Southern National Bancorp of Virginia Inc
Form 10-Q
November 09, 2011

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

FORM 10-Q

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

For the Quarterly Period Ended September 30, 2011

Commission File No. 001-33037

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
(Exact name of registrant as specified in its charter)

Virginia	20-1417448
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

6830 Old Dominion Drive
McLean, Virginia 22101
(Address of principal executive offices) (zip code)

(703) 893-7400
(Registrant's telephone number, including area code)

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 x NO o

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 x NO o

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 the definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b–2 of the Exchange Act:

Large accelerated filer o Accelerated filer x Smaller reporting company o

Non-accelerated filer o (Do not check if a 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 o No x

As of October 31, 2011, there were 11,590,212 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
FORM 10-Q
September 30, 2011

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PART I - FINANCIAL STATEMENTS
ITEM I - FINANCIAL INFORMATION

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

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 2,432	$ 2,180
Interest-bearing deposits in other financial institutions	4,625	7,565
Total cash and cash equivalents	7,057	9,745
Securities available for sale, at fair value	10,438	11,068
Securities held to maturity, at amortized cost (fair value of $38,097 and $43,965, respectively)	38,354	44,895
Covered loans	80,398	92,171
Non-covered loans	396,494	367,266
Total loans	476,892	459,437
Less allowance for loan losses	(6,087)	(5,599)
Net loans	470,805	453,838
Stock in Federal Reserve Bank and Federal Home Loan Bank	7,356	6,350
Bank premises and equipment, net	4,700	4,659
Goodwill	8,713	8,713
Core deposit intangibles, net	2,225	2,915
FDIC indemnification asset	18,226	18,536
Bank-owned life insurance	14,435	14,568
Other real estate owned	13,097	4,577
Deferred tax assets, net	4,440	3,782
Other assets	5,532	7,178
Total assets	$ 605,378	$ 590,824
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 31,791	$ 34,529
Interest-bearing deposits:		
NOW accounts	16,310	15,961
Money market accounts	140,781	169,861
Savings accounts	6,335	5,490
Time deposits	212,765	205,133
Total interest-bearing deposits	376,191	396,445
Total deposits	407,982	430,974

Securities sold under agreements to repurchase and other short-term borrowings	19,452	23,908
Federal Home Loan Bank (FHLB) advances	72,500	35,000
Other liabilities	2,377	1,828
Total liabilities	502,311	491,710
Commitments and contingencies (See Note 5)	-	-
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding, 11,590,212 shares at September 30, 2011 and December 31, 2010	116	116
Additional paid in capital	96,598	96,478
Retained earnings	9,588	5,854
Accumulated other comprehensive loss	(3,235)	(3,334)
Total stockholders' equity	103,067	99,114
Total liabilities and stockholders' equity	$ 605,378	$ 590,824

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2011	2010	2011	2010
Interest and dividend income :				
Interest and fees on loans	$ 7,871	$ 7,578	$ 22,202	$ 23,021
Interest and dividends on taxable securities	457	630	1,495	2,048
Interest and dividends on other earning assets	66	47	169	138
Total interest and dividend income	8,394	8,255	23,866	25,207
Interest expense:				
Interest on deposits	1,217	1,825	3,744	5,418
Interest on borrowings	272	343	857	1,001
Total interest expense	1,489	2,168	4,601	6,419
Net interest income	6,905	6,087	19,265	18,788
Provision for loan losses	1,550	1,025	5,140	3,775
Net interest income after provision for loan losses	5,355	5,062	14,125	15,013
Noninterest income:				
Account maintenance and deposit service fees	218	210	636	686
Income from bank-owned life insurance	129	140	1,196	416
Net loss on other real estate owned	-	(435)	(147)	(396)
Gain on sales of securities available for sale	-	142	-	142
Total other-than-temporary impairment losses (OTTI)	(43)	(127)	(113)	(137)
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-	-	-
Net credit related OTTI recognized in earnings	(43)	(127)	(113)	(137)
Other	62	20	151	314
Total noninterest income (loss)	366	(50)	1,723	1,025
Noninterest expenses:				
Salaries and benefits	1,759	1,634	5,066	4,798
Occupancy expenses	573	520	1,667	1,589
Furniture and equipment expenses	140	142	406	447
Amortization of core deposit intangible	230	236	690	708
Virginia franchise tax expense	171	184	514	551
FDIC assessment	125	139	397	540
Data processing expense	126	139	400	453
Telephone and communication expense	101	100	289	320
Change in FDIC indemnification asset	(140)	(193)	(490)	457
Other operating expenses	695	489	1,788	1,531

Total noninterest expenses	3,780	3,390	10,727	11,394
Income before income taxes	1,941	1,622	5,121	4,644
Income tax expense	638	517	1,387	1,472
Net income	$ 1,303	$ 1,105	$ 3,734	$ 3,172
Other comprehensive income (loss):				
Unrealized gain on available for sale securities	$ (30)	$ 42	$ 167	$ 264
Realized amount on securities sold, net	-	(142)	-	(142)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	(70)	20	26	129
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	(27)	(36)	(44)	(97)
Net unrealized gain (loss)	(127)	(116)	149	154
Tax effect	(44)	(38)	50	53
Other comprehensive income (loss)	(83)	(78)	99	101
Comprehensive income	$ 1,220	$ 1,027	$ 3,833	$ 3,273
Earnings per share, basic and diluted	$ 0.11	$ 0.10	$ 0.32	$ 0.27

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011
(dollars in thousands, except per share amounts) (Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2011	$116	$96,478	$5,854	$ (3,334)	$99,114
Comprehensive income:					
Net income			3,734		3,734
Change in unrealized gain on available for sale securities (net of tax, $57)				110	110
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $7 and accretion, $44 and amounts recorded into other comprehensive income at transfer)				(11)	(11)
Total comprehensive income					
Stock-based compensation expense		120			120
Balance - September 30, 2011	$116	$96,598	$9,588	$ (3,235)	$103,067

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2011 AND 2010
(dollars in thousands) (Unaudited)

	2011	2010
Operating activities:		
Net income	$ 3,734	$ 3,172
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	393	407
Amortization of core deposit intangible	690	708
Other amortization , net	(1)	132
(Increase) decrease in FDIC indemnification asset	(490)	457
Provision for loan losses	5,140	3,775
Earnings on bank-owned life insurance	(396)	(416)
Stock based compensation expense	120	59
Gain on sales of securities	-	(142)
Impairment on securities	113	137
Net loss on other real estate owned	147	396
Net decrease (increase) in other assets	1,318	(912)
Net increase (decrease) in other liabilities	549	(3,150)
Net cash and cash equivalents provided by operating activities	11,317	4,623
Investing activities:		
Proceeds from sales of securities available for sale	-	4,728
Proceeds from paydowns, maturities and calls of securities available for sale	763	2,635
Proceeds from paydowns, maturities and calls of securities held to maturity	6,632	8,544
Loan originations and payments, net	(31,666)	(7,531)
Net increase in stock in Federal Reserve Bank and Federal Home Loan Bank	(1,006)	(549)
Payments received on FDIC indemnification asset	800	-
Proceeds from sale of other real estate owned	854	2,560
Purchases of bank premises and equipment	(434)	(1,913)
Net cash and cash equivalents (used in) provided by investing activities	(24,057)	8,474
Financing activities:		
Net decrease in deposits	(22,992)	(522)
Proceeds from Federal Home Loan Bank advances	37,500	5,000
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	(4,456)	3,455
Additional cost of 2009 common stock issuance	-	(48)
Net cash and cash equivalents provided by financing activities	10,052	7,885
Increase (decrease) in cash and cash equivalents	(2,688)	20,982
Cash and cash equivalents at beginning of period	9,745	8,070
Cash and cash equivalents at end of period	$ 7,057	$ 29,052
Supplemental Disclosure of Cash Flow Information		
Cash payments for:		
Interest	$ 4,706	$ 6,754
Income taxes	855	1,485
Supplemental schedule of noncash investing and financing activities		

Transfer from non-covered loans to other real estate owned	9,477	2,684
Transfer from covered loans to other real estate owned	82	676

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2011

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. ("SNBV") is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank ("Sonabank") a Virginia state chartered bank which commenced operations on April 14, 2005. The principal activities of Sonabank are to attract deposits and originate loans as permitted under applicable banking regulations. Sonabank operates 13 branches in Virginia located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Loudoun County (Middleburg, Leesburg (2), and South Riding), Front Royal, New Market and Clifton Forge, and we also have a branch in Rockville, Maryland. On October 3, 2011, Southern National Bancorp of Virginia, Inc. completed the acquisition of the Midlothian branch office of the Bank of Hampton Roads and the assumption of $46 million in deposits. The new office is operational under the Sonabank banner, and a Sonabank loan officer previously located in the Richmond area has moved into an office in the branch.

The consolidated financial statements include the accounts of Southern National Bancorp of Virginia, Inc. and its subsidiary. Significant inter-company accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles ("U. S. GAAP") for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U. S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in SNBV's Form 10-K for the year ended December 31, 2010.

Use of Estimates

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

Recent Accounting Pronouncements

In April 2011, the FASB issued ASU No. 2011-02, Receivables (Topic 310): A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring. This amendment clarifies the guidance on the evaluation made by a creditor on whether a restructuring constitutes a troubled debt restructuring. It clarifies the guidance related to a creditor's evaluation of whether it has granted a concession to a debtor and also clarifies the guidance on a creditor's evaluation of whether the debtor is experiencing financial difficulties. The amendment is effective for public entities for the first interim or annual period beginning on or after September 15, 2011, and should be applied retrospectively to the beginning of the annual period of adoption. The adoption of this standard during the third quarter did not have a material impact on our consolidated financial condition or results of operation.

