UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2016

OR

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

For the transition period from _________ to_________

Commission File Number 0-25923

Eagle Bancorp, Inc.

(Exact name of registrant as specified in its charter)

Maryland	52-2061461
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

7830 Old Georgetown Road, Third Floor, Bethesda, Maryland	20814
(Address of principal executive offices)	(Zip Code)

(301) 986-1800

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller Reporting Company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

As of October 31, 2016, the registrant had 33, 632, 710 shares of Common Stock outstanding.

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EAGLE BANCORP, INC.

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Item 1 – Financial Statements (Unaudited)

EAGLE BANCORP, INC.

Consolidated Balance Sheets (Unaudited)

(dollars in thousands, except per share data)

	September 30, 2016	December 31, 2015	September 30, 2015
Assets			
Cash and due from banks	$10,615	$10,270	$10,080
Federal funds sold	5,262	3,791	4,076
Interest bearing deposits with banks and other short-term investments	503,150	284,302	291,898
Investment securities available-for-sale, at fair value	430,668	487,869	524,326
Federal Reserve and Federal Home Loan Bank stock	19,920	16,903	16,865
Loans held for sale	78,118	47,492	35,713
Loans	5,481,975	4,998,368	4,776,965
Less allowance for credit losses	(56,864)	(52,687)	(50,320)
Loans, net	5,425,111	4,945,681	4,726,645
Premises and equipment, net	19,370	18,254	17,070
Deferred income taxes	41,065	40,311	35,426
Bank owned life insurance	59,747	58,682	58,284
Intangible assets, net	107,694	108,542	109,498
Other real estate owned	5,194	5,852	9,952
Other assets	56,218	47,628	48,022
Total Assets	$6,762,132	$6,075,577	$5,887,855
Liabilities and Shareholders' Equity			
Liabilities			
Deposits:			
Noninterest bearing demand	$1,668,271	$1,405,067	$1,402,447
Interest bearing transaction	297,973	178,797	207,716
Savings and money market	2,802,519	2,835,325	2,514,310
Time, $100,000 or more	452,015	406,570	439,248
Other time	337,371	332,685	362,867
Total deposits	5,558,149	5,158,444	4,926,588
Customer repurchase agreements	71,642	72,356	64,893
Other short-term borrowings	50,000	-	-
Long-term borrowings	216,419	68,928	68,897
Other liabilities	50,283	37,248	41,408
Total Liabilities	5,946,493	5,336,976	5,101,786

Shareholders' Equity			
Preferred stock, par value $.01 per share, shares authorized 1,000,000, Series B, $1,000 per share liquidation preference, shares issued and outstanding -0- at September 30, 2016 and December 31, 2015, and 56,600 at September 30, 2015; Series C, $1,000 per share liquidation preference, shares issued and outstanding -0- at September 30, 2016 and December 31, 2015, and 15,300 at September 30, 2015	-	-	71,900
Common stock, par value $.01 per share; shares authorized 100,000,000, shares issued and outstanding 33,590,880, 33,467,893 and 33,405,510 respectively	333	331	330
Warrant	946	946	946
Additional paid in capital	509,706	503,529	500,334
Retained earnings	305,594	233,604	211,318
Accumulated other comprehensive (loss) income	(940)	191	1,241
Total Shareholders' Equity	815,639	738,601	786,069
Total Liabilities and Shareholders' Equity	$6,762,132	$6,075,577	$5,887,855

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Operations (Unaudited)

(dollars in thousands, except per share data)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Interest Income				
Interest and fees on loans	$69,869	$61,006	$202,002	$178,063
Interest and dividends on investment securities	2,177	2,745	7,121	7,189
Interest on balances with other banks and short-term investments	376	228	856	604
Interest on federal funds sold	9	2	31	13
Total interest income	72,431	63,981	210,010	185,869
Interest Expense				
Interest on deposits	4,840	3,739	13,513	10,668
Interest on customer repurchase agreements	39	33	115	94
Interest on short-term borrowings	383	-	727	54
Interest on long-term borrowings	2,441	1,124	4,515	3,687
Total interest expense	7,703	4,896	18,870	14,503
Net Interest Income	64,728	59,085	191,140	171,366
Provision for Credit Losses	2,288	3,262	9,219	10,043
Net Interest Income After Provision For Credit Losses	62,440	55,823	181,921	161,323
Noninterest Income				
Service charges on deposits	1,431	1,374	4,303	3,990
Gain on sale of loans	3,009	2,483	8,464	9,364
Gain on sale of investment securities	1	60	1,123	2,224
Loss on early extinguishment of debt	-	-	-	(1,130)
Increase in the cash surrender value of bank owned life insurance	391	395	1,171	1,191
Other income	1,573	1,787	5,209	4,497
Total noninterest income	6,405	6,099	20,270	20,136
Noninterest Expense				
Salaries and employee benefits	17,130	15,383	49,157	45,772
Premises and equipment expenses	3,786	3,974	11,419	12,056
Marketing and advertising	857	762	2,551	2,182
Data processing	1,879	1,976	5,716	5,598
Legal, accounting and professional fees	771	1,063	2,845	2,915
FDIC insurance	629	794	2,193	2,348
Merger expenses	-	2	-	139
Other expenses	3,786	3,451	11,354	11,066
Total noninterest expense	28,838	27,405	85,235	82,076
Income Before Income Tax Expense	40,007	34,517	116,956	99,383

Income Tax Expense	15,484	13,054	44,966	37,564
Net Income	24,523	21,463	71,990	61,819
Preferred Stock Dividends	-	180	-	539
Net Income Available to Common Shareholders	$24,523	$21,283	$71,990	$61,280
Earnings Per Common Share				
Basic	$0.73	$0.64	$2.14	$1.88
Diluted	$0.72	$0.63	$2.11	$1.84

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Comprehensive Income (Unaudited)

(dollars in thousands)

	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
Net Income	$24,523	$21,463	$71,990	$61,819
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on securities available for sale	(907)	2,107	4,110	1,995
Reclassification adjustment for net gains included in net income	(1)	(36)	(674)	(1,334)
Total unrealized (loss) gain	(906)	2,071	3,436	661
Unrealized gain (loss) on derivatives	1,756	(3,976)	(5,478)	(2,067)
Reclassification adjustment for losses included in net income	466	-	911	-
Total unrealized gain (loss)	1,290	(3,976)	(4,567)	(2,067)
Other comprehensive income (loss)	384	(1,905)	(1,131)	(1,406)
Comprehensive Income	$24,907	$19,558	$70,859	$60,413

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)

(dollars in thousands except share data)

	Preferred Shares	**Preferred Amount**	**Common Shares**	**Common Amount**	**Warrant**	**Additional Paid in Capital**	**Retained Earnings**	**Accumulated Other Comprehensive Income (Loss)**	**Total Shareholders' Equity**
Balance January 1, 2016	-	$ -	33,467,893	$ 331	$ 946	$ 503,529	$ 233,604	$ 191	$ 738,601
Net Income	-	-	-	-	-	-	71,990	-	71,990
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(1,131)	(1,131)
Stock-based compensation	-	-	-	-	-	5,159	-	-	5,159
Issuance of common stock related to options exercised, net of shares withheld for payroll taxes	-	-	23,614	-	-	282	-	-	282
Tax benefits realized from stock compensation	-	-	-	-	-	166	-	-	166
Vesting of restricted stock awards issued at date of grant, net of shares withheld for payroll taxes	-	-	(17,556)	2	-	(2)	-	-	-
Restricted stock awards	-	-	104,775	-	-	-	-	-	-
Issuance of common stock related to employee stock purchase plan	-	-	12,154	-	-	572	-	-	572
	-	**$ -**	**33,590,880**	**$ 333**	**$ 946**	**$ 509,706**	**$ 305,594**	**$ (940)**	**$ 815,639**

Balance September 30, 2016									
Balance January 1, 2015	71,900	$ 71,900	30,139,396	$ 296	$ 946	$ 394,933	$ 150,037	$ 2,647	$ 620,759
Net Income	-	-	-	-	-	-	61,819	-	61,819
Other comprehensive loss, net of tax	-	-	-	-	-	-	-	(1,406)	(1,406)
Stock-based compensation	-	-	-	-	-	3,660	-	-	3,660
Issuance of common stock related to options exercised, net of shares withheld for payroll taxes	-	-	373,027	4	-	4,636	-	-	4,640
Tax benefits realized from stock compensation	-	-	-	-	-	1,945	-	-	1,945
Vesting of restricted stock awards issued at date of grant, net of shares withheld for payroll taxes	-	-	(17,877)	2	-	(2)	-	-	-
Restricted stock awards	-	-	78,070	-	-	-	-	-	-
Shares issued in public offering, net of issuance costs of $5,302	-	-	2,816,900	28	-	94,605	-	-	94,633
Issuance of common stock related to employee stock purchase plan	-	-	15,994	-	-	561	1	-	562
Cash paid in lieu of fractional shares upon merger with Virginia Heritage	-	-	-	-	-	(4)	-	-	(4)
Preferred stock dividends	-	-	-	-	-	-	(539)	-	(539)
Balance September 30, 2015	**71,900**	**$ 71,900**	**33,405,510**	**$ 330**	**$ 946**	**$ 500,334**	**$ 211,318**	**$ 1,241**	**$ 786,069**

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

Consolidated Statements of Cash Flows (Unaudited)

(dollars in thousands)

	Nine Months Ended September 30,	
	2016	**2015**
Cash Flows From Operating Activities:		
Net Income	$71,990	$61,819
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision for credit losses	9,219	10,043
Depreciation and amortization	4,628	8,117
Gains on sale of loans	(8,464)	(9,364)
Securities premium amortization (discount accretion), net	3,412	2,304
Origination of loans held for sale	(606,213)	(726,230)
Proceeds from sale of loans held for sale	584,051	744,198
Net increase in cash surrender value of BOLI	(1,171)	(1,191)
Increase in deferred income taxes	(754)	(2,915)
Decrease in value of other real estate owned	200	750
Net (gain) loss on sale of other real estate owned	(657)	209
Net gain on sale of investment securities	(1,123)	(2,224)
Loss on early extinguishment of debt	-	1,130
Stock-based compensation expense	5,159	3,660
Tax benefits realized from stock compensation	(166)	(1,945)
Increase in other assets	(8,590)	(4,149)
Increase in other liabilities	13,035	5,475
Net cash provided by operating activities	64,556	89,687
Cash Flows From Investing Activities:		
Decrease in interest bearing deposits with other banks and short-term investments	784	374
Purchases of available for sale investment securities	(106,163)	(241,280)
Proceeds from maturities of available for sale securities	65,727	32,021
Proceeds from sale/call of available for sale securities	94,217	65,790
Purchases of Federal Reserve and Federal Home Loan Bank stock	(3,017)	(2,405)
Proceeds from redemption of Federal Reserve and Federal Home Loan Bank stock	-	8,100
Net increase in loans	(491,720)	(472,089)
Proceeds from sale of other real estate owned	3,614	1,846
Purchases of BOLI	-	(499)
Purchases of annuities	-	(992)
Bank premises and equipment acquired	(4,836)	(2,053)
Net cash used in investing activities	(441,394)	(611,187)
Cash Flows From Financing Activities:		
Increase in deposits	399,705	615,820
(Decrease) increase in customer repurchase agreements	(714)	3,773

Issuance of common stock	-	94,633
Increase (decrease) in short-term borrowings	50,000	(100,000)
Increase (decrease) in long-term borrowings	147,491	(49,300)
Payment of dividends on preferred stock	-	(539)
Proceeds from exercise of stock options	282	4,640
Tax benefits realized from stock compensation	166	1,945
Payment in lieu of fractional shares	-	(4)
Proceeds from employee stock purchase plan	572	562
Net cash provided by financing activities	597,502	571,530
Net Increase In Cash and Cash Equivalents	220,664	50,030
Cash and Cash Equivalents at Beginning of Period	298,363	256,025
Cash and Cash Equivalents at End of Period	$519,027	$306,055
Supplemental Cash Flows Information:		
Interest paid	$18,196	$15,800
Income taxes paid	$47,950	$38,550
Non-Cash Investing Activities		
Transfers from loans to other real estate owned	$2,500	$1,725
Transfers from other real estate owned to loans	$-	$2,192

See notes to consolidated financial statements.

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EAGLE BANCORP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Basis of Presentation

The Consolidated Financial Statements include the accounts of Eagle Bancorp, Inc. and its subsidiaries (the “Company”), EagleBank (the “Bank”), Eagle Commercial Ventures, LLC (“ECV”), Eagle Insurance Services, LLC, and Bethesda Leasing, LLC, with all significant intercompany transactions eliminated.

The Consolidated Financial Statements of the Company included herein are unaudited. The Consolidated Financial Statements reflect all adjustments, consisting of normal recurring accruals that in the opinion of management, are necessary to present fairly the results for the periods presented. The amounts as of and for the year ended December 31, 2015 were derived from audited Consolidated Financial Statements. Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. There have been no significant changes to the Company’s Accounting Policies as disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. The Company believes that the disclosures are adequate to make the information presented not misleading. Certain reclassifications have been made to amounts previously reported to conform to the current period presentation.

These statements should be read in conjunction with the audited Consolidated Financial Statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015. Operating results for the three and nine months ended September 30, 2016 are not necessarily indicative of the results of operations to be expected for the remainder of the year, or for any other period.

Nature of Operations

The Company, through the Bank, conducts a full service community banking business, primarily in Northern Virginia, Montgomery County, Maryland, and Washington, D.C. The primary financial services offered by the Bank include real estate, commercial and consumer lending, as well as traditional deposit and repurchase agreement products. The Bank is also active in the origination and sale of residential mortgage loans and the origination of small business loans. The guaranteed portion of small business loans, guaranteed by the Small Business Administration ("SBA"), is typically sold to third party investors in a transaction apart from the loan's origination. The Bank offers its products and services through twenty-one banking offices, five lending centers and various electronic capabilities, including remote deposit services and mobile banking services. Eagle Insurance Services, LLC, a subsidiary of the Bank, offers access to insurance products and services through a referral program with a third party insurance broker. Eagle Commercial Ventures, LLC, a direct subsidiary of the Company, provides subordinated financing for the acquisition, development and construction of real estate projects; these transactions involve higher levels of risk, together with commensurate higher returns. Refer to Higher Risk Lending – Revenue Recognition below.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts in the financial statements and accompanying notes. Actual results may differ from those estimates and such differences could be material to the financial statements.

Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, federal funds sold, and interest bearing deposits with other banks which have an original maturity of three months or less.

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Loans Held for Sale

The Company regularly engages in sales of residential mortgage loans and the guaranteed portion of SBA loans originated by the Bank. The Company has elected to carry loans held for sale at fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations.

The Company's current practice is to sell residential mortgage loans on a servicing released basis, and, therefore, it has no intangible asset recorded for the value of such servicing as of September 30, 2016, December 31, 2015 and September 30, 2015. The sale of the guaranteed portion of SBA loans on a servicing retained basis gives rise to an excess servicing asset, which is computed on a loan by loan basis with the unamortized amount being included in intangible assets in the Consolidated Balance Sheets. This excess servicing asset is being amortized on a straight-line basis (with adjustment for prepayments) as an offset to servicing fees collected and is included in other income in the Consolidated Statement of Operations.

The Company enters into commitments to originate residential mortgage loans whereby the interest rate on the loan is determined prior to funding (i.e. interest rate lock commitments). Such interest rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. To protect against the price risk inherent in residential mortgage loan commitments, the Company utilizes both "best efforts" and "mandatory delivery" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments. Under a "best efforts" contract, the Company commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor and the investor commits to a price that it will purchase the loan from the Company if the loan to the underlying borrower closes. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the investor commits to purchase a loan at a price representing a premium on the day the borrower commits to an interest rate with the intent that the buyer/investor has assumed the interest rate risk on the loan. As a result, the Bank is not generally exposed to losses on loans sold utilizing best efforts, nor will it realize gains related to rate lock commitments due to changes in interest rates. The market values of interest rate lock commitments and best efforts contracts are not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded. Because of the high correlation between rate lock commitments and best efforts contracts, no gain or loss should occur on the interest rate lock commitments. Under a "mandatory delivery" contract, the Company commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Company fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay the investor a "pair-off" fee, based on then-current market prices, to compensate the investor for the shortfall. The Company manages the interest rate risk on interest rate lock commitments by entering into forward sale contracts of mortgage-backed securities, whereby the Company 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, carried on the Consolidated Balance Sheet within other assets or other liabilities with changes in fair value recorded in other income within the Consolidated Statement of Income. The period of time between issuance of a loan commitment to the customer and closing and sale of the loan to an investor generally ranges from 30 to 90 days under current market conditions. The gross gains on loan sales are recognized based on new loan commitments with adjustment for price and pair-off activity. Commission expenses on loans held for sale are recognized based on loans closed.

In circumstances where the Company does not deliver the whole loan to an investor, but rather elects to retain the loan in its portfolio, the loan is transferred from held for sale to loans at fair value at date of transfer.

Investment Securities

The Company has no securities classified as trading, or as held to maturity. Marketable equity securities and debt securities not classified as held to maturity or trading are classified as available-for-sale. Securities available-for-sale are acquired as part of the Company's asset/liability management strategy and may be sold in response to changes in interest rates, current market conditions, loan demand, changes in prepayment risk and other factors. Securities available-for-sale are carried at fair value, with unrealized gains or losses being reported as accumulated other comprehensive income/(loss), a separate component of shareholders' equity, net of deferred income tax. Realized gains and losses, using the specific identification method, are included as a separate component of noninterest income in the Consolidated Statements of Operations.

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Premiums and discounts on investment securities are amortized/accreted to the earlier of call or maturity based on expected lives, which lives are adjusted based on prepayment assumptions and call optionality if any. Declines in the fair value of individual available-for-sale securities below their cost that are other-than-temporary in nature result in write-downs of the individual securities to their fair value. Factors affecting the determination of whether other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or a change in management's intent and ability to hold a security for a period of time sufficient to allow for any anticipated recovery in fair value. Management systematically evaluates investment securities for other-than-temporary declines in fair value on a quarterly basis. This analysis requires management to consider various factors, which include (1) duration and magnitude of the decline in value, (2) the financial condition of the issuer or issuers and (3) structure of the security.

The entire amount of an impairment loss is recognized in earnings only when (1) the Company intends to sell the security, or (2) it is more likely than not that the Company will have to sell the security before recovery of its amortized cost basis, or (3) the Company does not expect to recover the entire amortized cost basis of the security. In all other situations, only the portion of the impairment loss representing the credit loss must be recognized in earnings, with the remaining portion being recognized in shareholders' equity as comprehensive income, net of deferred taxes.

Loans

Loans are stated at the principal amount outstanding, net of unamortized deferred costs and fees. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. It is the Company's policy to discontinue the accrual of interest when circumstances indicate that collection is doubtful. Deferred fees and costs are being amortized on the interest method over the term of the loan.

Management considers loans impaired when, based on current information, it is probable that the Company will not collect all principal and interest payments according to contractual terms. Loans are evaluated for impairment in accordance with the Company's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogeneous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

Higher Risk Lending – Revenue Recognition

The Company has occasionally made higher risk acquisition, development, and construction ("ADC") loans that entail higher risks than ADC loans made following normal underwriting practices ("higher risk loan transactions"). These higher risk loan transactions are currently made through the Company's subsidiary, ECV. This activity is limited as to individual transaction amount and total exposure amounts, based on capital levels, and is carefully monitored. The loans are carried on the balance sheet at amounts outstanding and meet the loan classification requirements of the Accounting Standard Executive Committee ("AcSEC") guidance reprinted from the CPA Letter, Special Supplement, dated February 10, 1986 (also referred to as Exhibit 1 to AcSEC Practice Bulletin No. 1). Additional interest earned on these higher risk loan transactions (as defined in the individual loan agreements) is recognized as realized under the provisions contained in AcSEC's guidance reprinted from the CPA Letter, Special Supplement, dated February 10, 1986 (also referred to as Exhibit 1 to AcSEC Practice Bulletin No.1) and Staff Accounting Bulletin No. 101 (Revenue Recognition in Financial Statements). Certain additional interest is included as a component of noninterest income. ECV had three higher risk loan transactions outstanding as of September 30, 2016, as compared to four higher risk loan transactions outstanding as of December 31, 2015, amounting to $9.2 million and $9.2 million, respectively.

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Allowance for Credit Losses

The allowance for credit losses represents an amount which, in management's judgment, is adequate to absorb probable losses on loans and other extensions of credit that may become uncollectible. The adequacy of the allowance for credit losses is determined through careful and continuous review and evaluation of the loan portfolio and involves the balancing of a number of factors to establish a prudent level of allowance. Among the factors considered in evaluating the adequacy of the allowance for credit losses are lending risks associated with growth and entry into new markets, loss allocations for specific credits, the level of the allowance to nonperforming loans, historical loss experience, economic conditions, portfolio trends and credit concentrations, changes in the size and character of the loan portfolio, and management's judgment with respect to current and expected economic conditions and their impact on the existing loan portfolio. Allowances for impaired loans are generally determined based on collateral values. Loans or any portion thereof deemed uncollectible are charged against the allowance, while recoveries are credited to the allowance. Management adjusts the level of the allowance through the provision for credit losses, which is recorded as a current period operating expense. The allowance for credit losses consists of allocated and unallocated components.

The components of the allowance for credit losses represent an estimation done pursuant to Accounting Standards Codification ("ASC") Topic 450, *"Contingencies,"* or ASC Topic 310, *"Receivables."* Specific allowances are established in cases where management has identified significant conditions or circumstances related to a specific credit that management believes indicate the probability that a loss may be incurred. For potential problem credits for which specific allowance amounts have not been determined, the Company establishes allowances according to the application of credit risk factors. These factors are set by management and approved by the appropriate Board committee to reflect its assessment of the relative level of risk inherent in each risk grade. A third component of the allowance computation, termed a nonspecific or environmental factors allowance, is based upon management's evaluation of various environmental conditions that are not directly measured in the determination of either the specific allowance or formula allowance. Such conditions include general economic and business conditions affecting key lending areas, credit quality trends (including trends in delinquencies and nonperforming loans expected to result from existing conditions), loan volumes and concentrations, specific industry conditions within portfolio categories, recent loss experience in particular loan categories, duration of the current business cycle, bank regulatory examination results, findings of outside review consultants, and management's judgment with respect to various other conditions including credit administration and management and the quality of risk identification systems. Executive management reviews these environmental conditions quarterly, and documents the rationale for all changes.

Management believes that the allowance for credit losses is adequate; however, determination of the allowance is inherently subjective and requires significant estimates. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. Evaluation of the potential effects of these factors on estimated losses involves a high degree of uncertainty, including the strength and timing of economic cycles and concerns over the effects of a prolonged economic downturn in the current cycle. In addition, various banking agencies, as an integral part of their examination process, and independent consultants engaged by the Bank, periodically review the Bank's loan portfolio and allowance for credit losses. Such review may result in recognition of additions to the allowance based on their judgments of information available to them at the time of their examination.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization computed using the straight-line method for financial reporting purposes. Premises and equipment are depreciated over the useful lives of the assets, which generally range from three to seven years for furniture, fixtures and equipment, to three to five years for computer software and hardware, and to five to twenty years for building improvements. Leasehold improvements are amortized over the terms of the respective leases, which may include renewal options where management has the positive intent to exercise such options, or the estimated useful lives of the improvements, whichever is shorter. The costs of major renewals and betterments are capitalized, while the costs of ordinary maintenance and repairs are expensed as incurred. These costs are included as a component of premises and equipment expenses on the Consolidated Statements of Operations.

Other Real Estate Owned (OREO)

Assets acquired through loan foreclosure are held for sale and are recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. The new basis is supported by appraisals that are generally no more than twelve months old. Costs after acquisition are generally expensed. If the fair value of the asset declines, a write-down is recorded through noninterest expense. The valuation of foreclosed assets is subjective in nature and may be adjusted in the future because of changes in market conditions or appraised values.

Goodwill and Other Intangible Assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as core deposit intangibles, are amortized over their estimated useful lives and subject to periodic impairment testing. Intangible assets (other than goodwill) are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives.

Goodwill and other intangibles are subject to impairment testing at the reporting unit level, which must be conducted at least annually. The Company performs impairment testing during the fourth quarter of each year or when events or changes in circumstances indicate the assets might be impaired.

The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing updated qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not have to perform the two-step goodwill impairment test. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental and often involve the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables. Based on the results of quantitative assessments of all reporting units, the Company concluded that no impairment existed at December 31, 2015. However, future events could cause the Company to conclude that goodwill or other intangibles have become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on the Company’s financial condition and results of operations.

Interest Rate Swap Derivatives

The Company is exposed to certain risks arising from both its business operations and economic conditions. The Company principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Company manages economic risks, including interest rate, liquidity, and credit risk, primarily by managing the amount, sources, and duration of its assets and liabilities and through the use of derivative financial instruments. Specifically, the Company enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. With the exception of forward commitment contracts discussed above under Loans Held for Sale, the Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash receipts and its known or expected cash payments principally related to certain variable rate deposits.

