Southern National Bancorp of Virginia Inc
Form 10-Q
November 12, 2013

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, 2013

Commission File No. 001-33037

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

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

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

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

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 November 1, 2013, there were 11,590,612 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
FORM 10-Q
September 30, 2013

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ITEM I - FINANCIAL INFORMATION
PART I - FINANCIAL STATEMENTS

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

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$4,859	$4,553
Interest-bearing deposits in other financial institutions	27,491	34,647
Total cash and cash equivalents	32,350	39,200
Securities available for sale, at fair value	2,020	2,391
Securities held to maturity, at amortized cost (fair value of $76,117 and $84,827, respectively)	80,831	84,051
Covered loans	53,817	71,328
Non-covered loans	472,215	458,823
Total loans	526,032	530,151
Less allowance for loan losses	(7,443)	(7,066)
Net loans	518,589	523,085
Stock in Federal Reserve Bank and Federal Home Loan Bank	5,240	6,212
Bank premises and equipment, net	6,260	6,552
Goodwill	9,160	9,160
Core deposit intangibles, net	912	1,280
FDIC indemnification asset	5,338	6,735
Bank-owned life insurance	18,226	17,782
Other real estate owned	15,699	13,836
Deferred tax assets, net	8,270	8,174
Other assets	5,003	5,354
Total assets	$707,898	$723,812
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$46,536	$49,644
Interest-bearing deposits:		
NOW accounts	23,701	22,774
Money market accounts	136,181	163,233
Savings accounts	13,933	9,618

Time deposits	325,603	305,708
Total interest-bearing deposits	499,418	501,333
Total deposits	545,954	550,977
Securities sold under agreements to repurchase and other short-term borrowings	20,481	33,411
Federal Home Loan Bank (FHLB) advances	30,250	30,250
Other liabilities	5,241	5,998
Total liabilities	601,926	620,636
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, 11,590,612 shares at September 30, 2013 and 11,590,212 at December 31, 2012	116	116
Additional paid in capital	97,048	96,840
Retained earnings	11,977	9,201
Accumulated other comprehensive loss	(3,169)	(2,981)
Total stockholders' equity	105,972	103,176
Total liabilities and stockholders' equity	$707,898	$723,812

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest and dividend income :				
Interest and fees on loans	$8,168	$9,008	$24,277	$26,387
Interest and dividends on taxable securities	504	490	1,540	1,401
Interest and dividends on tax exempt securities	71	-	159	-
Interest and dividends on other earning assets	104	102	443	247
Total interest and dividend income	8,847	9,600	26,419	28,035
Interest expense:				
Interest on deposits	966	1,304	3,086	3,803
Interest on borrowings	157	165	465	628
Total interest expense	1,123	1,469	3,551	4,431
Net interest income	7,724	8,131	22,868	23,604
Provision for loan losses	1,197	1,830	3,015	4,605
Net interest income after provision for loan losses	6,527	6,301	19,853	18,999
Noninterest income:				
Account maintenance and deposit service fees	198	222	593	624
Income from bank-owned life insurance	147	148	445	649
Bargain purchase gain on acquisition	-	-	-	3,484
Gain on sale of loans	-	-	-	657
Gain on other assets	-	-	13	14
Net gain on sale of available for sale securities	-	287	142	274
Total other-than-temporary impairment losses (OTTI)	-	(480)	(3)	(721)
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-	-	4
Net credit related OTTI recognized in earnings	-	(480)	(3)	(717)
Other	30	63	169	198
Total noninterest income	375	240	1,359	5,183
Noninterest expenses:				
Salaries and benefits	2,338	2,073	6,760	5,868
Occupancy expenses	768	753	2,280	2,040
Furniture and equipment expenses	197	149	524	448
Amortization of core deposit intangible	123	236	368	694
Virginia franchise tax expense	115	145	357	436

Merger expenses	-	11	-	360
FDIC assessment	218	146	676	417
Data processing expense	131	175	433	474
Telephone and communication expense	166	183	507	418
Change in FDIC indemnification asset	113	242	350	481
Net (gain) loss on other real estate owned	(698)	(24)	(580)	2,376
Other operating expenses	790	665	2,334	2,417
Total noninterest expenses	4,261	4,754	14,009	16,429
Income before income taxes	2,641	1,787	7,203	7,753
Income tax expense	861	579	2,341	2,487
Net income	$1,780	$1,208	$4,862	$5,266
Other comprehensive income (loss):				
Unrealized loss on available for sale securities	$(12)	$(107)	$(207)	$(26)
Realized amount on securities sold, net	-	(287)	(142)	(274)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	-	475	97	676
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	(12)	(17)	(32)	(77)
Net unrealized gain (loss)	(24)	64	(284)	299
Tax effect	8	(21)	96	(101)
Other comprehensive income (loss)	(16)	43	(188)	198
Comprehensive income	$1,764	$1,251	$4,674	$5,464
Earnings per share, basic and diluted	$0.15	$0.10	$0.42	$0.45