In May 2011, the FASB issued FASB ASU No. 2011-04, Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. The new standard does not extend the use of fair value but, rather, provides guidance about how fair value should be applied where it already is required or permitted under U.S. GAAP. A public entity is required to apply the ASU prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial condition or results of operation.

In September 2011, The FASB issued ASU No. 2011-08, Testing Goodwill for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this standard is not expected to have a material impact on our consolidated financial condition or results of operation.

2. STOCK- BASED COMPENSATION

In 2004, the Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. As of September 30, 2011, options to purchase an aggregate of 302,500 shares of common stock were outstanding and no shares remained available for issuance. The 2010 Stock Awards and Incentive Plan was approved by the Board of Directors in January 2010 and approved by the stockholders at the Annual Meeting in April 2010. The 2010 plan authorized the reservation of 700,000 shares of common stock for the granting of stock awards. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employ of SNBV and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in SNBV's future success. Under the plan, the option's price cannot be less than the fair market value of the stock on the grant date. The maximum term of the options is ten years and options granted may be subject to a graded vesting schedule.

SNBV granted 103,750 options during the first nine months of 2011. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The following weighted-average assumptions were used to value options granted in the nine months ended September 30, 2011:

	2011
Dividend yield	0.00 %
Expected life	10 years
Expected volatility	46.13 %
Risk-free interest rate	3.34 %
Weighted average fair value per option granted	$ 4.39

We have paid no dividends.

Due to SNBV's short existence, the volatility was estimated using historical volatility of comparative publicly traded financial institutions in the Virginia market combined with that of SNBV.

The risk-free interest rate was developed using the U. S. Treasury yield curve for periods equal to the expected life of the options on the grant date. An increase in the risk-free interest rate will increase stock compensation expense on future option grants.

For the three and nine months ended September 30, 2011, stock-based compensation expense was $47 thousand and $120 thousand, respectively, compared to $24 thousand and $59 thousand for the same periods last year. As of September 30, 2011, unrecognized compensation expense associated with the stock options was $653 thousand, which is expected to be recognized over a weighted average period of 3.9 years.

A summary of the activity in the stock option plan during the nine months ended September 30, 2011 follows (dollars in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	312,675	$8.35		
Granted	103,750	7.20		
Forfeited	-	-		
Exercised	-	-		
Options outstanding, end of period	416,425	$8.06	6.5	$30
Vested or expected to vest	416,425	$8.06	6.5	$30
Exercisable at end of period	221,645	$8.80	4.6	$12

3. SECURITIES

The amortized cost and fair value of securities available-for-sale were as follows (in thousands):

September 30, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SBA guaranteed loan pools	$10,025	$298	$-	10,323
FHLMC preferred stock	16	99	-	115
Total	$10,041	$397	$-	$10,438

December 31, 2010	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
SBA guaranteed loan pools	$10,822	$216	$-	11,038
FHLMC preferred stock	16	14	-	30
Total	$10,838	$230	$-	$11,068

The carrying amount and fair value of securities held-to-maturity were as follows (in thousands):

September 30, 2011	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$28,489	$1,798	$ -	$30,287
Residential government-sponsored collateralized mortgage obligations	106	2	-	108
Other residential collateralized mortgage obligations	1,030	-	(11)	1,019
Trust preferred securities	8,729	758	(2,804)	6,683
	$38,354	$2,558	$(2,815)	$38,097

December 31, 2010	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$34,088	$1,247	$-	$35,335
Residential government-sponsored collateralized mortgage obligations	188	8	-	196
Other residential collateralized mortgage obligations	1,166	5	-	1,171
Trust preferred securities	9,453	675	(2,865)	7,263
	$44,895	$1,935	$(2,865)	$43,965

The fair value and carrying amount, if different, of debt securities as of September 30, 2011, by contractual maturity were as follows (in thousands). Securities not due at a single maturity date, primarily mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Held to Maturity Amortized Cost	Held to Maturity Fair Value	Available for Sale Amortized Cost	Available for Sale Fair Value
Due in one to five years	$ -	$ -	$ 283	$ 289
Due in five to ten years	-	-	1,090	1,114
Due after ten years	8,729	6,683	8,652	8,920
	28,489	30,287	-	-

Residential government-sponsored mortgage-backed securities								
Residential government-sponsored collateralized mortgage obligations		106		108		-		-
Other residential collateralized mortgage obligations		1,030		1,019		-		-
Total	$	38,354	$	38,097	$	10,025	$	10,323

Securities with a carrying amount of approximately $38.9 million and $45.3 million at September 30, 2011 and December 31, 2010, respectively, were pledged to secure public deposits, repurchase agreements and a line of credit for advances from the Federal Home Loan Bank of Atlanta ("FHLB").

SNBV monitors the portfolio for indicators of other than temporary impairment. At September 30, 2011 and December 31, 2010, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $5.8 million in the portfolio that are considered temporarily impaired at September 30, 2011. The following tables present information regarding securities in a continuous unrealized loss position as of September 30, 2011 and December 31, 2010 (in thousands) by duration of time in a loss position:

September 30, 2011

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Other residential collateralized mortgage obligations	$1,019	$ (11)	$-	$ -	$1,019	$ (11)
Trust preferred securities	-	-	4,815	(2,804)	4,815	(2,804)
	$1,019	$ (11)	$4,815	$ (2,804)	$5,834	$ (2,815)

December 31, 2010

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Trust preferred securities	$-	$ -	$4,805	$ (2,865)	$4,805	$ (2,865)

As of September 30, 2011, our pooled trust preferred securities included:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	Current Defaults and Deferrals	Previously Recognized Cumulative Other Comprehensive Loss (1)	
							(in thousands)				
ALESCO VII A1B	Senior	Aaa	AAA	Baa3	BB	$7,126	$ 6,385	$ 3,811	$ 100,400	$ 307	
MMCF II B	Senior Sub	A3	AA-	Baa2	BB	493	455	476	34,000	38	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	652	638	476	34,000	13	
						8,271	7,478	4,763		$ 358	
Other Than Temporarily Impaired:										Cumulative Other Comprehensive Loss (2)	Cumulative OTTI Related to Credit Loss (2)
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	383	383	134,100	763	$ 354
TRAP 2007-XII	Mezzanine	A3	A	C	C	2,074	128	282	155,705	1,367	579

C1											
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,032	-	32	218,750	-	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,053	133	87	111,682	446	474
ALESCO V C1	Mezzanine	A2	A	C	C	2,093	463	441	85,000	969	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,123	29	258	266,100	535	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,079	115	437	82,400	784	1,180
						13,954	1,251	1,920		$ 4,864	$ 7,839
Total						$22,225	$ 8,729	$ 6,683			

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

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

.5% of the remaining performing collateral will default or defer per annum.
Recoveries ranging from 25% to 47% with a two year lag on all defaults and deferrals.
No prepayments for 10 years and then 1% per annum for the remaining life of the security.
Additionally banks with assets over $15 billion will no longer be allowed to count down streamed trust preferred proceeds as Tier 1 capital (although it will still be counted as Tier 2 capital). That will incent the large banks to prepay their trust preferred securities if they can or if it is economically desirable. As a consequence, we have projected in all of our pools that 25% of the collateral issued by banks with assets over $15 billion will prepay in 2013.

Our securities have been modeled using the above assumptions by independent third parties using the forward LIBOR curve to discount projected cash flows to present values.

Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is more likely than not that we will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired as of September 30, 2011, except for the Tpref Funding II security.

The application of these assumptions resulted in OTTI charges related to credit on one of the trust preferred securities in the amount of $43 thousand during the quarter ended September 30, 2011, compared to no OTTI charges related to credit on the trust preferred securities for the quarter ended September 30, 2010. This trust preferred security (Tpref Funding II) had a book value and a fair value of $383 thousand at September 30, 2011.

We also own $1.0 million of SARM 2005-22 1A2. This residential collateralized mortgage obligation was originally rated AAA by Standard and Poors. After a series of downgrades, this security has been other than temporarily impaired in past reporting periods. For the third quarter of 2011 and based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support it has been determined that no OTTI charge for credit was required for the quarter ended September 30, 2011. The assumptions used in the analysis included a 4.6% prepayment speed, 13% default rate, a 48% loss severity and an accounting yield of 2.53%. We recorded OTTI charges for credit on this security of $127 thousand in the third quarter of 2010.

The following table presents a roll forward of the credit losses for the trust preferred securities and the residential collateralized mortgage obligation recognized in earnings for the nine months ended September 30, 2011 and 2010 (in thousands):

	2011	2010
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$8,002	$7,714
Amounts related to credit loss for which an other-than-temporary impairment was previously recognized	113	10
Reductions due to realized losses	(28)	-
Amount of cumulative other-than-temporary impairment related to credit loss as of September 30	$8,087	$7,724

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of September 30, 2011 and December 31, 2010:

	Covered Loans	Non-covered Loans	Total Loans	Covered Loans	Non-covered Loans	Total Loans
		September 30, 2011			December 31, 2010	
Mortgage loans on real estate:						
Commercial real estate - owner-occupied	$ 4,576	$ 93,084	$ 97,660	$ 5,246	$ 81,487	$ 86,733
Commercial real estate - non-owner-occupied	10,311	97,200	107,511	13,898	76,068	89,966
Secured by farmland	-	3,147	3,147	-	3,522	3,522
Construction and land loans	813	34,641	35,454	1,098	39,480	40,578
Residential 1-4 family	26,663	50,580	77,243	29,935	58,900	88,835
Multi- family residential	547	18,681	19,228	563	19,177	19,740
Home equity lines of credit	36,816	8,973	45,789	40,287	10,532	50,819
Total real estate loans	79,726	306,306	386,032	91,027	289,166	380,193
Commercial loans	552	89,154	89,706	998	76,644	77,642
Consumer loans	120	1,959	2,079	146	2,010	2,156
Gross loans	80,398	397,419	477,817	92,171	367,820	459,991
Less deferred fees on loans	-	(925)	(925)	-	(554)	(554)
Loans, net of unearned income	$ 80,398	$ 396,494	$ 476,892	$ 92,171	$ 367,266	$ 459,437

As part of the Greater Atlantic acquisition, the Bank and the FDIC entered into a loss sharing agreement on approximately $143.4 million (contractual basis) of Greater Atlantic Bank's assets. The Bank will share in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreement; we refer to these assets collectively as "covered loans" or "covered assets." Loans not acquired from Greater Atlantic Bank are referred to as "non-covered loans." The covered loans are subject to our internal and external credit review. As a result, if and when credit deterioration is noted subsequent to the acquisition date, such deterioration will be measured through our allowance for loan loss calculation methodology and a provision for credit losses will be charged to earnings. There has been no incremental provision recorded on covered loans since acquisition. The FDIC indemnification asset is reduced for cash payments received, and adjusted each quarter for changes in expected recoveries from the FDIC based on the expected cash flows from the covered loans. As information and other developments warrant, we reassess our anticipated recoveries from the FDIC on the covered loans and adjust the carrying value of the FDIC indemnification asset. The current outstanding balance for the covered home equity lines of credit at September 30, 2011 was $36.8 million. The available commitment at this date was $62.7 million, for a total exposure to loss for these covered loans of $99.5 million.