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). The Company has no fair value hedges or stand-alone derivatives, only cash flow hedges. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (a Consolidated Balance Sheet component of shareholders' equity) and is reclassified into earnings in the same period(s) during which the hedged transaction affects earnings (i.e. the period when cash flows are exchanged between counterparties). For both fair value and cash flow hedges, changes in the fair value of derivatives that are not highly effective in hedging the changes in fair value or expected cash flows of the hedged item are recognized immediately in current earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

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Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income or expense. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

Customer Repurchase Agreements

The Company enters into agreements under which it sells securities subject to an obligation to repurchase the same securities. Under these arrangements, the Company may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Company to repurchase the assets. As a result, securities sold under agreements to repurchase are accounted for as collateralized financing arrangements and not as a sale and subsequent repurchase of securities. The agreements are entered into primarily as accommodations for large commercial deposit customers. The obligation to repurchase the securities is reflected as a liability in the Company's Consolidated Balance Sheets, while the securities underlying the securities sold under agreements to repurchase remain in the respective assets accounts and are delivered to and held as collateral by third party trustees.

Marketing and Advertising

Marketing and advertising costs are generally expensed as incurred.

Income Taxes

The Company employs the asset and liability method of accounting for income taxes as required by ASC Topic 740, "*Income Taxes*." Under this method, deferred tax assets and liabilities are determined based on differences between the financial statement carrying amounts and the tax basis of existing assets and liabilities (i.e., temporary timing differences) and are measured at the enacted rates that will be in effect when these differences reverse. The Company utilizes statutory requirements for its income tax accounting, and avoids risks associated with potentially problematic tax positions that may incur challenge upon audit, where an adverse outcome is more likely than not. Therefore, no provisions are necessary for either uncertain tax positions nor accompanying potential tax penalties and interest for underpayments of income taxes in the Company's tax reserves. In accordance with ASC Topic 740, the Company may establish a reserve against deferred tax assets in those cases where realization is less than certain, although no such reserves exist at September 30, 2016, December 31, 2015, or September 30, 2015.

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Transfer 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. In certain cases, the recourse to the Bank to repurchase assets may exist but is deemed immaterial based on the specific facts and circumstances.

Earnings per Common Share

Basic net income per common share is derived by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period measured. Diluted earnings per common share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period measured including the potential dilutive effects of common stock equivalents.

Stock-Based Compensation

In accordance with ASC Topic 718, *"Compensation,"* the Company records as compensation expense an amount equal to the amortization (over the remaining service period) of the fair value of option and restricted stock awards computed at the date of grant. Compensation expense on variable stock option grants (i.e. performance based grant) is recorded based on the probability of achievement of the goals underlying the performance grant. Refer to Note 10 for a description of stock-based compensation awards, activity and expense.

New Authoritative Accounting Guidance

ASU 2014-09, *"Revenue from Contracts with Customers (Topic 606)."* The amendments in ASU 2014-09 supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance. The general principle of the amendments require an entity to recognize revenue upon 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 guidance sets forth a five step approach to be utilized for revenue recognition. As amended, the new guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. The Company is currently evaluating the provisions of ASU 2014-09 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2016-13, *"Measurement of Credit Losses on Financial Instruments (Topic 326)."* This ASU significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. In issuing the standard, the FASB is responding to criticism that today's guidance delays recognition of credit losses. The standard will replace today's "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to: (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. The CECL model does not apply to available-for-sale ("AFS") debt securities. For AFS debt securities with unrealized losses, entities will measure credit losses in a manner similar to what they do today, except that the losses will be recognized as allowances rather than reductions in the amortized cost of the securities. As a result, entities will recognize improvements to estimated credit losses immediately in earnings rather than as interest income over time, as they do today. The ASU also simplifies the accounting model for purchased credit-impaired debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. In addition, entities will need to disclose the amortized cost balance for each class of financial asset by credit quality indicator, disaggregated by the year of origination. ASU No. 2016-13 is effective for interim and annual reporting periods beginning after December 15, 2019; early adoption is permitted for interim and annual reporting periods beginning after December 15, 2018. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective (i.e., modified retrospective approach). The Company is currently evaluating the provisions of ASU No. 2016-13 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

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ASU 2015-16, *"Business Combinations (Topic 805) – Simplifying the Accounting for Measurement-Period Adjustments."* ASU 2015-16 requires that adjustments to provisional amounts that are identified during the measurement period of a business combination be recognized in the reporting period in which the adjustment amounts are determined. Furthermore, the income statement effects of such adjustments, if any, must be calculated as if the accounting had been completed at the acquisition date. The portion of the amount recorded in current-period earnings that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. Under previous guidance, adjustments to provisional amounts identified during the measurement period are to be recognized retrospectively. ASU 2015-16 was effective for the Company on January 1, 2016 and the initial adoption did not have a significant impact on its financial statements.

ASU 2016-01, "*Financial Instruments—(Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.*" ASU 2016-01 addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require 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. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate 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 on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) 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; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. ASU No. 2016-01 is effective for interim and annual reporting periods beginning after December 15, 2017. Early application is permitted as of the beginning of the fiscal year of adoption only for provisions (3) and (6) above. Early adoption of the other provisions mentioned above is not permitted. The Company has performed a preliminary evaluation of the provisions of ASU No. 2016-01. Based on this evaluation, the Company has determined that ASU No. 2016-01 is not expected to have a material impact on the Company's Consolidated Financial Statements; however, the Company will continue to closely monitor developments and additional guidance.

ASU 2016-02, *"Leases (Topic 842)."* 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. Lessor accounting under the new guidance remains largely unchanged as it is substantially equivalent to existing guidance for sales-type leases, direct financing leases, and operating leases. Leveraged leases have been eliminated, although lessors can continue to account for existing leveraged leases using the current accounting guidance. Other limited changes were made to align lessor accounting with the lessee accounting model and the new revenue recognition standard. All entities will classify leases to determine how to recognize lease-related revenue and expense. Quantitative and qualitative disclosures will be required by lessees and lessors to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. The intention is to require enough information to supplement the amounts recorded in the financial statements so that users can understand more about the nature of an entity’s leasing activities. ASU 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018; early adoption is permitted. All entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. They have the option to use certain relief; full retrospective application is prohibited. The Company is currently evaluating the provisions of ASU 2016-02 and will be closely monitoring developments and additional guidance to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2016-09, *"Improvements to Employee Share-Based Payment Accounting (Topic 718)."* ASU 2016-09 includes provisions intended to simplify various aspects related to how share-based payments are accounted for and presented in the financial statements. Some of the key provisions of this new ASU include: (1) companies will no longer record excess tax benefits and certain tax deficiencies in additional paid-in capital (“APIC”). Instead, they will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement, and APIC pools will be eliminated. The guidance also eliminates the requirement that excess tax benefits be realized before companies can recognize them. In addition, the guidance requires companies to present excess tax benefits as an operating activity on the statement of cash flows rather than as a financing activity; (2) increase the amount an employer can withhold to cover income taxes on awards and still qualify for the exception to liability classification for shares used to satisfy the employer’s statutory income tax withholding obligation. The new guidance will also require an employer to classify the cash paid to a tax authority when shares are withheld to satisfy its statutory income tax withholding obligation as a financing activity on its statement of cash flows (current guidance did not specify how these cash flows should be classified); and (3) permit companies to make an accounting policy election for the impact of forfeitures on the recognition of expense for share-based payment awards. Forfeitures can be estimated, as required today, or recognized when they occur. ASU No. 2016-09 is effective for interim and annual reporting periods beginning after December 15, 2016. Early adoption is permitted, but all of the guidance must be adopted in the same period. The Company is currently evaluating the provisions of ASU No. 2016-09 to determine the potential impact the new standard will have on the Company's Consolidated Financial Statements.

ASU 2015-03, *“Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs”* simplifies the presentation of debt issuance costs by requiring that debt issuance costs be presented in the balance sheet as a direct deduction from the carrying amount of debt liability, consistent with debt discounts or premiums. The Company adopted ASU 2015-03 as of the end of its fiscal year 2015, and applied its provisions retrospectively.

Note 2. Cash and Due from Banks

Regulation D of the Federal Reserve Act requires that banks maintain noninterest reserve balances with the Federal Reserve Bank based principally on the type and amount of their deposits. During 2016, the Bank maintained balances at the Federal Reserve sufficient to meet reserve requirements, as well as significant excess reserves. Late in 2008, the Federal Reserve in connection with the Emergency Economic Stabilization Act of 2008 began paying a nominal amount of interest on balances held, which interest on excess reserves was increased under provisions of the Dodd Frank Wall Street Reform and Consumer Protection Act passed in July 2010.

Additionally, the Bank maintains interest-bearing balances with the Federal Home Loan Bank of Atlanta and noninterest bearing balances with domestic correspondent banks as compensation for services they provide to the Bank.

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Note 3. Investment Securities Available-for-Sale

Amortized cost and estimated fair value of securities available-for-sale are summarized as follows:

September 30, 2016 **(dollars in thousands)**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U. S. agency securities	$ 55,862	$ 638	$ 136	$ 56,364
Residential mortgage backed securities	264,101	2,284	350	266,035
Municipal bonds	94,923	4,954	-	99,877
Corporate bonds	8,009	68	23	8,054
Other equity investments	310	28	-	338
	$ 423,205	$ 7,972	$ 509	$ 430,668

December 31, 2015 **(dollars in thousands)**	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Estimated Fair Value**
U. S. agency securities	$ 56,775	$ 477	$ 277	$ 56,975
Residential mortgage backed securities	299,709	692	3,160	297,241
Municipal bonds	114,253	4,131	3	118,381
Corporate bonds	15,090	-	152	14,938
Other equity investments	307	27	-	334
	$ 486,134	$ 5,327	$ 3,592	$ 487,869

In addition, at September 30, 2016, the Company held $19.9 million in equity securities in a combination of Federal Reserve Bank (“FRB”) and Federal Home Loan Bank (“FHLB”) stocks, which are required to be held for regulatory purposes and which are not marketable, and therefore are carried at cost.

Gross unrealized losses and fair value by length of time that the individual available-for-sale securities have been in a continuous unrealized loss position are as follows:

		Less than 12 Months		**12 Months or Greater**		**Total**	
September 30, 2016 **(dollars in thousands)**	**Number of Securities**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**	**Estimated Fair Value**	**Unrealized Losses**

U. S. agency securities	14	$38,625	$ 107	$1,986	$ 29	$40,611	$ 136
Residential mortgage backed securities	38	57,588	162	20,789	188	78,377	350
Corporate bonds	2	4,986	23	-	-	4,986	23
	54	$101,199	$ 292	$22,775	$ 217	$123,974	$ 509

December 31, 2015	**Number of**	**Less than 12 Months Estimated Fair**	**Unrealized**	**12 Months or Greater Estimated Fair**	**Unrealized**	**Total Estimated Fair**	**Unrealized**
(dollars in thousands)	**Securities**	**Value**	**Losses**	**Value**	**Losses**	**Value**	**Losses**
U. S. agency securities	13	$32,927	$ 277	$-	$ -	$32,927	$ 277
Residential mortgage backed securities	92	157,871	1,438	58,954	1,722	216,825	3,160
Municipal bonds	2	1,559	3	-	-	1,559	3
Corporate bonds	4	14,938	152	-	-	14,938	152
	111	$207,295	$ 1,870	$58,954	$ 1,722	$266,249	$ 3,592

The unrealized losses that exist are generally the result of changes in market interest rates and interest spread relationships since original purchases. The weighted average duration of debt securities, which comprise 99.9% of total investment securities, is relatively short at 3.4 years. If quoted prices are not available, fair value is measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. The Company does not believe that the investment securities that were in an unrealized loss position as of September 30, 2016 represent an other-than-temporary impairment. The Company does not intend to sell the investments and it is more likely than not that the Company will not have to sell the securities before recovery of its amortized cost basis, which may be maturity.

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The amortized cost and estimated fair value of investments available-for-sale by contractual maturity are shown in the table below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	September 30, 2016		December 31, 2015	
(dollars in thousands)	**Amortized Cost**	**Estimated Fair Value**	**Amortized Cost**	**Estimated Fair Value**
U. S. agency securities maturing:				
One year or less	$37,414	$ 37,380	$31,436	$ 31,361
After one year through five years	18,448	18,984	18,826	19,047
Five years through ten years	-	-	6,513	6,567
Residential mortgage backed securities	264,101	266,035	299,709	297,241
Municipal bonds maturing:				
One year or less	1,057	1,080	4,450	4,478
After one year through five years	42,625	44,701	41,213	43,720
Five years through ten years	50,165	52,868	66,001	67,398
After ten years	1,076	1,228	2,589	2,785
Corporate bonds				
After one year through five years	5,009	4,986	15,090	14,938
Five years through ten years	3,000	3,068	-	-
Other equity investments	310	338	307	334
	$423,205	$ 430,668	$486,134	$ 487,869

For the nine months ended September 30, 2016, gross realized gains on sales of investments securities were $1.3 million and gross realized losses on sales of investment securities were $202 thousand. For the nine months ended September 30, 2015, gross realized gains on sales of investments securities were $2.5 million and gross realized losses on sales of investment securities were $294 thousand.

Proceeds from sales and calls of investment securities for the nine months ended September 30, 2016 were $94.2 million, and in 2015 were $65.8 million.

The carrying value of securities pledged as collateral for certain government deposits, securities sold under agreements to repurchase, and certain lines of credit with correspondent banks at September 30, 2016 was $391.8 million, which is well in excess of required amounts in order to operationally provide significant reserve amounts for new business. As of September 30, 2016 and December 31, 2015, there were no holdings of securities of any one issuer, other than the U.S. Government and U.S. agency securities, which exceeded ten percent of shareholders’ equity.

Note 4. Mortgage Banking Derivative

As part of its mortgage banking activities, the Bank 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 Bank 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 Bank 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 Bank 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 Bank 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 Bank could incur significant costs in acquiring replacement loans or MBS and such costs could have an adverse effect on mortgage banking operations.

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The fair value of the mortgage banking derivatives is recorded as a freestanding asset or liability with the change in value being recognized in current earnings during the period of change.

At September 30, 2016 the Bank had mortgage banking derivative financial instruments with a notional value of $81.7 million related to its forward contracts. The fair value of these derivative instruments at September 30, 2016 was $217 thousand, which is included in other assets and $222 thousand included in other liabilities. At September 30, 2015 the Bank had mortgage banking derivative financial instruments with a notional value of $53.0 million related to its forward contracts. The fair value of these derivative instruments at September 30, 2015 was $197 thousand included in other assets and $245 thousand included in other liabilities.

Included in noninterest income for the three and nine months ended September 30, 2016 was a loss of $46 thousand and gain of $274 thousand, relating to mortgage banking derivative instruments. The amount included in noninterest income for the three and nine months ended September 30, 2016 pertaining to its mortgage banking hedging activities was a gain of $151 thousand and loss of $156 thousand. Included for the three and nine months ended September 30, 2015 was a gain of $9 thousand and a loss of $63 thousand, relating to mortgage banking derivative instruments. The amount included in noninterest income for the three and nine months ended September 30, 2015 pertaining to its mortgage banking hedging activities was a realized loss of $327 thousand and $9 thousand.

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Note 5. Loans and Allowance for Credit Losses

The Bank makes loans to customers primarily in the Washington, DC metropolitan area and surrounding communities. A substantial portion of the Bank's loan portfolio consists of loans to businesses secured by real estate and other business assets.

Loans, net of unamortized net deferred fees, at September 30, 2016, December 31, 2015, and September 30, 2015 are summarized by type as follows:

	September 30, 2016		December 31, 2015		September 30, 2015	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Commercial	$1,130,042	21 %	$1,052,257	21 %	$1,007,659	21 %
Income producing - commercial real estate	2,551,186	46 %	2,115,478	42 %	2,022,950	42 %
Owner occupied - commercial real estate	590,427	11 %	498,103	10 %	489,657	10 %
Real estate mortgage - residential	154,439	3 %	147,365	3 %	147,720	3 %
Construction - commercial and residential	838,137	15 %	985,607	20 %	927,265	20 %
Construction - C&I (owner occupied)	104,676	2 %	79,769	2 %	60,487	1 %
Home equity	106,856	2 %	112,885	2 %	115,346	3 %
Other consumer	6,212	-	6,904	-	5,881	-
Total loans	5,481,975	100%	4,998,368	100%	4,776,965	100%
Less: Allowance for Credit Losses	(56,864)		(52,687)		(50,320)	
Net loans	$5,425,111		$4,945,681		$4,726,645	

Unamortized net deferred fees amounted to $20.9 million, $18.4 million, and $17.4 million at September 30, 2016, December 31, 2015, and September 30, 2015, respectively.

As of September 30, 2016 and December 31, 2015, the Bank serviced $113.4 million and $78.8 million, respectively, of SBA loans and loan participations which are not reflected as loan balances on the Consolidated Balance Sheets.

Loan Origination / Risk Management

The Company's goal is to mitigate risks in the event of unforeseen threats to the loan portfolio as a result of economic downturn or other negative influences. Plans for mitigating inherent risks in managing loan assets include: carefully enforcing loan policies and procedures, evaluating each borrower's business plan during the underwriting process and throughout the loan term, identifying and monitoring primary and alternative sources for loan repayment, and obtaining collateral to mitigate economic loss in the event of liquidation. Specific loan reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is employed to proactively estimate loss exposure and provide a measuring system for setting general and specific reserve allocations.

The composition of the Company's loan portfolio is heavily weighted toward commercial real estate, both owner occupied and income producing real estate. At September 30, 2016, owner occupied - commercial real estate and construction - C&I (owner occupied) represent 13% of the loan portfolio. At September 30, 2016, non-owner occupied commercial real estate and real estate construction represented approximately 61% of the loan portfolio. The combined owner occupied and commercial real estate loans represent 74% of the loan portfolio. These loans are underwritten to mitigate lending risks typical of this type of loan such as declines in real estate values, changes in borrower cash flow and general economic conditions. The Bank typically requires a maximum loan to value of 80% and minimum cash flow debt service coverage of 1.15 to 1.0. Personal guarantees are generally required, but may be limited. In making real estate commercial mortgage loans, the Bank generally requires that interest rates adjust not less frequently than five years.

The Company is also an active traditional commercial lender providing loans for a variety of purposes, including working capital, equipment and account receivable financing. This loan category represents approximately 21% of the loan portfolio at September 30, 2016 and was generally variable or adjustable rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited. SBA loans represent 2.5% of the commercial loan category of loans. In originating SBA loans, the Company assumes the risk of non-payment on the unguaranteed portion of the credit. The Company generally sells the guaranteed portion of the loan generating noninterest income from the gains on sale, as well as servicing income on the portion participated. SBA loans are subject to the same cash flow analyses as other commercial loans. SBA loans are subject to a maximum loan size established by the SBA.

Approximately 2% of the loan portfolio at September 30, 2016 consists of home equity loans and lines of credit and other consumer loans. These credits, while making up a smaller portion of the loan portfolio, demand the same emphasis on underwriting and credit evaluation as other types of loans advanced by the Bank.

Approximately 3% of the loan portfolio consists of residential mortgage loans. The repricing duration of these loans was 22 months. These credits represent first liens on residential property loans originated by the Bank. While the Bank's general practice is to originate and sell (servicing released) loans made by its Residential Lending department, from time to time certain loan characteristics do not meet the requirements of third party investors and these loans are instead maintained in the Bank's portfolio.

Loans are secured primarily by duly recorded first deeds of trust. In some cases, the Bank may accept a recorded junior trust position. In general, borrowers will have a proven ability to build, lease, manage and/or sell a commercial or residential project and demonstrate satisfactory financial condition. Additionally, an equity contribution toward the project is customarily required.

Construction loans require that the financial condition and experience of the general contractor and major subcontractors be satisfactory to the Bank. Guaranteed, fixed price contracts are required whenever appropriate, along with payment and performance bonds or completion bonds for larger scale projects.

Loans intended for residential land acquisition, lot development and construction are made on the premise that the land: 1) is or will be developed for building sites for residential structures, and; 2) will ultimately be utilized for construction or improvement of residential zoned real properties, including the creation of housing. Residential development and construction loans will finance projects such as single family subdivisions, planned unit developments, townhouses, and condominiums. Residential land acquisition, development and construction loans generally are underwritten with a maximum term of 36 months, including extensions approved at origination.

Commercial land acquisition and construction loans are secured by real property where loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner user commercial properties. Borrowers are generally required to put equity into each project at levels determined by the appropriate Loan Committee. Commercial land acquisition and construction loans generally are underwritten with a maximum term of 24 months.

Substantially all construction draw requests must be presented in writing on American Institute of Architects documents and certified either by the contractor, the borrower and/or the borrower's architect. Each draw request shall also include the borrower's soft cost breakdown certified by the borrower or their Chief Financial Officer. Prior to an advance, the Bank or its contractor inspects the project to determine that the work has been completed, to justify the draw requisition.

Commercial permanent loans are secured by improved real property which is generating income in the normal course of operation. Debt service coverage, assuming stabilized occupancy, must be satisfactory to support a permanent loan. The debt service coverage ratio is ordinarily at least 1.15 to 1.00. As part of the underwriting process, debt service coverage ratios are stress tested assuming a 200 basis point increase in interest rates from their current levels.

Commercial permanent loans generally are underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.

The Company's loan portfolio includes ADC real estate loans including both investment and owner occupied projects. ADC loans amounted to $942.8 million at September 30, 2016. A portion of the ADC portfolio, both speculative and non-speculative, includes loan funded interest reserves at origination. ADC loans containing loan funded interest reserves represent approximately 66.5% of the outstanding ADC loan portfolio at September 30, 2016. The decision to establish a loan-funded interest reserve is made upon origination of the ADC loan and is based upon a number of factors considered during underwriting of the credit including: (1) the feasibility of the project; (2) the experience of the sponsor; (3) the creditworthiness of the borrower and guarantors; (4) borrower equity contribution; and (5) the level of collateral protection. When appropriate, an interest reserve provides an effective means of addressing the cash flow characteristics of a properly underwritten ADC loan. The Company does not significantly utilize interest reserves in other loan products. The Company recognizes that one of the risks inherent in the use of interest reserves is the potential masking of underlying problems with the project and/or the borrower's ability to repay the loan. In order to mitigate this inherent risk, the Company employs a series of reporting and monitoring mechanisms on all ADC loans, whether or not an interest reserve is provided, including: (1) construction and development timelines which are monitored on an ongoing basis which track the progress of a given project to the timeline projected at origination; (2) a construction loan administration department independent of the lending function; (3) third party independent construction loan inspection reports; (4) monthly interest reserve monitoring reports detailing the balance of the interest reserves approved at origination and the days of interest carry represented by the reserve balances as compared to the then current anticipated time to completion and/or sale of speculative projects; and (5) quarterly commercial real estate construction meetings among senior Company management, which includes monitoring of current and projected real estate market conditions. If a project has not performed as expected, it is not the customary practice of the Company to increase loan funded interest reserves.

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From time to time the Company may make loans for its own portfolio or through its higher risk loan affiliate, ECV. Such loans, which are made to finance projects (which may also be financed at the Bank level), may have higher risk characteristics than loans made by the Bank, such as lower priority interests and/or higher loan to value ratios. The Company seeks an overall financial return on these transactions commensurate with the risks and structure of each individual loan. Certain transactions may bear current interest at a rate with a significant premium to normal market rates. Other loan transactions may carry a standard rate of current interest, but also earn additional interest based on a percentage of the profits of the underlying project or a fixed accrued rate of interest.

