exposure to rising interest rates. Under the terms of the agreement, the Company paid a premium of $70,000 for the right to receive cash flow payments if 3-month LIBOR rises above the cap of 2.00%, thus effectively ensuring interest expense is capped at a maximum rate of 2.00% for the duration of the agreement. The interest rate cap agreement is a derivative not designated as a hedging instrument.

At December 31, 2016 and December 31, 2015, the total fair value of the interest rate cap agreement was $9,000 and $39,000, respectively. The fair value of the interest rate cap agreement is included in other assets on the Company's consolidated balance sheets. Changes in fair value are recorded in earnings in other operating expenses. During the years ended December 31, 2016 and December 31, 2015, $30,000 and $31,000 was recognized in other operating expenses, respectively.

The premium paid on the interest rate cap agreement will be recognized as a decrease in interest income over the duration of the agreement using the caplet method. From the date of inception and through December 31, 2016, no premium amortization was required.

Note 25. Accumulated Other Comprehensive Income (Loss), Net

The following table presents information on changes in accumulated other comprehensive income for the periods indicated:

(Dollars in thousands)	Unrealized Gains (Losses) on Securities	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss), Net
Balance December 31, 2013	$ 261	$ (29)	$ 232
Unrealized holding gains (net of tax, $1,979)	3,841	-	3,841
Reclassification adjustment (net of tax, $63)	(123)	-	(123)
Unrealized gains on interest rate swaps (net of tax, $82)	-	(160)	(160)
Reclassification adjustment (net of tax, $2)	-	4	4
Balance December 31, 2014	3,979	(185)	3,794
Unrealized holding losses (net of tax, $1,037)	(2,015)	-	(2,015)
Reclassification adjustment (net of tax, $48)	(92)	-	(92)
Unrealized gains on interest rate swaps (net of tax, $3)	-	(6)	(6)
Reclassification adjustment (net of tax, $2)	-	(4)	(4)
Balance December 31, 2015	1,872	(195)	1,677
Unrealized holding losses (net of tax, $1,091)	(2,116)	-	(2,116)
Reclassification adjustment (net of tax, $528)	(1,026)	-	(1,026)
Unrealized losses on interest rate swaps (net of tax, ($34))	-	65	65
Balance December 31, 2016	$ (1,270)	$ (130)	$ (1,400)

The following table presents information related to reclassifications from accumulated other comprehensive income (loss):

Details about Accumulated Other Comprehensive Income (Loss)	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)			Affected Line Item in the Consolidated Statements of Income
(Dollars in thousands)	**2016**	**2015**	**2014**	
Securities available for sale [1]:				
Net securities gains reclassified into earnings	$ (1,554)	$ (140)	$ (186)	Gains on sales of securities available for sale, net
Related income tax expense	528	48	63	Income tax expense
Derivatives [2]:				
(Gain) loss on interest rate swap ineffectiveness	-	(6)	6	Other operating expense
Related income tax benefit	-	2	(2)	Income tax expense
Net effect on accumulated other comprehensive income (loss) for the period	(1,026)	(96)	(119)	Net of tax
Total reclassifications for the period	$ (1,026)	$ (96)	$ (119)	Net of tax

[1] For more information related to unrealized gains on securities available for sale, see Note 2, "Securities".

[2] For more information related to unrealized losses on derivatives, see Note 24, "Derivatives".

Note 26. Other Real Estate Owned ("OREO")

At December 31, 2016 and 2015, OREO balances were $5.1 million and $3.3 million, respectively. OREO is primarily comprised of residential properties and non-residential properties, and are located primarily in the state of Virginia. Changes in the balance for OREO, net of valuation allowances, are as follows:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Balance at the beginning of year, net	$ 3,345	$ 4,051
Transfers from loans, net	2,645	287
Purchased loans	40	-
Sales proceeds	(713)	(814)
Gain (loss) on disposition	66	(100)
Less valuation adjustments	(310)	(79)
Balance at the end of year, net	$ 5,073	$ 3,345

Net expenses applicable to OREO, were $363,000, $284,000 and $256,000 as of December 31, 2016, 2015 and 2014, respectively.