Credit-impaired covered loans are those loans showing evidence of credit deterioration since origination and it is probable, at the date of acquisition, that SNBV will not collect all contractually required principal and interest payments. Generally, acquired loans that meet SNBV's definition for nonaccrual status fall within the definition of credit-impaired covered loans.

Impaired loans were as follows (in thousands):

September 30, 2011	Covered Loans		Non-covered Loans		Total Loans	
	Recorded Investment	Allowance for Loan Losses Allocated	Recorded Investment (1)	Allowance for Loan Losses Allocated	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded						
Commercial real estate - owner occupied	$239	$ -	$5,277	$ -	$5,516	$ -
Commercial real estate - non-owner occupied (2)	1,831	-	4,927	-	6,758	-
Construction and land development	727	-	3,775	-	4,502	-
Commercial loans	215	-	10,608	-	10,823	-
Residential 1-4 family	1,190	-	947	-	2,137	-
Other consumer loans	-	-	-	-	-	-
Total	$4,202	$ -	$25,534	$ -	$29,736	$ -
With an allowance recorded						
Commercial real estate - owner occupied	$-	$ -	$-	$ -	$-	$ -
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-
Construction and land development	-	-	2,873	1,039	2,873	1,039
Commercial loans	-	-	2,138	550	2,138	550
Residential 1-4 family	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$-	$ -	$5,011	$ 1,589	$5,011	$ 1,589
Grand total	$4,202	$ -	$30,545	$ 1,589	$34,747	$ 1,589

(1) Recorded investment is after charge offs of $3.3 million and includes SBA guarantees of $1.5 million.
(2) Includes loans secured by farmland and multi-family residential loans.

December 31, 2010	Covered Loans		Non-covered Loans		Total Loans	
	Recorded Investment	Allowance for Loan Losses Allocated	Recorded Investment (1)	Allowance for Loan Losses Allocated	Recorded Investment	Allowance for Loan Losses Allocated
With no related allowance recorded						
Commercial real estate - owner occupied	$141	$ -	$358	$ -	$499	$ -
Commercial real estate - non-owner occupied (2)	1,807	-	5,508	-	7,315	-

Construction and land development	1,055	-	4,844	-	5,899	-
Commercial loans	285	-	1,558	-	1,843	-
Residential 1-4 family	108	-	2,969	-	3,077	-
Other consumer loans	77	-	-	-	77	-
Total	$3,473	$ -	$15,237	$ -	$18,710	$ -
With an allowance recorded						
Commercial real estate - owner occupied	$-	$ -	$-	$ -	$-	$ -
Commercial real estate - non-owner occupied (2)	-	-	1,076	50	1,076	50
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	935	376	935	376
Residential 1-4 family	-	-	4,564	20	4,564	20
Other consumer loans	-	-	-	-	-	-
Total	$-	$ -	$6,575	$ 446	$6,575	$ 446
Grand total	$3,473	$ -	$21,812	$ 446	$25,285	$ 446

(1) Recorded investment is after charge offs of $7.8 million and includes SBA guarantees of $1.7 million.
(2) Includes loans secured by farmland and multi-family residential loans.

The following table presents the average recorded investment and interest income for impaired loans recognized by class of loans for the nine months ended September 30, 2011 (in thousands):

	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded						
Commercial real estate - owner occupied	$172	$14	$2,403	$102	$2,575	$116
Commercial real estate - non-owner occupied (2)	1,774	64	3,457	134	5,231	198
Construction and land development	737	77	3,140	141	3,877	218
Commercial loans	217	17	4,314	179	4,531	196
Residential 1-4 family	517	4	431	11	948	15
Other consumer loans					-	-
Total	$3,417	$176	$13,745	$567	$17,162	$743
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$-	$-	$-	$-
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-
Construction and land development	-	-	1,796	60	1,796	60
Commercial loans	-	-	994	54	994	54
Residential 1-4 family	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$2,790	$114	$2,790	$114
Grand total	$3,417	$176	$16,535	$681	$19,952	$857

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

The following tables present the recorded investment in nonaccrual and loans past due over 90 days and still accruing by class of loans as of September 30, 2011 and December 31, 2010 (in thousands):

September 30, 2011	Covered Loans		Non-covered Loans		Total Loans	
	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual
Commercial real estate - owner occupied	$-	$-	$511	$-	$511	$-

Commercial real estate - non-owner occupied (1)	1,985	-	2,259	-	4,244	-
Construction and land development	-	-	204	-	204	-
Commercial loans	-	-	853	-	853	-
Residential 1-4 family	1,189	-	170	-	1,359	-
Other consumer loans	2	-	-	-	2	-
Total	$3,176	$-	$3,997	$-	$7,173	$-

December 31, 2010	Covered Loans		Non-covered Loans		Total Loans	
	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual	Nonaccrual Loans	Loans Past Due 90 Days or More Still on Accrual
Commercial real estate - owner occupied	$-	$-	$358	$-	$358	$-
Commercial real estate - non-owner occupied (1)	1,796	-	2,600	-	4,396	-
Construction and land development	-	-	2,304	-	2,304	-
Commercial loans	67	-	1,516	-	1,583	-
Residential 1-4 family	108	-	2,807	-	2,915	-
Other consumer loans	77	234	-	-	77	234
Total	$2,048	$234	$9,585	$-	$11,633	$234

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

Non-covered nonaccrual loans include SBA guaranteed amounts totaling $1.5 million and $1.4 million at September 30, 2011 and December 31, 2010, respectively.

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The following tables present the aging of the recorded investment in past due loans by class of loans as of September 30, 2011 and December 31, 2010 (in thousands):

September 30, 2011	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Covered loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ -	$ 4,576	$ 4,576
Commercial real estate - non-owner occupied (1)	-	137	-	137	1,985	8,736	10,858
Construction and land development	-	-	-	-	-	813	813
Commercial loans	-	-	-	-	-	552	552
Residential 1-4 family	90	170	-	260	1,189	62,030	63,479
Other consumer loans	-	-	-	-	2	118	120
Total	$ 90	$ 307	$ -	$ 397	$ 3,176	$ 76,825	$ 80,398
Non-covered loans:							
Commercial real estate - owner occupied	$ 852	$ -	$ -	$ 852	$ 511	$ 91,721	$ 93,084
Commercial real estate - non-owner occupied (1)	142	-	-	142	2,259	116,627	119,028
Construction and land development	-	929	-	929	204	33,508	34,641
Commercial loans	1,178	183	-	1,361	853	86,940	89,154
Residential 1-4 family	1,875	234	-	2,109	170	57,274	59,553
Other consumer loans	7	4	-	11	-	1,948	1,959
Total	$ 4,054	$ 1,350	$ -	$ 5,404	$ 3,997	$ 388,018	$ 397,419
Total loans:							
Commercial real estate - owner occupied	$ 852	$ -	$ -	$ 852	$ 511	$ 96,297	$ 97,660
Commercial real estate - non-owner occupied (1)	142	137	-	279	4,244	125,363	129,886
Construction and land development	-	929	-	929	204	34,321	35,454
Commercial loans	1,178	183	-	1,361	853	87,492	89,706
Residential 1-4 family	1,965	404	-	2,369	1,359	119,304	123,032
Other consumer loans	7	4	-	11	2	2,066	2,079
Total	$ 4,144	$ 1,657	$ -	$ 5,801	$ 7,173	$ 464,843	$ 477,817

December 31, 2010	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Covered loans:							
Commercial real estate - owner occupied	$316	$412	$-	$728	$-	$4,518	$5,246
Commercial real estate - non-owner occupied (1)	436	-	-	436	1,796	12,229	14,461
Construction and land development	-	-	-	-	-	1,098	1,098
Commercial loans	-	-	-	-	67	931	998
Residential 1-4 family	-	134	-	134	108	29,693	29,935

Other consumer loans	-	39	234	273	77	40,083	40,433
Total	$752	$585	$234	$1,571	$2,048	$88,552	$92,171
Non-covered loans:							
Commercial real estate - owner occupied	$551	$719	$-	$1,270	$358	$79,859	$81,487
Commercial real estate - non-owner occupied (1)	868	-	-	868	2,600	95,299	98,767
Construction and land development	30	-	-	30	2,304	37,146	39,480
Commercial loans	1,646	30	-	1,676	1,516	73,452	76,644
Residential 1-4 family	3,739	32	-	3,771	2,807	52,322	58,900
Other consumer loans	10	134	-	144	-	12,398	12,542
Total	$6,844	$915	$-	$7,759	$9,585	$350,476	$367,820
Total loans:							
Commercial real estate - owner occupied	$867	$1,131	$-	$1,998	$358	$84,377	$86,733
Commercial real estate - non-owner occupied (1)	1,304	-	-	1,304	4,396	107,528	113,228
Construction and land development	30	-	-	30	2,304	38,244	40,578
Commercial loans	1,646	30	-	1,676	1,583	74,383	77,642
Residential 1-4 family	3,739	166	-	3,905	2,915	82,015	88,835
Other consumer loans	10	173	234	417	77	52,481	52,975
Total	$7,596	$1,500	$234	$9,330	$11,633	$439,028	$459,991