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The following tables detail activity in the allowance for credit losses by portfolio segment for the three and nine months ended September 30, 2016 and 2015. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(dollars in thousands)	Commercial	Income Producing Commercial Real Estate	Owner Occupied Commercial Real Estate	Real Estate Mortgage Residential	Construction Commercial and Residential	Home Equity	Other Consumer	Total
Three months ended September 30, 2016								
Allowance for credit losses:								
Balance at beginning of period	$ 13,386	$ 19,072	$ 4,202	$ 1,061	$ 17,024	$ 1,556	$ 235	$ 56,536
Loans charged-off	(109)	(1,751)	-	-	-	(121)	(12)	(1,993)
Recoveries of loans previously charged-off	7	10	-	2	3	3	8	33
Net loans (charged-off) recoveries	(102)	(1,741)	-	2	3	(118)	(4)	(1,960)
Provision for credit losses	(523)	3,178	59	47	(513)	(69)	109	2,288
Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$ 1,369	$ 340	$ 56,864
Nine months ended September 30, 2016								
Allowance for credit losses:								
Balance at beginning of period	$ 11,563	$ 14,122	$ 3,279	$ 1,268	$ 21,088	$ 1,292	$ 75	$ 52,687
Loans charged-off	(2,802)	(2,342)	-	-	-	(217)	(37)	(5,398)
Recoveries of loans previously charged-off	93	14	2	5	207	11	24	356
Net loans charged-off	(2,709)	(2,328)	2	5	207	(206)	(13)	(5,042)
Provision for credit losses	3,907	8,715	980	(163)	(4,781)	283	278	9,219
Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$ 1,369	$ 340	$ 56,864
As of September 30, 2016								
Allowance for credit losses:								
Individually evaluated for impairment	$ 1,997	$ 1,714	$ 360	$ -	$ 300	$ -	$ 100	$ 4,471
Collectively evaluated for impairment	10,764	18,795	3,901	1,110	16,214	1,369	240	52,393

Ending balance	$ 12,761	$ 20,509	$ 4,261	$ 1,110	$ 16,514	$ 1,369	$ 340	$ 56,864
Three months ended September 30, 2015								
Allowance for credit losses:								
Balance at beginning of period	$ 12,911	$ 12,411	$ 3,113	$ 1,082	$ 17,633	$ 1,496	$ 275	$ 48,921
Loans charged-off	(1,388)	(254)	-	-	-	(225)	(95)	(1,962)
Recoveries of loans previously charged-off	60	8	-	2	10	1	18	99
Net loans (charged-off) recoveries	(1,328)	(246)	-	2	10	(224)	(77)	(1,863)
Provision for credit losses	57	1,550	(13)	(18)	1,281	334	71	3,262
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$ 1,606	$ 269	$ 50,320
Nine months ended September 30, 2015								
Allowance for credit losses:								
Balance at beginning of period	$ 13,222	$ 11,442	$ 2,954	$ 1,259	$ 15,625	$ 1,469	$ 104	$ 46,075
Loans charged-off	(4,693)	(651)	-	-	-	(644)	(182)	(6,170)
Recoveries of loans previously charged-off	135	26	2	5	114	5	85	372
Net loans charged-off	(4,558)	(625)	2	5	114	(639)	(97)	(5,798)
Provision for credit losses	2,976	2,898	144	(198)	3,185	776	262	10,043
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$ 1,606	$ 269	$ 50,320
As of September 30, 2015								
Allowance for credit losses:								
Individually evaluated for impairment	$ 2,312	$ 827	$ 400	$ -	$ 350	$ 338	$ -	$ 4,227
Collectively evaluated for impairment	9,328	12,888	2,700	1,066	18,574	1,268	269	46,093
Ending balance	$ 11,640	$ 13,715	$ 3,100	$ 1,066	$ 18,924	$ 1,606	$ 269	$ 50,320

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The Company's recorded investments in loans as of September 30, 2016, December 31, 2015 and September 30, 2015 related to each balance in the allowance for loan losses by portfolio segment and disaggregated on the basis of the Company's impairment methodology was as follows:

(dollars in thousands)	Commercial	Income Producing Commercial Real Estate	Owner occupied Commercial Real Estate	Real Estate Mortgage Residential	Construction Commercial and Residential	Home Equity	Other Consumer	Total
September 30, 2016								
Recorded investment in loans:								
Individually evaluated for impairment	$ 12,448	$ 14,648	$ 2,517	$ 244	$ 4,878	$ 113	$ -	$ 34,848
Collectively evaluated for impairment	1,117,594	2,536,538	587,910	154,195	937,935	106,743	6,212	5,447,127
Ending balance	$ 1,130,042	$ 2,551,186	$ 590,427	$ 154,439	$ 942,813	$ 106,856	$ 6,212	$ 5,481,975
December 31, 2015								
Recorded investment in loans:								
Individually evaluated for impairment	$ 13,008	$ 6,118	$ 1,753	$ -	$ 10,454	$ 161	$ 22	$ 31,516
Collectively evaluated for impairment	1,039,249	2,109,360	496,350	147,365	1,054,922	112,724	6,882	4,966,852
Ending balance	$ 1,052,257	$ 2,115,478	$ 498,103	$ 147,365	$ 1,065,376	$ 112,885	$ 6,904	$ 4,998,368
September 30, 2015								
Recorded investment in loans:								
	$ 12,869	$ 6,877	$ 1,790	$ -	$ 17,644	$ 661	$ 72	$ 39,913

Individually evaluated for impairment								
Collectively evaluated for impairment	994,790	2,016,073	487,867	147,720	970,108	114,685	5,809	4,737,052
Ending balance	$ 1,007,659	$ 2,022,950	$ 489,657	$ 147,720	$ 987,752	$ 115,346	$ 5,881	$ 4,776,965

At September 30, 2016, nonperforming loans acquired from Fidelity & Trust Financial Corporation ("Fidelity") and Virginia Heritage Bank ("Virginia Heritage") have a carrying value of $495 thousand and $1.1 million, and an unpaid principal balance of $553 thousand and $2.2 million, and were evaluated separately in accordance with ASC Topic 310-30, *"Loans and Debt Securities Acquired with Deteriorated Credit Quality*." The various impaired loans were recorded at estimated fair value with any excess being charged-off or treated as a non-accretable discount. Subsequent downward adjustments to the valuation of impaired loans acquired will result in additional loan loss provisions and related allowance for credit losses. Subsequent upward adjustments to the valuation of impaired loans acquired will result in accretable discount. No adjustments have been made to the fair value amounts of impaired loans subsequent to the allowable period of adjustment from the date of acquisition.

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Credit Quality Indicators

The Company uses several credit quality indicators to manage credit risk in an ongoing manner. The Company's primary credit quality indicators are to use an internal credit risk rating system that categorizes loans into pass, watch, special mention, or classified categories. Credit risk ratings are applied individually to those classes of loans that have significant or unique credit characteristics that benefit from a case-by-case evaluation. These are typically loans to businesses or individuals in the classes which comprise the commercial portfolio segment. Groups of loans that are underwritten and structured using standardized criteria and characteristics, such as statistical models (e.g., credit scoring or payment performance), are typically risk rated and monitored collectively. These are typically loans to individuals in the classes which comprise the consumer portfolio segment.

The following are the definitions of the Company's credit quality indicators:

Pass:	Loans in all classes that comprise the commercial and consumer portfolio segments that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
Watch:	Loan paying as agreed with generally acceptable asset quality; however the obligor’s performance has not met expectations. Balance sheet and/or income statement has shown deterioration to the point that the obligor could not sustain any further setbacks. Credit is expected to be strengthened through improved obligor performance and/or additional collateral within a reasonable period of time.
Special Mention:	Loans in the classes that comprise the commercial portfolio segment that have potential weaknesses that deserve management's close attention. If not addressed, these potential weaknesses may result in deterioration of the repayment prospects for the loan. The special mention credit quality indicator is not used for classes of loans that comprise the consumer portfolio segment. Management believes that there is a moderate likelihood of some loss related to those loans that are considered special mention.
Classified:	Classified (a) Substandard - Loans inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the company will sustain some loss if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of substandard loans, does not have to exist in individual loans classified substandard. Classified (b) Doubtful - Loans that have all the weaknesses inherent in a loan 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. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors, which may work to the advantage and strengthening of the assets, its classification as an estimated loss is deferred until its more exact status may be determined.

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The Company's credit quality indicators are updated generally on a quarterly basis, but no less frequently than annually. The following table presents by class and by credit quality indicator, the recorded investment in the Company's loans and leases as of September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	**Pass**	**Watch and Special Mention**	**Substandard**	**Doubtful**	**Total Loans**
September 30, 2016					
Commercial	$1,099,894	$18,599	$ 11,549	$ -	$1,130,042
Income producing - commercial real estate	2,527,318	9,220	14,648	-	2,551,186
Owner occupied - commercial real estate	577,925	10,399	2,103	-	590,427
Real estate mortgage – residential	153,515	680	244	-	154,439
Construction - commercial and residential	937,198	737	4,878	-	942,813
Home equity	105,126	1,617	113	-	106,856
Other consumer	6,209	3	-	-	6,212
Total	$5,407,185	$41,255	$ 33,535	$ -	$5,481,975
December 31, 2015					
Commercial	$1,021,427	$17,822	$ 13,008	$ -	$1,052,257
Income producing - commercial real estate	2,096,032	13,328	6,118	-	2,115,478
Owner occupied - commercial real estate	488,496	7,854	1,753	-	498,103
Real estate mortgage – residential	146,651	714	-	-	147,365
Construction - commercial and residential	1,049,926	4,996	10,454	-	1,065,376
Home equity	110,870	1,854	161	-	112,885
Other consumer	6,877	5	22	-	6,904
Total	$4,920,279	$46,573	$ 31,516	$ -	$4,998,368
September 30, 2015					
Commercial	$977,165	$17,625	$ 12,869	$ -	$1,007,659
Investment - commercial real estate	1,999,509	16,564	6,877	-	2,022,950
Owner occupied - commercial real estate	479,843	8,024	1,790	-	489,657
Real estate mortgage – residential	146,992	728	-	-	147,720
Construction - commercial and residential	964,854	5,254	17,644	-	987,752
Home equity	112,978	1,707	661	-	115,346
Other consumer	5,804	5	72	-	5,881
Total	$4,687,145	$49,907	$ 39,913	$ -	$4,776,965

Nonaccrual and Past Due Loans

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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The following table presents, by class of loan, information related to nonaccrual loans as of September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	**September 30, 2016**	**December 31, 2015**	**September 30, 2015**
Commercial	$ 2,986	$ 4,940	$ 4,828
Income producing - commercial real estate	10,098	5,961	6,721
Owner occupied - commercial real estate	2,103	1,268	1,281
Real estate mortgage - residential	562	329	333
Construction - commercial and residential	6,412	557	571
Home equity	113	161	661
Other consumer	-	23	72
Total nonaccrual loans (1)(2)	$ 22,274	$ 13,239	$ 14,467

(1) Excludes troubled debt restructurings ("TDRs") that were performing under their restructured terms totaling $2.9 million at September 30, 2016, $11.8 million at December 31, 2015 and $15.2 million at September 30, 2015.

(2) Gross interest income of $436 thousand and $1.3 million would have been recorded for the three and nine months ended September 30, 2016, respectively, if nonaccrual loans shown above had been current and in accordance with their original terms. The interest actually recorded on these loans was $97 thousand and $271 thousand for the three and nine months ended September 30, 2016, respectively. See Note 1 to the Consolidated Financial Statements for a description of the Company's policy for placing loans on nonaccrual status.

The following table presents, by class of loan, an aging analysis and the recorded investments in loans past due as of September 30, 2016 and December 31, 2015.

(dollars in thousands)	**Loans 30-59 Days Past Due**	**Loans 60-89 Days Past Due**	**Loans 90 Days or More Past Due**	**Total Past Due Loans**	**Current Loans**	**Total Recorded Investment in Loans**
September 30, 2016						
Commercial	$1,173	$495	$2,986	$4,654	$1,125,388	$1,130,042
Income producing - commercial real estate	-	-	10,098	10,098	2,541,088	2,551,186
Owner occupied - commercial real estate	-	3,338	2,103	5,441	584,986	590,427
Real estate mortgage – residential	-	164	562	726	153,713	154,439
Construction - commercial and residential	-	-	6,412	6,412	936,401	942,813
Home equity	562	620	113	1,295	105,561	106,856

Other consumer	8	16	-	24	6,188	6,212
Total	$1,743	$4,633	$22,274	$28,650	$5,453,325	$5,481,975
December 31, 2015						
Commercial	$4,130	$1,364	$4,940	$10,434	$1,041,823	$1,052,257
Income producing - commercial real estate	2,841	-	5,961	8,802	2,106,676	2,115,478
Owner occupied - commercial real estate	3,189	902	1,268	5,359	492,744	498,103
Real estate mortgage – residential	-	-	329	329	147,036	147,365
Construction - commercial and residential	-	5,020	557	5,577	1,059,799	1,065,376
Home equity	-	77	161	238	112,647	112,885
Other consumer	56	60	23	139	6,765	6,904
Total	$10,216	$7,423	$13,239	$30,878	$4,967,490	$4,998,368

Impaired Loans

Loans are considered impaired when, based on current information and events, it is probable the Company will be unable to collect all amounts due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. Impairment is evaluated in total for smaller-balance loans of a similar nature and on an individual loan basis for other loans. If a loan is impaired, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on impaired loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Impaired loans, or portions thereof, are charged-off when deemed uncollectible.

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The following table presents, by class of loan, information related to impaired loans for the periods ended September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	Unpaid Contractual Principal Balance	Recorded Investment With No Allowance	Recorded Investment With Allowance	Total Recorded Investment	Related Allowance	Average Recorded Investment Quarter To Date	Average Recorded Investment Year To Date	Interest Income Recognized Quarter To Date	Interest Income Recognized Year To Date
September 30, 2016									
Commercial	$ 15,517	$ 2,370	$ 10,078	$ 12,448	$ 1,997	$ 12,838	$ 12,879	$ 54	$ 112
Income producing - commercial real estate	14,648	-	14,648	14,648	1,714	17,584	15,298	28	144
Owner occupied - commercial real estate	2,517	-	2,517	2,517	360	2,108	1,923	13	13
Real estate mortgage – residential	244	244	-	244	-	249	271	-	-
Construction - commercial and residential	4,878	4,340	538	4,878	300	5,146	6,542	-	-
Home equity	113	-	113	113	100	117	129	2	2
Other consumer	-	-	-	-	-	-	6	-	-
Total	$ 37,917	$ 6,954	$ 27,894	$ 34,848	$ 4,471	$ 38,042	$ 37,048	$ 97	$ 271
December 31, 2015									
Commercial	$ 16,123	$ 2,396	$ 10,612	$ 13,008	$ 3,478	$ 9,671	$ 10,309	$ 21	$ 69
Income producing - commercial real estate	6,811	1,190	4,928	6,118	1,033	10,675	10,294	95	354
Owner occupied - commercial real estate	1,753	946	807	1,753	400	1,772	1,810	-	-
Construction - commercial and residential	10,454	4,877	5,577	10,454	950	8,031	7,594	(93)	205
Home equity	161	116	45	161	38	411	650	-	-
Other consumer	22	19	3	22	3	47	31	(1)	1
Total	$ 35,324	$ 9,544	$ 21,972	$ 31,516	$ 5,902	$ 30,607	$ 30,688	$ 22	$ 629
September 30, 2015									
Commercial	$ 14,041	$ 2,663	$ 10,206	$ 12,869	$ 2,312	$ 7,978	$ 10,047	$ 39	$ 48
Income producing - commercial real estate	15,389	-	6,877	6,877	827	12,542	11,388	188	259
Owner occupied - commercial real estate	2,299	973	817	1,790	400	1,811	1,844	-	-
	22,681	5,370	12,274	17,644	350	5,961	7,516	100	298

Construction - commercial and residential									
Home equity	661	116	545	661	338	774	959	-	-
Other consumer	72	72	-	72	-	45	40	1	2
Total	$ 55,143	$ 9,194	$ 30,719	$ 39,913	$ 4,227	$29,111	$31,794	$328	$607

Modifications

A modification of a loan constitutes a TDR when a borrower is experiencing financial difficulty and the modification constitutes a concession. The Company offers various types of concessions when modifying a loan. Commercial and industrial loans modified in a TDR often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested. Commercial mortgage and construction loans modified in a TDR often involve reducing the interest rate for the remaining term of the loan, extending the maturity date at an interest rate lower than the current market rate for new debt with similar risk, or substituting or adding a new borrower or guarantor. Construction loans modified in a TDR may also involve extending the interest-only payment period. As of September 30, 2016, all performing TDRs were categorized as interest-only modifications.

Loans modified in a TDR for the Company may have the financial effect of increasing the specific allowance associated with the loan. An allowance for impaired consumer and commercial loans that have been modified in a TDR is measured based on the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

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The following table presents by class, the recorded investment of loans modified in TDRs held by the Company during the periods ended September 30, 2016 and December 31, 2015.

(dollars in thousands)	Number of Contracts	TDRs Performing to Modified Terms	TDRs Not Performing to Modified Terms	Total TDRs
September 30, 2016				
Commercial	6	$ 1,725	$ 199	$ 1,924
Income producing - commercial real estate	1	742	-	742
Owner occupied - commercial real estate	1	414	-	414
Construction - commercial and residential	1	-	4,948	4,948
Total	9	$ 2,881	$ 5,147	$ 8,028
December 31, 2015				
Commercial	4	$ 1,171	$ 211	$ 1,382
Income producing - commercial real estate	2	5,160	-	5,160
Owner occupied - commercial real estate	1	485	-	485
Construction - commercial and residential	1	5,020	-	5,020
Total	8	$ 11,836	$ 211	$ 12,047

During the nine months ended September 30, 2016, there was one default on a $5.0 million restructured loan, as compared to the same period in 2015, which had no defaults on restructured loans. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. There was one nonperforming TDR totaling $5.0 million reclassified to nonperforming loans during the nine months ended September 30, 2016. There were no nonperforming TDRs reclassified to nonperforming loans during the nine months ended September 30, 2015. Commercial and consumer loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If a loan modified in a TDR subsequently defaults, the Company evaluates the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. There was one loan totaling $801 thousand modified in a TDR during the three months ended September 30, 2016, as compared to three loans totaling $1.6 million modified in a TDR during the three months ended September 31, 2015. For the nine months ended September 30, 2016, there were three loans totaling $1.4 million modified in a TDR, as compared to the nine months ended September 30, 2015 which had four loan modified in a TDR totaling $1.9 million.

Note 6. Interest Rate Swap Derivatives

The Company uses interest rate swap agreements to assist in its interest rate risk management. The Company's objective in using interest rate derivatives is to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company entered into forward starting interest rate swaps in April 2015 as part of its interest rate risk management strategy intended to mitigate the potential risk of rising interest rates on the Bank's cost of funds. The notional amounts of the interest rate swaps do not represent amounts exchanged by the counterparties, but rather, the notional amount is used to determine, along with other terms of the derivative, the amounts to be exchanged between the counterparties. The interest rate swaps are designated as cash flow hedges and involve the receipt of variable rate amounts from two counterparties in exchange for the Company making fixed payments beginning in April 2016. The Company is hedging its exposure to the variability in potential future interest rate conditions on existing financial instruments.

As of September 30, 2016, the Company had three forward starting interest rate swap transactions outstanding that had a notional amount of $250.0 million associated with the Company's variable rate deposits. The net unrealized loss before income tax on the swaps was $9.0 million at September 30, 2016 and $1.4 million at December 31, 2015. The unrealized loss is due to the increase in expected spreads between short and longer term interest rates between the date the forward starting swap was entered into and September 30, 2016.

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For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings), net of tax, and subsequently reclassified to earnings when the hedged transaction affects earnings, and the ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The Company assesses the effectiveness of each hedging relationship by comparing the changes in cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. The Company recognized an immaterial amount in earnings due to hedge ineffectiveness during the nine month period ended September 30, 2016. The Company did not recognize any hedge ineffectiveness in earnings during the nine month period ended September 30, 2015.

Amounts reported in accumulated other comprehensive income related to derivatives will be reclassified to interest income/expense as interest payments are made/received on the Company's variable-rate assets/liabilities. During the quarter ended September 30, 2016, the Company reclassified $776 thousand related to derivatives from accumulated other comprehensive income to interest expense. During the next twelve months, the Company estimates (based on interest rates as of September 30, 2016) that $2.6 million will be reclassified as an increase in interest expense.

The Company is exposed to credit risk in the event of nonperformance by the interest rate swap counterparty. The Company minimizes this risk by entering into derivative contracts with only large, stable financial institutions, and the Company has not experienced, and does not expect, any losses from counterparty nonperformance on the interest rate swaps. The Company monitors counterparty risk in accordance with the provisions of ASC Topic 815, "Derivatives and Hedging." In addition, the interest rate swap agreements contain language outlining collateral-pledging requirements for each counterparty. Collateral must be posted when the market value exceeds certain threshold limits.

The interest rate swap agreements detail: the requirement that collateral be posted when the market value exceeds certain threshold limits associated with the secured party's exposure; that if the Company defaults on any of its indebtedness (including default where repayment of the indebtedness has not been accelerated by the lender), then the Company could also be declared in default on its derivative obligations; and that if the Company fails to maintain its status as a well/adequate capitalized institution then the counterparty could terminate the derivative positions and the Company would be required to settle its obligations under the agreements.

As of September 30, 2016, the aggregate fair value of all derivative contracts with credit risk contingent features (i.e., those containing collateral posting or termination provisions based on our capital status) that were in a net liability position totaled $9.0 million. As of September 30, 2016, the Company has minimum collateral posting thresholds with certain of its derivative counterparties and has posted collateral of $9.6 million against its obligations under these agreements. If the Company had breached any of these provisions at September 30, 2016, it could have been required to settle its obligations under the agreements at the termination value.

The table below identifies the balance sheet category and fair values of the Company's derivative instruments (all of which are designated as cash flow hedges) as of September 30, 2016 and December 31, 2015.

September 30, 2016	**Swap Number**	**Notional Amount**	**Fair Value**	**Balance Sheet Category**	**Receive Rate**	**Pay Rate**	**Maturity**
(dollars in thousands)							
Interest rate swap	(1)	$75,000	$(1,877)	Other Liabilities	1 month USD-LIBOR-BBA w/ -1 day lookback +10 basis points	1.71 %	March 31, 2020
Interest rate swap	(2)	100,000	(3,901)	Other Liabilities	Federal Funds Effective Rate +10 basis points	1.74 %	April 15, 2021
Interest rate swap	(3)	75,000	(3,252)	Other Liabilities	1 month USD-LIBOR-BBA w/ -1 day lookback +10 basis points	1.92 %	March 31, 2022
	Total	250,000	(9,030)				

December 31, 2015	**Swap Number**	**Notional Amount**	**Fair Value**	**Balance Sheet Category**	**Receive Rate**	**Pay Rate**	**Maturity**
(dollars in thousands)							
Interest rate swap	(1)	$75,000	$(368)	Other Liabilities	1 month USD-LIBOR-BBA w/ -1 day lookback +10 basis points	1.71 %	March 31, 2020
Interest rate swap	(2)	100,000	(665)	Other Liabilities	Federal Funds Effective Rate +10 basis points	1.74 %	April 15, 2021
Interest rate swap	(3)	75,000	(384)	Other Liabilities	1 month USD-LIBOR-BBA w/ -1 day lookback +10 basis points	1.92 %	March 31, 2022
	Total	250,000	(1,417)				

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The table below presents the pre-tax net gains (losses) of the Company’s cash flow hedges for the nine months ended September 30, 2016 and for the year ended December 31, 2015.

		Nine Months Ended September 30, 2016				
		Effective Portion			Ineffective Portion	
			Reclassified from AOCI into income		Recognized in Income on Derivatives	
(dollars in thousands)	Swap Number	Amount of Pre-tax gain (loss) Recognized in OCI	Category	Amount of Gain (Loss)	Category	Amount of Gain (Loss)
Interest rate swap	(1)	$(1,877)	Interest Expense	$(429)	Other Expense	$ -
Interest rate swap	(2)	(3,901)	Interest Expense	(581)	Other Expense	-
Interest rate swap	(3)	(3,252)	Interest Expense	(508)	Other Expense	-
	Total	$(9,030)		$(1,518)		$ -

		Year Ended December 31, 2015				
		Effective Portion			Ineffective Portion	
			Reclassified from AOCI into income		Recognized in Income on Derivatives	
(dollars in thousands)	Swap Number	Amount of Pre-tax gain (loss) Recognized in OCI	Category	Amount of Gain (Loss)	Category	Amount of Gain (Loss)
Interest rate swap	(1)	$(368)		$ -		$ -
Interest rate swap	(2)	(665)		-		-
Interest rate swap	(3)	(384)		-		-
	Total	$(1,417)		$ -		$ -

Note 7. Other Real Estate Owned

The activity within Other Real Estate Owned ("OREO") for the three and nine months ended September 30, 2016 and 2015 is presented in the table below. There were no residential real estate loans in the process of foreclosure as of September 30, 2016. For the three and nine months ended September 30, 2016, proceeds on sales of OREO were $552 thousand and $3.6 million, respectively. For the three months ended September 30, 2016, four OREO properties were sold, one property was sold for a net gain of 94 thousand and three properties were sold at their carrying value. For the nine months ended September 30, 2016, six OREO properties were sold for a net gain of $657 thousand.

(dollars in thousands)	**Three Months Ended**		**Nine Months Ended**	
	September 30, 2016	**September 30, 2015**	**September 30, 2016**	**September 30, 2015**
Balance beginning of period	$3,152	$ 10,715	$5,852	$ 13,224
Real estate acquired from borrowers	2,500	225	2,500	1,725
Valuation allowance	-	-	(200)	(750)
Properties sold	(458)	(988)	(2,958)	(4,247)
Balance end of period	$5,194	$ 9,952	$5,194	$ 9,952

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Note 8. Long-Term Borrowings

The following table presents information related to the Company's long-term borrowings as of September 30, 2016, December 31, 2015 and September 30, 2015.

(dollars in thousands)	September 30, 2016	December 31, 2015	September 30, 2015
Subordinated Notes, 5.75%	$ 70,000	$ 70,000	$ 70,000
Subordinated Notes, 5.0%	150,000	-	-
Less: debt issuance costs	(3,581)	(1,072)	(1,103)
Long-term borrowings	$ 216,419	$ 68,928	$ 68,897

On August 5, 2014, the Company completed the sale of $70.0 million of its 5.75% subordinated notes, due September 1, 2024 (the "Notes"). The Notes were offered to the public at par and qualify as Tier 2 capital for regulatory purposes to the fullest extent permitted under the Basel III Rule capital requirements. The net proceeds were approximately $68.8 million, which includes $1.2 million in deferred financing costs which is being amortized over the life of the Notes.

On July 26, 2016, the Company completed the sale of $150.0 million of its 5.00% Fixed-to-Floating Rate Subordinated Notes, due August 1, 2026 (the "Notes"). The Notes were offered to the public at par. The notes qualify as Tier 2 capital for regulatory purposes to the fullest extent permitted under the Basel III Rule capital requirements. The net proceeds were approximately $147.35 million, which includes $2.6 million in deferred financing costs which is being amortized over the life of the Notes.

Note 9. Net Income per Common Share

The calculation of net income per common share for the three and nine months ended September 30, 2016 and 2015 was as follows.