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013
(dollars in thousands, except per share amounts)
(Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2013	$116	$96,840	$9,201	$ (2,981)	$103,176
Comprehensive income:					
Net income			4,862		4,862
Change in unrealized loss on securities available for sale (net of tax benefit, $119)				(230)	(230)
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $23 and accretion, $32 and amounts recorded into other comprehensive income at transfer)				42	42
Dividends on common stock ($.18 per share)			(2,086)		(2,086)
Issuance of common stock under Stock Incentive Plan (400 shares)		3			3
Stock-based compensation expense		205			205
Balance - September 30, 2013	$116	$97,048	$11,977	$ (3,169)	$105,972

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012
(dollars in thousands) (Unaudited)

	2013	2012
Operating activities:		
Net income	$ 4,862	$ 5,266
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	495	430
Amortization of core deposit intangible	368	694
Other amortization, net	275	210
Accretion of loan discount	(2,725)	(3,277)
Amortization of FDIC indemnification asset	350	481
Provision for loan losses	3,015	4,605
Earnings on bank-owned life insurance	(445)	(649)
Stock based compensation expense	205	146
Bargain purchase gain on acquisition	-	(3,484)
Net gain on sale of available for sale securities	(142)	(274)
Gain on sale of loans	-	(657)
Impairment on securities	3	717
Net (gain) loss on other real estate owned	(580)	2,376
Net (increase) decrease in other assets	2,261	(456)
Net increase (decrease) in other liabilities	(757)	399
Net cash and cash equivalents provided by operating activities	7,185	6,527
Investing activities:		
Purchases of available for sale securities	-	(3,128)
Proceeds from sales of available for sale securities	159	22,914
Proceeds from paydowns, maturities and calls of available for sale securities	-	1,318
Purchases of held to maturity securities	(11,345)	(27,410)
Proceeds from paydowns, maturities and calls of held to maturity securities	14,497	8,973
Loan originations and payments, net	(2,996)	11,238
Proceeds from sale of HarVest loans	-	7,568
Proceeds from sale of SBA loans	-	5,713
Net cash received in HarVest acquisition	-	47,257
Net decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	972	1,630
Proceeds from cash surrender value of bank-owned life insurance	-	395
Payments received on FDIC indemnification asset	1,016	155
Proceeds from sale of other real estate owned	3,902	1,137
Purchases of bank premises and equipment	(204)	(557)

Net cash and cash equivalents provided by investing activities	6,001	77,203
Financing activities:		
Net decrease in deposits	(5,023)	(64,328)
Cash dividends paid - common stock	(2,086)	(638)
Issuance of common stock under Stock Incentive Plan	3	-
Repayment of Federal Home Loan Bank advances	-	(16,488)
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	(12,930)	14,977
Net cash and cash equivalents used in financing activities	(20,036)	(66,477)
Increase (decrease) in cash and cash equivalents	(6,850)	17,253
Cash and cash equivalents at beginning of period	39,200	5,035
Cash and cash equivalents at end of period	$ 32,350	$ 22,288
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	$ 3,419	$ 4,464
Income taxes	3,113	1,788
Supplemental schedule of noncash investing and financing activities		
Transfer from non-covered loans to other real estate owned	3,044	1,959
Transfer from covered loans to other real estate owned	4,158	-

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
Notes to Consolidated Financial Statements (Unaudited)
September 30, 2013

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. ("Southern National") 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 has fifteen branches in Virginia, located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Middleburg, Leesburg (2), South Riding, Front Royal, New Market, Haymarket, Richmond and Clifton Forge, and five branches in Maryland, in Rockville, Shady Grove, Germantown, Frederick and Bethesda.

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 Southern National's Form 10-K for the year ended December 31, 2012.

Use of Estimates

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

Recent Accounting Pronouncements

In February 2013, the FASB issued ASU 2013-02, Comprehensive Income (Topic 220), Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This standard update requires companies to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in the consolidated statements of comprehensive income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. We adopted this standard in the first quarter of 2013 and have included the additional disclosures.

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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, 2013, 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 Southern National and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in Southern National'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.

Southern National granted 120,250 options during the first nine months of 2013. 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, 2013:

Expected life	10 years	
Expected volatility	34.21	%
Risk-free interest rate	2.42	%
Weighted average fair value per option granted	$ 3.58	
Dividend yield	1.29	%

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, 2013 and 2012, stock-based compensation expense was $79 thousand and $205 thousand, respectively, compared to $49 thousand and $146 thousand for the same periods last year. As of September 30, 2013, unrecognized compensation expense associated with the stock options was $1.0 million, which is expected to be recognized over a weighted average period of 3.8 years.