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

Activity in the allowance for loan and lease losses for the three months ended September 30, 2011, is summarized below (in thousands):

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential	Other Consumer Loans	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 636	$ 841	$ 1,061	$ 1,884	$ 907	$ 27	$ 707	$ 6,063
Charge offs	-	(350)	-	(1,021)	(170)	(1)	-	(1,542)
Recoveries	3	-	1	4	7	1	-	16
Provision	60	396	191	1,391	153	-	(641)	1,550
Ending balance	$ 699	$ 887	$ 1,253	$ 2,258	$ 897	$ 27	$ 66	$ 6,087

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

Activity in the allowance for loan and lease losses for the nine months ended September 30, 2011, is summarized below (in thousands):

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential	Other Consumer Loans	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ 562	$ 1,265	$ 326	$ 2,425	$ 999	$ 9	$ 13	$ 5,599
Charge offs	(63)	(950)	(7)	(1,867)	(1,927)	(6)	-	(4,820)
Recoveries	3	6	6	127	23	3	-	168
Provision	197	566	928	1,573	1,802	21	53	5,140
Ending balance	$ 699	$ 887	$ 1,253	$ 2,258	$ 897	$ 27	$ 66	$ 6,087

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

Activity in the allowance for loan and lease losses for the three and nine months ended September 30, 2010, is summarized below (in thousands):

	For the Three Months Ended September 30, 2010	For the Nine Months Ended September 30, 2010
Balance, beginning of period	$ 5,443	$ 5,172
Charge offs	(975)	(3,552)
Recoveries	32	130

Net charge offs	(943)	(3,422)
Provision	1,025	3,775
Balance, end of period	$ 5,525	$ 5,525

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The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of September 30, 2011 and December 31, 2010 (in thousands):

	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential	Other Consumer Loans	Unallocated	Total
September 30, 2011								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ 1,039	$ 550	$ -	$ -	$ -	$ 1,589
Collectively evaluated for impairment	699	887	214	1,708	897	27	66	4,498
Total ending allowance	$ 699	$ 887	$ 1,253	$ 2,258	$ 897	$ 27	$ 66	$ 6,087
Loans:								
Individually evaluated for impairment	$ 5,277	$ 4,927	$ 6,648	$ 12,746	$ 947	$ -	$ -	$ 30,545
Collectively evaluated for impairment	87,807	114,101	27,993	76,408	58,606	1,959	-	366,874
Total ending loan balances	$ 93,084	$ 119,028	$ 34,641	$ 89,154	$ 59,553	$ 1,959	$ -	$ 397,419
December 31, 2010								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ 50	$ -	$ 376	$ 20	$ -	$ -	$ 446
Collectively evaluated for impairment	562	1,215	326	2,049	979	9	13	5,153
	$ 562	$ 1,265	$ 326	$ 2,425	$ 999	$ 9	$ 13	$ 5,599

Total ending allowance								
Loans:								
Individually evaluated for impairment	$ 358	$ 6,584	$ 4,844	$ 2,493	$ 7,533	$ -	$ -	$ 21,812
Collectively evaluated for impairment	81,129	92,183	34,636	74,151	61,899	2,010	-	346,008
Total ending loan balances	$ 81,487	$ 98,767	$ 39,480	$ 76,644	$ 69,432	$ 2,010	$ -	$ 367,820

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

Charge offs on loans individually evaluated for impairment totaled approximately $4.2 million during the first nine months of 2011.

Troubled Debt Restructurings

At September 30, 2011, we had one loan modified in a troubled debt restructuring totaling $1.1 million. This modification did not occur in 2011. The loan is paying in accordance with the modified terms and does not involve any additional commitment to lend.

Credit Quality Indicators

Through its system of internal controls SNBV evaluates and segments loan portfolio credit quality on a quarterly basis using regulatory definitions for Special Mention, Substandard and Doubtful. Special Mention loans are considered to be criticized. Substandard and Doubtful loans are considered to be classified. SNBV has no loans classified Doubtful.

Special Mention loans are loans that have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position.

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

Doubtful loans have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

As of September 30, 2011 and December 31, 2010, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

September 30, 2011	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$239	$4,337	$4,576	$1,409	$5,277	$86,398	$93,084	$6,925	$90,735	$97,660
Commercial real estate - non-owner occupied (2)	1,831	9,027	10,858	-	4,927	114,101	119,028	6,758	123,128	129,886
Construction and land development	727	86	813	-	6,648	27,993	34,641	7,375	28,079	35,454
Commercial loans	215	337	552	228	12,746	76,180	89,154	13,189	76,517	89,706
Residential 1-4 family	1,190	62,289	63,479	40	947	58,566	59,553	2,177	120,855	123,032
Other consumer loans	-	120	120	-	-	1,959	1,959	-	2,079	2,079
Total	$4,202	$76,196	$80,398	$1,677	$30,545	$365,197	$397,419	$36,424	$441,393	$477,817

December 31, 2010	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$141	$5,105	$5,246	$557	$358	$80,572	$80,572	$1,056	$85,677	$86,733
Commercial real estate - non-owner occupied (2)	1,807	12,654	14,461	867	6,585	91,315	91,315	9,259	103,969	113,228
Construction and land development	1,055	43	1,098	-	4,844	34,636	34,636	5,899	34,679	40,578
Commercial loans	285	713	998	233	2,492	73,919	73,919	3,010	74,632	77,642
Residential 1-4 family	108	29,827	29,935	40	7,533	61,859	69,432	7,681	91,686	99,367

Other consumer loans	77	40,356	40,433	-	-	2,010	2,010	77	42,366	42,443
Total	$3,473	$88,698	$92,171	$1,697	$21,812	$344,311	$351,884	$26,982	$433,009	$459,991

(1) Credit quality is enhanced by a loss sharing agreement with the FDIC in the covered portfolio. The same credit quality indicators used in the non-covered portfolio are combined.
(2) Includes loans secured by farmland and multi-family residential loans.

5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

SNBV is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by SNBV to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $6.6 million and $2.4 million as of September 30, 2011 and December 31, 2010, respectively.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit is based on the contractual amount of these instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments are made predominately for adjustable rate loans, and generally have fixed expiration dates of up to three months or other termination clauses and usually require payment of a fee. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer’s creditworthiness on a case-by-case basis.

At September 30, 2011 and December 31, 2010, we had unfunded lines of credit and undisbursed construction loan funds totaling $106.5 million and $104.9 million, respectively. Our approved loan commitments were $620 thousand and $35.0 million at September 30, 2011 and December 31, 2010, respectively.

6. EARNINGS PER SHARE

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

	Income (Loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended September 30, 2011			
Basic EPS	$ 1,303	11,590	$0.11
Effect of dilutive stock options and warrants		1	-
Diluted EPS	$ 1,303	11,591	$0.11
For the three months ended September 30, 2010			
Basic EPS	$ 1,105	11,590	$0.10
Effect of dilutive stock options and warrants		1	-
Diluted EPS	$ 1,105	11,591	$0.10
For the nine months ended September 30, 2011			
Basic EPS	$ 3,734	11,590	$0.32
Effect of dilutive stock options and warrants		2	-
Diluted EPS	$ 3,734	11,592	$0.32
For the nine months ended September 30, 2010			
Basic EPS	$ 3,172	11,590	$0.27
Effect of dilutive stock options and warrants		3	-
Diluted EPS	$ 3,172	11,593	$0.27

Anti-dilutive options and warrants totaled 559,209 and 558,120 for the three and nine months ended September 30, 2011, respectively, as the exercise price exceeded the average share price during the period. Anti-dilutive options and warrants totaled 459,674 and 457,625 for the three and nine months ended September 30, 2010, respectively.

7. FAIR VALUE

ASC 820-10 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data

Level 3: Significant unobservable inputs that reflect a reporting entity’s own assumptions about the assumptions that market participants would use in pricing an asset or liability

The following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities Available for Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U. S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of SNBV's available-for-sale debt securities are considered to be Level 2 securities.

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

(dollars in thousands)	Total at September 30, 2011	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities				
SBA guaranteed loan pools	$ 10,323	$ -	$ 10,323	$ -
FHLMC preferred stock	115	115	-	-
Total available-for-sale securities	$ 10,438	$ 115	$ 10,323	$ -

(dollars in thousands)	Total at December 31, 2010	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities				
SBA guaranteed loan pools	$ 11,038	$ -	$ 11,038	$ -
FHLMC preferred stock	30	30	-	-
Total available-for-sale securities	$ 11,068	$ 30	$ 11,038	$ -

Assets and Liabilities Measured on a Non-recurring Basis:

Trust Preferred Securities Classified as Held-to-Maturity

The base input in calculating fair value is a Bloomberg Fair Value Index yield curve for single issuer trust preferred securities which correspond to the ratings of the securities we own. We also use composite rating indices to fill in the gaps where the bank rating indices did not correspond to the ratings in our portfolio. When a bank index that matches the rating of our security is not available, we used the bank index that most closely matches the rating, adjusted by the spread between the composite index that most closely matches the security's rating and the composite index with a rating that matches the bank index used. Then, we use the adjusted index yield, which is further adjusted by a liquidity premium, as the discount rate to be used in the calculation of the present value of the same cash flows used to evaluate the securities for OTTI. The liquidity premiums were derived in consultation with a securities advisor. The liquidity premiums we used ranged from 2% to 5%, and the adjusted discount rates ranged from 10.0% to 15.55%. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility. We have determined that our trust preferred securities are classified within Level 3 of the fair value hierarchy.