(dollars and shares in thousands, except per share data)	Three Months Ended September 30, 2016	2015	Nine Months Ended September 30, 2016	2015
Basic:				

Net income available to common shareholders	$24,523	$21,283	$71,990	$61,280
Average common shares outstanding	33,591	33,401	33,566	32,625
Basic net income per common share	$0.73	$0.64	$2.14	$1.88
Diluted:				
Net income available to common shareholders	$24,523	$21,283	$71,990	$61,280
Average common shares outstanding	33,591	33,401	33,566	32,625
Adjustment for common share equivalents	598	625	596	653
Average common shares outstanding-diluted	34,189	34,026	34,162	33,278
Diluted net income per common share	$0.72	$0.63	$2.11	$1.84
Anti-dilutive shares	8.0	-	8.0	11.0

Note 10. Stock-Based Compensation

The Company maintains the 2016 Stock Plan (“2016 Plan”), the 2006 Stock Plan (“2006 Plan”) and the 2011 Employee Stock Purchase Plan (“2011 ESPP”).

In connection with the acquisition of Fidelity, the Company assumed the Fidelity 2004 Long Term Incentive Plan and the 2005 Long Term Incentive Plan (the “Fidelity Plans”).

In connection with the acquisition of Virginia Heritage, the Company assumed the Virginia Heritage 2006 Stock Option Plan and the 2010 Long Term Incentive Plan (the “Virginia Heritage Plans”).

No additional options may be granted under the 2006 Plan, the Fidelity Plans or the Virginia Heritage Plans.

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The Company adopted the 2016 Plan upon approval by the shareholders at the 2016 Annual Meeting held on May 12, 2016. The 2016 Plan provides directors and selected employees of the Bank, the Company and their affiliates with the opportunity to acquire shares of stock, through awards of options, time vested restricted stock, performance-based restricted stock and stock appreciation rights. Under the 2016 Plan, 1,000,000 shares of common stock were initially reserved for issuance of which 998,500 remain available for future awards at September 30, 2016.

For awards that are service based, compensation expense is being recognized over the service (vesting) period based on fair value, which for stock option grants is computed using the Black-Scholes model, and for restricted stock awards is based on the average of the high and low stock price of the Company's shares on the date of grant. For awards that are performance-based, compensation expense is recorded based on the probability of achievement of the goals underlying the grant.

In February 2016, the Company awarded 80,365 shares of time vested restricted stock to senior officers, and certain employees. The shares vest in three substantially equal installments beginning on the first anniversary of the date of grant.

In February 2016, the Company awarded senior officers a targeted number of 34,957 performance vested restricted stock units (PRSU's). PRSU's are subject to the satisfaction of certain performance conditions based on the achievement of pre-established average targets for earnings per share growth, total shareholder return and return on average assets over or at the end of a three-year vesting period (2016-2018).

In March 2016, the Company awarded 24,410 shares of time vested restricted stock to directors. The shares vest in three substantially equal installments beginning on the first anniversary of the date of grant.

In May 2016, the Company awarded incentive stock options to purchase 1,500 shares which have a ten-year term and vest in four equal installments beginning on the first anniversary of the date of grant.

In September 2016, the Company awarded incentive stock options to purchase 1,500 shares which have a ten-year term and vest in four equal installments beginning on the first anniversary of the date of grant.

Below is a summary of changes in stock option shares pursuant to our equity compensation plans for the nine months ended September 30, 2016 and 2015. The information excludes restricted stock units and awards.

	Nine Months Ended September 30,			
	2016		2015	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Beginning balance	298,740	$ 9.97	759,683	$ 11.36
Issued	3,000	49.49	-	-
Exercised	(24,458)	13.10	(377,357)	12.73
Forfeited	(1,100)	15.48	(12,380)	29.58
Expired	(6,637)	12.87	(8,476)	17.32
Ending balance	269,545	$ 10.03	361,470	$ 9.16

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The following summarizes information about stock options outstanding at September 30, 2016. The information excludes restricted stock units and awards.

Outstanding:		Stock Options	Weighted-Average	Weighted-Average Remaining
Range of Exercise Prices		Outstanding	Exercise Price	Contractual Life
$5.76	$10.72	156,345	$ 5.76	2.27
$10.73	$15.45	59,232	10.90	1.46
$15.46	$20.01	36,747	15.48	0.13
$20.02	$49.91	17,221	34.21	7.46
		269,545	$ 10.03	2.13

Exercisable:		Stock Options	Weighted-Average
Range of Exercise Prices		Exercisable	Exercise Price
$5.76	$10.72	104,298	$ 5.76
$10.73	$15.45	59,232	10.90
$15.46	$20.01	36,747	15.48
$20.02	$49.91	6,901	22.74
		207,178	$ 9.52

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option pricing model with the assumptions as shown in the table below used for grants during the years ended December 31, 2015 and 2014.

	Nine Months Ended September 30, 2016	Years Ended December 31, 2015	Years Ended December 31, 2014
Expected volatility	24.23 %	31.21 %	34.25 %
Weighted-Average volatility	24.23 %	31.21 %	34.25 %
Expected dividends	0.0 %	0.0 %	0.0 %
Expected term (in years)	7.0	7.0	9.4
Risk-free rate	1.37 %	1.64 %	2.26 %
Weighted-average fair value (grant date)	$ 14.27	$ 16.73	$ 13.49
Weighted-average fair value (grant date) for Virginia Heritage Bank ("VHB") options assumed	n/a	n/a	$ 24.89

The expected lives are based on the "simplified" method allowed by ASC Topic 718 *"Compensation,"* whereby the expected term is equal to the midpoint between the vesting period and the contractual term of the award.

The total intrinsic value of outstanding stock options was $10.5 million at September 30, 2016. The total intrinsic value of stock options exercised during the nine months ended September 30, 2016 and 2015 was $855 thousand and $8.5 million, respectively. The total fair value of stock options vested was $45 thousand and $87 thousand for the nine months ended September 30, 2016 and 2015, respectively. Unrecognized stock-based compensation expense related to stock options totaled $141 thousand at September 30, 2016. At such date, the weighted-average period over which this unrecognized stock option expense is expected to be recognized was 2.97 years.

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The Company has unvested restricted stock awards and PRSU grants of 303,612 shares under the 2006 Plan at September 30, 2016. Unrecognized stock based compensation expense related to restricted stock awards totaled $6.5 million at September 30, 2016. At such date, the weighted-average period over which this unrecognized expense was expected to be recognized was 1.83 years. The following table summarizes the unvested restricted stock awards at September 30, 2016 and 2015.

	Nine Months Ended September 30,			
	2016		**2015**	
	Shares	**Weighted-Average Grant Date Fair Value**	**Shares**	**Weighted-Average Grant Date Fair Value**
Unvested at beginning	369,093	$ 24.43	509,336	$ 21.58
Issued	139,732	45.45	78,070	36.06
Forfeited	(9,475)	40.58	(4,150)	29.18
Vested	(195,738)	22.53	(195,503)	20.74
Unvested at end	303,612	$ 34.83	387,753	$ 24.89

Approved by shareholders in May 2011, the 2011 ESPP reserved 550,000 shares of common stock (as adjusted for stock dividends) for issuance to employees. Whole shares are sold to participants in the plan at 85% of the lower of the stock price at the beginning or end of each quarterly offering period. The 2011 ESPP is available to all eligible employees who have completed at least one year of continuous employment, work at least 20 hours per week and at least five months a year. Participants may contribute a minimum of $10 per pay period to a maximum of $6,250 per offering period or $25,000 annually (not to exceed more than 10% of compensation per pay period). At September 30, 2016, the 2011 ESPP had 420,765 shares remaining for issuance.

Included in salaries and employee benefits the Company recognized $5.2 million and $3.7 million in stock-based compensation expense for the nine months ended September 30, 2016 and 2015, respectively. Stock-based compensation expense is recognized ratably over the requisite service period for all awards.

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Note 11. Other Comprehensive Income

The following table presents the components of other comprehensive (loss) income for the three and nine months ended September 30, 2016 and 2015.

(dollars in thousands)	Before Tax	Tax Effect	Net of Tax
Three Months Ended September 30, 2016			
Net unrealized loss on securities available-for-sale	$(1,512)	$(605)	$(907)
Less: Reclassification adjustment for net gains included in net income	(1)	-	(1)
Total unrealized loss	(1,511)	(605)	(906)
Net unrealized gain on derivatives	2,927	1,171	1,756
Less: Reclassification adjustment for losses included in net income	777	311	466
Total unrealized gain	2,150	860	1,290
Other Comprehensive Income	$639	$255	$384
Three Months Ended September 30, 2015			
Net unrealized gain on securities available-for-sale	$3,512	$1,405	$2,107
Less: Reclassification adjustment for net gains included in net income	(60)	(24)	(36)
Total unrealized loss	3,452	1,381	2,071
Net unrealized loss on derivatives	(6,627)	(2,651)	(3,976)
Less: Reclassification adjustment for losses included in net income	-	-	-
Total unrealized gain	(6,627)	(2,651)	(3,976)
Other Comprehensive Loss	$(3,175)	$(1,270)	$(1,905)
Nine Months Ended September 30, 2016			
Net unrealized gain on securities available-for-sale	$6,850	$2,740	$4,110
Less: Reclassification adjustment for net gains included in net income	(1,123)	(449)	(674)
Total unrealized gain	5,727	2,291	3,436
Net unrealized loss on derivatives	(9,132)	(3,654)	(5,478)
Less: Reclassification adjustment for losses included in net income	1,519	608	911
Total unrealized loss	(7,613)	(3,046)	(4,567)
Other Comprehensive Loss	$(1,886)	$(755)	$(1,131)
Nine Months Ended September 30, 2015			
Net unrealized gain on securities available-for-sale	$3,325	$1,330	$1,995

Less: Reclassification adjustment for net gains included in net income	(2,224)	(890)	(1,334)
Total unrealized gain	1,101	440	661
Net unrealized loss on derivatives	(3,445)	(1,378)	(2,067)
Less: Reclassification adjustment for losses included in net income	-	-	-
Total unrealized loss	(3,445)	(1,378)	(2,067)
Other Comprehensive Income	$(2,344)	$(938)	$(1,406)

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The following table presents the changes in each component of accumulated other comprehensive (loss) income, net of tax, for the three and nine months ended September 30, 2016 and 2015.

(dollars in thousands)	**Securities Available For Sale**	**Derivatives**	**Accumulated Other Comprehensive (Loss) Income**
Three Months Ended September 30, 2016			
Balance at Beginning of Period	$ 5,383	$ (6,707)	$ (1,324)
Other comprehensive (loss) income before reclassifications	(907)	1,756	849
Amounts reclassified from accumulated other comprehensive income	(1)	466	465
Net other comprehensive (loss) income during period	(906)	1,290	384
Balance at End of Period	$ 4,477	$ (5,417)	$ (940)
Three Months Ended September 30, 2015			
Balance at Beginning of Period	$ 3,146	$ -	$ 3,146
Other comprehensive income (loss) before reclassifications	2,107	(3,976)	(1,869)
Amounts reclassified from accumulated other comprehensive income	(36)	-	(36)
Net other comprehensive income (loss) during period	2,071	(3,976)	(1,905)
Balance at End of Period	$ 5,217	$ (3,976)	$ 1,241
Nine Months Ended September 30, 2016			
Balance at Beginning of Period	$ 1,041	$ (850)	$ 191
Other comprehensive income (loss) before reclassifications	4,110	(5,478)	(1,368)
Amounts reclassified from accumulated other comprehensive income	(674)	911	237
Net other comprehensive income (loss) during period	3,436	(4,567)	(1,131)
Balance at End of Period	$ 4,477	$ (5,417)	$ (940)
Nine Months Ended September 30, 2015			
Balance at Beginning of Period	$ 2,647	$ -	$ 2,647
Other comprehensive income (loss) before reclassifications	1,995	(2,067)	(72)
Amounts reclassified from accumulated other comprehensive income	(1,334)	-	(1,334)
Net other comprehensive income (loss) during period	661	(2,067)	(1,406)
Balance at End of Period	$ 3,308	$ (2,067)	$ 1,241

The following table presents the amounts reclassified out of each component of accumulated other comprehensive (loss) income for the three and nine months ended September 30, 2016 and 2015.

Details about Accumulated Other	**Amount Reclassified**	**Affected Line Item in**

Comprehensive Income Components (dollars in thousands)	from Accumulated Other Comprehensive (Loss) Income Three Months Ended September 30,		the Statement Where Net Income is Presented
	2016	2015	
Realized gain on sale of investment securities	$ 1	$ 60	Gain on sale of investment securities
Interest expense derivative deposits	(471)	-	Interest expense on deposits
Interest expense derivative borrowings	(306)	-	Interest expense on short-term borrowings
	310	(24)	Tax expense
Total Reclassifications for the Period	$ (466)	$ 36	Net Income

Details about Accumulated Other Comprehensive Income Components (dollars in thousands)	Amount Reclassified from Accumulated Other Comprehensive (Loss) Income Nine Months Ended September 30,		Affected Line Item in the Statement Where Net Income is Presented
	2016	2015	
Realized gain on sale of investment securities	$1,123	$2,224	Gain on sale of investment securities
Interest expense derivative deposits	(953)	-	Interest expense on deposits
Interest expense derivative borrowings	(566)	-	Interest expense on short-term borrowings
	158	(890)	Tax expense
Total Reclassifications for the Period	$(238)	$1,334	Net Income

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Note 12. Fair Value Measurements

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 Topic 820, *"Fair Value Measurements and Disclosures,"* 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. The fair value hierarchy is as follows:

Level 1	Quoted prices in active exchange markets for identical assets or liabilities; also includes certain U.S. Treasury and other U.S. Government and agency securities actively traded in over-the-counter markets.
Level 2	Observable inputs other than Level 1 including quoted prices for similar assets or liabilities, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data; also includes derivative contracts whose value is determined using a pricing model with observable market inputs or can be derived principally from or corroborated by observable market data. This category generally includes certain U.S. Government and agency securities, corporate debt securities, derivative instruments, and residential mortgage loans held for sale.
Level 3	Unobservable inputs supported by little or no market activity for financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation; also includes observable inputs for single dealer nonbinding quotes not corroborated by observable market data. This category generally includes certain private equity investments, retained interests from securitizations, and certain collateralized debt obligations.

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Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of September 30, 2016 and December 31, 2015.

(dollars in thousands)	**Quoted Prices (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total (Fair Value)**
September 30, 2016				
Assets:				
Investment securities available for sale:				
U. S. agency securities	$ -	$ 56,364	$ -	$56,364
Residential mortgage backed securities	-	266,035	-	266,035
Municipal bonds	-	99,877	-	99,877
Corporate bonds	-	8,054	-	8,054
Other equity investments	119	-	219	338
Loans held for sale	-	78,118	-	78,118
Mortgage banking derivatives	-	-	217	217
Total assets measured at fair value on a recurring basis as of September 30, 2016	$ 119	$ 508,448	$ 436	$509,003
Liabilities:				
Mortgage banking derivatives	$ -	$ -	$ 222	$222
Interest rate swap derivatives	-	9,030	-	9,030
Total liabilities measured at fair value on a recurring basis as of September 30, 2016	$ -	$ 9,030	$ 222	$9,252
December 31, 2015				
Assets:				
Investment securities available for sale:				
U. S. agency securities	$ -	$ 56,975	$ -	$56,975
Residential mortgage backed securities	-	297,241	-	297,241
Municipal bonds	-	118,381	-	118,381
Corporate bonds	-	14,938	-	14,938
Other equity investments	115	-	219	334
Loans held for sale	-	47,492	-	47,492
Mortgage banking derivatives	-	-	24	24
Total assets measured at fair value on a recurring basis as of December 31, 2015	$ 115	$ 535,027	$ 243	$535,385

Liabilities:				
Mortgage banking derivatives	$ -	$ -	$ 30	$30
Interest rate swap derivatives	-	1,417	-	1,417
Total liabilities measured at fair value on a recurring basis as of December 31, 2015	$ -	$ 1,417	$ 30	$1,447

Investment Securities Available-for-Sale

Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair value is measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange, Treasury securities that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include U.S. agency debt securities, mortgage-backed securities issued by Government Sponsored Entities ("GSEs") and municipal bonds. Securities classified as Level 3 include securities in less liquid markets, the carrying amount approximate the fair value.

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Loans held for sale: The Company has elected to carry loans held for sale at fair value. Fair value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of noninterest income in the Consolidated Statements of Operations. As such, the Company classifies loans subjected to fair value adjustments as Level 2 valuation.

Interest rate swap derivatives: These derivative instruments consist of forward starting interest rate swap agreements, which are accounted for as cash flow hedges. The Company's derivative position is classified within Level 2 of the fair value hierarchy and is valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivatives is determined using discounted cash flow models. These models' key assumptions include the contractual terms of the respective contract along with significant observable inputs, including interest rates, yield curves, nonperformance risk and volatility. Derivative contracts are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings when the market value exceeds certain threshold limits. These agreements protect the interests of the Company and its counterparties should either party suffer a credit rating deterioration.

Mortgage banking derivatives: The Company relies on a third-party pricing service to value its mortgage banking derivative financial assets and liabilities, which the Company classifies as a Level 3 valuation. The external valuation model to estimate the fair value of its interest rate lock commitments to originate residential mortgage loans held for sale includes grouping the interest rate lock commitments by interest rate and terms, applying an estimated pull-through rate based on historical experience, and then multiplying by quoted investor prices determined to be reasonably applicable to the loan commitment groups based on interest rate, terms, and rate lock expiration dates of the loan commitment groups. The Company also relies on an external valuation model to estimate the fair value of its forward commitments to sell residential mortgage loans (i.e., an estimate of what the Company would receive or pay to terminate the forward delivery contract based on market prices for similar financial instruments), which includes matching specific terms and maturities of the forward commitments against applicable investor pricing.

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The following is a reconciliation of activity for assets and liabilities measured at fair value based on Significant Other Unobservable Inputs (Level 3):

(dollars in thousands)	Other Equity Investments	Mortgage Banking Derivatives	Total
Assets:			
Beginning balance at January 1, 2016	$ 219	$ 24	$ 243
Realized gain (loss) included in earnings - net mortgage banking derivatives	-	193	193
Principal redemption	-	-	-
Ending balance at September 30, 2016	$ 219	$ 217	$ 436
Liabilities:			
Beginning balance at January 1, 2016	$ -	$ 30	$ 30
Realized loss (gain) included in earnings - net mortgage banking derivatives	-	192	192
Principal redemption	-	-	-
Ending balance at September 30, 2016	$ -	$ 222	$ 222

(dollars in thousands)	Other Equity Investments	Mortgage Banking Derivatives	Total
Assets:			
Beginning balance at January 1, 2015	$ 219	$ 146	$ 365
Realized (loss) gain included in earnings - net mortgage banking derivatives	-	(122)	(122)
Principal redemption	-	-	-
Ending balance at December 31, 2015	$ 219	$ 24	$ 243
Liabilities:			
Beginning balance at January 1, 2015	$ -	$ 250	$ 250
Realized (gain) loss included in earnings - net mortgage banking derivatives	-	(220)	(220)
Principal redemption	-	-	-
Ending balance at December 31, 2015	$ -	$ 30	$ 30

The other equity securities classified as Level 3 consist of equity investments in the form of common stock of two local banking companies which are not publicly traded, and for which the carrying amount approximates fair value.

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Company measures certain assets at fair value on a nonrecurring basis and the following is a general description of the methods used to value such assets.

Impaired loans: The Company considers a loan impaired when it is probable that the Company will be unable to collect all amounts due according to the original contractual terms of the note agreement, including both principal and interest. Management has determined that nonaccrual loans and loans that have had their terms restructured in a troubled debt restructuring meet this impaired loan definition. For individually evaluated impaired loans, the amount of impairment is based upon the present value of expected future cash flows discounted at the loan's effective interest rate or the estimated fair value of the underlying collateral for collateral-dependent loans, which the Company classifies as a Level 3 valuation.

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Other real estate owned: Other real estate owned is initially recorded at fair value less estimated selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral, which the Company classifies as a Level 3 valuation. Assets measured at fair value on a nonrecurring basis are included in the table below:

(dollars in thousands)	**Quoted Prices (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total (Fair Value)**
September 30, 2016				
Impaired loans:				
Commercial	$ -	$ -	$ 10,451	$ 10,451
Income producing - commercial real estate	-	-	12,934	12,934
Owner occupied - commercial real estate	-	-	2,157	2,157
Real estate mortgage - residential	-	-	244	244
Construction - commercial and residential	-	-	4,578	4,578
Home equity	-	-	13	13
Other real estate owned	-	-	5,194	5,194
Total assets measured at fair value on a nonrecurring basis as of September 30, 2016	$ -	$ -	$ 35,571	$ 35,571

(dollars in thousands)	**Quoted Prices (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**	**Total (Fair Value)**
December 31, 2015				
Impaired loans:				
Commercial	$ -	$ -	$ 9,201	$ 9,201
Income producing - commercial real estate	-	-	5,085	5,085
Owner occupied - commercial real estate	-	-	1,353	1,353
Real estate mortgage - residential	-	-	329	329
Construction - commercial and residential	-	-	9,504	9,504
Home equity	-	-	123	123
Other consumer	-	-	19	19
Other real estate owned	-	-	5,852	5,852
Total assets measured at fair value on a nonrecurring basis as of December 31, 2015	$ -	$ -	$ 31,466	$ 31,466

Loans

The Company does not record loans at fair value on a recurring basis; however, from time to time, a loan is considered impaired and an allowance for loan loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with ASC Topic 310, *"Receivables."* The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At September 30, 2016, substantially all of the totally impaired loans were evaluated based upon the fair value of the collateral. In accordance with ASC Topic 820, impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

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Fair Value of Financial Instruments

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a portion of the Company's financial instruments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented below. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

Cash due from banks and federal funds sold: For cash and due from banks and federal funds sold the carrying amount approximates fair value.

Interest bearing deposits with other banks: Values are estimated by discounting the future cash flows using the current rates at which similar deposits would be earning.

Investment securities: For these instruments, fair values are based upon quoted prices, if available. If quoted prices are not available, fair value is measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

Federal Reserve and Federal Home Loan Bank stock: The carrying amount approximate the fair values at the reporting date.

Loans held for sale: The fair value of loans held for sale is the carrying value and is based on commitments outstanding from investors as well as what secondary markets are currently offering for portfolios with similar characteristics for residential mortgage loans held for sale since such loans are typically committed to be sold (servicing released) at a profit.

Loans: For variable rate loans that re-price on a scheduled basis, fair values are based on carrying values. The fair value of the remaining loans are estimated by discounting the estimated future cash flows using the current interest rate at which similar loans would be made to borrowers with similar credit ratings and for the same remaining term.

Bank owned life insurance: The fair value of bank owned life insurance is the current cash surrender value, which is the carrying value.

Annuity investment: The fair value of the annuity investments is the carrying amount at the reporting date.

Mortgage banking derivatives: The Company enters into interest rate lock commitments (IRLCs) with prospective residential mortgage borrowers. These commitments are carried at fair value based on the fair value of the underlying mortgage loans which are based on market data. These commitments are classified as Level 3 in the fair value disclosures, as the valuations are based on market unobservable inputs. The Company hedges the risk of the overall change in the fair value of loan commitments to borrowers by selling forward contracts on securities of GSEs. These forward settling contracts are classified as Level 3, as valuations are based on market unobservable inputs. See Note 4 of the Consolidated Financial Statements for additional detail.

Interest rate swap derivatives: These derivative instruments consist of forward starting interest rate swap agreements, which are accounted for as cash flow hedges. The Company's derivative position is classified within Level 2 of the fair value hierarchy and is valued using models generally accepted in the financial services industry and that use actively quoted or observable market input values from external market data providers and/or non-binding broker-dealer quotations. The fair value of the derivatives is determined using discounted cash flow models. These models’ key assumptions include the contractual terms of the respective contract along with significant observable inputs, including interest rates, yield curves, nonperformance risk and volatility. Derivative contracts are executed with a Credit Support Annex, which is a bilateral ratings-sensitive agreement that requires collateral postings when the market value exceeds certain threshold limits. These agreements protect the interests of the Company and its counterparties should either party suffer a credit rating deterioration.

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Noninterest bearing deposits: The fair value of these deposits is the amount payable on demand at the reporting date, since generally accepted accounting standards do not permit an assumption of core deposit value.

Interest bearing deposits: The fair value of interest bearing transaction, savings, and money market deposits with no defined maturity is the amount payable on demand at the reporting date, since generally accepted accounting standards do not permit an assumption of core deposit value.

Certificates of deposit: The fair value of certificates of deposit is estimated by discounting the future cash flows using the current rates at which similar deposits with remaining maturities would be accepted.

Customer repurchase agreements: The carrying amount approximate the fair values at the reporting date.

Borrowings: The carrying amount for variable rate borrowings approximate the fair values at the reporting date. The fair value of fixed rate FHLB advances and the subordinated notes are estimated by computing the discounted value of contractual cash flows payable at current interest rates for obligations with similar remaining terms. The fair value of variable rate FHLB advances is estimated to be carrying value since these liabilities are based on a spread to a current pricing index.

Off-balance sheet items: Management has reviewed the unfunded portion of commitments to extend credit, as well as standby and other letters of credit, and has determined that the fair value of such instruments is equal to the fee, if any, collected and unamortized for the commitment made.