The major classifications of OREO in the consolidated balance sheets at December 31, 2016 and 2015 were as follows:

(Dollars in thousands)	December 31, 2016	December 31, 2015
Real estate loans:		
Construction	$ 946	$ 853
Secured by 1-4 family residential	3,767	1,958
Other real estate loans	360	534
Total real estate loans	$ 5,073	$ 3,345

At December 31, 2016, the Company had no consumer mortgage loan secured by residential real estate for which foreclosure was in process. At December 31, 2015, the Company had one consumer mortgage loan secured by residential real estate for which foreclosure was in process. The amount of this loan was $533,000 at December 31, 2015.

Note 27. Low Income Housing Tax Credits

The Company invested in four separate housing equity funds at December 31, 2016 and 2015, respectively. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds are accounted for using the equity method and are recorded as other assets on the consolidated balance sheets. These investments totaled $8.4 million and $9.0 million at December 31, 2016 and 2015, respectively. The expected terms of these investments and the related tax benefits run through 2033. The net benefit recognized as a component of income tax expense related to tax credits and other tax benefits during the years ended December 31, 2016, 2015 and 2014 were $408,000, $120,000 and $211,000, respectively, related to these investments. Total projected tax credits to be received for 2016 are $441,000, which is based on the most recent quarterly estimates received from the funds. Additional capital calls expected for the funds totaled $8.2 million and $9.3 million at December 31, 2016 and 2015, respectively, and are included in other liabilities on the consolidated balance sheets.

Exhibit 99.5

UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL INFORMATION

The following unaudited pro forma combined condensed financial statements are based on the separate historical financial statements of Union Bankshares Corporation ("Union") and Access National Corporation ("Access") and give effect to the Union acquisition of Xenith Bankshares, Inc. ("Xenith"), which closed on January 1, 2018 (the "Xenith acquisition"), including pro forma assumptions and adjustments related to the Xenith acquisition, and the potential merger of Union and Access (the "merger"), including pro forma assumptions and adjustments related to the merger, as described in the accompanying notes to the unaudited pro forma combined condensed financial statements. The unaudited pro forma combined condensed balance sheet as of September 30, 2018 is presented as if the merger occurred on September 30, 2018. The unaudited pro forma combined condensed statements of income for the year ended December 31, 2017 and the nine months ended September 30, 2018 are presented as if the merger and the Xenith acquisition each occurred on January 1, 2017. The historical consolidated financial information has been adjusted on a pro forma basis to reflect factually supportable items that are directly attributable to the merger and the Xenith acquisition and, with respect to the statements of income only, expected to have a continuing impact on consolidated results of operations.

The unaudited pro forma combined condensed financial statements have been prepared using the acquisition method of accounting for business combinations under generally accepted accounting principles in the U.S. Union is the acquirer for accounting purposes. Certain reclassifications have been made to the historical financial statements of Access to conform to the presentation in Union's financial statements.

A final determination of the fair values of Access's assets and liabilities, which cannot be made prior to the completion of the mergers, will be based on the actual net tangible and intangible assets of Access that exist as of the date the merger becomes effective. Consequently, fair value adjustments and amounts preliminarily allocated to goodwill and identifiable intangibles could change significantly from those allocations used in the unaudited pro forma combined condensed financial statements presented herein and could result in a material change in amortization of acquired intangible assets. Additionally, the amortization methods and useful lives for various fair value marks and intangibles assets may differ from the final purchase accounting valuations performed. In addition, the value of the final merger consideration will be based on the closing price of the common stock of Union, par value $1.33 per share ("Union common stock"), on the date the merger becomes effective. The closing price of Union common stock on October 26, 2018 was used for purposes of presenting the pro forma combined condensed financial information. Finally, the assets acquired and liabilities assumed in the mergers and the Xenith acquisition are subject to adjustment for up to one year after the closing date of the mergers and the Xenith acquisition, respectively. While the fair values are not expected to be materially different from the estimates, any material adjustments to the estimates will be reflected in an adjustment to goodwill.