Other Residential Collateralized Mortgage Obligation Classified as Held-to Maturity

The fair value was estimated within Level 2 fair value hierarchy, as the fair value is based on either pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. We have evaluated this security for potential impairment and, based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support, it has been determined that no OTTI charge for credit exists for the nine months ended September 30, 2011. The assumptions used in the analysis included a 4.6% prepayment speed, 13% default rate, a 48% loss severity and an accounting yield of 2.53%.

Other Securities Classified as Held-to-Maturity

Our other securities classified as held-to-maturity include residential government sponsored mortgage-backed securities and residential government sponsored collateralized mortgage obligations. There was no OTTI recorded on these securities. Currently, all of SNBV's other securities classified as held-to-maturity are considered to be level 2 securities.

Impaired Loans

Generally, we measure the impairment for impaired loans considering the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral is determined by appraisals or other valuation which is then adjusted for the cost related to liquidation of the collateral. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $30.5 million as of September 30, 2011 with an allocated allowance for loan losses totaling $1.6 million compared to a carrying amount of $21.8 million with an allocated allowance for loan losses totaling $446 thousand at December 31, 2010. Charge offs related to the impaired loans at September 30, 2011 totaled $1.5 million and $4.2 million for the three and nine months ended September 30, 2011, respectively, compared to $675 thousand and $1.1 million for the three and nine months ended September 30, 2010, respectively.

Other Real Estate Owned (OREO)

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or internal market evaluation less cost to sell. OREO is further evaluated quarterly for any additional impairment. Fair value is classified as Level 3 in the fair value hierarchy. At September 30, 2011, the total amount of OREO was $13.1 million, of which $12.5 million was non-covered and $636 thousand was covered.

At December 31, 2010, the total amount of OREO was $4.6 million, of which $3.9 million was non-covered and $676 thousand was covered.

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

(dollars in thousands)	Total at September 30, 2011	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trust preferred securities, held to maturity	$ 383	$-	$-	$ 383
Impaired non-covered loans:				
Commercial real estate - owner occupied	5,277	-	-	5,277
Commercial real estate - non-owner occupied (1)	4,927	-	-	4,927
Construction and land development	6,648	-	-	6,648
Commercial loans	12,746	-	-	12,746
Residential 1-4 family	947	-	-	947
Impaired covered loans:				
Commercial real estate - owner occupied	239	-	-	239
Commercial real estate - non-owner occupied (1)	1,831	-	-	1,831
Construction and land development	727	-	-	727
Commercial loans	215	-	-	215
Residential 1-4 family	1,190	-	-	1,190
Non-covered other real estate owned:				
Commercial real estate - owner occupied	954	-	-	954
Construction and land development	5,435	-	-	5,435
Residential 1-4 family	6,073	-	-	6,073
Covered other real estate owned:				
Commercial real estate - owner occupied	636	-	-	636
	$ 48,228	$-	$-	$ 48,228

(dollars in thousands)	Total at December 31, 2010	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Trust preferred securities, held to maturity	$ 973	$-	$-	$ 973
Other residential collateralized mortgage obligations	1,171	-	1,171	-

Impaired non-covered loans:				
Commercial real estate - owner occupied	358	-	-	358
Commercial real estate - non-owner occupied (1)	6,534	-	-	6,534
Construction and land development	4,844	-	-	4,844
Commercial loans	2,117	-	-	2,117
Residential 1-4 family	7,513	-	-	7,513
Impaired covered loans:				
Commercial real estate - owner occupied	141	-	-	141
Commercial real estate - non-owner occupied (1)	1,807	-	-	1,807
Construction and land development	1,055	-	-	1,055
Commercial loans	285	-	-	285
Residential 1-4 family	108	-	-	108
Other consumer loans	77	-	-	77
Non-covered other real estate owned:				
Commercial real estate - owner occupied	578	-	-	578
Construction and land development	2,797	-	-	2,797
Residential 1-4 family	526	-	-	526
Covered other real estate owned:				
Commercial real estate - owner occupied	597	-	-	597
Commercial	79	-	-	79
	$ 31,560	$-	$1,171	$ 30,389

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

Fair Value of Financial Instruments

The carrying amount and estimated fair values of financial instruments were as follows (in thousands):

	September 30, 2011		December 31, 2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$7,057	$7,057	$9,745	$9,745
Securities available for sale	10,438	10,438	11,068	11,068
Securities held to maturity	38,354	38,097	44,895	43,965
Stock in Federal Reserve Bank and Federal Home Loan Bank	7,356	n/a	6,350	n/a
Net non-covered loans	390,407	388,536	361,667	360,016
Net covered loans	80,398	79,920	92,171	91,661
Accrued interest receivable	2,173	2,173	2,141	2,141
FDIC indemnification asset	18,226	18,226	18,536	18,536
Financial liabilities:				
Deposits:				
Demand deposits	48,101	48,101	50,490	50,490
Money market and savings accounts	147,116	147,116	175,351	175,351
Certificates of deposit	212,765	214,653	205,133	207,221
Securities sold under agreements to repurchase and other short-term borrowings	19,452	19,452	23,908	23,908
FHLB advances	72,500	73,776	35,000	36,458
Accrued interest payable	309	309	415	415

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, savings accounts, money market accounts, short-term debt, and variable rate loans that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. It was not practicable to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of long-term debt is based on current rates for similar financing. The FDIC indemnification asset was measured at estimated fair value on the date of acquisition. The fair value was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium. Subsequent additions to the asset are valued at par as it is anticipated that these amounts will be shortly received. The fair value of off-balance-sheet items is not considered material. The fair value of loans is not presented on an exit price basis.

8. GOODWILL

Goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances warrant. Goodwill is related to the 2006 acquisition of 1st Service Bank. Our annual assessment timing is during the third calendar quarter. We performed the annual review of goodwill with the assistance of a third-party advisor that provides valuation and investment banking services to community banks. Metrics employed in the estimation of fair value of the reporting unit were derived from recent community bank M&A transactions. No impairment was indicated.

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of SNBV. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2010. Results of operations for the three and nine month periods ended September 30, 2011 are not necessarily indicative of results that may be attained for any other period.

SPECIAL CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are based on assumptions and involve a number of risks and uncertainties, many of which are beyond our control. The words "believe," "may," "should," "anticipate," "estimate," "expect," "intend," "continue," "would," "could," "hope," "might," "assume," "objective," "seek," "p similar words, or the negatives of these words, are intended to identify forward-looking statements.

Many possible events or factors could affect our future financial results and performance and could cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, factors that could contribute to those differences include, but are not limited to:

our limited operating history;

changes in the strength of the United States economy in general and the local economies in our market areas adversely affect our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;

changes in the availability of funds resulting in increased costs or reduced liquidity;

our reliance on brokered deposits;

a deterioration or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio;

impairment concerns and risks related to our investment portfolio of collateralized mortgage obligations, agency mortgage-backed securities and pooled trust preferred securities;

the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;

increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of our total loan portfolio;

the concentration of our loan portfolio in loans collateralized by real estate;

our level of construction and land development and commercial real estate loans;

changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;

the failure of assumptions underlying the establishment of and provisions made to the allowance for loan losses;

our ability to expand and grow our business and operations, including the establishment of additional branches and acquisition of additional branches and banks, and our ability to realize the cost savings and revenue enhancements we expect from such activities;
changes in interest rates and market prices, which could reduce our net interest margins, asset valuations and expense expectations;
increased competition for deposits and loans adversely affecting rates and terms;
increases in FDIC deposit insurance premiums and assessments;
the continued service of key management personnel;
increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
our ability to acquire, operate and maintain cost effective and efficient systems without incurring unexpectedly difficult or expensive but necessary technological changes; and
fiscal and governmental policies of the United States federal government.

Forward-looking statements are not guarantees of performance or results. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. We believe we have chosen these assumptions or bases in good faith and that they are reasonable. We caution you, however, that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. When considering forward-looking statements, you should keep in mind the risk factors and other cautionary statements in this Quarterly Report on Form 10-Q. These statements speak only as of the date of this Quarterly Report on Form 10-Q. Except as required by applicable law, we undertake no obligation to update publicly these statements in light of new information or future events.

OVERVIEW

Southern National Bancorp of Virginia, Inc. ("SNBV") is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank ("Sonabank") a Virginia state chartered bank. Sonabank was originally chartered as a national bank under the laws of the United States of America on April 14, 2005. On January 1, 2009, Sonabank converted from a nationally chartered bank to a state chartered bank and moved its headquarters from Charlottesville to McLean, Virginia. Sonabank is now regulated by the State Corporation Commission of Virginia and the Federal Reserve Bank of Richmond. Sonabank conducts full-service banking operations in Charlottesville, Clifton Forge, Leesburg, Warrenton, Middleburg, New Market, Front Royal, South Riding and Fairfax County in Virginia and in Rockville, Maryland. On October 3, 2011, Southern National Bancorp of Virginia, Inc. completed the acquisition of the Midlothian branch office of the Bank of Hampton Roads and the assumption of $46 million in deposits. The new office is operational under the Sonabank banner, and a Sonabank loan officer previously located in the Richmond area has moved into an office in the branch. We also have loan production offices in Charlottesville, Fredericksburg, Warrenton and Richmond in Virginia. We have administrative offices in Warrenton and an executive office in Georgetown, Washington, D.C where senior management is located.