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The estimated fair values of the Company's financial instruments at September 30, 2016 and December 31, 2015 are as follows:

			Fair Value Measurements		
(dollars in thousands)	**Carrying Value**	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
September 30, 2016					
Assets					
Cash and due from banks	$ 10,615	$ 10,615	$ -	$ 10,615	$ -
Federal funds sold	5,262	5,262	-	5,262	-
Interest bearing deposits with other banks	503,150	503,150	-	503,150	-
Investment securities	430,668	430,668	119	430,330	219
Federal Reserve and Federal Home Loan Bank stock	19,920	19,920	-	19,920	-
Loans held for sale	78,118	78,118	-	78,118	-
Loans	5,481,975	5,485,301	-	-	5,485,301
Bank owned life insurance	59,747	59,747	-	59,747	-
Annuity investment	11,931	11,931	-	11,931	-
Mortgage banking derivatives	217	217	-	-	217
Liabilities					
Noninterest bearing deposits	1,668,271	1,668,271	-	1,668,271	-
Interest bearing deposits	3,100,492	3,100,492	-	3,100,492	-
Certificates of deposit	789,386	789,316	-	789,316	-
Customer repurchase agreements	71,642	71,642	-	71,642	-
Borrowings	266,419	269,168	-	269,168	-
Mortgage banking derivatives	222	222	-	-	222
Interst rate swap derivatives	9,030	9,030	-	9,030	-
December 31, 2015					
Assets					
Cash and due from banks	$ 10,270	$ 10,270	$ -	$ 10,270	$ -
Federal funds sold	3,791	3,791	-	3,791	-
Interest bearing deposits with other banks	284,302	284,302	-	284,302	-
Investment securities	487,869	487,869	115	487,535	219
Federal Reserve and Federal Home Loan Bank stock	16,903	16,903	-	16,903	-

Loans held for sale	47,492	47,492	-	47,492	-
Loans	4,998,368	5,000,717	-	-	5,000,717
Bank owned life insurance	58,682	58,682	-	58,682	-
Annuity investment	12,136	12,136	-	12,136	-
Mortgage banking derivatives	24	24	-	-	24
Interest rate swap derivatives	-	-	-	-	-
Liabilities					
Noninterest bearing deposits	1,405,067	1,405,067	-	1,405,067	-
Interest bearing deposits	3,014,122	3,014,122	-	3,014,122	-
Certificates of deposit	739,255	736,973	-	736,973	-
Customer repurchase agreements	72,356	72,356	-	72,356	-
Borrowings	70,000	69,992	-	69,992	-
Mortgage banking derivatives	30	30	-	-	30
Interest rate swap derivatives	1,417	1,417	-	1,417	-

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Note 13. Supplemental Executive Retirement Plan

The Bank maintains the Supplemental Executive Retirement and Death Benefit Agreements (the “SERP Agreements”) for certain of the Bank’s executive officers other than Mr. Paul, which upon the executive’s retirement, will provide for a stated monthly payment for such executive’s lifetime, subject to certain death benefits described below. The retirement benefit is computed as a percentage of each executive’s projected average base salary over the five years preceding retirement, assuming retirement at age 67. The SERP Agreements provide that (a) the benefits vest ratably over six years of service to the Bank, with the executive receiving credit for years of service prior to entering into the SERP Agreement, (b) death, disability and change-in-control shall result in immediate vesting, and (c) the monthly amount will be reduced if retirement occurs earlier than age 67 for any reason other than death, disability or change-in-control. The SERP Agreements further provide for a death benefit in the event the retired executive dies prior to receiving 180 monthly installments, paid either in a lump sum payment or continued monthly installment payments, such that the executive’s beneficiary has received payment(s) sufficient to equate to a cumulative 180 monthly installments.

The SERP Agreements are unfunded arrangements maintained primarily to provide supplemental retirement benefits and comply with Section 409A of the Internal Revenue Code. The Bank financed the retirement benefits by purchasing fixed annuity contracts with four insurance carriers totaling $11.4 million that have been designed to provide a future source of funds for the lifetime retirement benefits of the SERP Agreements. The primary impetus for utilizing fixed annuities is a substantial savings in compensation expenses for the Bank as opposed to a traditional SERP Agreement. For the quarter ended September 30, 2016, the annuity contracts accrued $45 thousand of income, which was included in other noninterest income on the Consolidated Statement of Operations. The cash surrender value of the annuity contracts was $11.9 million at September 30, 2016 and was included in other assets on the Consolidated Balance Sheet. For the three and nine months ended September 30, 2016, the Company recorded benefit expense accruals of $253 thousand and $758 thousand for this post retirement benefit.

Upon death of an executive, the annuity contract related to such executive terminates. The Bank has purchased additional bank owned life insurance contracts, which would effectively finance payments (up to a 15 year certain amount) to the executives’ named beneficiaries.

Item 2 - Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion provides information about the results of operations, and financial condition, liquidity, and capital resources of the Company and its subsidiaries as of the dates and periods indicated. This discussion and analysis should be read in conjunction with the unaudited Consolidated Financial Statements and Notes thereto, appearing elsewhere in this report and the Management Discussion and Analysis in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

This report contains forward looking statements within the meaning of the Securities Exchange Act of 1934, as amended, including statements of goals, intentions, and expectations as to future trends, plans, events or results of Company operations and policies and regarding general economic conditions. In some cases, forward- looking statements can be identified by use of such words as “may,” “will,” “anticipate,” “believes,” “expects,” “plans,” “estimates,” “potential,” “continue,” “should,” and similar words or phrases. These statements are based upon current and anticipated economic conditions, nationally and in the Company’s market, interest rates and interest rate policy, competitive factors and other conditions, which by their nature are not susceptible to accurate forecast, and are subject to significant uncertainty. For details on factors that could affect these expectations, see the risk factors and other cautionary language included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 and in other periodic and current reports filed by the Company with the Securities and Exchange Commission. Because of these uncertainties and the assumptions on which this discussion and the forward-looking statements are based, actual future operations and results in the future may differ materially from those indicated herein. Readers are cautioned against placing undue reliance on any such forward looking statements.

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GENERAL

The Company is a growth oriented, one-bank holding company headquartered in Bethesda, Maryland, which is currently celebrating eighteen years of successful operations. The Company provides general commercial and consumer banking services through the Bank, its wholly owned banking subsidiary, a Maryland chartered bank which is a member of the Federal Reserve System. The Company was organized in October 1997, to be the holding company for the Bank. The Bank was organized in 1998 as an independent, community oriented, full service banking alternative to the super regional financial institutions, which dominate the primary market area. The Company's philosophy is to provide superior, personalized service to its customers. The Company focuses on relationship banking, providing each customer with a number of services and becoming familiar with and addressing customer needs in a proactive, personalized fashion. The Bank has a total of twenty-one branch offices, including nine in Northern Virginia, seven in Montgomery County, Maryland, and five in Washington, D.C.

The Bank offers a broad range of commercial banking services to its business and professional clients as well as full service consumer banking services to individuals living and/or working primarily in the Bank's market area. The Bank emphasizes providing commercial banking services to sole proprietors, small, and medium sized businesses, non-profit organizations and associations, and investors living and working in and near the primary service area. These services include the usual deposit functions of commercial banks, including business and personal checking accounts, "NOW" accounts and money market and savings accounts, business, construction, and commercial loans, residential mortgages and consumer loans, and cash management services. The Bank is also active in the origination and sale of residential mortgage loans and the origination of SBA loans. The residential mortgage loans are originated for sale to third-party investors, generally large mortgage and banking companies, under best efforts and mandatory delivery commitments with the investors to purchase the loans subject to compliance with pre-established criteria. The Bank generally sells the guaranteed portion of the SBA loans in a transaction apart from the loan origination generating noninterest income from the gains on sale, as well as servicing income on the portion participated. Bethesda Leasing, LLC, a subsidiary of the Bank, holds title to and manages OREO assets. Eagle Insurance Services, LLC, a subsidiary of the Bank, offers access to insurance products and services through a referral program with a third party insurance broker. Additionally, the Bank offers investment advisory services through referral programs with third parties. ECV, a subsidiary of the Company, provides subordinated financing for the acquisition, development and/or construction of real estate projects. ECV lending involves higher levels of risk, together with commensurate expected returns.

CRITICAL ACCOUNTING POLICIES

The Company's Consolidated Financial Statements are prepared in accordance with GAAP and follow general practices within the banking industry. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions and judgments are based on information available as of the date of the Consolidated

Financial Statements; accordingly, as this information changes, the Consolidated Financial Statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the financial statements at fair value warrants an impairment write-down or a valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility.

The fair values and the information used to record valuation adjustments for investment securities available-for-sale are based either on quoted market prices or are provided by other third-party sources, when available. The Company's investment portfolio is categorized as available-for-sale with unrealized gains and losses net of income tax being a component of shareholders' equity and accumulated other comprehensive (loss) income.

The allowance for credit losses is an estimate of the losses that may be sustained in our loan portfolio. The allowance is based on two principles of accounting: (a) ASC Topic 450, *"Contingencies,"* which requires that losses be accrued when they are probable of occurring and are estimable and (b) ASC Topic 310, *"Receivables,"* which requires that losses be accrued when it is probable that the Company will not collect all principal and interest payments according to the contractual terms of the loan. The loss, if any, can be determined by the difference between the loan balance and the value of collateral, the present value of expected future cash flows, or values observable in the secondary markets.

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Three components comprise our allowance for credit losses: a specific allowance, a formula allowance and a nonspecific or environmental factors allowance. Each component is determined based on estimates that can and do change when actual events occur.

The specific allowance allocates a reserve to identified impaired loans. Impaired loans are assigned specific reserves based on an impairment analysis. Under ASC Topic 310, *"Receivables,"* a loan for which reserves are individually allocated may show deficiencies in the borrower's overall financial condition, payment record, support available from financial guarantors and for the fair market value of collateral. When a loan is identified as impaired, a specific reserve is established based on the Company's assessment of the loss that may be associated with the individual loan.

The formula allowance is used to estimate the loss on internally risk rated loans, exclusive of those identified as requiring specific reserves. The portfolio of unimpaired loans is stratified by loan type and risk assessment. Allowance factors relate to the type of loan and level of the internal risk rating, with loans exhibiting higher risk and loss experience receiving a higher allowance factor.

The environmental allowance is also used to estimate the loss associated with pools of non-classified loans. These non-classified loans are also stratified by loan type, and environmental allowance factors are assigned by management based upon a number of conditions, including delinquencies, loss history, changes in lending policy and procedures, changes in business and economic conditions, changes in the nature and volume of the portfolio, management expertise, concentrations within the portfolio, quality of internal and external loan review systems, competition, and legal and regulatory requirements.

The allowance captures losses inherent in the loan portfolio, which have not yet been recognized. Allowance factors and the overall size of the allowance may change from period to period based upon management's assessment of the above described factors, the relative weights given to each factor, and portfolio composition.

Management has significant discretion in making the judgments inherent in the determination of the provision and allowance for credit losses, including in connection with the valuation of collateral, a borrower's prospects of repayment, and in establishing allowance factors on the formula and environmental components of the allowance. The establishment of allowance factors involves a continuing evaluation, based on management's ongoing assessment of the global factors discussed above and their impact on the portfolio. The allowance factors may change from period to period, resulting in an increase or decrease in the amount of the provision or allowance, based upon the same volume and classification of loans. Changes in allowance factors can have a direct impact on the amount of the provision, and a related after tax effect on net income. Errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance not being adequate to cover losses in the portfolio, and may result in additional provisions or charge-offs. Alternatively, errors in management's perception and assessment of the global factors and their impact on the portfolio could result in the allowance being in excess of amounts necessary to cover losses in the portfolio, and may result in lower provisions in the future. For additional information regarding the provision for credit losses, refer to the discussion under the caption “Provision for Credit Losses” below.

Goodwill represents the excess of the cost of an acquisition over the fair value of the net assets acquired. Other intangible assets represent purchased assets that lack physical substance but can be distinguished from goodwill because of contractual or other legal rights. Intangible assets that have finite lives, such as core deposit intangibles, are amortized over their estimated useful lives and subject to periodic impairment testing. Intangible assets (other than goodwill) are amortized to expense using accelerated or straight-line methods over their respective estimated useful lives.

Goodwill and other intangibles are subject to impairment testing at the reporting unit level, which must be conducted at least annually. The Company performs impairment testing during the fourth quarter of each year or when events or changes in circumstances indicate the assets might be impaired.

The Company performs a qualitative assessment to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If, after assessing updated qualitative factors, the Company determines it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it does not have to perform the two-step goodwill impairment test. Determining the fair value of a reporting unit under the first step of the goodwill impairment test and determining the fair value of individual assets and liabilities of a reporting unit under the second step of the goodwill impairment test are judgmental and often involve the use of significant estimates and assumptions. Similarly, estimates and assumptions are used in determining the fair value of other intangible assets. Estimates of fair value are primarily determined using discounted cash flows, market comparisons and recent transactions. These approaches use significant estimates and assumptions including projected future cash flows, discount rates reflecting the market rate of return, projected growth rates and determination and evaluation of appropriate market comparables. Based on the results of quantitative assessments of all reporting units, the Company concluded that no impairment existed at December 31, 2015. However, future events could cause the Company to conclude that goodwill or other intangibles have become impaired, which would result in recording an impairment loss. Any resulting impairment loss could have a material adverse impact on the Company’s financial condition and results of operations.

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The Company follows the provisions of ASC Topic 718, *"Compensation,"* which requires the expense recognition for the fair value of share based compensation awards, such as stock options, restricted stock awards, and performance based shares. This standard allows management to establish modeling assumptions as to expected stock price volatility, option terms, forfeiture rates and dividend rates which directly impact estimated fair value. The accounting standard also allows for the use of alternative option pricing models which may impact fair value as determined. The Company's practice is to utilize reasonable and supportable assumptions.

RESULTS OF OPERATIONS

Earnings Summary

For the three months ended September 30, 2016, the Company's net income was $24.5 million, a 14% increase over the $21.5 million for the three months ended September 30, 2015. Net income available to common shareholders for the three months ended September 30, 2016 increased 15% to $24.5 million as compared to $21.3 million for the same period in 2015. Net income per basic common share for the three months ended September 30, 2016 was $0.73 compared to $0.64 for the same period in 2015, a 14% increase. Net income per diluted common share for the three months ended September 30, 2016 was $0.72 compared to $0.63 for the same period in 2015, a 14% increase.

The increase in net income for the three months ended September 30, 2016 can be attributed primarily to an increase in total revenue (i.e. net interest income plus noninterest income) of 9% over the same period in 2015. Net interest income grew 10% for the three months ended September 30, 2016 as compared to the same period in 2015 due to average earning asset growth of 13%.

For the three months ended September 30, 2016, the Company reported an annualized ROAA of 1.50% as compared to 1.47% for the three months ended September 30, 2015. The annualized ROACE for the three months ended September 30, 2016 was 12.04%, as compared to 11.95% for the three months ended September 30, 2015. The higher ratios are due to higher earnings.

For the nine months ended September 30, 2016, the Company's net income was $72.0 million, a 17% increase over the $61.8 million for the nine months ended September 30, 2015. Net income available to common shareholders for the nine months ended September 30, 2016 increased 18% to $72.0 million as compared to $61.3 million for the same period in 2015. Net income per basic common share for the nine months ended September 30, 2016 was $2.14 compared to $1.88 for the same period in 2015, a 14% increase. Net income per diluted common share for the nine months ended September 30, 2016 was $2.11 compared to $1.84 for the same period in 2015, a 15% increase.

The increase in net income for the nine months ended September 30, 2016 can be attributed primarily to an increase in total revenue (i.e. net interest income plus noninterest income) of 10% over the same period in 2015. Net interest income grew 12% for the nine months ended September 30, 2016 as compared to the same period in 2015 due to average earning asset growth of 14%.

For the nine months ended September 30, 2016, the Company reported an annualized return on average assets ("ROAA") of 1.54% as compared to 1.49% for the nine months ended September 30, 2015. The annualized ROACE for the nine months ended September 30, 2016 was 12.27%, as compared to 12.41% for the nine months ended September 30, 2015, the lower ROACE due to the higher average capital position.

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The net interest margin decreased 12 basis points from 4.23% for the three months ended September 30, 2015 to 4.11% for the three months ended September 30, 2016. Average earning assets yields were 4.60% for the three months ended September 30, 2016 and 4.58% for the same period in 2015. The average cost of interest bearing liabilities increased by 23 basis points (to 0.77% from 0.54%) for the three months ended September 30, 2016 as compared to the same period in 2015. Combining the change in the yield on earning assets and the costs of interest bearing liabilities, the net interest spread decreased by 21 basis points for the three months ended September 30, 2016 (3.83% versus 4.04%) as compared to 2015.

The benefit of noninterest sources funding earning assets increased by nine basis points to 28 basis points from 19 basis points for the three months ended September 30, 2016 versus the same period in 2015. The combination of a 21 basis point decrease in the net interest spread and a nine basis point increase in the value of noninterest sources resulted in the 12 basis point decrease in the net interest margin for the three months ended September 30, 2016 as compared to the same period in 2015. The net interest margin was positively impacted by two basis points in the three months ended September 30, 2016 as a result of $384 thousand in amortization of the credit mark established in connection with the 2015 merger of Virginia Heritage Bank into EagleBank (the “Merger”). The net interest margin was positively impacted by four basis points in the three months ended September 30, 2015 as a result of $589 thousand in amortization of the credit mark adjustment from the Merger. For the three months ended September 30, 2016, the July 2016 $150.0 million sub-debt raise negatively impacted the net interest margin by 15 basis points.

The net interest margin, which measures the difference between interest income and interest expense (i.e. net interest income) as a percentage of earning assets, decreased nine basis points from 4.32% for the nine months ended September 30, 2015 to 4.23% for the nine months ended September 30, 2016. For the first nine months in 2016, the Company has been able to maintain its loan portfolio yields relatively close to 2015 levels (5.10% versus 5.25%) due to disciplined loan pricing practices, while maintaining a favorable deposit mix, largely resulting from ongoing efforts to increase and expand client relationships. Average earning assets yields were lower by three basis points (4.65% versus 4.68%) in the first nine months of 2016 as compared to the same period in 2015. The average cost of interest bearing liabilities increased by 10 basis points (to 0.65% from 0.55%) for the nine months ended September 30, 2016 as compared to the same period in 2015. Combining the change in the yield on earning assets and the costs of interest bearing liabilities, the net interest spread decreased by 13 basis points for the first nine months in 2016 (4.00% versus 4.13%) as compared to 2015.

In spite of the decline in the net interest spread, the Company believes it has managed its cost of funds aggressively and been extremely disciplined in setting new loan rates. The benefit of noninterest sources funding earning assets increased by four basis points to 23 basis points from 19 basis points for the nine months ended September 30, 2016 versus the same period in 2015. The combination of a 13 basis point decrease in the net interest spread and a four basis point increase in the value of noninterest sources resulted in the nine basis point decrease in the net interest margin for the first nine months of 2016 as compared to the same period in 2015. The net interest margin was positively impacted by two basis points in the nine months ended September 30, 2016 as a result of $1.1 million in amortization of the credit mark adjustment from the Merger. The net interest margin was positively impacted by seven basis points in the nine months ended September 30, 2015 as a result of $2.8 million in amortization of the credit mark adjustment from the Merger. For the nine months ended September 30, 2016, the July 2016 $150 million sub-debt raise negatively impacted the net interest margin by six basis points.

The Company believes it has effectively managed its net interest margin and net interest income over the past twelve months as market interest rates (on average) have remained relatively low. This factor has been significant to overall earnings performance over the past twelve months as net interest income represents 90% of the Company’s total revenue for the nine months ended September 30, 2016.

For the first nine months of 2016, total loans grew 10% over December 31, 2015, and averaged 17% higher in the first nine months of 2016 as compared to the first nine months of 2015. For the first nine months of 2016, total deposits increased 8% over December 31, 2015, and averaged 13% higher for the first nine months of 2016 compared with the first nine months of 2015.

In order to fund growth in average loans of 17% over the nine months ended September 30, 2016 as compared to the same period in 2015, as well as sustain significant liquidity, the Company has relied on both core deposit growth and brokered or wholesale deposits. The major component of the growth in core deposits has been growth in money market accounts primarily as a result of effectively building new and enhanced client relationships.

In terms of the average asset composition or mix, loans, which generally have higher yields than securities and other earning assets, increased to 87% of average earning assets for the first nine months of 2016 from 85% for the first nine months of 2015. For the first nine months of 2016, as compared to the same period in 2015, average loans, excluding loans held for sale, increased $748.7 million, a 17% increase. The increase in average loans in the first nine months of 2016 as compared to the first nine months of 2015 is primarily attributable to growth in income producing - commercial real estate, commercial, and construction - commercial and residential loans. The mix of average investment securities for both of the nine month periods ended September 30, 2016 and 2015 amounted to 8% of average earning assets. The combination of federal funds sold, interest bearing deposits with other banks and loans held for sale averaged 5% of average earning assets in the first nine months of 2016 and 7% for the same period in 2015, due to the higher growth of average loans versus funding sources for the nine months ended September 30, 2016 as compared to the same period in 2015. The average combination of federal funds sold, interest bearing deposits with other banks and loans held for sale decreased $79.6 million for the nine months ended September 30, 2016 as compared to the same period in 2015.

The provision for credit losses was $2.3 million for the three months ended September 30, 2016 as compared to $3.3 million for the three months ended September 30, 2015. The lower provisioning in the third quarter of 2016, as compared to the third quarter of 2015, is primarily due to lower loan growth, as loan growth of $78.5 million in the three months ended September 30, 2016 was lower than loan growth of $226.1 million in the same period in 2015, and to overall improved asset quality. Net charge-offs of $2.0 million in the third quarter of 2016 represented an annualized 0.14% of average loans, excluding loans held for sale, as compared to $1.9 million, or an annualized 0.16% of average loans, excluding loans held for sale, in the third quarter of 2015. Net charge-offs in the third quarter of 2016 were attributable primarily to investment-commercial real estate loans ($1.7 million).

The provision for credit losses was $9.2 million for the nine months ended September 30, 2016 as compared to $10.0 million for the nine months ended September 30, 2015. The slightly lower provisioning in the first nine months of 2016, as compared to the first nine months of 2015, is due to lower charge-offs and to overall improved asset quality. Net charge-offs of $5.0 million in the first nine months of 2016 represented an annualized 0.13% of average loans, excluding loans held for sale, as compared to $5.8 million or an annualized 0.17% of average loans, excluding loans held for sale, in the first nine months of 2015. Net charge-offs in the first nine months of 2016 were attributable primarily to commercial ($2.7 million), investment-commercial real estate ($2.3 million), and consumer loans ($220 thousand) offset by a recovery of ($207 thousand) in construction - commercial and residential loans.

At September 30, 2016 the allowance for credit losses represented 1.04% of loans outstanding, as compared to 1.05% at both December 31, 2015 and September 30, 2015. The minor decrease in the allowance for credit losses as a percentage of total loans at September 30, 2016, as compared to September 30, 2015, is the result of loan growth and continuing improvement in historical losses. The allowance for credit losses represented 255% of nonperforming loans at September 30, 2016, as compared to 348% at September 30, 2015 and 398% at December 31, 2015.

Total noninterest income for the three months ended September 30, 2016 increased to $6.4 million from $6.1 million for the three months ended September 30, 2015, a 5% increase. This increase was primarily due to higher net gains on sales of residential mortgage loans of $532 thousand. Residential mortgage loans closed were $276 million for the third quarter in 2016 versus $175 million for the third quarter of 2015.

Total noninterest income for the nine months ended September 30, 2016 was $20.3 million as compared to $20.1 million for the nine months ended September 30, 2015, a 1% increase. This increase was primarily due to an increase of $717 thousand in gains on SBA loan sales, a $712 thousand increase in other income, and an increase of $313 thousand in service charges on deposits offset by a decline of $2.0 million in gains on the sale of residential mortgage loans due to lower origination and sales volume. Residential mortgage loans closed were $622 million for the first nine months of 2016 versus $723 million for the first nine months of 2015.

The efficiency ratio was 40.54% for the third quarter of 2016, as compared to 42.04% for the third quarter of 2015. Total noninterest expenses totaled $28.8 million for the three months ended September 30, 2016, as compared to $27.4 million for the three months ended September 30, 2015, a 5% increase. Cost increases for salaries and benefits were $1.7 million, due primarily to increased staff, merit increases and incentive compensation. Premises and equipment expenses were $188 thousand lower, due primarily to the closing of one branch office acquired in the Merger, and transactions to reduce space in two additional offices. Marketing and advertising expense increased by $95 thousand primarily due to costs associated with digital and print advertising and sponsorships. Legal, accounting and professional fees decreased by $292 thousand primarily due to lower legal fees. FDIC insurance premium expense decreased by $165 thousand resulting from lower growth in total assets. Other expenses increased by $335 thousand primarily due to higher fees incurred to maintain OREO properties.

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Total noninterest expenses totaled $85.2 million for the nine months ended September 30, 2016, as compared to $82.1 million for the nine months ended September 30, 2015, a 4% increase. Cost increases for salaries and benefits were $3.4 million, due primarily to increased staff, merit increases, and incentive compensation. Premises and equipment expenses were $637 thousand lower, primarily due to the closing of one branch acquired in the Merger and to sublease arrangements. Marketing and advertising expense increased by $369 thousand primarily due to costs associated with digital and print advertising and sponsorships. Legal, accounting and professional fees decreased by $70 thousand primarily due to lower professional fees. Data processing expense increased $118 thousand primarily due to licensing agreements. FDIC insurance premium expense decreased by $155 thousand resulting from lower growth in total assets.