In connection with the plan to integrate the operations of Union and Access following the completion of the mergers, Union anticipates that nonrecurring charges, such as costs associated with systems implementation, severance, and other costs related to exit or disposal activities, will be incurred. Union is not able to determine the timing, nature and amount of these charges as of the date of this joint proxy statement/prospectus, and accordingly, has not included any such costs and charges in the unaudited combined condensed pro forma statements of income. However, these charges will affect the results of operations of Union and Access, as well as those of the combined company following the completion of the mergers, in the period in which they are recorded. The unaudited pro forma combined condensed statements of income do not include the effects of the costs associated with any restructuring or integration activities resulting from the mergers, as they are nonrecurring in nature and not factually supportable at this time. Additionally, the unaudited pro forma adjustments do not give effect to any nonrecurring or unusual restructuring charges that may be incurred as a result of the integration of the two companies or any anticipated disposition of assets that may result from such integration.

The actual amounts recorded as of the completion of the mergers may differ materially from the information presented in these unaudited pro forma combined condensed financial statements as a result of:

- changes in the trading price for Union's common stock;

- net cash used or generated in Union's or Access's operations between the signing of the merger agreement and completion of the mergers;
- changes in the fair values of Union's or Access's assets and liabilities;
- other changes in Union's or Access's net assets that occur prior to the completion of the mergers, which could cause material changes in the information presented below; and
- the actual financial results of the combined company.

The unaudited pro forma combined condensed financial statements are presented for illustrative purposes only. The unaudited pro forma combined condensed financial statements are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the mergers been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma combined condensed financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma combined condensed financial statements should be read together with:

- the accompanying notes to the unaudited pro forma combined condensed financial statements;
- Access's separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017;
- Access's separate unaudited historical consolidated financial statements and accompanying notes as of and for the three and nine months ended September 30, 2018;
- Union's separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017;
- Union's separate unaudited historical consolidated financial statements and accompanying notes as of and for the three and nine months ended September 30, 2018;
- Xenith's separate audited historical consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017; and
- other information pertaining to Union and Access contained in their respective filings with the SEC.

UNION BANKSHARES CORPORATION/ACCESS NATIONAL CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET
AS OF SEPTEMBER 30, 2018
(Dollars in thousands)

	Union *(as reported)*	Access *(as reported)*	Pro Forma Adjustments	Notes	Pro Forma Combined
ASSETS					
Cash and cash equivalents	$ 282,212	$ 124,370	$ —		$ 406,582
Securities available for sale, at fair value	1,883,141	424,445	—		2,307,586
Other securities	375,098	49,545	—		424,643
Loans held for sale at fair value	—	36,600	—		36,600
Loans held for investment, net of deferred fees and costs	9,411,598	2,094,270	(21,814)	**(a)(b)**	11,484,054
Less allowance for loan losses	41,294	17,349	(17,349)	**(c)**	41,294
Net loans held for investment	9,370,304	2,076,921	(4,465)		11,442,760
Premises and equipment, net	155,001	27,768	5,000	**(d)**	187,769
Goodwill	727,699	167,497	61,770	**(e)**	956,966
Amortizable intangibles, net	51,563	16,531	29,094	**(f)**	97,188
Bank owned life insurance	261,874	52,604	—		314,478
Other assets	264,850	45,042	(4,997)	**(g)**	304,895
Total assets	$ 13,371,742	$ 3,021,323	$ 86,402		$ 16,479,467
LIABILITIES					
Noninterest-bearing demand deposits	$ 2,189,887	$ 757,900	$ —		$ 2,947,787
Interest-bearing deposits	7,644,808	1,536,964	—		9,181,772
Total deposits	9,834,695	2,294,864	—		12,129,559
Short-term borrowings	1,056,874	212,561	—		1,269,435
Long-term borrowings	497,768	48,942	369	**(h)**	547,079
Other liabilities	102,376	23,013	5,463	**(i)**	130,852
Total liabilities	11,491,713	2,579,380	5,832		14,076,925
Commitments and contingencies					
SHAREHOLDERS' EQUITY					
Common stock	87,192	17,468	3,400	**(j)(k)**	108,060
Surplus	1,378,940	317,626	184,019	**(j)(k)**	1,880,585
Retained earnings	438,513	115,973	(115,973)	**(j)**	438,513
Accumulated other comprehensive income (loss)	(24,616)	(9,124)	9,124	**(j)**	(24,616)
Total shareholders' equity	1,880,029	441,943	80,570		2,402,542
Total liabilities and shareholders' equity	$ 13,371,742	$ 3,021,323	$ 86,402		$ 16,479,467