A summary of the activity in the stock option plan during the nine months ended September 30, 2013 follows (dollars in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	512,825	$7.98		
Granted	120,250	9.18		
Forfeited	-	-		
Exercised	(400)	6.90		
Options outstanding, end of period	632,675	$8.21	6.3	$915
Vested or expected to vest	632,675	$8.21	6.3	$915
Exercisable at end of period	304,695	$8.36	4.0	$405

3. SECURITIES

The amortized cost and fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) were as follows (in thousands):

September 30, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,303	$ -	$ (283)	$ 2,020

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,309	$ 2	$ (22)	$ 2,289
FHLMC preferred stock	16	86	-	102
Total	$ 2,325	$ 88	$ (22)	$ 2,391

The amortized cost, unrecognized gains and losses, and fair value of securities held to maturity were as follows (in thousands):

September 30, 2013	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 26,964	$ 751	$ (105)	$ 27,610
Residential government-sponsored collateralized mortgage obligations	4,538	5	(292)	4,251
Government-sponsored agency securities	29,970	-	(3,042)	26,928
Obligations of states and political subdivisions	10,991	-	(871)	10,120
	713	-	(17)	696

Other residential collateralized mortgage obligations										
Trust preferred securities		7,655		975		(2,118	)		6,512
	$	80,831	$	1,731	$	(6,445	)	$	76,117

December 31, 2012		Amortized Cost	Gross Unrecognized	Gains		Losses			Fair Value
Residential government-sponsored mortgage-backed securities	$	35,375	$	1,559	$	-		$	36,934
Residential government-sponsored collateralized mortgage obligations		5,444		81		-			5,525
Government-sponsored agency securities		29,983		52		(4	)		30,031
Obligations of states and political subdivisions		4,689		1		(69	)		4,621
Other residential collateralized mortgage obligations		817		-		(24	)		793
Trust preferred securities		7,743		1,422		(2,242	)		6,923
	$	84,051	$	3,115	$	(2,339	)	$	84,827

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The amortized cost amounts are net of recognized other than temporary impairment.

During the nine months ended September 30, 2013, we sold 55 thousand shares of available for sale FHLMC preferred stock resulting in a gain of $142 thousand.

The fair value and carrying amount, if different, of debt securities as of September 30, 2013, 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		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in five to ten years	$4,254	$4,035	$-	$-
Due after ten years	44,362	39,525	2,303	2,020
Residential government-sponsored mortgage-backed securities	26,964	27,610	-	-
Residential government-sponsored collateralized mortgage obligations	4,538	4,251	-	-
Other residential collateralized mortgage obligations	713	696	-	-
Total	$80,831	$76,117	$2,303	$2,020

Securities with a carrying amount of approximately 64.3 million and $62.3 million at September 30, 2013 and December 31, 2012, 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").

Southern National monitors the portfolio for indicators of other than temporary impairment. At September 30, 2013 and December 31, 2012, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $61.1 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at September 30, 2013. Because the decline in fair value is attributable to changes in interest rates and market illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is likely 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, 2013. The following tables present information regarding securities in a continuous unrealized loss position as of September 30, 2013 and December 31, 2012 (in thousands) by duration of time in a loss position:

September 30, 2013

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	$2,020	$ (283)	$-	$ -	$2,020	$ (283)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$13,312	$ (105)	$-	$ -	$13,312	$ (105)
Residential government-sponsored collateralized mortgage obligations	3,161	(292)	-	-	3,161	(292)
Government-sponsored agency securities	26,928	(3,042)	-	-	26,928	(3,042)
Obligations of states and political subdivisions	10,120	(871)			10,120	(871)
Other residential collateralized mortgage obligations	696	(17)	-	-	696	(17)
Trust preferred securities	-	-	4,830	(2,118)	4,830	(2,118)
	$54,217	$ (4,327)	$4,830	$ (2,118)	$59,047	$ (6,445)

December 31, 2012

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	$1,552	$ (22)	$-	$ -	$1,552	$ (22)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses

Obligations of states and political subdivisions	$4,189	$ (69)	$-	$ -	$4,189	$ (69)
Government-sponsored agency securities	4,996	(4)	-	-	4,996	(4)
Other residential collateralized mortgage obligations	793	(24)	-	-	793	(24)
Trust preferred securities	-	-	4,849	(2,242)	4,849	(2,242)
	$9,978	$ (97)	$4,849	$ (2,242)	$14,827	$ (2,339)

As of September 30, 2013, we owned pooled trust preferred securities as follows:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	Baa3	BB	$6,654	$6,020	$4,077	16%	$281	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	421	413	241	30%	8	
						7,075	6,433	4,318		$289	
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	515	512	41%	626	$359
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,140	56	104	39%	791	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	76	29%	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,084	27	239	30%	366	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	586	18%	1,014	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,222	30	105	35%	633	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,143	119	572	15%	844	1,180
						14,278	1,222	2,194		$4,281	$8,775
Total						$21,353	$7,655	$6,512			

(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

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Each of these securities has been evaluated for other than temporary impairment ("OTTI"). 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 23% to 39% 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.