The ratio of common equity to total assets decreased from 12.13% at September 30, 2015 to 12.06% at September 30, 2016, due primarily to higher total asset growth (from $5.89 billion to $6.76 billion). As discussed later in "Capital Resources and Adequacy," the regulatory capital ratios of the Bank and Company remain above well capitalized levels.

Net Interest Income and Net Interest Margin

Net interest income is the difference between interest income on earning assets and the cost of funds supporting those assets. Earning assets are composed primarily of loans and investment securities. The cost of funds represents interest expense on deposits, customer repurchase agreements and other borrowings. Noninterest bearing deposits and capital are other components representing funding sources (refer to discussion above under Results of Operations). Changes in the volume and mix of assets and funding sources, along with the changes in yields earned and rates paid, determine changes in net interest income.

For the three months ended September 30, 2016, net interest income increased 10% over the same period for 2015. Average loans increased by $786.4 million and average deposits increased by $511.1 million. The net interest margin was 4.11% for the three months ended September 30, 2016, as compared to 4.23% for the same period in 2015. The Company believes its net interest margin remains favorable as compared to its peer banking companies.

For the first nine months of 2016, net interest income increased 12% over the same period for 2015. Average loans increased by $748.7 million and average deposits increased by $614.5 million. The net interest margin was 4.23% for the first nine months of 2016, as compared to 4.32% for the same period in 2015. The Company believes its net interest margin remains favorable as compared to its peer banking companies.

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The tables below present the average balances and rates of the major categories of the Company's assets and liabilities for the three and nine months ended September 30, 2016 and 2015. Included in the tables are a measurement of interest rate spread and margin. Interest rate spread is the difference (expressed as a percentage) between the interest rate earned on earning assets less the interest rate paid on interest bearing liabilities. While the interest rate spread provides a quick comparison of earnings rates versus cost of funds, management believes that margin provides a better measurement of performance. The net interest margin (as compared to net interest spread) includes the effect of noninterest bearing sources in its calculation and is net interest income expressed as a percentage of average earning assets.

Eagle Bancorp, Inc.
Consolidated Average Balances, Interest Yields And Rates (Unaudited)
(dollars in thousands)

	Three Months Ended September 30,							
	2016				**2015**			
	Average Balance	**Interest**	**Average Yield/Rate**		**Average Balance**	**Interest**	**Average Yield/Rate**	
ASSETS								
Interest earning assets:								
Interest bearing deposits with other banks and other short-term investments	$336,741	$376	0.44	%	$375,341	$228	0.24	%
Loans held for sale (1)	66,791	586	3.51	%	38,373	374	3.90	%
Loans (1) (2)	5,422,677	69,283	5.08	%	4,636,298	60,632	5.19	%
Investment securities available for sale (2)	429,207	2,177	2.02	%	491,800	2,745	2.21	%
Federal funds sold	9,115	9	0.39	%	3,586	2	0.22	%
Total interest earning assets	6,264,531	72,431	4.60	%	5,545,398	63,981	4.58	%
Total noninterest earning assets	283,564				279,425			
Less: allowance for credit losses	55,821				49,540			
Total noninterest earning assets	227,743				229,885			
TOTAL ASSETS	$6,492,274				$5,775,283			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest bearing liabilities:								
Interest bearing transaction	$269,230	$193	0.29	%	$202,885	$97	0.19	%
Savings and money market	2,641,863	2,976	0.45	%	2,453,141	2,092	0.34	%
Time deposits	784,834	1,671	0.85	%	797,472	1,550	0.77	%
Total interest bearing deposits	3,695,927	4,840	0.52	%	3,453,498	3,739	0.43	%
Customer repurchase agreements	73,749	39	0.21	%	56,624	33	0.23	%
Other short-term borrowings	50,013	383	3.00	%	3	-	-	
Long-term borrowings	176,321	2,441	5.42	%	71,388	1,124	6.16	%
Total interest bearing liabilities	3,996,010	7,703	0.77	%	3,581,513	4,896	0.54	%

Noninterest bearing liabilities:						
Noninterest bearing demand	1,657,907			1,389,208		
Other liabilities	28,384			26,283		
Total noninterest bearing liabilities	1,686,291			1,415,491		
Shareholders' equity	809,973			778,279		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,492,274			$5,775,283		
Net interest income		$64,728			$59,085	
Net interest spread			3.83 %			4.04 %
Net interest margin			4.11 %			4.23 %
Cost of funds			0.49 %			0.35 %

(1) Loans placed on nonaccrual status are included in average balances. Net loan fees and late charges included in interest income on loans totaled $4.1 million and $3.2 million for the three months ended September 30, 2016 and 2015, respectively.
(2) Interest and fees on loans and investments exclude tax equivalent adjustments.

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Eagle Bancorp, Inc.
Consolidated Average Balances, Interest Yields and Rates (Unaudited)
(dollars in thousands)

	Nine Months Ended September 30,							
	2016				2015			
	Average Balance	Interest	Average Yield/Rate		Average Balance	Interest	Average Yield/Rate	
ASSETS								
Interest earning assets:								
Interest bearing deposits with other banks and other short-term investments	$252,871	$856	0.45	%	$336,989	$604	0.24	%
Loans held for sale (1)	47,786	1,288	3.59	%	45,863	1,288	3.74	%
Loans (1) (2)	5,253,742	200,714	5.10	%	4,505,092	176,775	5.25	%
Investment securities available for sale (2)	462,408	7,121	2.06	%	412,912	7,189	2.33	%
Federal funds sold	9,550	31	0.43	%	6,992	13	0.25	%
Total interest earning assets	6,026,357	210,010	4.65	%	5,307,848	185,869	4.68	%
Total noninterest earning assets	281,697				277,793			
Less: allowance for credit losses	55,187				48,240			
Total noninterest earning assets	226,510				229,553			
TOTAL ASSETS	$6,252,867				$5,537,401			
LIABILITIES AND SHAREHOLDERS' EQUITY								
Interest bearing liabilities:								
Interest bearing transaction	$234,481	$445	0.25	%	$178,256	$208	0.16	%
Savings and money market	2,656,638	8,324	0.42	%	2,379,643	6,066	0.34	%
Time deposits	764,099	4,744	0.83	%	778,375	4,394	0.75	%
Total interest bearing deposits	3,655,218	13,513	0.49	%	3,336,274	10,668	0.43	%
Customer repurchase agreements	71,973	115	0.21	%	54,945	94	0.23	%
Other short-term borrowings	38,873	727	2.46	%	27,492	54	0.26	%
Long-term borrowings	105,005	4,515	5.65	%	85,489	3,687	5.69	%
Total interest bearing liabilities	3,871,069	18,870	0.65	%	3,504,200	14,503	0.55	%
Noninterest bearing liabilities:								
Noninterest bearing demand	1,570,586				1,275,050			
Other liabilities	27,713				25,995			
Total noninterest bearing liabilities	1,598,299				1,301,045			
Shareholders’ equity	783,499				732,156			
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$6,252,867				$5,537,401			
Net interest income		$191,140				$171,366		
Net interest spread			4.00	%			4.13	%

Net interest margin	4.23	%	4.32	%
Cost of funds	0.42	%	0.36	%

(1) Loans placed on nonaccrual status are included in average balances. Net loan fees and late charges included in interest income on loans totaled $11.7 million and $8.9 million for the nine months ended September 30, 2016 and 2015, respectively.

(2) Interest and fees on loans and investments exclude tax equivalent adjustments.

Provision for Credit Losses

The provision for credit losses represents the amount of expense charged to current earnings to fund the allowance for credit losses. The amount of the allowance for credit losses is based on many factors, which reflect management's assessment of the risk in the loan portfolio. Those factors include historical losses, economic conditions and trends, the value and adequacy of collateral, volume and mix of the portfolio, performance of the portfolio, and internal loan processes of the Company and Bank.

Management has developed a comprehensive analytical process to monitor the adequacy of the allowance for credit losses. This process and guidelines were developed utilizing, among other factors, the guidance from federal banking regulatory agencies. The results of this process, in combination with conclusions of the Bank's outside loan review consultant, support management's assessment as to the adequacy of the allowance at the balance sheet date. Please refer to the discussion under the caption "Critical Accounting Policies" for an overview of the methodology management employs on a quarterly basis to assess the adequacy of the allowance and the provisions charged to expense.

During the three months ended September 30, 2016, the allowance for credit losses increased $328 thousand, reflecting $2.3 million in provision for credit losses and $2.0 million in net charge-offs during the period. The provision for credit losses was $2.3 million for the three months ended September 30, 2016 as compared to $3.3 million for the same period in 2015. The lower provisioning in the third quarter of 2016, as compared to the third quarter of 2015, is primarily due to lower loan growth, as loan growth of $78.5 million in the three months ended September 30, 2016 was lower than loan growth of $226.1 million in the same period in 2015, and to overall improved asset quality. Net charge-offs of $2.0 million in the third quarter of 2016 represented an annualized 0.14% of average loans, excluding loans held for sale, as compared to $1.9 million, or an annualized 0.16% of average loans, excluding loans held for sale, in the third quarter of 2015.

During the first nine months of 2016, the allowance for credit losses increased $4.2 million, reflecting $9.2 million in provision for credit losses and $5.0 million in net charge-offs during the period. The provision for credit losses was $9.2 million for the nine months ended September 30, 2016 as compared to $10.0 million for the same period in 2015. At September 30, 2016, the allowance for credit losses represented 1.04% of loans outstanding, compared to 1.05% at both December 31, 2015 and September 30, 2015. The slightly lower provisioning in the first nine months of 2016, as compared to the first nine months of 2015, is due to lower charge-offs and to overall improved asset quality. Net charge-offs of $5.0 million in the first nine months of 2016 represented an annualized 0.13% of average loans, excluding loans held for sale, as compared to $5.8 million or an annualized 0.17% of average loans, excluding loans held for sale, in the first nine months of 2015.

As part of its comprehensive loan review process, the Bank's Board of Directors and Loan Committee or Credit Review Committee carefully evaluate loans which are past-due 30 days or more. The Committees make a thorough assessment of the conditions and circumstances surrounding each delinquent loan. The Bank's loan policy requires that loans be placed on nonaccrual if they are ninety days past-due, unless they are well secured and in the process of collection. Additionally, Credit Administration specifically analyzes the status of development and construction projects, sales activities and utilization of interest reserves in order to carefully and prudently assess potential increased levels of risk requiring additional reserves.

The maintenance of a high quality loan portfolio, with an adequate allowance for possible credit losses, will continue to be a primary management objective for the Company.

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The following table sets forth activity in the allowance for credit losses for the periods indicated.

(dollars in thousands)	Nine Months Ended September 30, 2016	2015
Balance at beginning of period	$52,687	$46,075
Charge-offs:		
Commercial	2,802	4,693
Income producing - commercial real estate	2,342	651
Owner occupied - commercial real estate	-	-
Real estate mortgage - residential	-	-
Construction - commercial and residential	-	-
Construction - C&I (owner occupied)	-	-
Home equity	217	644
Other consumer	37	182
Total charge-offs	5,398	6,170
Recoveries:		
Commercial	93	135
Income producing - commercial real estate	14	26
Owner occupied - commercial real estate	2	2
Real estate mortgage - residential	5	5
Construction - commercial and residential	207	114
Construction - C&I (owner occupied)	-	-
Home equity	11	5
Other consumer	24	85
Total recoveries	356	372
Net charge-offs	5,042	5,798
Provision for Credit Losses	9,219	10,043
Balance at end of period	$56,864	$50,320
Annualized ratio of net charge-offs during the period to average loans outstanding during the period	0.13 %	0.17 %

The following table reflects the allocation of the allowance for credit losses at the dates indicated. The allocation of the allowance to each category is not necessarily indicative of future losses or charge-offs and does not restrict the use of the allowance to absorb losses in any category.

(dollars in thousands)	September 30, 2016 Amount	December 31, 2015 Amount	September 30, 2015 Amount

		% (1)			% (1)			% (1)
Commercial	$12,761	21 %	$11,563	21 %	$11,640	21 %
Income producing - commercial real estate	20,509	46 %	14,122	42 %	13,715	42 %
Owner occupied - commercial real estate	4,261	11 %	3,279	10 %	3,100	10 %
Real estate mortgage - residential	1,110	3 %	1,268	3 %	1,066	3 %
Construction - commercial and residential	14,681	15 %	20,133	20 %	17,765	20 %
Construction - C&I (owner occupied)	1,833	2 %	955	2 %	1,159	1 %
Home equity	1,369	2 %	1,292	2 %	1,606	3 %
Other consumer	340	-	75	-	269	-
Total allowance	$56,864	100%	$52,687	100%	$50,320	100%

(1) Represents the percent of loans in each category to total loans.

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Nonperforming Assets

As shown in the table below, the Company's level of nonperforming assets, which are comprised of loans delinquent 90 days or more, nonaccrual loans, which includes the nonperforming portion of TDRs and OREO, totaled $27.5 million at September 30, 2016 representing 0.41% of total assets, as compared to $19.1 million of nonperforming assets, or 0.31% of total assets, at December 31, 2015 and $24.4 million of nonperforming assets, or 0.41% of total assets, at September 30, 2015. The Company had no accruing loans 90 days or more past due at September 30, 2016, December 31, 2015 or September 30, 2015. Management remains attentive to early signs of deterioration in borrowers' financial conditions and to taking the appropriate action to mitigate risk. Furthermore, the Company is diligent in placing loans on nonaccrual status and believes, based on its loan portfolio risk analysis, that its allowance for credit losses, at 1.04% of total loans at September 30, 2016, is adequate to absorb potential credit losses within the loan portfolio at that date.

Included in nonperforming assets are loans that the Company considers to be impaired. Impaired loans are defined as those as to which we believe it is probable that we will not collect all amounts due according to the contractual terms of the loan agreement, as well as those loans whose terms have been modified in a TDR that have not shown a period of performance as required under applicable accounting standards. Valuation allowances for those loans determined to be impaired are evaluated in accordance with ASC Topic 310—"*Receivables,*" and updated quarterly. For collateral dependent impaired loans, the carrying amount of the loan is determined by current appraised value less estimated costs to sell the underlying collateral, which may be adjusted downward under certain circumstances for actual events and/or changes in market conditions. For example, current average actual selling prices less average actual closing costs on an impaired multi-unit real estate project may indicate the need for an adjustment in the appraised valuation of the project, which in turn could increase the associated ASC Topic 310 specific reserve for the loan. Generally, all appraisals associated with impaired loans are updated on a not less than annual basis.

Loans are considered to have been modified in a TDR when, due to a borrower's financial difficulties, the Company makes unilateral concessions to the borrower that it would not otherwise consider. Concessions could include interest rate reductions, principal or interest forgiveness, forbearance, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. Alternatively, management, from time-to-time and in the ordinary course of business, implements renewals, modifications, extensions, and/or changes in terms of loans to borrowers who have the ability to repay on reasonable market-based terms, as circumstances may warrant. Such modifications are not considered to be TDRs, as the accommodation of a borrower's request does not rise to the level of a concession if the modified transaction is at market rates and terms and/or the borrower is not experiencing financial difficulty. For example: (1) adverse weather conditions may create a short term cash flow issue for an otherwise profitable retail business which suggests a temporary interest only period on an amortizing loan; (2) there may be delays in absorption on a real estate project which reasonably suggests extension of the loan maturity at market terms; or (3) there may be maturing loans to borrowers with demonstrated repayment ability who are not in a position at the time of maturity to obtain alternate long-term financing. The most common change in terms provided by the Company is an extension of an interest only term. The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the change in terms, and the exercise of prudent business judgment. The Company had nine TDR's at September 30, 2016 totaling approximately $8.0 million.

Seven of these loans, totaling approximately $2.9 million, are performing under the modified terms, and as a result are not disclosed in the table below. During the nine months of 2016, there was one default on a $5.0 million restructured loan, as compared to the nine months of 2015, which had no defaults on restructured loans. A default is considered to have occurred once the TDR is past due 90 days or more or it has been placed on nonaccrual. There was one nonperforming TDR totaling $5.0 million reclassified to nonperforming loans during the nine months ended September 30, 2016. There were no nonperforming TDRs reclassified to nonperforming loans during the nine months ended September 30, 2015. Commercial and consumer loans modified in a TDR are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a TDR subsequently default, the Company evaluates the loan for possible further impairment. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan. There was one loan totaling $801 thousand modified in a TDR during the three months ended September 30, 2016, as compared to three loans totaling $1.6 million modified in a TDR during the three months ended September 31, 2015. For the nine months ended September 30, 2016, there were three loans totaling $1.4 million modified in a TDR, as compared to the nine months ended September 30, 2015 which had four loan modified in a TDR totaling $1.9 million.

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Total nonperforming loans amounted to $22.3 million at September 30, 2016 (0.41% of total loans), compared to $13.2 million at December 31, 2015 (0.26% of total loans) and $14.5 million at September 30, 2015 (0.30% of total loans). The increase in the ratio of nonperforming loans to total loans at September 30, 2016 as compared to September 30, 2015 was due to an increase in the level of nonperforming loans.

Included in nonperforming assets at September 30, 2016 was $5.2 million of OREO, consisting of three foreclosed properties. The Company had eight foreclosed properties with a net carrying value of $5.9 million at December 31, 2015 and 10 foreclosed properties with a net carrying value of $10.0 million at September 30, 2015. OREO properties are carried at fair value less estimated costs to sell. It is the Company's policy to obtain third party appraisals prior to foreclosure, and to obtain updated third party appraisals on OREO properties generally not less frequently than annually. Generally, the Company would obtain updated appraisals or evaluations where it has reason to believe, based upon market indications (such as comparable sales, legitimate offers below carrying value, broker indications and similar factors), that the current appraisal does not accurately reflect current value. During the first nine months of 2016, six foreclosed properties with a net carrying value of $2.9 million were sold for a net gain of $657 thousand. The decrease in OREO for the three months ended September 30, 2016, is due to the sale of four OREO properties.

The following table shows the amounts of nonperforming assets at the dates indicated.

	September 30,		**December 31,**
(dollars in thousands)	**2016**	**2015**	**2015**
Nonaccrual Loans:			
Commercial	$2,986	$4,828	$ 4,940
Income producing - commercial real estate	10,098	6,721	5,961
Owner occupied - commercial real estate	2,103	1,281	1,268
Real estate mortgage - residential	562	333	329
Construction - commercial and residential	6,412	571	557
Construction - C&I (owner occupied)	-	-	-
Home equity	113	661	161
Other consumer	-	72	23
Accrual loans-past due 90 days	-	-	-
Total nonperforming loans (1)	22,274	14,467	13,239
Other real estate owned	5,194	9,952	5,852
Total nonperforming assets	$27,468	$24,419	$ 19,091
Coverage ratio, allowance for credit losses to total nonperforming loans	255.29%	347.82%	397.95 %
Ratio of nonperforming loans to total loans	0.41 %	0.30 %	0.26 %
Ratio of nonperforming assets to total assets	0.41 %	0.41 %	0.31 %

(1)

Nonaccrual loans reported in the table above include loans that migrated from performing troubled debt restructuring. There was one loan totaling $5.0 million that migrated from performing TDR during the nine months ended September 30, 2016, as compared to the nine months ended September 30, 2015 where there were no loans that migrated from performing TDR.

Significant variation in the amount of nonperforming loans may occur from period to period because the amount of nonperforming loans depends largely on the condition of a relatively small number of individual credits and borrowers relative to the total loan portfolio.

At September 30, 2016, there were $8.7 million of performing loans considered potential problem loans, defined as loans that are not included in the 90 day past due, nonaccrual or restructured categories, but for which known information about possible credit problems causes management to be uncertain as to the ability of the borrowers to comply with the present loan repayment terms, which may in the future result in disclosure in the past due, nonaccrual or restructured loan categories. The $8.7 million in potential problem loans at September 30, 2016 compared to $18.6 million at December 31, 2015, and $25.8 million at September 30, 2015. The Company has taken a conservative posture with respect to risk rating its loan portfolio. Based upon their status as potential problem loans, these loans receive heightened scrutiny and ongoing intensive risk management. Additionally, the Company's loan loss allowance methodology incorporates increased reserve factors for certain loans considered potential problem loans as compared to the general portfolio. See “Provision for Credit Losses” for a description of the allowance methodology.

Noninterest Income

Total noninterest income includes service charges on deposits, gain on sale of loans, gain on sale of investment securities, loss on extinguishment of debt, income from BOLI and other income.

Total noninterest income for the three months ended September 30, 2016 increased to $6.4 million from $6.1 million for the three months ended September 30, 2015, a 5% increase. This increase was primarily due to higher net gains on sales of residential mortgage loans of $532 thousand. Residential mortgage loans closed were $276 million for the third quarter in 2016 versus $175 million for the third quarter of 2015.

Total noninterest income for the nine months ended September 30, 2016 was $20.3 million as compared to $20.1 million for the nine months ended September 30, 2015, a 1% increase. This increase was primarily due to an increase of $717 thousand in gains on SBA loan sales, a $712 thousand increase in other income, and an increase of $313 thousand in service charges on deposits offset by a decline of $2.0 million in gains on the sale of residential mortgage loans due to lower origination and sales volume. Residential mortgage loans closed were $622 million for the first nine months of 2016 versus $723 million for the first nine months of 2015.

For the three months ended September 30, 2016, service charges on deposit accounts increased by $57 thousand, or 4%, and were consistent with the $1.4 million balance over the same period in 2015. For the nine months ended September 30, 2016, service charges on deposit accounts increased by $313 thousand to $4.3 million from $4.0 million in the same period in 2015, an increase of 8%. The increase for the three and nine month periods was primarily related to increased transaction volume.

The Company originates residential mortgage loans and utilizes both “mandatory delivery” and “best efforts” forward loan sale commitments to sell those loans, servicing released. Sales of residential mortgage loans yielded gains of $2.9 million for the three months ended September 30, 2016 compared to $2.4 million in the same period in 2015. Sales of these mortgage loans yielded gains of $7.1 million for the nine months ended September 30, 2016 compared to $8.7 million in the same period in 2015. Loans sold are subject to repurchase in circumstances where documentation is deficient or the underlying loan becomes delinquent or pays off within a specified period following loan funding and sale. The Bank considers these potential recourse provisions to be a minimal risk, but has established a reserve under generally accepted accounting principles for possible repurchases. There were no repurchases due to fraud by the borrower during the nine months ended September 30, 2016. The reserve amounted to $100 thousand at September 30, 2016 and is included in other liabilities on the Consolidated Balance Sheets. The Bank does not originate “sub-prime” loans and has no exposure to this market segment.

The Company is an originator of SBA loans and its practice is to sell the guaranteed portion of those loans at a premium. Income from this source was $101 thousand and $1.4 million for the three and nine months ended September 30, 2016 compared to $107 thousand and $694 thousand for the three and nine month periods in 2015. Activity in SBA loan sales to secondary markets can vary widely from quarter to quarter.

Net investment gains were $1 thousand for the three months ended September 30, 2016 compared to $60 thousand for the same period in 2015. Net investment gains were $1.1 million for the nine months ended September 30, 2016 compared to $2.2 million for the same period in 2015. A $1.1 million loss on the early extinguishment of debt was recorded in March of 2015 due to the early payoff of FHLB advances. This decision was made in light of deposit growth in the quarter and expected benefits to the cost of funds going forward.

Other income totaled $1.6 million for the three months ended September 30, 2016 as compared to $1.8 million for the same period in 2015, a decrease of 12% due primarily to lower other loan income. ATM fees increased to $378 thousand for the three months ended September 30, 2016 from $355 thousand for the same period in 2015, a 6% increase. Noninterest loan fees decreased to $632 thousand for the three months ended September 30, 2016 from $971 thousand for the same period in 2015, a 35% decrease. Noninterest fee income totaled $66 thousand for the three months ended September 30, 2016 an increase of $13 thousand, or 24%, over the balance for the same period in 2015.

Other income totaled $5.2 million for the nine months ended September 30, 2016 as compared to $4.5 million for the same period in 2015, an increase of 16% due primarily to a $667 thousand gain on the sale of five OREO properties. ATM fees increased to $1.1 million for the nine months ended September 30, 2016 from $999 thousand for the same period in 2015, a 13% increase. Noninterest loan fees decreased to $2.1 million for the nine months ended September 30, 2016 from $2.5 million for the same period in 2015, a 16% decrease. Noninterest fee income totaled $316 thousand for the nine months ended September 30, 2016 an increase of $443 thousand, or 350%, over the balance for the same period in 2015.

Noninterest Expense

Total noninterest expense includes salaries and employee benefits, premises and equipment expenses, marketing and advertising, data processing, FDIC insurance, merger expenses, and other expenses.

Total noninterest expenses totaled $28.8 million for the three months ended September 30, 2016, as compared to $27.4 million for the three months ended September 30, 2015. Total noninterest expenses totaled $85.2 million for the nine months ended September 30, 2016, as compared to $82.1 million for the nine months ended September 30, 2015.

Salaries and employee benefits were $17.1 million for the three months ended September 30, 2016, as compared to $15.4 million for 2015, an 11% increase. Salaries and employee benefits were $49.2 million for the nine months ended September 30, 2016, as compared to $45.8 million for 2015, a 7% increase. Cost increases for both the three and nine month periods for salaries and benefits were due primarily to increased staff, merit increases and incentive compensation. At September 30, 2016, the Company's full time equivalent staff numbered 464, as compared to 434 at December 31, 2015 and 432 at September 30, 2015.