See accompanying notes to unaudited pro forma financial information.

UNION BANKSHARES CORPORATION/ACCESS NATIONAL CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2018
(Dollars in thousands, except per share amounts)

	Union *(as reported)*	Access *(as reported)*	Merger Pro Forma Adjustments	Notes	Pro Forma Combined
Interest and dividend income:					
Interest and fees on loans	$ 348,009	$ 73,241	$ 2,816	**(l)**	$ 424,066
Other interest income	40,142	9,901	—		50,043
Total interest and dividend income	388,151	83,142	2,816		474,109
Interest expense:					
Interest on deposits	40,187	9,717	—		49,904
Other interest expense	30,362	3,100	1	**(m)**	33,463
Total interest expense	70,549	12,817	1		83,367
Net interest income	317,602	70,325	2,815		390,742
Provision for credit losses	9,011	2,102	210	**(A)**	11,323
Net interest income after provision for credit losses	308,591	68,223	2,605		379,419
Noninterest income:					
Service charges on deposit accounts	18,566	1,456	—		20,022
Other operating income	62,186	22,473	(3,121)		81,538
Noninterest income	80,752	23,929	(3,121)	**(B)**	101,560
Noninterest expenses:					
Salaries and benefits	120,797	35,370	(3,121)	**(B)**	153,046
Occupancy expenses	18,778	5,881	188	**(n)**	24,847
Merger-related costs	37,414	—	—		37,414
Other expenses	86,245	18,115	3,221	**(o)(A)**	107,581
Total noninterest expenses	263,234	59,366	288		322,888
Income before income taxes	126,109	32,786	(804)		158,091
Income tax expense	20,973	6,128	(169)	**(p)**	26,932
Net income from continuing operations	105,136	26,658	(635)		131,159
Net loss from discontinued operations	(2,973)	—	—		(2,973)
Net income attributable to Company	$ 102,163	$ 26,658	$ (635)		$ 128,186
Earnings per common share, basic	$ 1.55	1.28			$ 1.58
Earnings per common share, diluted	$ 1.55	1.28			$ 1.57
Weighted average common shares outstanding, basic	65,817,668	20,734,621	(5,183,655)	**(q)**	81,368,634
Weighted average common shares outstanding, diluted	65,873,202	20,821,096	(5,205,274)	**(q)**	81,489,024

See accompanying notes to unaudited pro forma financial information.

UNION BANKSHARES CORPORATION/ACCESS NATIONAL CORPORATION
UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2017
(Dollars in thousands, except per share amounts)