We recognized no OTTI charges during the third quarter of 2013 and recognized OTTI charges of $3 thousand during the first nine months of 2013 compared to OTTI charges related to credit on the trust preferred securities totaling $480 thousand and $717 thousand during the same periods of 2012.

The following table presents a roll forward of the credit losses on our securities held to maturity recognized in earnings for the nine months ended September 30, 2013 and 2012 (in thousands):

	2013	2012
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$8,964	$8,277
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Amounts related to credit loss for which an other-than-temporary impairment was previously recognized	3	717
Reductions due to realized losses	(51)	(25)
Amount of cumulative other-than-temporary impairment related to credit loss as of September 30	$8,916	$8,969

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Changes in accumulated other comprehensive income by component for the three and nine months ended September 30, 2013 are shown in the table below. All amounts are net of tax (in thousands).

For the three months ended September 30, 2013	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (178)	$ (2,975)	$ (3,153)
Other comprehensive income/(loss) before reclassifications	(8)	(8)	(16)
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	(8)	(8)	(16)
Ending balance	$ (186)	$ (2,983)	$ (3,169)

For the nine months ended September 30, 2013	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ 44	$ (3,025)	$ (2,981)
Other comprehensive income/(loss) before reclassifications	(137)	43	(94)
Amounts reclassified from accumulated other comprehensive income/(loss)	(93)	(1)	(94)
Net current-period other comprehensive income/(loss)	(230)	42	(188)
Ending balance	$ (186)	$ (2,983)	$ (3,169)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of September 30, 2013 and December 31, 2012:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	September 30, 2013			December 31, 2012		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$ 1,618	$ 100,182	$ 101,800	$ 4,143	$ 93,288	$ 97,431
Commercial real estate - non-owner-occupied	5,863	139,773	145,636	10,246	130,152	140,398
Secured by farmland	101	512	613	-	1,479	1,479
Construction and land loans	4	31,872	31,876	1,261	44,946	46,207
Residential 1-4 family	17,933	65,658	83,591	21,005	61,319	82,324
Multi- family residential	590	21,570	22,160	614	18,774	19,388
Home equity lines of credit	26,457	6,667	33,124	31,292	9,178	40,470

Total real estate loans	52,566	366,234	418,800	68,561	359,136	427,697
Commercial loans	1,162	105,959	107,121	2,672	99,081	101,753
Consumer loans	85	1,300	1,385	88	1,623	1,711
Gross loans	53,813	473,493	527,306	71,321	459,840	531,161
Less deferred fees on loans	4	(1,278)	(1,274)	7	(1,017)	(1,010)
Loans, net of deferred fees	$53,817	$472,215	$526,032	$71,328	$458,823	$530,151

(1) Covered Loans were acquired in the Greater Atlantic transaction and are covered under an FDIC loss-share agreement.

Accounting policy related to the allowance for loan losses is considered a critical policy given the level of estimation, judgment, and uncertainty in evaluation of the levels of the allowance required to account for the inherent probable losses in the loan portfolio and the material effect such estimation, judgment, and uncertainty can have on the consolidated financial results.

As part of the 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." Non-covered loans included $41.3 million of loans acquired in the HarVest acquisition. Accretable discount on the acquired covered loans and the HarVest loans was $9.7 million and $11.7 million at September 30, 2013 and December 31, 2012, respectively.

Credit-impaired covered loans are those loans which presented evidence of credit deterioration at the date of acquisition and it is probable that Southern National would not collect all contractually required principal and interest payments. Generally, acquired loans that meet Southern National's definition for nonaccrual status fell within the definition of credit-impaired covered loans.

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

September 30, 2013	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$135	$229	$-	$7,543	$7,543	$-	$7,678	$7,772	$-
Commercial real estate - non-owner occupied (2)	1,432	2,302	-	365	457	-	1,797	2,759	-
Construction and land development	-	-	-	2,107	2,307	-	2,107	2,307	-
Commercial loans	43	73	-	2,496	2,966	-	2,539	3,039	-
Residential 1-4 family	1,546	1,909	-	2,917	3,217	-	4,463	5,126	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$3,156	$4,513	$-	$15,428	$16,490	$-	$18,584	$21,003	$-
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$-	$118	$218	$118	$118	$218	$118
Commercial real estate - non-owner occupied (2)	-	-	-	966	966	61	966	966	61
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	1,831	2,031	200	1,831	2,031	200
Residential 1-4 family	-	-	-	5,320	5,503	440	5,320	5,503	440
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$-	$8,235	$8,718	$819	$8,235	$8,718	$819
Grand total	$3,156	$4,513	$-	$23,663	$25,208	$819	$26,819	$29,721	$819

(1) Recorded investment is after cumulative prior charge offs of $1.3 million. These loans also have aggregate SBA guarantees of $1.2 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.