Premises and equipment expenses amounted to $3.8 million for the three months ended September 30, 2016 as compared to $4.0 million for the same period in 2015, a 5% decrease. Premises and equipment expenses amounted to $11.4 million for the nine months ended September 30, 2016 as compared to $12.1 million for the same period in 2015, a 5% decrease. For the three month period, premises and equipment expenses were lower due primarily to the closing of one branch office acquired in the Merger and transactions to reduce space in two additional offices. For the nine month period, premises and equipment expenses were lower due primarily to the closing of one branch office acquired in the Merger and to sublease arrangements. For the three and nine months ended September 30, 2016, the Company recognized $126 thousand and $424 thousand of sublease revenue as compared to $112 thousand and $274 thousand for the same periods in 2015. The sublease revenue is accounted for as a reduction to premises and equipment expenses.

Marketing and advertising expenses increased to $857 thousand for the three months ended September 30, 2016 from $762 thousand for the same period in 2015, a 13% increase. Marketing and advertising expenses increased to $2.6 million for the nine months ended September 30, 2016 from $2.2 million for the same period in 2015, a 17% increase. The increase in both the three and nine month periods was primarily due to costs associated with digital and print advertising and sponsorships.

Data processing expenses decreased to $1.9 million for the three months ended September 30, 2016 from $2.0 million for same period in 2015, a 5% decrease. Data processing expenses increased to $5.7 million for the nine months ended

September 30, 2016 from $5.6 million in the same period in 2015, a 2% increase. The increase in expenses for the nine month period was primarily due to licensing agreements.

Legal, accounting and professional fees decreased to $771 thousand for the three months ended September 30, 2016 from $1.1 million in the same period in 2015, a 28% decrease. Legal, accounting and professional fees decreased to $2.8 million for the nine months ended September 30, 2016 from $2.9 million in the same period in 2015, a 2% decrease. The decrease in expense for the three month period was due primarily to lower collection, repossession and legal fees. The decrease in expense for the nine month period was due primarily to lower legal fees.

For the three months ended September 30, 2016, other expenses amounted to $3.8 million as compared to $3.5 million for the same period in 2015, an increase of 10%. Other expenses increased to $11.4 million for the nine months ended September 30, 2016 from $11.1 million for the same period in 2015, an increase of 3%. The major components of cost in this category include core deposit intangible amortization, franchise taxes, director compensation and expenses for the operations of OREO property, as well as valuation adjustments on OREO property. Other expenses for the three months period ended September 30, 2016 increased primarily due to higher broker fees and other expenses.

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For the third quarter of 2016 the efficiency ratio, which measures the ratio of noninterest expense to total revenue, improved to 40.54% from 42.04% for the third quarter of 2015. As a percentage of average assets, total noninterest expense (annualized) improved to 1.78% for the three months ended September 30, 2016 as compared to 1.88% for the same period in 2015. The efficiency ratio was 40.32% for the first nine months of 2016, as compared to 42.86% for the same period in 2015. As a percentage of average assets, total noninterest expense (annualized) improved to 1.82% for the nine months ended September 30, 2016 as compared to 1.98% for the same period in 2015. Cost control remains a significant operating objective of the Company.

Income Tax Expense

The Company's ratio of income tax expense to pre-tax income ("effective tax rate") increased to 38.7% for the three months ended September 30, 2016 as compared to 37.8% for the same period in 2015. The Company's effective tax rate increased to 38.4% for the nine months ended September 30, 2016 as compared to 37.8% for the same period in 2015. The higher effective tax rate for the three and nine months ended September 30, 2016 relates to relatively lower levels of tax exempt income compared to taxable income.

FINANCIAL CONDITION

Summary

Total assets at September 30, 2016 were $6.76 billion, a 15% increase as compared to $5.89 billion at September 30, 2015, and an 11% increase as compared to $6.08 billion at December 31, 2015. Total loans (excluding loans held for sale) were $5.48 billion at September 30, 2016, a 15% increase as compared to $4.78 billion at September 30, 2015, and a 10% increase as compared to $5.00 billion at December 31, 2015. Loans held for sale amounted to $78.1 million at September 30, 2016 as compared to $35.7 million at September 30, 2015, a 119% increase, and $47.5 million at December 31, 2015, a 65% increase. The investment portfolio totaled $430.7 million at September 30, 2016, an 18% decrease from the $524.3 million balance at September 30, 2015. As compared to December 31, 2015, the investment portfolio at September 30, 2016 decreased by $57.2 million or 12%.

Total deposits at September 30, 2016 were $5.56 billion, compared to deposits of $4.93 billion at September 30, 2015, a 13% increase, and deposits of $5.16 billion at December 31, 2015, an 8% increase. Total borrowed funds (excluding customer repurchase agreements) were $266.4 million at September 30, 2016 as compared to $68.9 million at September 30, 2015, a 287% increase, and $68.9 million at December 31, 2015, a 287% increase. During April 2016, $50.0 million in FHLB advances were borrowed as part of the overall asset liability strategy and to support loan growth. These advances remained outstanding as of September 30, 2016 and matured in October 2016. We continue to work on expanding the breadth and depth of our existing relationships while we pursue building new relationships.

Total shareholders' equity at September 30, 2016 increased to $815.6 million, compared to $786.1 million at September 30, 2015, a 4% increase, and $738.6 million at December 31, 2015, a 10% increase. The increase in shareholders' equity at September 30, 2016 compared to the same period in 2015 reflects increased earnings offset by the redemption of all $71.9 million of the preferred stock issued under the Small Business Lending Fund ("SBLF") during the fourth quarter of 2015. The ratio of common equity to total assets was 12.06% at September 30, 2016, as compared to 12.13% at September 30, 2015 and 12.16% at December 31, 2015. The Company's capital position remains substantially in excess of regulatory requirements for well capitalized status, with a total risk based capital ratio of 15.05% at September 30, 2016, as compared to 13.80% at September 30, 2015, and 12.75% at December 31, 2015. In addition, the tangible common equity ratio was 10.64% at September 30, 2016, compared to 10.46% at September 30, 2015 and 10.56% at December 31, 2015.

Effective January 1, 2015, the Company, Bank, and all other banks of similar size became subject to new capital requirements. These new requirements create a new required ratio for common equity Tier 1 ("CETI") capital, increase the leverage and Tier 1 capital ratios, change the risk weight of certain assets for purposes of the risk-based capital ratios, create an additional capital conservation buffer over the required capital ratios and change what qualifies as capital for purposes of meeting these various capital requirements. Under the new standards, in order to be considered well-capitalized, the Bank must have a CETI ratio of 6.5% (new), a Tier 1 risk-based ratio of 8.0% (increased from 6.0%), a total risk-based capital ratio of 10.0% (unchanged) and a leverage ratio of 5.0% (unchanged). The Company and the Bank meet all these new requirements, including the full capital conservation buffer. Beginning in 2016, failure to maintain the required capital conservation buffer would limit the ability of the Company and the Bank to pay dividends, repurchase shares or pay discretionary bonuses.

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Loans, net of amortized deferred fees and costs, at September 30, 2016, December 31, 2015 and September 30, 2015 by major category are summarized below.

	September 30, 2016		December 31, 2015		September 30, 2015	
(dollars in thousands)	**Amount**	**%**	**Amount**	**%**	**Amount**	**%**
Commercial	$1,130,042	21 %	$1,052,257	21 %	$1,007,659	21 %
Income producing - commercial real estate	2,551,186	46 %	2,115,478	42 %	2,022,950	42 %
Owner occupied - commercial real estate	590,427	11 %	498,103	10 %	489,657	10 %
Real estate mortgage - residential	154,439	3 %	147,365	3 %	147,720	3 %
Construction - commercial and residential	838,137	15 %	985,607	20 %	927,265	20 %
Construction - C&I (owner occupied)	104,676	2 %	79,769	2 %	60,487	1 %
Home equity	106,856	2 %	112,885	2 %	115,346	3 %
Other consumer	6,212	-	6,904	-	5,881	-
Total loans	5,481,975	100%	4,998,368	100%	4,776,965	100%
Less: allowance for credit losses	(56,864)		(52,687)		(50,320)	
Net loans	$5,425,111		$4,945,681		$4,726,645	

In its lending activities, the Company seeks to develop and expand relationships with clients whose businesses and individual banking needs will grow with the Bank. Superior customer service, local decision making, and accelerated turnaround time from application to closing have been significant factors in growing the loan portfolio, and meeting the lending needs in the markets served, while maintaining sound asset quality.

Loans outstanding reached $5.48 billion at September 30, 2016, an increase of $705.0 million, or 15%, as compared to $4.78 billion at September 30, 2015, and an increase of $483.6 million, or 10%, as compared to $5.00 billion at December 31, 2015. The loan growth during the nine months ended September 30, 2016 over the same period in 2015 was predominantly in the income producing - commercial real estate, commercial, and owner occupied- commercial real estate categories. Despite an increased level of in-market competition for business, the Bank continued to experience strong organic loan growth across the portfolio. Multi-family commercial real estate leasing in the Bank's market area has held up well, particularly for well-located close-in projects, while suburban office leasing softened. Overall, commercial real estate values have generally held up well with price escalation in prime pockets. The housing market has remained stable to increasing, with well-located, Metro accessible properties garnering a premium.

Owner occupied- commercial real estate and construction- C&I (owner occupied) represent 11% of the loan portfolio. The Bank has a large portion of its loan portfolio related to real estate, with 74% consisting of commercial real estate and real estate construction loans. When owner occupied- commercial real estate and construction- C&I (owner occupied) is excluded, the percentage of total loans represented by commercial real estate decreases to 61%. Real estate also serves as collateral for loans made for other purposes, resulting in 84% of all loans being secured by real estate.

Deposits and Other Borrowings

The principal sources of funds for the Bank are core deposits, consisting of demand deposits, money market accounts, NOW accounts, and savings accounts. Additionally, the Bank obtains certificates of deposits from the local market areas surrounding the Bank’s offices. The deposit base includes transaction accounts, time and savings accounts and accounts which customers use for cash management and which provide the Bank with a source of fee income and cross-marketing opportunities, as well as an attractive source of lower cost funds. To meet funding needs during periods of high loan demand and seasonal variations in core deposits, the Bank utilizes alternative funding sources such as secured borrowings from the FHLB, federal funds purchased lines of credit from correspondent banks and brokered deposits from regional and national brokerage firms and Promontory Interfinancial Network, LLC (“Promontory”).

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For the nine months ended September 30, 2016, noninterest bearing deposits increased $263.2 million as compared to December 31, 2015, while interest bearing deposits increased by $136.5 million during the same period. Average total deposits for the first nine months of 2016 were $5.23 billion, as compared to $4.61 billion for the same period in 2015, a 13% increase.

From time to time, when appropriate in order to fund strong loan demand, the Bank accepts brokered time deposits, generally in denominations of less than $250 thousand, from a regional brokerage firm, and other national brokerage networks, including Promontory. Additionally, the Bank participates in the Certificates of Deposit Account Registry Service ("CDARS") and the Insured Cash Sweep product ("ICS"), which provides for reciprocal ("two-way") transactions among banks facilitated by Promontory for the purpose of maximizing FDIC insurance. These reciprocal CDARS and ICS funds are classified as brokered deposits, although bank regulators have recognized that these reciprocal deposits have many characteristics of core deposits. The Bank also is able to obtain one way CDARS deposits and participates in Promontory's Insured Network Deposit ("IND"). At September 30, 2016, total deposits included $759.0 million of brokered deposits (excluding the CDARS and ICS two-way), which represented 6% of total deposits. At December 31, 2015, total brokered deposits (excluding the CDARS and ICS two-way) were $597.5 million, or 12% of total deposits. The CDARS and ICS two-way component represented $358.3 million, or 14% of total deposits and $611.8 million or 12% of total deposits at September 30, 2016 and December 31, 2015, respectively. These sources are believed by the Company to represent a reliable and cost efficient alternative funding source for the Bank. However, to the extent that the condition or reputation of the Company or Bank deteriorates, or to the extent that there are significant changes in market interest rates which the Company and Bank do not elect to match, we may experience an outflow of brokered deposits. In that event we would be required to obtain alternate sources for funding.

At September 30, 2016 the Company had $1.67 billion in noninterest bearing demand deposits, representing 30% of total deposits, compared to $1.41 billion of noninterest bearing demand deposits at December 31, 2015, or 27% of total deposits. These deposits are primarily business checking accounts on which the payment of interest was prohibited by regulations of the Federal Reserve prior to July 2011. Since July 2011, banks are no longer prohibited from paying interest on demand deposits account, including those from businesses. To date, the Bank has elected not to pay interest on business checking accounts, nor is the payment of such interest a prevalent practice in the Bank's market area at present. It is not clear over the long-term what effect the elimination of this prohibition will have on the Bank's interest expense, allocation of deposits, deposit pricing, loan pricing, net interest margin, ability to compete, ability to establish and maintain customer relationships, or profitability. Payment of interest on these deposits could have a significant negative impact on the Company's net interest income and net interest margin, net income, and the return on assets and equity, although no such effect is currently anticipated.

As an enhancement to the basic noninterest bearing demand deposit account, the Bank offers a sweep account, or "customer repurchase agreement," allowing qualifying businesses to earn interest on short-term excess funds which are not suited for either a certificate of deposit or a money market account. The balances in these accounts were $71.6 million at September 30, 2016 compared to $72.4 million at December 31, 2015. Customer repurchase agreements are not deposits and are not insured by the FDIC, but are collateralized by U.S. agency securities and/or U.S. agency backed mortgage-backed securities. These accounts are particularly suitable to businesses with significant fluctuation in the levels of cash flows. Attorney and title company escrow accounts are an example of accounts which can benefit from this product, as are customers who may require collateral for deposits in excess of FDIC insurance limits but do not qualify for other pledging arrangements. This program requires the Bank to maintain a sufficient investment securities level to accommodate the fluctuations in balances which may occur in these accounts.

The Company had no outstanding balances under its federal funds purchase lines of credit provided by correspondent banks at September 30, 2016 and December 31, 2015. The Bank had $50.0 million in short-term borrowings outstanding under its credit facility from the FHLB at September 30, 2016. There were no borrowings outstanding under its credit facility from the FHLB at December 31, 2015.

The Company has a credit facility with a regional bank, secured by a portion of the stock of the Bank, pursuant to which the Company may borrow, on a revolving basis, up to $50.0 million for working capital purposes, to finance capital contributions to the Bank and ECV. There were no amounts outstanding under this credit facility at September 30, 2016 or December 31, 2015. For additional information on this credit facility please refer to “Capital Resources and Adequacy” below.

Long-term borrowings outstanding at September 30, 2016 included the Company’s August 5, 2014 issuance of $70.0 million of subordinated notes, due September 1, 2024 and the Company’s July 26, 2016 issuance of $150.0 million of subordinated notes, due August 1, 2026. For additional information on the subordinated notes, please refer to “Capital Resources and Adequacy” below.

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Liquidity Management

Liquidity is a measure of the Company's and Bank's ability to meet loan demand and to satisfy depositor withdrawal requirements in an orderly manner. The Bank's primary sources of liquidity consist of cash and cash balances due from correspondent banks, loan repayments, federal funds sold and other short-term investments, maturities and sales of investment securities, income from operations and new core deposits into the Bank. The Bank's investment portfolio of debt securities is held in an available-for-sale status which allows for flexibility, subject to holdings held as collateral for customer repurchase agreements, to generate cash from sales as needed to meet ongoing loan demand. These sources of liquidity are considered primary and are supplemented by the ability of the Company and Bank to borrow funds, which are termed secondary sources and which are substantial. The Company's secondary sources of liquidity include a \$50.0 million line of credit with a regional bank, secured by a portion of the stock of the Bank, against which there were no amounts outstanding at September 30, 2016. Additionally, the Bank can purchase up to \$137.5 million in federal funds on an unsecured basis from its correspondents, against which there were no amounts outstanding at September 30, 2016, and can obtain unsecured funds under one-way CDARS brokered deposits in the amount of \$1.0 billion, against which there was \$66.1 million outstanding at September 30, 2016. The Bank has a commitment from Promontory to place up to \$700.0 million of brokered deposits from its IND program with the Bank in amounts requested by the Bank, as compared to an actual balance of \$340.2 million at September 30, 2016. At September 30, 2016 the Bank was also eligible to make advances from the FHLB up to \$1.1 billion based on collateral at the FHLB, of which there was \$50.0 million outstanding at September 30, 2016. The Bank may enter into repurchase agreements as well as obtain additional borrowing capabilities from the FHLB provided adequate collateral exists to secure these lending relationships. The Bank also has a back-up borrowing facility through the Discount Window at the Federal Reserve Bank of Richmond ("Federal Reserve Bank"). This facility, which amounts to approximately \$422.0 million, is collateralized with specific loan assets identified to the Federal Reserve Bank. It is anticipated that, except for periodic testing, this facility would be utilized for contingency funding only.

The loss of deposits, through disintermediation, is one of the greater risks to liquidity. Disintermediation occurs most commonly when rates rise and depositors withdraw deposits seeking higher rates in alternative savings and investment sources than the Bank may offer. The Bank was founded under a philosophy of relationship banking and, therefore, believes that it has less of an exposure to disintermediation and resultant liquidity concerns than do many banks. There is, however, a risk that some deposits would be lost if rates were to increase and the Bank elected not to remain competitive with its deposit rates. Under those conditions, the Bank believes that it is well positioned to use other sources of funds such as FHLB borrowings, brokered deposits, repurchase agreements and correspondent banks' lines of credit to offset a decline in deposits in the short run. Over the long-term, an adjustment in assets and change in business emphasis could compensate for a potential loss of deposits. The Bank also maintains a marketable investment portfolio to provide flexibility in the event of significant liquidity needs. The Asset Liability Committee of the Bank's Board of Directors ("ALCO") has adopted policy guidelines which emphasize the importance of core deposits, adequate asset liquidity and a contingency funding plan.

At September 30, 2016, under the Bank's liquidity formula, it had \$3.41 billion of primary and secondary liquidity sources. The amount is deemed adequate to meet current and projected funding needs.

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Commitments and Contractual Obligations

Loan commitments outstanding and lines and letters of credit at September 30, 2016 are as follows:

(dollars in thousands)	**September 30, 2016**
Unfunded loan commitments	$2,161,272
Unfunded lines of credit	96,586
Letters of credit	77,389
Total	$2,335,247

Unfunded loan commitments are agreements whereby the Bank has made a commitment and the borrower has accepted the commitment to lend to a customer as long as there is satisfaction of the terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee before the commitment period is extended. In many instances, borrowers are required to meet performance milestones in order to draw on a commitment as is the case in construction loans, or to have a required level of collateral in order to draw on a commitment, as is the case in asset based lending credit facilities. Since commitments may expire without being drawn, the total commitment amount does not necessarily represent future cash requirements.

Unfunded lines of credit are agreements to lend to a customer as long as there is no violation of the terms or conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since commitments may expire without being drawn, the total commitment amount does not necessarily represent future cash requirements.

Letters of credit include standby and commercial letters of credit. Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance by the Bank’s customer to a third party. Standby letters of credit generally become payable upon the failure of the customer to perform according to the terms of the underlying contract with the third party. Standby letters of credit are generally not drawn. Commercial letters of credit are issued specifically to facilitate commerce and typically result in the commitment being drawn when the underlying transaction is consummated between the customer and a third party. The contractual amount of these letters of credit represents the maximum potential future payments guaranteed by the Bank. The Bank has recourse against the customer for any amount it is required to pay to a third party under a letter of credit, and holds cash and or other collateral on those standby letters of credit for which collateral is deemed necessary.

Asset/Liability Management and Quantitative and Qualitative Disclosures about Market

A fundamental risk in banking is exposure to market risk, or interest rate risk, since a bank's net income is largely dependent on net interest income. The Bank's ALCO formulates and monitors the management of interest rate risk through policies and guidelines established by it and the full Board of Directors and through review of detailed reports discussed quarterly. In its consideration of risk limits, the ALCO considers the impact on earnings and capital, the level and direction of interest rates, liquidity, local economic conditions, outside threats and other factors. Banking is generally a business of managing the maturity and re-pricing mismatch inherent in its asset and liability cash flows and to provide net interest income growth consistent with the Company's profit objectives.

During the quarter ended September 30, 2016, as compared to the same three months in 2015, the Company was able to increase its net interest income (by 10%), produce a net interest spread of 3.83%, which was 21 basis points lower than the 4.04% for the same quarter ended 2015, and manage its overall interest rate risk position.

The Company, through its ALCO and ongoing financial management practices, monitors the interest rate environment in which it operates and adjusts the rates and maturities of its assets and liabilities to remain competitive and to achieve its overall financial objectives subject to established risk limits. In the current and expected future interest rate environment, the Company has been maintaining its investment portfolio to manage the balance between yield and prepayment risk in its portfolio of mortgage-backed securities should interest rates remain at current levels. Further, the company has been managing the investment portfolio to mitigate extension risk and related declines in market values in that same portfolio should interest rates increase. Additionally, the Company has limited call risk in its U.S. agency investment portfolio. During the three months ended September 30, 2016, the average investment portfolio balances decreased as compared to balances at June 30, 2016, in large part due to calls on securities being exercised and higher prepay speeds on mortgage-backed securities resulting in higher than expected cash flows due to return of principal. The cash received from calls and prepayments on the investment portfolio along with strong deposit growth was deployed into loans and the purchase of additional investments.

The percentage mix of municipal securities was 23% of total investments at September 30, 2016 and 24% at September 30, 2015, the portion of the portfolio invested in mortgage-backed securities decreased to 60% at September 30, 2016 from 62% at September 30, 2015. The portion of the portfolio invested in U.S. agency investments was 13% at both September 30, 2016 and September 30, 2015. Shorter duration floating rate corporate bonds and SBA bonds were 5% of total investments at September 30, 2016. Due to the rolling forward of the investment portfolio and faster prepayment of mortgage-backed security principal, the duration of the investment portfolio decreased to 3.4 years at September 30, 2016 from 3.7 years at September 30, 2015, which better prepared the Company for expected increases in market interest rates.

The re-pricing duration of the loan portfolio was fairly stable at 23 months at September 30, 2016 versus 26 months at September 30, 2015, with fixed rate loans amounting to 34% of total loans at September 30, 2016 compared to 37% of total loans at September 30, 2015. Variable and adjustable rate loans comprised 66% of total loans at September 30, 2016, compared to 63% of total loans at September 30, 2015. Variable rate loans are generally indexed to either the Wall Street Journal prime interest rate, or the one month LIBOR interest rate, while adjustable rate loans are indexed primarily to the five year U.S. Treasury interest rate.

The duration of the deposit portfolio was also fairly stable at 28 months at September 30, 2016, as compared to 32 months at September 30, 2015. The change since December 31, 2015 was due substantially to a change in the mix and duration of money market deposits.

The Company has continued its emphasis on funding loans in its marketplace, and has been able to achieve favorable loan pricing, including interest rate floors on many loan originations, although competition for new loans persists. A disciplined approach to loan pricing, together with loans floors existing in 61% of total loans (at September 30, 2016), has resulted in a loan portfolio yield of 5.08% for the three months ended September 30, 2016 as compared to 5.19% for the same period in 2015. Subject to interest rate floors, variable and adjustable rate loans provide additional income opportunities should interest rates rise from current levels.

The net unrealized gain before income tax on the investment portfolio was $7.4 million at September 30, 2016 as compared to a net unrealized gain before tax of $5.5 million at September 30, 2015. The higher net unrealized gain on the investment portfolio at September 30, 2016 as compared to September 30, 2015 was due to lower interest rates at September 30, 2016. At September 30, 2016, the unrealized gain position represented 1.8% of the investment portfolio’s book value.

There can be no assurance that the Company will be able to successfully achieve its optimal asset liability mix, as a result of competitive pressures, customer preferences and the inability to perfectly forecast future interest rates and movements.

One of the tools used by the Company to manage its interest rate risk is a static GAP analysis presented below. The Company also employs an earnings simulation model on a quarterly basis to monitor its interest rate sensitivity and risk and to model its balance sheet cash flows and the related income statement effects in different interest rate scenarios. The model utilizes current balance sheet data and attributes and is adjusted for assumptions as to investment maturities (including prepayments), loan prepayments, interest rates, and the level of noninterest income and noninterest expense. The data is then subjected to a “shock test” which assumes a simultaneous change in interest rates up 100, 200, 300, and 400 basis points or down 100 and 200, along the entire yield curve, but not below zero. The results are analyzed as to the impact on net interest income, net income and the market equity over the next twelve and twenty-four month periods from September 30, 2016. In addition to analysis of simultaneous changes in interest rates along the yield curve, changes based on interest rate “ramps” is also performed. This analysis represents the impact of a more gradual change in interest rates, as well as yield curve shape changes.

For the analysis presented below, at September 30, 2016, the simulation assumes a 50 basis point change in interest rates on money market and interest bearing transaction deposits for each 100 basis point change in market interest rates in a decreasing interest rate shock scenario with a floor of 10 basis points, and assumes a 70 basis point change in interest rates on money market and interest bearing transaction deposits for each 100 basis point change in market interest rates in an increasing interest rate shock scenario.

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As quantified in the table below, the Company's analysis at September 30, 2016 shows a moderate effect on net interest income (over the next 12 months) as well as a moderate effect on the economic value of equity when interest rates are shocked both down 100 and 200 basis points and up 100, 200, 300, and 400 basis points. This moderate impact is due substantially to the significant level of variable rate and re-priceable assets and liabilities and related shorter relative durations. The re-pricing duration of the investment portfolio at September 30, 2016 is 3.4 years, the loan portfolio 1.9 years, the interest bearing deposit portfolio 2.3 years, and the borrowed funds portfolio 4.8 years.