During the first nine months of 2011, the national economy continued a slow and uneven turnaround which was affected by a number of factors and events. Volatility in the equity markets continued at a very high level as concerns continued over the United States budget deficit, its resultant effect on the nation's borrowing limit and the fears of a default by Greece and the inability of the European Union to halt the potential contagion of the crisis to Italy and Spain. The depressed real estate market and continued high unemployment rates have created a high degree of economic uncertainty, especially among small and medium-sized businesses. This has restricted expansion as these businesses had to contend with rising costs, tight credit and a lack of consumer confidence during 2011. In spite of this challenging environment, we have continued to accentuate the basics of community banking and resolve existing nonperforming loans.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended September 30, 2011 was $1.3 million and $3.7 million for the nine months ended September 30, 2011, compared to $1.1 million and $3.2 million during the first quarter of 2010 and the nine months ended September 30, 2010, respectively.

Net Interest Income

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

Net interest income was $6.9 million for the third quarter of 2011, compared to $6.1 million for the third quarter of 2010. The increase resulted in spite of a decline in average earning assets quarter to quarter as average loan balances increased $15.6 million, but the average balance of lower yielding investment securities and other earning assets declined by $23.7 million. The accretion of the discount on the Greater Atlantic Bank loan portfolio amounted to $492 thousand in the third quarter of 2011, compared to $604 thousand in the third quarter of 2010. The net interest margin was 5.04% in the quarter ended September 30, 2011, up from 4.38% in the third quarter of 2010. The increase in the net interest margin resulted somewhat from the reduction in securities and other earning asset as a percentage of earning assets. Also, the weighted average rate paid on deposits declined largely as a result of the repricing of certain money market accounts at the beginning of 2011, and the average cost of borrowing was reduced because of the restructuring of $25 million of convertible advances in the first quarter of 2011, and the fact that short-term FHLB advances were used as a temporary source of funds during the third quarter of 2011 at a very low cost. This was done in anticipation of the acquisition of the deposits in the Midlothian branch in October 2011.

Net interest income was $19.3 million for the nine months ended September 30, 2011, compared to $18.8 million for the first nine months of 2010. The increase resulted in spite of a decline in average earning assets as average loan balances increased $6.0 million, but the average balance of lower yielding investment securities and other earning assets declined by $24.8 million. The accretion of the discount on the Greater Atlantic Bank loan portfolio amounted to $1.5 million in nine months ended September 30, 2011, compared to $2.1 million in the first nine months of 2010. The net interest margin was 4.85% in the nine months ended September 30, 2011, up from 4.57% in the same period last year. The improvement in the net interest margin was due to the factors mentioned above in the discussion of the third quarters of 2011 and 2010.

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

	Average Balance Sheets and Net Interest Analysis For the Quarters Ended					
	9/30/2011			9/30/2010		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollar amounts in thousands)					
Assets						
Interest-earning assets:						
Loans, net of unearned income (1) (2)	$481,916	$ 7,871	6.48 %	$466,284	$ 7,578	6.45 %
Investment securities	50,018	457	3.65 %	67,396	630	3.74 %
Other earning assets	11,370	66	2.30 %	17,716	47	1.05 %
Total earning assets	543,304	8,394	6.13 %	551,396	8,255	5.94 %
Allowance for loan losses	(6,544)			(5,889)		
Total non-earning assets	72,462			69,890		
Total assets	$609,222			$615,397		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW accounts	$15,578	11	0.27 %	$15,482	10	0.27 %
Money market accounts	141,580	305	0.85 %	169,019	730	1.71 %
Savings accounts	6,092	9	0.58 %	5,087	9	0.67 %
Time deposits	228,414	893	1.55 %	234,368	1,076	1.82 %
Total interest-bearing deposits	391,664	1,217	1.23 %	423,956	1,825	1.71 %
Borrowings	81,616	272	1.32 %	58,280	343	2.33 %
Total interest-bearing liabilities	473,280	1,489	1.25 %	482,236	2,168	1.78 %
Noninterest-bearing liabilities:						
Demand deposits	30,766			30,178		
Other liabilities	2,361			2,755		
Total liabilities	506,407			515,169		
Stockholders' equity	102,815			100,228		
Total liabilities and stockholders' equity	$609,222			$615,397		
Net interest income		$ 6,905			$ 6,087	
Interest rate spread			4.88 %			4.16 %
Net interest margin			5.04 %			4.38 %

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

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

	9/30/2011			9/30/2010		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollar amounts in thousands)					
Assets						
Interest-earning assets:						
Loans, net of unearned income (1) (2)	$ 468,425	$ 22,202	6.34 %	$ 462,451	$ 23,021	6.66 %
Investment securities	51,998	1,495	3.83 %	71,358	2,048	3.83 %
Other earning assets	10,676	169	2.12 %	16,141	138	1.14 %
Total earning assets	531,099	23,866	6.01 %	549,950	25,207	6.13 %
Allowance for loan losses	(6,154)			(5,667)		
Total non-earning assets	70,334			70,138		
Total assets	$ 595,279			$ 614,421		
Liabilities and stockholders’ equity						
Interest-bearing liabilities:						
NOW accounts	$ 15,560	31	0.27 %	$ 15,408	33	0.29 %
Money market accounts	148,272	989	0.89 %	162,349	2,069	1.70 %
Savings accounts	5,874	26	0.60 %	4,931	25	0.68 %
Time deposits	225,999	2,697	1.60 %	239,362	3,291	1.84 %
Total interest-bearing deposits	395,705	3,744	1.26 %	422,050	5,418	1.72 %
Borrowings	64,563	857	1.77 %	56,297	1,001	2.38 %
Total interest-bearing liabilities	460,268	4,601	1.34 %	478,347	6,419	1.79 %
Noninterest-bearing liabilities:						
Demand deposits	31,347			31,631		
Other liabilities	2,249			5,340		
Total liabilities	493,864			515,318		
Stockholders’ equity	101,415			99,103		
Total liabilities and stockholders’ equity	$ 595,279			$ 614,421		
Net interest income		$ 19,265			$ 18,788	
Interest rate spread			4.67 %			4.34 %
Net interest margin			4.85 %			4.57 %

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

Provision for Loan Losses

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

The provision for loan losses in the third quarter of 2011 was $1.6 million compared to $1.0 million in the third quarter of 2010. For the nine months ended September 30, 2011, the provision for loan losses was $5.1 million compared to $3.8 million for the same period last year.

Net charge-offs during the third quarter of 2011 were $1.5 million as credit quality continued to be a challenge for our loan portfolio. Third quarter charge-offs related primarily to a group credit comprised of commercial and industrial ("C&I") loans previously on non-accrual as well as a farm loan, both written down to current appraised values. Net charge-offs during the third quarter of 2010 were $943 thousand.

Net charge offs during the nine months ended September 30, 2011 were $4.7 million compared to $3.4 million during the first nine months of 2010.

Noninterest Income

The following table presents the major categories of noninterest income for the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,		
	2011	2010	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$218	$210	$8
Income from bank-owned life insurance	129	140	(11)
Net loss on other real estate owned	-	(435)	435
Gain on sales of securities available for sale	-	142	(142)
Net impairment losses recognized in earnings	(43)	(127)	84
Other	62	20	42
Total noninterest income (loss)	$366	$(50)	$416

	For the Nine Months Ended September 30,		
	2011	2010	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$636	$686	$(50)
Income from bank-owned life insurance	1,196	416	780
Net loss on other real estate owned	(147)	(396)	249
Gain on sales of securities available for sale	-	142	(142)
Net impairment losses recognized in earnings	(113)	(137)	24
Other	151	314	(163)
Total noninterest income	$1,723	$1,025	$698

During the third quarter of 2011 Sonabank had noninterest income of $366 thousand compared to a noninterest loss of $50 thousand during the third quarter of 2010. The third quarter of 2010 loss was primarily attributable to a loss of $460 thousand on the expedited sale of the commercial real estate property we foreclosed on in the second quarter of 2010.

Noninterest income increased to $1.7 million during the first nine months of 2011 from $1.0 million during the first nine months of 2010. The increase was largely attributable to an $800 thousand insurance benefit resulting from the death of an officer covered by bank-owned life insurance in the second quarter of 2011. This was partially offset by a decrease of $171 thousand in fees on letters of credit related to a short-term letter of credit which expired in June 2010.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three and nine months ended September 30, 2011 and 2010:

	For the Three Months Ended September 30,		
	2011	2010	Change
	(dollars in thousands)		
Salaries and benefits	$1,759	$1,634	$125
Occupancy expenses	573	520	53
Furniture and equipment expenses	140	142	(2)
Amortization of core deposit intangible	230	236	(6)
Virginia franchise tax expense	171	184	(13)
FDIC assessment	125	139	(14)
Data processing expense	126	139	(13)
Telephone and communication expense	101	100	1
Change in FDIC indemnification asset	(140)	(193)	53
Other operating expenses	695	489	206
Total noninterest expense	$3,780	$3,390	$390

	For the Nine Months Ended September 30,		
	2011	2010	Change
	(dollars in thousands)		
Salaries and benefits	$5,066	$4,798	$268
Occupancy expenses	1,667	1,589	78
Furniture and equipment expenses	406	447	(41)
Amortization of core deposit intangible	690	708	(18)
Virginia franchise tax expense	514	551	(37)
FDIC assessment	397	540	(143)
Data processing expense	400	453	(53)
Telephone and communication expense	289	320	(31)
Change in FDIC indemnification asset	(490)	457	(947)
Other operating expenses	1,788	1,531	257
Total noninterest expense	$10,727	$11,394	$(667)

Noninterest expenses were $3.8 million and $10.7 million during the third quarter and the first nine months of 2011, respectively, compared to $3.4 million and $11.4 million during the same periods in 2010. During the quarter and nine months ended September 30, 2011, there was accretion of the FDIC indemnification asset of $140 thousand and $490 thousand, respectively. During the third quarter of 2010 the accretion was $193 thousand, and during the nine months ended September 30, 2010, the accretion was more than offset by recoveries from the FDIC which reduced the indemnification asset. Legal expense increased by $143 thousand and $235 thousand for the quarter and nine months ended September 30, 2011, compared to the same periods last year.