December 31, 2012	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$138	$234	$-	$3,318	$3,507	$-	$3,456	$3,741	$-
Commercial real estate - non-owner occupied (2)	2,114	3,543	-	1,705	2,010	-	3,819	5,553	-
Construction and land development	1,108	1,852	-	2,981	3,787	-	4,089	5,639	-

Commercial loans	212	359	-	5,212	5,769	-	5,424	6,128	-
Residential 1-4 family	1,555	1,805	-	3,368	3,921	-	4,923	5,726	-
Other consumer loans	-		-	-	-	-	-	-	-
Total	$5,127	$7,793	$-	$16,584	$18,994	$-	$21,711	$26,787	$-
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$-	$137	$237	$137	$137	$237	$137
Commercial real estate - non-owner occupied (2)	-	-	-	1,177	1,177	260	1,177	1,177	260
Construction and land development	-	-	-	-	-		-	-	-
Commercial loans	-	-	-	-	-		-	-	-
Residential 1-4 family	-	-	-	5,791	5,791	440	5,791	5,791	440
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$-	$7,105	$7,205	$837	$7,105	$7,205	$837
Grand total	$5,127	$7,793	$-	$23,689	$26,199	$837	$28,816	$33,992	$837

(1) Recorded investment is after cumulative prior charge offs of $2.1 million. These loans also have aggregate SBA guarantees of $2.6 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.

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The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three and nine months ended September 30, 2013 and 2012 (in thousands):

Three months ended September 30, 2013

	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	$135	$5	$7,564	$132	$7,699	$137
Commercial real estate - non-owner occupied (2)	1,448	30	365	9	1,813	39
Construction and land development	-	-	2,241	-	2,241	-
Commercial loans	44	1	2,408	26	2,452	27
Residential 1-4 family	1,504	19	2,917	35	4,421	54
Other consumer loans	-	-	-	-	-	-
Total	$3,131	$55	$15,495	$202	$18,626	$257
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$119	$4	$119	$4
Commercial real estate - non-owner occupied (2)	-	-	967	17	967	17
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	1,831	-	1,831	-
Residential 1-4 family	-	-	5,325	85	5,325	85
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$8,242	$106	$8,242	$106
Grand total	$3,131	$55	$23,737	$308	$26,868	$363

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

Three months ended September 30, 2012

	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	$133	$5	$677	$-	$810	$5
Commercial real estate - non-owner occupied (2)	2,339	13	2,049	17	4,388	30
Construction and land development	1,096	25	3,821	4	4,917	29
Commercial loans	208	5	3,724	28	3,932	33
Residential 1-4 family	1,162	5	4,132	24	5,294	29
Other consumer loans	-	-	-	-	-	-
Total	$4,938	$53	$14,403	$73	$19,341	$126

With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$285	$6	$285	$6
Commercial real estate - non-owner occupied (2)	-	-	1,303	27	1,303	27
Construction and land development	-	-	1,975	36	1,975	36
Commercial loans	-	-	-	-	-	-
Residential 1-4 family	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$3,563	$69	$3,563	$69
Grand total	$4,938	$53	$17,966	$142	$22,904	$195

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

Nine months ended September 30, 2013

	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	$136	$14	$6,144	$308	$6,280	$322
Commercial real estate - non-owner occupied (2)	1,464	92	373	28	1,837	120
Construction and land development	-	-	903	-	903	-
Commercial loans	44	4	1,718	47	1,762	51
Residential 1-4 family	1,464	53	2,892	101	4,356	154
Other consumer loans	-	-	-	-	-	-
Total	$3,108	$163	$12,030	$484	$15,138	$647
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$125	$13	$125	$13
Commercial real estate - non-owner occupied (2)	-	-	972	50	972	50
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	1,951	-	1,951	-
Residential 1-4 family	-	-	5,434	253	5,434	253
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$8,482	$316	$8,482	$316
Grand total	$3,108	$163	$20,512	$800	$23,620	$963

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

Nine months ended September 30, 2012

	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	$135	$14	$203	$-	$338	$14
Commercial real estate - non-owner occupied (2)	2,194	55	2,113	17	4,307	72
Construction and land development	1,085	76	3,410	50	4,495	126
Commercial loans	210	17	3,657	111	3,867	128
Residential 1-4 family	1,164	19	2,001	31	3,165	50
Other consumer loans	-	-	-	-	-	-
Total	$4,788	$181	$11,384	$209	$16,172	$390
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$286	$16	$286	$16

Commercial real estate - non-owner occupied (2)	-	-	1,435	78	1,435	78
Construction and land development	-	-	2,179	87	2,179	87
Commercial loans	-	-	-	-	-	-
Residential 1-4 family	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$3,900	$181	$3,900	$181
Grand total	$4,788	$181	$15,284	$390	$20,072	$571