The following table reflects the result of simulation analysis on the September 30, 2016 asset and liabilities balances:

Change in interest rates (basis points)	**Percentage change in net interest income**	**Percentage change in net income**	**Percentage change in market value of portfolio equity**
+400	+17.4%	+28.1%	+9.1%
+300	+12.1%	+19.1%	+6.7%
+200	+6.7%	+10.1%	+4.1%
+100	+1.7%	+1.6%	+1.3%
0	-	-	-
-100	-2.5%	-4.4%	-7.1%
-200	-3.3%	-5.7%	-14.5%

The results of simulation are within the policy limits adopted by the Company. For net interest income, the Company has adopted a policy limit of 10% for a 100 basis point change, 12% for a 200 basis point change, 18% for a 300 basis point change and 24% for a 400 basis point change. For the market value of equity, the Company has adopted a policy limit of 12% for a 100 basis point change, 15% for a 200 basis point change, 25% for a 300 basis point change and 30% for a 400% basis point change. The changes in net interest income, net income and the economic value of equity in both a higher and lower interest rate shock scenario at September 30, 2016 are not considered to be excessive. The positive impact of +1.7% in net interest income and +1.6% in net income given a 100 basis point increase in market interest rates reflects in large measure the impact of variable rate loans and fed funds sold repricing counteracted by a lower level of expected residential mortgage activity.

In the third quarter of 2016, the Company continued to manage its interest rate sensitivity position to moderate levels of risk, as indicated in the simulation results above. Except for the higher level of asset liquidity at September 30, 2016 as compared to December 31, 2015, the interest rate risk position at September 30, 2016 was similar to the interest rate risk position at December 31, 2015. As compared to December 31, 2015, the sum of federal funds sold, interest bearing deposits with banks and other short-term investments and loans held for sale increased by $250.9 million at September 30, 2016.

Certain shortcomings are inherent in the method of analysis presented in the foregoing table. For example, although certain assets and liabilities may have similar maturities or repricing periods, they may react in different degrees to changes in market interest rates. Also, the interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. Additionally, certain assets, such as adjustable-rate mortgage loans, have features that limit changes in interest rates on a short-term basis and over the life of the loan. Further, in the event of a change in interest rates, prepayment and early withdrawal levels could deviate significantly from those assumed in calculating the tables. Finally, the ability of many borrowers to service their debt may decrease in the event of a significant interest rate increase.

During the third quarter of 2016, average market interest rates decreased across the yield curve. Overall, there was a flattening of the yield curve as compared to the third quarter of 2015 with rate decreases being more significant the further out on the yield curve the maturity.

As compared to the third quarter of 2015, the average two-year U.S. Treasury rate increased by 4 basis points from 0.68% to 0.72%, the average five year U.S. Treasury rate decreased by 43 basis points from 1.55% to 1.12% and the average ten year U.S. Treasury rate decreased by 66 basis points from 2.22% to 1.56%. The Company’s net interest spread for the third quarter of 2016 was 3.83% compared to 4.04% for the third quarter of 2015. The decline was due in large part to compression on loan yields and some increase in the cost of interest bearing liabilities. The Company believes that the change in the net interest spread in the most recent quarter as compared to 2015’s third quarter has been consistent with its risk analysis at December 31, 2015.

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GAP Position

Banks and other financial institutions earnings are significantly dependent upon net interest income, which is the difference between interest earned on earning assets and interest expense on interest bearing liabilities. This revenue represented 90% of the Company’s revenue for the third quarter of 2016 and 2015.

In falling interest rate environments, net interest income is maximized with longer term, higher yielding assets being funded by lower yielding short-term funds, or what is referred to as a negative mismatch or GAP. Conversely, in a rising interest rate environment, net interest income is maximized with shorter term, higher yielding assets being funded by longer-term liabilities or what is referred to as a positive mismatch or GAP.

The GAP position, which is a measure of the difference in maturity and repricing volume between assets and liabilities, is a means of monitoring the sensitivity of a financial institution to changes in interest rates. The chart below provides an indication of the sensitivity of the Company to changes in interest rates. A negative GAP indicates the degree to which the volume of repriceable liabilities exceeds repriceable assets in given time periods.

At September 30, 2016, the Company had a positive GAP position of approximately $1.22 billion or 18% of total assets out to three months and a positive cumulative GAP position of $1.20 billion or 18% of total assets out to 12 months; as compared to a positive GAP position of approximately $554 million or 9% of total assets out to three months and a positive cumulative GAP position of $827 million or 14% of total assets out to 12 months at December 31, 2015. The change in the positive GAP position at September 30, 2016 as compared to December 31, 2015, was due substantially to the higher amount of asset liquidity on the balance sheet and increase in the mix of variable rate loans. The change in the GAP position at September 30, 2016 as compared to December 31, 2015 is not deemed material to the Company’s overall interest rate risk position, which relies more heavily on simulation analysis which captures the full optionality within the balance sheet. The current position is within guideline limits established by the ALCO. While management believes that this overall position creates a reasonable balance in managing its interest rate risk and maximizing its net interest margin within plan objectives, there can be no assurance as to actual results.

Management has carefully considered its strategy to maximize interest income by reviewing interest rate levels, economic indicators and call features within its investment portfolio, as well as interest rate floors within its loan portfolio. These factors have been discussed with the ALCO and management believes that current strategies are appropriate to current economic and interest rate trends.

If interest rates increase by 100 basis points, the Company’s net interest income and net interest margin are expected to increase modestly due to the impact of loan floors providing no additional interest income and the assumption of an increase in money market interest rates by 70% of the change in market interest rates.

If interest rates decline by 100 basis points, the Company’s net interest income and margin are expected to decline modestly as the impact of lower market rates on a large amount of liquid assets more than offsets the ability to lower interest rates on interest bearing liabilities.

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Because competitive market behavior does not necessarily track the trend of interest rates but at times moves ahead of financial market influences, the change in the cost of liabilities may be different than anticipated by the GAP model. If this were to occur, the effects of a declining interest rate environment may not be in accordance with management's expectations.

GAP Analysis
September 30, 2016
(dollars in thousands)

Repriceable in:	**0-3 months**	**4-12 months**	**13-36 months**	**37-60 months**	**Over 60 months**	**Total Rate Sensitive**	**Non-sensitive**	**Total Assets**
RATE SENSITIVE ASSETS:								
Investment securities	$55,579	$80,042	$113,507	$78,161	$123,299	$450,588		
Loans (1)(2)	3,136,267	493,152	1,098,059	655,035	177,580	5,560,093		
Fed funds and other short-term investments	508,412	-	-	-	-	508,412		
Other earning assets	59,747	-	-	-	-	59,747		
Total	$3,760,005	$573,194	$1,211,566	$733,196	$300,879	$6,578,840	$183,292	$6,762
RATE SENSITIVE LIABILITIES:								
Noninterest bearing demand	$68,065	$204,196	$543,856	$543,856	$308,298	$1,668,271		
Interest bearing transaction	220,589	-	38,692	38,692	-	297,973		
Savings and money market	2,235,110	-	283,704	283,705	-	2,802,519		
Time deposits	146,541	382,895	231,341	28,609	-	789,386		
Customer repurchase agreements and fed funds purchased	71,642	-	-	-	-	71,642		
Other borrowings	50,000	-	-	-	216,419	266,419		
Total	$2,791,947	$587,091	$1,097,593	$894,862	$524,717	$5,896,210	$50,283	$5,946
GAP	$968,058	$(13,897)	$113,973	$(161,666)	$(223,838)	$682,630		
Cumulative GAP	$968,058	$954,161	$1,068,134	$906,468	$682,630			
Cumulative gap as percent of total assets	14.32 %	14.11 %	15.80 %	13.41 %	10.09 %			
OFF BALANCE-SHEET:								
Interest Rate Swaps - LIBOR based	$150,000	$-	$-	$(75,000)	$(75,000)	$-		

Interest Rate Swaps - Fed Funds based	100,000	-	-	(100,000)	-	-		
Total	$250,000	$-	$-	$(175,000)	$(75,000)	$-	$-	$-
GAP	$1,218,058	$(13,897)	$113,973	$(336,666)	$(298,838)	$682,630		
Cumulative GAP	$1,218,058	$1,204,161	$1,318,134	$981,468	$682,630			
Cumulative gap as percent of total assets	18.01 %	17.81 %	19.49 %	14.51 %	10.09 %			

(1) Includes loans held for sale.
(2) Nonaccrual loans are included in the over 60 months category.

Although NOW and money market accounts are subject to immediate repricing, the Bank's GAP model has incorporated a repricing schedule to account for a lag in rate changes based on our experience, as measured by the amount of those deposit rate changes relative to the amount of rate change in assets.

Capital Resources and Adequacy

The assessment of capital adequacy depends on a number of factors such as asset quality and mix, liquidity, earnings performance, changing competitive conditions and economic forces, regulatory measures and policy, as well as the overall level of growth and complexity of the balance sheet. The adequacy of the Company's current and future capital needs is monitored by management on an ongoing basis. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and to absorb potential losses.

The federal banking regulators have issued guidance for those institutions which are deemed to have concentrations in commercial real estate lending. Pursuant to the supervisory criteria contained in the guidance for identifying institutions with a potential commercial real estate concentration risk, institutions which have (1) total reported loans for construction, land development, and other land acquisitions which represent 100% or more of an institution's total risk-based capital; or (2) total commercial real estate loans representing 300% or more of the institution's total risk-based capital and the institution's commercial real estate loan portfolio has increased 50% or more during the prior 36 months are identified as having potential commercial real estate concentration risk. Institutions which are deemed to have concentrations in commercial real estate lending are expected to employ heightened levels of risk management with respect to their commercial real estate portfolios, and may be required to hold higher levels of capital. The Company, like many community banks, has a concentration in commercial real estate loans, and the Company has experienced significant growth in its commercial real estate portfolio in recent years. At September 30, 2016 non-owner-occupied commercial real estate loans (including construction, land and land development loans) represent 318% of total risk based capital. Construction, land and land development loans represent 93% of total risk based capital. Management has extensive experience in commercial real estate lending, and has implemented and continues to maintain heightened risk management procedures, and strong underwriting criteria with respect to its commercial real estate portfolio. Monitoring practices include but are not limited to periodic stress testing analysis to evaluate changes to cash flows, owing to interest rate increases and declines in net operating income. Nevertheless, we may be required to maintain higher levels of capital as a result of our commercial real estate concentrations, which could require us to obtain additional capital, and may adversely affect shareholder returns.

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The Company has a credit facility with a regional bank, pursuant to which the Company may borrow, on a revolving basis, up to $50.0 million for working capital purposes, to finance capital contributions to the Bank in whole and to ECV in part. The credit facility is secured by a first lien on a portion of the stock of the Bank, pursuant to which the Company may borrow, and bears interest at a floating rate equal to the Wall Street Journal Prime Rate minus 0.25% with a floor interest rate of 3.50%. Interest is payable on a monthly basis. The term of the credit facility expires on September 30, 2017. There were no amounts outstanding under this credit facility at September 30, 2016, December 31, 2015, or September 30, 2015.

The Company and the Bank are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the financial statements.

The prompt corrective action regulations provide five categories, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If a bank is only adequately capitalized, regulatory approval is required to, among other things, accept, renew or roll-over brokered deposits. If a bank is undercapitalized, capital distributions and growth and expansion are limited, and plans for capital restoration are required.

In July 2013, the Board of Governors of the Federal Reserve Board and the FDIC approved the final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (commonly known as Basel III). Under the final rules, which became applicable to the Company and the Bank on January 1, 2015 and are subject to a phase-in period through January 1, 2019, minimum requirements will increase for both the quantity and quality of capital held by the Company and the Bank. The rules include a new common equity Tier 1 capital to risk-weighted assets ratio (CET1 ratio) of 4.5% and a capital conservation buffer of 2.5% of risk-weighted assets, which when fully phased-in, effectively results in a minimum CET1 ratio of 7.0%. Basel III raises the minimum ratio of Tier 1 capital to risk-weighted assets from 4.0% to 6.0% (which, with the capital conservation buffer, effectively results in a minimum Tier 1 capital ratio of 8.5% when fully phased-in), effectively results in a minimum total capital to risk-weighted assets ratio of 10.5% (with the capital conservation buffer fully phased-in), and requires a minimum leverage ratio of 4.0%. Basel III also makes changes to risk weights for certain assets and off-balance-sheet exposures.

In March 2015, the Company completed the public offering of $100 million of its common stock at $35.50 per share and received gross proceeds of sale of $100 million and net proceeds of sale of approximately $94.6 million.

On November 2, 2015, the Company redeemed all of the 56,600 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series B, liquidation amount $1,000 per share (the "Series B Preferred Stock"), and all of the 15,300 shares of the Company's Senior Non-Cumulative Perpetual Preferred Stock, Series C, liquidation amount $1,000 per share ("Series C Preferred Stock"). The aggregate redemption price of the Series B Preferred Stock and Series C Preferred Stock was approximately $71.96 million, including dividends accrued but unpaid through, but not including, the redemption date.

On July 26, 2016, the Company completed the sale of $150.0 million of its 5.00% Fixed-to-Floating Rate Subordinated Notes, due August 1, 2026 (the "Notes"). The Notes were offered to the public at par. The notes qualify as Tier 2 capital for regulatory purposes to the fullest extent permitted under capital regulations applicable under the Basel III Rule capital requirements.

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The actual capital amounts and ratios for the Company and Bank as of September 30, 2016, December 31, 2015 and September 30, 2015 are presented in the table below.

	Company		**Bank**			**To Be Well Capitalized Under Prompt Corrective Action**
	Actual		**Actual**		**Minimun Required For Capital Adequacy Purposes**	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**		**Regulations**
As of September 30, 2016						
CET1 capital (to risk weighted aseets)	$710,104	10.83%	$825,879	12.63%	5.125 %	6.5 %
Total capital (to risk weighted assets)	987,068	15.05%	882,602	13.50%	8.625 %	10.0 %
Tier 1 capital (to risk weighted assets)	710,104	10.83%	825,879	12.63%	6.625 %	8.0 %
Tier 1 capital (to average assets)	710,104	11.12%	825,879	12.95%	5.000 %	5.0 %
As of December 31, 2015						
CET1 capital (to risk weighted aseets)	$632,408	10.68%	$620,879	10.52%	4.50 %	6.5 %
Total capital (to risk weighted assets)	755,212	12.75%	673,442	11.41%	8.00 %	10.0 %
Tier 1 capital (to risk weighted assets)	632,408	10.68%	620,879	10.52%	6.00 %	8.0 %
Tier 1 capital (to average assets)	632,408	10.90%	620,879	10.74%	5.00 %	5.0 %
As of September 30, 2015						
CET1 capital (to risk weighted aseets)	$606,334	10.48%	$595,988	10.36%	4.50 %	6.5 %
Total capital (to risk weighted assets)	798,707	13.80%	646,220	11.23%	8.00 %	10.0 %
Tier 1 capital (to risk weighted assets)	678,234	11.72%	595,988	10.36%	6.00 %	8.0 %
Tier 1 capital (to average assets)	678,234	11.96%	595,988	10.55%	5.00 %	5.0 %

Bank and holding company regulations, as well as Maryland law, impose certain restrictions on dividend payments by the Bank, as well as restricting extensions of credit and transfers of assets between the Bank and the Company. At September 30, 2016 the Bank could pay dividends to the parent to the extent of its earnings so long as it maintained required capital ratios.

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Use of Non-GAAP Financial Measures

The Company considers the following non-GAAP measurements useful for investors, regulators, management and others to evaluate capital adequacy and to compare against other financial institutions. The tables below provide a reconciliation of these non-GAAP financial measures with financial measures defined by GAAP.

Tangible common equity to tangible assets (the "tangible common equity ratio") and tangible book value per common share are non-GAAP financial measures derived from GAAP-based amounts. The Company calculates the tangible common equity ratio by excluding the balance of intangible assets from common shareholders' equity and dividing by tangible assets. The Company calculates tangible book value per common share by dividing tangible common equity by common shares outstanding, as compared to book value per common share, which the Company calculates by dividing common shareholders' equity by common shares outstanding. The Company considers this information important to shareholders' as tangible equity is a measure that is consistent with the calculation of capital for bank regulatory purposes, which excludes intangible assets from the calculation of risk based ratios.

Non-GAAP Reconciliation (Unaudited)
(dollars in thousands except per share data)

	Nine Months Ended September 30, 2016	**Twelve Months Ended December 31, 2015**	**Nine Months Ended September 30, 2015**
Common shareholders' equity	$815,639	$738,601	$714,169
Less: Intangible assets	(107,694)	(108,542)	(109,498)
Tangible common equity	$707,945	$630,059	$604,671
Book value per common share	$24.28	$22.07	$21.38
Less: Intangible book value per common share	(3.20)	(3.24)	(3.28)
Tangible book value per common share	$21.08	$18.83	$18.10
Total assets	$6,762,132	$6,075,577 **(1)**	$5,887,855
Less: Intangible assets	(107,694)	(108,542)	(109,498)
Tangible assets	$6,654,438	$5,967,035	$5,778,357
Tangible common equity ratio	10.64 %	10.56 %	10.46 %

(1) As adjusted for debt issuance cost reclassification.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Please refer to Item 2 of this report, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the caption “Asset/Liability Management and Quantitative and Qualitative Disclosure about Market Risk.”

Item 4. Controls and Procedures

The Company’s management, under the supervision and with the participation of the Company’s Chief Executive Officer and Chief Financial Officer, evaluated as of the last day of the period covered by this report the effectiveness of the operation of the Company’s disclosure controls and procedures, as defined in Rule 13a-14 under the Securities and Exchange Act of 1934. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company’s disclosure controls and procedures were effective. There were no changes in the Company’s internal controls over financial reporting (as defined in Rule 13a-15 under the Securities Act of 1934) during the quarter ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1 - Legal Proceedings

From time to time the Company may become involved in legal proceedings. At the present time there are no proceedings which the Company believes will have a material adverse impact on the financial condition or earnings of the Company.

Item 1A – Risk Factors

There have been no material changes as of September 30, 2016 in the risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

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

(a) *Sales of Unregistered Securities.* None

(b) *Use of Proceeds.* Not Applicable

(c) *Issuer Purchases of Securities.* None

Item 3 - Defaults Upon Senior Securities

None

Item 4 - Mine Safety Disclosures

Not Applicable

Item 5 - Other Information

(a) Required 8-K Disclosures	None
(b) *Changes in Procedures for Director Nominations*	None

Item 6 - Exhibits

3.1	Certificate of Incorporation of the Company, as amended (1)
3.2	Bylaws of the Company (2)
4.1	Warrant to Purchase Common Stock (3)
4.2	Subordinated Indenture, dated as of August 5, 2014, between the Company and Wilmington Trust, National Association, as Trustee (4)
4.3	First Supplemental Indenture, dated as of August 5, 2014, between the Company and Wilmington Trust, National Association, as Trustee (5)
4.4	Form of Global Note representing the 5.75% Subordinated Notes due September 1, 2024 (included in Exhibit 4.3)
4.5	Second Supplemental Indenture, dated as of July 26, 2016, between the Company and Wilmington Trust, National Association, as Trustee (6)
4.6	Form of Global Note representing the 5.00% Fix-to-Floating Rate Subordinated Notes due August 1, 2026 (included in Exhibit 4.5)
10.1	2016 Stock Option Plan (7)
10.2	2006 Stock Plan (8)
10.3	Amended and Restated Employment Agreement dated as of August 1, 2014, between EagleBank and James H. Langmead (9)
10.4	Amended and Restated Employment Agreement dated as of August 1, 2014, between EagleBank and Antonio F. Marquez (10)
10.5	Amended and Restated Employment Agreement dated as of January 1, 2014, between Eagle Bancorp, Inc., EagleBank and Ronald D. Paul (11)
10.6	Amended and Restated Employment Agreement dated as of August 1, 2014, between EagleBank and Susan G. Riel (12)

10.7	Amended and Restated Employment Agreement dated as of August 1, 2014, between EagleBank and Janice L. Williams (13)
10.8	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and James H. Langmead (14)
10.9	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Antonio F. Marquez (15)
10.10	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Ronald D. Paul (16)
10.11	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Susan G. Riel (17)
10.12	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Janice L. Williams (18)
10.13	Amended and Restated Employment Agreement dated as of August 1, 2014 between EagleBank and Laurence E. Bensignor (19)
10.14	Vice Chairman Agreement dated as of June 1, 2014 between Eagle Bancorp, Inc., EagleBank and Robert Pincus (20)
10.15	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Laurence E. Bensignor (21)
10.16	Non-Compete Agreement dated as of August 1, 2014, between EagleBank and Robert Pincus (22)
10.17	Form of Supplemental Executive Retirement Plan Agreement (23)
10.18	First Amendment to Amended and Restated Employment Agreement, dated March 23, 2016, between Eagle Bancorp, Inc. and Ronald D. Paul (24)
10.19	2016 Senior Executive Incentive Plan (25)
10.20	Amended and Restated Employment Agreement dated as of December 15, 2014 between EagleBank and Lindsey S. Rheaume (26)
10.21	Non-Compete Agreement dated as of December 15, 2014, between EagleBank and Lindsey S. Rheaume (27)
10.22	Virginia Heritage Bank 2006 Stock Option Plan (28)
10.23	Virginia Heritage Bank 2010 Long-Term Incentive Plan (29)
10.24	Fidelity & Trust Financial Corporation 2004 Long Term Incentive Plan (30)
10.25	Fidelity & Trust Financial Corporation 2005 Long Term Incentive Plan (31)
11	Statement Regarding Computation of Per Share Income See Note 9 of the Notes to Consolidated Financial Statements
21	Subsidiaries of the Registrant
31.1	Certification of Ronald D. Paul
31.2	Certification of James H. Langmead
32.1	Certification of Ronald D. Paul
32.2	Certification of James H. Langmead

101	Interactive data files pursuant to Rule 405 of Regulation S-T:	
	(i)	Consolidated Balance Sheets at September 30, 2016, December 31, 2015 and September 30, 2015
	(ii)	Consolidated Statement of Operations for the three and nine months ended September 30, 2016 and 2015
	(iii)	Consolidated Statement of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015
	(iv)	Consolidated Statement of Changes in Shareholders' Equity for the nine months ended September 30, 2016 and 2015
	(v)	Consolidated Statement of Cash Flows for the nine months ended September 30, 2016 and 2015
	(vi)	Notes to the Consolidated Financial Statements

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(1) Incorporated by reference to the Exhibit of the same number to the Company's Current Report on Form 8-K filed on May 17, 2016.

(2) Incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on May 17, 2016.

(3) Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on December 8, 2008.

(4) Incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on August 5, 2014.

(5) Incorporated by reference

to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on August 5, 2014.

(6) Incorporated by Reference to Exhibit 4.2 to the Company's Current report on Form 10-K filed on July 22, 2016.

(7) Incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form 1S-8 (Registration No. 333-211857) filed on June 6, 2016.

(8) Incorporated by reference to Exhibit 4 to the Company's Registration Statement on Form S-8 (No. 333-187713)

(9) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on

December 15, 2014.

(10) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(11) Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(12) Incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(13) Incorporated by reference to Exhibit 10.4 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(14) Incorporated by reference to Exhibit 10.5 to the Company's

Current Report on Form 8-K filed on December 15, 2014. Incorporated by reference to Exhibit 10.6 to the Company's

(15) Current Report on Form 8-K filed on December 15, 2014. Incorporated by reference to Exhibit 10.7 to the Company's

(16) Current Report on Form 8-K filed on December 15, 2014. Incorporated by reference to Exhibit 10.8 to the Company's

(17) Current Report on Form 8-K filed on December 15, 2014. Incorporated by reference to Exhibit 10.9 to the Company's

(18) Current Report on Form 8-K filed on December 15, 2014.

(19)

Incorporated by reference to Exhibit 10.10 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(20) Incorporated by reference to Exhibit 10.13 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(21) Incorporated by reference to Exhibit 10.14 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(22) Incorporated by reference to Exhibit 10.17 to the Company's Current Report on Form 8-K filed on December 15, 2014.

(23) Incorporated by reference to Exhibit 10.22 to the Company's Annual Report on

Form 10-K for the Year ended December 31, 2013.

(24) Incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 24, 2016.

(25) Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on May 2, 2016.

(26) Incorporated by reference to Exhibit 4 to the Company's Form 10-Q for the Quarter ended March 31, 2015.

(27) Incorporated by reference to Exhibit 4 to the Company's Form 10-Q for the Quarter ended March 31, 2015.

(28) Incorporated by reference to Exhibit 4.1 to the Company's

Registration Statement on Form S-8 (No. 333-199875)

(29) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (No. 333-199875)

(30) Incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-8 (No. 333-153426).

(31) Incorporated by reference to Exhibit 4.2 to the Company's Registration Statement on Form S-8 (No. 333-153426).

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SIGNATURES

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

EAGLE BANCORP, INC.

Date: November 9, 2016	By:	/s/ Ronald D. Paul Ronald D. Paul, Chairman, President and Chief Executive Officer of the Company
Date: November 9, 2016	By:	/s/ James H. Langmead James H. Langmead, Executive Vice President and Chief Financial Officer of the Company