	Union *(as reported)*	Xenith *(as reported)*	Access *(as reported)*	Pro Forma Adjustments *(Xenith)*	Notes	Pro Forma Adjustments *(Access)*	Notes	Pro Forma Combined
Interest and dividend income:								
Interest and fees on loans	$ 295,146	$ 111,465	$ 84,572	$ 7,990	**(r)**	$ 3,469	**(l)**	$ 502,642
Other interest income	35,048	9,183	10,908	—		—		55,139
Total interest and dividend income	330,194	120,648	95,480	7,990		3,469		557,781
Interest expense:								
Interest on deposits	26,106	16,358	9,274	(2,554)	**(s)**	—		49,184
Other interest expense	23,931	3,916	1,834	(189)	**(t)**	65	**(m)**	29,557
Total interest expense	50,037	20,274	11,108	(2,743)		65		78,741
Net interest income	280,157	100,374	84,372	10,733		3,404		479,040
Provision for credit losses	10,756	874	6,919	315	**(A)**	(37)	**(A)**	18,827
Net interest income after provision for credit losses	269,401	99,500	77,453	10,418		3,441		460,213
Noninterest income:								
Service charges on deposit accounts	20,212	4,772	1,998	—		—		26,982
Other operating income	51,462	9,916	30,094	—		(5,022)		86,450
Noninterest income	71,674	14,688	32,092	—		(5,022)	**(B)**	113,432
Noninterest expenses:								
Salaries and benefits	122,222	39,360	43,915	—		(5,022)	**(B)**	200,475
Occupancy expenses	19,594	7,645	6,878	(124)	**(u)**	250	**(n)**	34,243
Merger-related costs	5,393	11,108	—	(5,393)	**(v)**	—		11,108
Other expenses	87,556	25,192	30,275	6,440	**(w)(A)**	5,886	**(o)(A)**	155,349
Total noninterest expenses	234,765	83,305	81,068	923		1,114		401,175
Income before income taxes	106,310	30,883	28,477	9,495		(2,695)		172,470
Income tax expense (benefit)	33,387	67,632	11,977	2,424	**(x)**	(943)	**(p)**	114,477
Net income from continuing operations	72,923	(36,749)	16,500	7,071		(1,752)		57,993
Net loss from discontinued operations	—	15	—	—		—		15
Net income attributable to Company	$ 72,923	$ (36,734)	$ 16,500	$ 7,071		$ (1,752)		$ 58,008
Earnings per common share, basic	$ 1.67	$ (1.58)	$ 0.92					$ 0.74
Earnings per common share, diluted	$ 1.67	$ (1.56)	$ 0.92					$ 0.73
Weighted average common shares outstanding, basic	43,698,897	23,210,438	17,988,670	(1,499,394)	**(y)**	(4,497,168)	**(q)**	78,901,443
Weighted average common shares outstanding, diluted	43,779,744	23,503,584	18,076,304	(1,518,332)	**(y)**	(4,519,076)	**(q)**	79,322,224

See accompanying notes to unaudited pro forma financial information.

NOTE A –PRO FORMA ADJUSTMENTS

The following pro forma adjustments have been reflected in the unaudited pro forma combined condensed financial information. All adjustments are preliminary and are based on current valuations, estimates, and assumptions. Subsequent to the completion of the merger, Union will engage an independent third-party valuation firm to determine the fair value of the assets acquired and liabilities assumed, which could significantly change the amount of the estimated fair values used in the pro forma financial information presented.

(a) Estimated fair value adjustment on Access's outstanding loan portfolio. This fair value adjustment consists of:

i. an adjustment for credit deterioration of the acquired loan portfolio in the amount of $24.5 million which represented a markdown of 1.2% on Access's outstanding loan portfolio. Of the $24.5 million credit markdown, approximately $19.4 million is estimated to be an accretable adjustment. In order to determine the adjustment related to credit deterioration, Union engaged an independent third-party loan review team to review and perform analytics on Access's loan portfolio; and

ii. a further fair value adjustment to reflect differences in interest rates in the amount of $11.8 million in addition to the credit deterioration adjustment. This portion of the fair value adjustment was based on current market interest rates and spreads including the consideration of liquidity concerns.

(b) Elimination of the fair value adjustment of $10.6 million for loans purchased by Access in previous acquisitions and elimination of Access's net deferred loan fees and costs of $ 3.9 million.