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

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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, 2013 and December 31, 2012 (in thousands):

September 30, 2013	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	$315	$-	$-	$315	$-	$1,303	$1,618
Commercial real estate - non-owner occupied (1)	510	-	-	510	245	5,799	6,554
Construction and land development	-	-	-	-	-	4	4
Commercial loans	-	-	-	-	-	1,162	1,162
Residential 1-4 family	209	-	-	209	1,380	42,801	44,390
Other consumer loans	1	-	-	1	-	84	85
Total	$1,035	$-	$-	$1,035	$1,625	$51,153	$53,813
Non-covered loans:							
Commercial real estate - owner occupied	$3,896	$-	$-	$3,896	$-	$96,286	$100,182
Commercial real estate - non-owner occupied (1)	457	-	-	457	-	161,398	161,855
Construction and land development	1,383	18	-	1,401	2,108	28,363	31,872
Commercial loans	1,295	1,003	-	2,298	3,068	100,593	105,959
Residential 1-4 family	3,372	6,769	-	10,141	146	62,038	72,325
Other consumer loans	12	-	-	12	-	1,288	1,300
Total	$10,415	$7,790	$-	$18,205	$5,322	$449,966	$473,493
Total loans:							
Commercial real estate - owner occupied	$4,211	$-	$-	$4,211	$-	$97,589	$101,800
Commercial real estate - non-owner occupied (1)	967	-	-	967	245	167,197	168,409
Construction and land development	1,383	18	-	1,401	2,108	28,367	31,876
Commercial loans	1,295	1,003	-	2,298	3,068	101,755	107,121
Residential 1-4 family	3,581	6,769	-	10,350	1,526	104,839	116,715
Other consumer loans	13	-	-	13	-	1,372	1,385
Total	$11,450	$7,790	$-	$19,240	$6,947	$501,119	$527,306

December 31, 2012	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	$373	$-	$-	$373	$-	$3,770	$4,143

Commercial real estate - non-owner occupied (1)	151	2,321	-	2,472	-	8,388	10,860
Construction and land development	72	-	-	72	51	1,138	1,261
Commercial loans	143	-	-	143	1,963	566	2,672
Residential 1-4 family	257	-	-	257	1,555	50,485	52,297
Other consumer loans	-	-	-	-	-	88	88
Total	$996	$2,321	$-	$3,317	$3,569	$64,435	$71,321
Non-covered loans:							
Commercial real estate - owner occupied	$2,025	$-	$-	$2,025	$580	$90,683	$93,288
Commercial real estate - non-owner occupied (1)	861	-	-	861	626	148,918	150,405
Construction and land development	35	-	-	35	1,484	43,427	44,946
Commercial loans	1,164	191	-	1,355	4,469	93,257	99,081
Residential 1-4 family	3,586	2,888	-	6,474	469	63,554	70,497
Other consumer loans	150	-	-	150	-	1,473	1,623
Total	$7,821	$3,079	$-	$10,900	$7,628	$441,312	$459,840
Total loans:							
Commercial real estate - owner occupied	$2,398	$-	$-	$2,398	$580	$94,453	$97,431
Commercial real estate - non-owner occupied (1)	1,012	2,321	-	3,333	626	157,306	161,265
Construction and land development	107	-	-	107	1,535	44,565	46,207
Commercial loans	1,307	191	-	1,498	6,432	93,823	101,753
Residential 1-4 family	3,843	2,888	-	6,731	2,024	114,039	122,794
Other consumer loans	150	-	-	150	-	1,561	1,711
Total	$8,817	$5,400	$-	$14,217	$11,197	$505,747	$531,161

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

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Non-covered nonaccrual loans include SBA guaranteed amounts totaling $1.2 million and $2.6 million at September 30, 2013 and December 31, 2012, respectively.

Activity in the allowance for non-covered loan and lease losses for the three and nine months ended September 30, 2013 and 2012 is summarized below (in thousands):

Non-covered loans:	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
Three months ended September 30, 2013								
Allowance for loan losses:								
Beginning balance	$ 732	$ 1,090	$ 1,026	$ 2,742	$ 1,407	$ 55	$ 178	$ 7,230
Charge offs	-	-	(350)	(806)	-	(2)	-	(1,158)
Recoveries	4	87	1	23	4	1	-	120
Provision	(33)	(198)	484	552	49	-	346	1,200
Ending balance	$ 703	$ 979	$ 1,161	$ 2,511	$ 1,460	$ 54	$ 524	$ 7,392
Three months ended September 30, 2012								
Allowance for loan losses:								
Beginning balance	$ 625	$ 1,015	$ 1,474	$ 2,544	$ 885	$ 35	$ 77	$ 6,655
Charge offs	-	(1,049)	(338)	(211)	(300)	-	-	(1,898)
Recoveries	-	262	10	49	3	-	-	324
Provision	188	1,075	252	14	142	-	159	1,830
Ending balance	$ 813	$ 1,303	$ 1,398	$ 2,396	$ 730	$ 35	$ 236	$ 6,911