The efficiency ratio was 52.50% during the nine months ended September 30, 2011, compared to 56.39% during the same period the prior year.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets of Southern National Bancorp of Virginia were $605.4 million as of September 30, 2011 compared to $590.8 million as of December 31, 2010. Net loans receivable increased from $453.8 million at the end of 2010 to $470.8 million at September 30, 2011. Within that total, covered loans declined by $11.7 million while the non-covered loan portfolio increased by $29.2 million. At the end of the third quarter our pipeline was very strong. We expect to see loan growth as the loans in the pipeline close.

Total deposits were $408.0 million at September 30, 2011 compared to $431.0 million at December 31, 2010. Certificates of deposit increased $7.6 million during the first nine months of 2011. This was offset by a decrease in money market accounts of $29.1 million during the nine months ended September 30, 2011. We had paid rates in excess of market on large money market accounts for former Greater Atlantic Bank customers to retain them during 2010, and as of the beginning of 2011, we reduced those rates. Brokered certificates of deposit have decreased from $27.0 million at December 31, 2010, to $7.0 million as of September 30, 2011. Noninterest-bearing deposits were $31.8 million at September 30, 2011 and $34.5 million at December 31, 2010.

Loan Portfolio

As part of the Greater Atlantic acquisition, the Bank and the FDIC entered into a loss sharing agreement on approximately $143.4 million (contractual basis) of Greater Atlantic Bank's assets. The Bank will share in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreement; we refer to these assets collectively as "covered assets." Loans that are not covered in the loss sharing agreement are referred to as "non-covered loans." As information and other developments warrant, we reassess our anticipated recoveries from the FDIC on the covered loans and adjust the carrying value of the FDIC indemnification asset.

The following table summarizes the composition of our loan portfolio as of September 30, 2011 and December 31, 2010:

	Covered Loans	Non-covered Loans	Total Loans	Covered Loans	Non-covered Loans	Total Loans
	September 30, 2011			December 31, 2010		
Mortgage loans on real estate:						
Commercial real estate - owner-occupied	$4,576	$ 93,084	$97,660	$5,246	$ 81,487	$86,733
Commercial real estate - non-owner-occupied	10,311	97,200	107,511	13,898	76,068	89,966
Secured by farmland	-	3,147	3,147	-	3,522	3,522
Construction and land loans	813	34,641	35,454	1,098	39,480	40,578
Residential 1-4 family	26,663	50,580	77,243	29,935	58,900	88,835
Multi- family residential	547	18,681	19,228	563	19,177	19,740
Home equity lines of credit	36,816	8,973	45,789	40,287	10,532	50,819
Total real estate loans	79,726	306,306	386,032	91,027	289,166	380,193
Commercial loans	552	89,154	89,706	998	76,644	77,642
Consumer loans	120	1,959	2,079	146	2,010	2,156
Gross loans	80,398	397,419	477,817	92,171	367,820	459,991

Less deferred fees on loans	-	(925)	(925)	-	(554)	(554)
Loans, net of unearned income	$80,398	$ 396,494	$476,892	$92,171	$ 367,266	$459,437

As of September 30, 2011 and December 31, 2010, substantially all of our loans were to customers located in Virginia and Maryland. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

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The current outstanding balance for home equity lines of credit at September 30, 2011 was $45.8 million. The available commitment at this date was $68.3 million, for a total exposure to loss for these loans of $114.1 million.

Asset Quality

We will generally place a loan on nonaccrual status when it becomes 90 days past due. Loans will also be placed on nonaccrual status in cases where we are uncertain whether the borrower can satisfy the contractual terms of the loan agreement. Cash payments received while a loan is categorized as nonaccrual will be recorded as a reduction of principal as long as doubt exists as to future collections.

We maintain appraisals on loans secured by real estate, particularly those categorized as nonperforming loans and potential problem loans. In instances where appraisals reflect reduced collateral values, we make an evaluation of the borrower's overall financial condition to determine the need, if any, for impairment or write-down to their fair values. If foreclosure occurs, we record other real estate owned at the lower of our recorded investment in the loan or fair value less our estimated costs to sell.

Our loss and delinquency experience on our loan portfolio has been limited by a number of factors, including our underwriting standards. Whether our loss and delinquency experience in the area of our portfolio will increase significantly depends upon the value of the real estate securing loans and the overall economic environment in which we operate.

Non-covered Loans and Assets

Non-covered loans identified as impaired totaled $30.5 million with allocated allowance for loan losses in the amount of $1.6 million as of September 30, 2011, including $4.0 million of nonaccrual loans and $1.1 million of restructured loans. This compares to $21.8 million of impaired loans with allocated allowance for loan losses in the amount of $446 thousand at December 31, 2010, including $9.6 million of nonaccrual loans and $6.6 million of restructured loans. The nonaccrual loans included SBA guaranteed amounts of $1.5 million and $1.4 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 and December 31, 2010, there were no loans past due 90 days or more and accruing interest.

Non-covered nonperforming assets increased from $13.5 million at December 31, 2010 to $16.5 million at September 30, 2011.

As of September 30, 2011 OREO was comprised of the previously reported Culpeper property in the amount of $2.8 million, the Kluge properties, an estate in Charlottesville and two small commercial properties in Charlottesville. All of the properties are being actively marketed, but we have found very limited, reasonable and serious interest from potential buyers. Non-covered OREO at September 30, 2011 was $12.5 million compared to $3.9 million at December 31, 2010.

Sonabank has an internal loan review and a loan committee, both of which provide on-going monitoring to identify and address issues with problem loans. The loan loss provision is determined after consideration of all known relevant internal and external factors affecting loan collectability to maintain the allowance for loan and lease losses at a level necessary to absorb estimated credit losses. We believe the allowance for loan losses is sufficient to cover probable incurred credit losses at September 30, 2011.

The following table sets forth selected asset quality ratios as of the dates indicated:

	As of September 30, 2011	December 31, 2010
Allowance for loan losses to total non-covered loans	1.54 %	1.52 %
Non-covered nonperforming assets to total non-covered assets	3.33 %	2.71 %
Non-covered nonperforming assets excluding SBA guaranteed loans to total non-covered assets	2.86 %	2.43 %

We do not have a formal loan modification program. Rather, we work with individual customers on a case-by-case basis to facilitate the orderly collection of our principal and interest before a loan becomes a non-performing loan. If a customer is unable to make contractual payments, we review the circumstances of the customer's situation and may negotiate a revised payment stream. In other words, we identify performing customers experiencing financial difficulties and through negotiations, we permit them to pay interest only or lesser principal payments. We do not forgive principal payments. Our goal when restructuring a credit is to afford the customer a reasonable period of time to remedy the issue causing cash flow constraints within their business so that they can return to performing status over time.

Our loan modifications have taken the form of deferral of interest payments and/or curtailment of scheduled principal payments. Our restructured loans are all collateral secured loans. If a customer fails to perform under the modified terms, we place the loan on non-accrual status and begin the process of working with the customer to liquidate the underlying collateral to satisfy the debt.

At September 30, 2011, we had one restructured loan in the amount of $1.1 million with a borrower who experienced deterioration in financial condition. This loan restructuring was negotiated prior to 2011. The loan was included in impaired loans. The loan was granted interest rate deferrals to provide cash flow relief to the customer experiencing cash flow difficulties. There were no concessions made to forgive principal or interest relative to this loan. Management believes this loan is well secured and the borrower has the ability to repay the loan in accordance with the renegotiated terms. As such, this restructured loan was on accrual status at the balance sheet date as payments were being made according to the restructured loan terms. This loan has not had a partial charge-off. We continue to report restructured loans as restructured until such time as the loan has developed a reasonable repayment history, the borrower displays the financial capacity to repay, and the loan terms return to the terms in place prior to the restructure. If the customer fails to perform, we place the loan on non-accrual status and seek to liquidate the underlying collateral for these loans. Changes in value for impairment, including the amount attributed to the passage of time, are recorded entirely within the provision for loans losses.

We consider a troubled debt restructuring to be a restructuring of a loan in which we grant a concession for legal or economic reasons related to the debtor's financial difficulties.

Covered Loans and Assets

Covered loans identified as impaired totaled $4.2 million as of September 30, 2011 and $3.5 million at December 31, 2010. Nonaccrual loans were $3.2 million and $2.0 million at September 30, 2011 and December 31, 2010, respectively. At September 30, 2011 there were no loans past due 90 days or more and accruing interest, and at December 31, 2010, there were loans past due 90 days or more and accruing interest in the amount of $234 thousand.

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Securities

Investment securities, available for sale and held to maturity, were $48.8 million at September 30, 2011 and $56.0 million at December 31, 2010.

As of September 30, 2011 our pooled trust preferred securities included:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value (in thousands)	Estimated Fair Value	Current Defaults and Deferrals	Previously Recognized Cumulative Other Comprehensive Loss (1)	
ALESCO VII A1B	Senior	Aaa	AAA	Baa3	BB	$ 7,126	$ 6,385	$ 3,811	$ 100,400	$ 307	
MMCF II B	Senior Sub	A3	AA-	Baa2	BB	493	455	476	34,000	38	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	652	638	476	34,000	13	
						8,271	7,478	4,763		$ 358	
										Cumulative Other Comprehensive Loss (2)	Cumulative OTTI Related to Credit Loss (2)
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	383	383	134,100	763	$ 354
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,074	128	282	155,705	1,367	579
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,032	-	32	218,750	-	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,053	133	87	111,682	446	474
ALESCO V C1	Mezzanine	A2	A	C	C	2,093	463	441	85,000	969	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,123	29	258	266,100	535	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,079	115	437	82,400	784	1,180
						13,954	1,251	1,920		$ 4,864	$ 7,839
Total						$ 22,225	$ 8,729	$ 6,683			

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

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

.5% of the remaining performing collateral will default or defer per annum.
Recoveries ranging from 25% to 47% with a two year lag on all defaults and deferrals.
No prepayments for 10 years and then 1% per annum for the remaining life of the security.
Additionally banks with assets over $15 billion will no longer be allowed to count down streamed trust preferred proceeds as Tier 1 capital (although it will still be counted as Tier 2 capital). That will incent the large banks to prepay their trust preferred securities if they can or if it is economically desirable. As a consequence, we have projected in all of our pools that 25% of the collateral issued by banks with assets over $15 billion will prepay in 2013.
Our securities have been modeled using the above assumptions by independent third parties using the forward LIBOR curve to discount projected cash flows to present values.