(c) Elimination of Access's allowance for loan losses. Purchased loans acquired in a business combination are recorded at fair value and the recorded allowance of the acquired company is not carried over.

(d) Estimated fair value adjustment of $5.0 million on Access's premises and equipment.

(e) Elimination of Access's legacy goodwill ($167.5 million) plus the addition of goodwill estimated based on the preliminary purchase price allocation for this transaction shown in Note B ($229.3 million).

(f) Union's estimate of the fair value of the core deposit intangible asset ($45.6 million) and the elimination of Access's previously reported other amortizable intangible assets ($16.5 million). The core deposit intangible asset will be amortized over 120 months using sum-of-years digits method. This estimate represents a 2.5% premium on Access's core deposits based on current market data for similar transactions.

(g) Adjustment for deferred federal income taxes associated with the adjustments to record the assets and liabilities of Access at fair value based on Union's statutory rate of 21%.

(h) Estimated fair value adjustment on long-term borrowings at current market rates and spreads for similar products ($844,000) and the elimination of fair value adjustments on long-term borrowings assumed by Access in previous acquisitions ($1.2 million).

(i) Estimated accrual of transaction costs related to success-based fees.

(j) Elimination of Access's shareholders' equity representing conversion of all of the outstanding shares of Access common stock into shares of Union common stock based on the exchange ratio.

(k) Recognition of the equity portion of the merger consideration. The adjustment to common stock represents the $1.33 par value of Union common stock issued in the merger to former holders of shares of Access common stock. The adjustment to surplus represents the amount of equity consideration above the par value of Union common stock issuable in the merger.

(l) Represents the estimated net discount accretion on acquired loans (see Note C). Discount assumed to be approximately accreted over seven years using sum-of-years digits method. Also includes elimination of accretion recorded by Access in connection with previous acquisitions.

(m) Represents net discount amortization on long-term FHLB borrowings and trust preferred capital notes assumed as part of the merger (see Note C). Discount on FHLB borrowings will be accreted over five years using the sum-of-years digits method; discount on trust preferred capital notes will be accreted over 15 years using the straight-line method. Also includes elimination of amortization recorded by Access in connection with previous acquisitions.

(n) Represents premium amortization on bank premises (see Note C). Premium will be amortized over 20 years using the straight-line method.

(o) Represents amortization of core deposit premium (see Note C). Premium will be amortized over 120 months using the sum-of-years digits method. Also includes elimination of accretion recorded by Access in connection with previous acquisitions.

(p) Income tax expense calculated using a federal corporate income tax rate of 21% and 35% of pre-tax income for the nine months ended September 30, 2018 and the year ended December 31, 2017, respectively.

(q) Weighted average basic and diluted shares outstanding were adjusted to effect the merger.

The following adjustments were made in relation to the Xenith acquisition:

(r) Represents the net discount accretion on acquired loans recorded in the first nine months of 2018 as well as the estimated net discount accretion for the remaining three months of 2018. Also includes elimination of accretion recorded by Xenith in connection with previous acquisitions.

(s) Represents premium accretion on deposits assumed recorded in the first nine months of 2018 as well as the estimated net premium accretion for the remaining three months of 2018.

(t) Represents net discount amortization on borrowings assumed recorded in the first nine months of 2018 as well as the estimated net premium accretion for the remaining three months of 2018. Also includes elimination of amortization recorded by Xenith in connection with previous acquisitions.

(u) Represents the accretion of the unfavorable lease liability recorded in in the first nine months of 2018 as well as the estimated accretion for the remaining three months of 2018.

(v) Elimination of costs incurred in relation to the Xenith acquisition. All costs recorded at Union were related to the Xenith acquisition; the majority of costs recorded at Xenith were related to a previous acquisition.

(w) Represents amortization of core deposit premium recorded in the first nine months of 2018 as well as the estimated amortization for the remaining three months of 2018. Also includes elimination of amortization recorded by Xenith in connection with previous acquisitions.