Non-covered loans:	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
Nine months ended September 30, 2013								
Allowance for loan losses:								
Beginning balance	$ 932	$ 1,474	$ 970	$ 2,110	$ 1,163	$ 33	$ 285	$ 6,967
Charge offs	-	(199)	(650)	(1,471)	(518)	(143)	-	(2,981)

Recoveries	12	138	7	97	126	2	-	382
Provision	(241)	(434)	834	1,775	689	162	239	3,024
Ending balance	$ 703	$ 979	$ 1,161	$ 2,511	$ 1,460	$ 54	$ 524	$ 7,392
Nine months ended September 30, 2012								
Allowance for loan losses:								
Beginning balance	$ 627	$ 1,011	$ 1,367	$ 2,227	$ 1,021	$ 42	$ -	$ 6,295
Charge offs	-	(1,081)	(1,618)	(1,378)	(522)	(6)	-	(4,605)
Recoveries	-	262	10	322	16	6	-	616
Provision	186	1,111	1,639	1,225	215	(7)	236	4,605
Ending balance	$ 813	$ 1,303	$ 1,398	$ 2,396	$ 730	$ 35	$ 236	$ 6,911

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

Activity in the allowance for covered loan and lease losses by class of loan for the three and nine months ended September 30, 2013 is summarized below (in thousands). There was no allowance for loan and lease losses for covered loans recorded in the nine months ended September 30, 2012.

Covered loans:	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
Three months ended September 30, 2013								
Allowance for loan losses:								
Beginning balance	$ -	$ 45	$ -	$ -	$ -	$ 21	$ -	$ 66
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	(12)	-	(12)
Provision	-	-	-	-	-	(3)	-	(3)
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51

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Covered loans: Nine months ended September 30, 2013	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	$ -	$ 45	$ -	$ 43	$ -	$ 11	$ -	$ 99
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	(35)	-	(4)	-	(39)
Provision	-	-	-	(8)	-	(1)	-	(9)
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Represents the portion of decreased expected losses which is covered by the loss sharing agreement with the FDIC.

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, 2013 and December 31, 2012 (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development (2)	Commercial Loans	1-4 Family Residential	Other Consumer Loans	Unallocated	Tota
September 30, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$118	$61	$300	$200	$440	$-	$-	$1,119
Collectively evaluated for impairment	585	918	861	2,311	1,020	54	524	6,27
Total ending allowance	$703	$979	$1,161	$2,511	$1,460	$54	$524	$7,39
Loans:								
Individually evaluated for impairment	$7,661	$1,331	$2,107	$4,327	$8,237	$-	$-	$23,66
Collectively evaluated for impairment	92,521	160,524	29,765	101,632	64,088	1,300	-	449,
Total ending loan balances	$100,182	$161,855	$31,872	$105,959	$72,325	$1,300	$-	$473,4
December 31, 2012								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$137	$260	$-	$-	$440	$-	$-	$837
Collectively evaluated for impairment	795	1,214	970	2,110	723	33	285	6,130
Total ending allowance	$932	$1,474	$970	$2,110	$1,163	$33	$285	$6,96

Loans:								
Individually evaluated for impairment	$3,455	$2,882	$2,981	$5,212	$9,159	$-	$-	$23,6
Collectively evaluated for impairment	89,833	147,523	41,965	93,869	61,338	1,623	-	436,
Total ending loan balances	$93,288	$150,405	$44,946	$99,081	$70,497	$1,623	$-	$459,

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes an allowance for a loan that was evaluated but not considered impaired at September 30, 2013.

The following tables present the balance in the allowance for covered loan losses and the recorded investment in covered loans by portfolio segment and based on impairment method as of September 30, 2013 and December 31, 2012 (in thousands):

Covered loans:	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, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	-	45	-	-	-	6	-	51
Total ending allowance	$-	$45	$-	$-	$-	$6	$-	$51
Loans:								
Individually evaluated for impairment	$135	$1,432	$-	$43	$1,546	$-	$-	$3,156
Collectively evaluated for impairment	1,483	5,122	4	1,119	42,844	85	-	50,657
Total ending loan balances	$1,618	$6,554	$4	$1,162	$44,390	$85	$-	$53,813
December 31, 2012								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$-	$-	$-	$-	$-	$-	$-	$-
Collectively evaluated for impairment	-	45	-	43	-	11	-	99
Total ending allowance	$-	$45	$-	$43	$-	$11	$-	$99
Loans:								
Individually evaluated for impairment	$138	$2,114	$1,108	$212	$1,555	$-	$-	$5,127
Collectively evaluated for impairment	4,005	8,746	153	2,460	50,742	88	-	66,194
Total ending loan balances	$4,143	$10,860	$1,261	$2,672	$52,297	$88	$-	$71,321