Because the decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is more likely than not that we will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired as of September 30, 2011, except for the Tpref Funding II security.

The application of these assumptions resulted in OTTI charges related to credit on one of the trust preferred securities in the amount of $43 thousand during the quarter ended September 30, 2011, compared to no OTTI charges related to credit on the trust preferred securities for the quarter ended September 30, 2010. This trust preferred security (Tpref Funding II) had a book value and a fair value of $383 thousand at September 30, 2011.

We also own $1.0 million of SARM 2005-22 1A2. This residential collateralized mortgage obligation was originally rated AAA by Standard and Poors. After a series of downgrades, this security has been other than temporarily impaired in past reporting periods. For the third quarter of 2011 and based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support it has been determined that no OTTI charge for credit was required for the quarter ended September 30, 2011. The assumptions used in the analysis included a 4.6% prepayment speed, 13% default rate, a 48% loss severity and an accounting yield of 2.53%. We recorded OTTI charges for credit on this security of $127 thousand in the third quarter of 2010.

Liquidity and Funds Management

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

We prepare a monthly cash flow report which forecasts weekly cash needs and availability for the coming three months, based on forecasts of loan closings from our pipeline report and other factors.

During the three months ended September 30, 2011, we funded our financial obligations with deposits, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank of Atlanta. At September 30, 2011, we had $106.5 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $620 thousand at September 30, 2011. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

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

	Actual		Required For Capital Adequacy Purposes		To Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
September 30, 2011						
SNBV						
Tier 1 risk-based capital ratio	$ 94,962	20.62 %	$ 18,424	4.00 %	$ 27,636	6.00 %
Total risk-based capital ratio	100,700	21.86 %	36,848	8.00 %	46,060	10.00 %
Leverage ratio	94,962	15.89 %	23,898	4.00 %	29,873	5.00 %
Sonabank						
Tier 1 risk-based capital ratio	$ 91,447	19.86 %	$ 18,415	4.00 %	$ 27,622	6.00 %
Total risk-based capital ratio	97,182	21.11 %	36,830	8.00 %	46,037	10.00 %
Leverage ratio	91,447	15.31 %	23,898	4.00 %	29,873	5.00 %
December 31, 2010						
SNBV						
Tier 1 risk-based capital ratio	$ 90,214	20.52 %	$ 17,585	4.00 %	$ 26,377	6.00 %
Total risk-based capital ratio	95,689	21.77 %	35,169	8.00 %	43,961	10.00 %
Leverage ratio	90,214	15.23 %	23,701	4.00 %	29,626	5.00 %
Sonabank						
Tier 1 risk-based capital ratio	$ 86,757	19.74 %	$ 17,580	4.00 %	$ 26,370	6.00 %
Total risk-based capital ratio	92,231	20.99 %	35,160	8.00 %	43,950	10.00 %
Leverage ratio	86,757	14.64 %	23,701	4.00 %	29,626	5.00 %

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

We use a duration gap of equity approach to manage our interest rate risk, and we review quarterly interest sensitivity reports prepared for us by FTN Financial using the Sendero ALM Analysis System. This approach uses a model which generates estimates of the change in our market value of portfolio equity (MVPE) over a range of interest rate scenarios. MVPE is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts using standard industry assumptions about estimated loan prepayment rates, reinvestment rates and deposit decay rates.

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in MVPE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of September 30, 2011 and (plus or minus 300 basis points, measured in 100 basis point increments) as of December 31, 2010, and all changes are within our ALM Policy guidelines:

Sensitivity of Market Value of Portfolio Equity
As of September 30, 2011

Change in Interest Rates in Basis Points (Rate Shock)	Market Value of Portfolio Equity			Market Value of Portfolio Equity as a % of	
	Amount	$ Change From Base	% Change From Base	Total Assets	Portfolio Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$ 93,971	$ (6,000)	-6.00 %	15.52 %	91.17 %
Up 300	95,416	(4,555)	-4.56 %	15.76 %	92.58 %
Up 200	97,663	(2,308)	-2.31 %	16.13 %	94.76 %
Up 100	98,700	(1,271)	-1.27 %	16.30 %	95.76 %
Base	99,971	-	0.00 %	16.51 %	97.00 %
Down 100	95,908	(4,063)	-4.06 %	15.84 %	93.05 %
Down 200	94,003	(5,968)	-5.97 %	15.53 %	91.21 %

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Sensitivity of Market Value of Portfolio Equity
As of December 31, 2010

Change in Interest Rates in Basis Points (Rate Shock)	Market Value of Portfolio Equity			Market Value of Portfolio Equity as a % of	
	Amount	$ Change From Base	% Change From Base	Total Assets	Portfolio Equity Book Value
	(Dollar amounts in thousands)				
Up 300	$99,642	$(1,643)	-1.62 %	16.86 %	100.20 %
Up 200	100,576	(709)	-0.70 %	17.01 %	101.14 %
Up 100	100,578	(707)	-0.70 %	17.01 %	101.14 %
Base	101,285	-	0.00 %	17.13 %	101.85 %
Down 100	97,672	(3,613)	-3.57 %	16.52 %	98.22 %
Down 200	93,048	(8,237)	-8.13 %	15.74 %	93.57 %
Down 300	90,390	(10,895)	-10.76 %	15.29 %	90.90 %

Our interest rate sensitivity is also monitored by management through the use of a model run by FTN Financial that generates estimates of the change in the net interest income over a range of interest rate scenarios. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. In this regard, the model assumes that the composition of our interest sensitive assets and liabilities existing at September 30, 2011 and December 31, 2010 remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. All changes are within our ALM Policy guidelines.

Sensitivity of Net Interest Income
As of September 30, 2011

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 400	$ 28,194	$ 2,135	5.14 %	0.38 %
Up 300	27,640	1,581	5.04 %	0.28 %
Up 200	27,116	1,057	4.95 %	0.19 %
Up 100	26,500	441	4.84 %	0.08 %
Base	26,059	-	4.76 %	0.00 %
Down 100	26,379	320	4.82 %	0.06 %
Down 200	26,362	303	4.81 %	0.05 %

Sensitivity of Net Interest Income
As of December 31, 2010

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 300	$ 27,668	$ 3,361	5.09 %	0.61 %
Up 200	26,466	$ 2,159	4.87 %	0.39 %
Up 100	25,193	$ 886	4.64 %	0.16 %
Base	24,307	$ -	4.48 %	0.00 %
Down 100	24,670	$ 363	4.55 %	0.07 %
Down 200	24,676	$ 369	4.55 %	0.07 %
Down 300	24,747	$ 440	4.56 %	0.08 %

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in MVPE requires the making of certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. Accordingly, although the MVPE tables and Sensitivity of Net Interest Income (NII) tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to, and do not, provide a precise forecast of the effect of changes in market interest rates on our net worth and net interest income. Sensitivity of MVPE and NII are modeled using different assumptions and approaches. In the low interest rate environment that currently exists, limitations on downward adjustments for interest rates, particularly as they apply to deposits, can and do result in anomalies in scenarios that are unlikely to occur due to the current low interest rate environment.

ITEM 4 – CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this quarterly report on Form 10-Q under the supervision and with the participation of management, including our chief executive officer and chief financial officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d -15(c) under the Securities Exchange Act of 1934). Based on that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

(b) Changes in Internal Control over Financial Reporting. Other than the remediation of the material weakness related to the misidentification of a subsequent event described in our Annual Report on Form 10-K for the year ended December 31, 2010, there have been no other changes in SNBV's internal control over financial reporting that occurred during the quarter ended September 30, 2011 that have materially affected, or are reasonably likely to materially affect, SNBV's internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

SNBV and Sonabank may, from time to time, be a party to various legal proceedings arising in the ordinary course of business. Sonabank is a party to one small lawsuit considered to be in the ordinary course of business. There are no other proceedings pending, or to management's knowledge, threatened, against SNBV or Sonabank as of September 30, 2011.

ITEM 1A – RISK FACTORS

As of September 30, 2011 there were no material changes to the risk factors previously disclosed on our Annual Report on Form 10-K for the year ended December 31, 2010.

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

Not applicable

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. – (REMOVED AND RESERVED)

ITEM 5. – OTHER INFORMATION

Not applicable

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ITEM 6 - EXHIBITS

(a) Exhibits.

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following information from the Company’s quarterly report on Form 10-Q for the quarterly period ended September 30, 2011 formatted in Extensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets; (ii) Consolidated Statements of Income and Comprehensive Income; (iii) Consolidated Statements of Changes in Stockholders’ Equity (iv) Consolidated Statements of Cash Flows; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

* Filed with this Quarterly Report on Form 10-Q
** Furnished with this Quarterly Report on Form 10-Q

Signatures

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

Southern National Bancorp of
Virginia, Inc.
(Registrant)

November 9, 2011 (Date)	/s/ Georgia S. Derrico Georgia S. Derrico, Chairman of the Board and Chief Executive Officer
November 9, 2011 (Date)	/s/ William H. Lagos William H. Lagos, Senior Vice President and Chief Financial Officer

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