(x) Income tax expense calculated using a federal corporate income tax rate of 35% of pre-tax income, adjusted for nondeductible acquisition-related costs reversed in adjustment (v).

(y) Weighted average basic and diluted shares outstanding were adjusted to effect the Xenith acquisition.

The following conforming reclassifications are adjustments to Access's and/or Xenith's reported balance sheet and income statement in order to more closely align with the presentation of Union.

(A) Adjustment of provision for unfunded commitments recorded in other expenses reclassified to provision for credit losses.

(B) Adjustment of commissions related to the mortgage division recorded in salaries and benefits expense reclassified to mortgage banking income, net, where Union has historically recorded these expenses.

NOTE B – PRO FORMA ALLOCATION OF PURCHASE PRICE

The following table shows the pro forma allocation of the preliminary consideration paid using the price of Union common stock of $33.27 at October 26, 2018 for Access common stock to the acquired identifiable assets and liabilities assumed and the pro forma goodwill generated from the merger (*dollars in thousands*):

Purchase Price:		
Fair value of shares of Union common stock issued		$ 522,013
Fair value of stock options converted		500
Total pro forma purchase price		**$ 522,513**
Fair value of assets acquired:		
Cash and cash equivalents	$ 124,370	
Investments	473,990	
Loans held for sale	36,600	
Net loans	2,072,456	
Premises and equipment	32,768	
Core deposit intangible	45,625	
Other assets	92,649	
Total assets	2,878,458	
Fair value of liabilities assumed:		
Deposits	2,294,864	
Short-term borrowings	212,561	
Borrowings	49,311	
Other liabilities	28,476	
Total liabilities	$ 2,585,212	
Net assets acquired		**$ 293,246**
Preliminary pro forma goodwill		**$ 229,267**

The following table depicts the sensitivity of the purchase price and resulting goodwill to changes in the price of Union common stock at a price of $33.27 as of October 26, 2018. Stock price changes between October 26, 2018 and November 14, 2018 are within the ranges of the sensitivity analysis below.

Share Price Sensitivity (*dollars in thousands*)

	Purchase Price	Estimated Goodwill
Up 10%	$ 576,210	$ 282,964
As presented in pro forma	$ 522,513	$ 229,267
Down 10%	$ 469,764	$ 176,518

NOTE C – ESTIMATED AMORTIZATION/ACCRETION OF ACQUISITION ACCOUNTING ADJUSTMENTS

The following table sets forth an estimate of the expected effects of the estimated aggregate acquisition accounting adjustments reflected in the pro forma combined condensed financial statements on the future pre-tax net income of Union after the merger *(dollars in thousands)*:

	Accretion (Amortization)						
	For the Years Ended December 31,						
	2019	2020	2021	2022	2023	Thereafter	Total
Loans	$ 7,790	$ 6,677	$ 5,565	$ 4,452	$ 3,339	$ 3,339	**31,162**
Bank premises	(250)	(250)	(250)	(250)	(250)	(3,750)	**(5,000)**
Core Deposit Intangible	(8,258)	(7,548)	(6,819)	(6,089)	(5,359)	(11,552)	**(45,625)**
Borrowings	(173)	(144)	(115)	(86)	(56)	(270)	**(844)**

The actual effect of purchase accounting adjustments on the future pre-tax income of Union will differ from these estimates based on the closing date estimates of fair values and, if applicable, the use of different amortization methods than assumed above. Refer to “Note A – Pro Forma Adjustments” above for additional information on assumed amortization methods.

NOTE D – ESTIMATED COST SAVINGS AND MERGER-RELATED COSTS

Estimated cost savings are excluded from the pro forma analysis. In addition, estimated merger-related costs are not included in the pro forma combined condensed statements of income since they will be recorded in the combined results of income as they are incurred prior to or after completion of the merger. While merger-related costs are directly related to the merger, they would not have a continuing impact on the combined business and are not indicative of what historical results of the combined company would have been had the companies been actually combined during the periods presented.