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

Troubled Debt Restructurings

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

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

Troubled debt restructurings as of September 30, 2013 and June 30, 2013 by class of loan consisted of the following (in thousands):

	September 30, 2013	June 30, 2013
Commercial real estate - owner-occupied	$ 710	$ 712
Construction and land loans	-	1,275
Total troubled debt restructurings	$ 710	$ 1,987

As of September 30, 2013, we had one commercial real estate owner-occupied loan modified in a troubled debt restructuring with an unpaid principal balance of $710 thousand which was restructured by reducing the principal portion of the contractual principal and interest payment without modifying the interest rate. This loan is 30-59 days delinquent as of September 30, 2013. There is no additional commitment to lend to this borrower. At June 30, 2013, we reported one construction and land loan modified in a troubled debt restructuring with an unpaid principal balance of $1.3 million which had defaulted subsequent to restructuring and was a nonaccrual loan. This loan was transferred to other real estate owned during the third quarter of 2013.

Credit Quality Indicators

Through its system of internal controls Southern National evaluates and segments loan portfolio credit quality on a quarterly basis using regulatory definitions for Special Mention, Substandard and Doubtful. Special Mention loans are considered to be criticized. Substandard and Doubtful loans are considered to be classified. Southern National had no loans classified Doubtful at September 30, 2013 or December 31, 2012.

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

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

As of September 30, 2013 and December 31, 2012, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

September 30, 2013	Covered Loans			Non-covered Loans				
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Clas Crit
Commercial real estate - owner occupied	$135	$1,483	$1,618	$807	$7,661	$91,714	$100,182	$8
Commercial real estate - non-owner occupied (2)	1,432	5,122	6,554	117	1,331	160,407	161,855	2
Construction and land development	-	4	4	632	2,107	29,133	31,872	2
Commercial loans	43	1,119	1,162	32	4,327	101,600	105,959	4
Residential 1-4 family	1,546	42,844	44,390	179	8,237	63,909	72,325	9
Other consumer loans	-	85	85	-	-	1,300	1,300	-
Total	$3,156	$50,657	$53,813	$1,767	$23,663	$448,063	$473,493	$2

December 31, 2012	Covered Loans			Non-covered Loans				
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Classi Critic
Commercial real estate - owner occupied	$138	$4,005	$4,143	$821	$3,455	$89,012	$93,288	$4,4
Commercial real estate - non-owner occupied (2)	2,114	8,746	10,860	-	2,882	147,523	150,405	4,9
Construction and land development	1,108	153	1,261	-	2,981	41,965	44,946	4,0
Commercial loans	212	2,460	2,672	32	5,212	93,837	99,081	5,4
Residential 1-4 family	1,555	50,742	52,297	-	9,159	61,338	70,497	10,
Other consumer loans	-	88	88	-	-	1,623	1,623	-
Total	$5,127	$66,194	$71,321	$853	$23,689	$435,298	$459,840	$29,

(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.
(3) Includes SBA guarantees of $1.2 million and $2.6 million as of September 30, 2013 and December 31, 2012 , respectively.

5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Southern National is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit 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 Southern National to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $7.1 million and $10.3 million as of September 30, 2013 and December 31, 2012, respectively.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit is based on the contractual amount of these instruments. We use the same credit policies in making commitments and conditional obligations as we do for on-balance sheet instruments. Unless noted otherwise, we do not require collateral or other security to support financial instruments with credit risk.

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

At September 30, 2013 and December 31, 2012, we had unfunded lines of credit and undisbursed construction loan funds totaling $98.3 million and $82.5 million, respectively. We had approved loan commitments of $25.8 million at September 30, 2013, and we had no approved loan commitments as of December 31, 2012. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

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 (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended September 30, 2013			
Basic EPS	$ 1,780	11,590	$0.15
Effect of dilutive stock options and warrants	-	47	-
Diluted EPS	$ 1,780	11,637	$0.15
For the three months ended September 30, 2012			
Basic EPS	$ 1,208	11,590	$0.10
Effect of dilutive stock options and warrants	-	7	-
Diluted EPS	$ 1,208	11,597	$0.10
For the nine months ended September 30, 2013			
Basic EPS	$ 4,862	11,590	$0.42
Effect of dilutive stock options and warrants	-	35	-
Diluted EPS	$ 4,862	11,625	$0.42
For the nine months ended September 30, 2012			
Basic EPS	$ 5,266	11,590	$0.45
Effect of dilutive stock options and warrants	-	4	-
Diluted EPS	$ 5,266	11,594	$0.45

There were 668,468 and 680,206 anti-dilutive options and warrants for the three and nine months ended September 30, 2013, respectively. Anti-dilutive options and warrants totaled 498,247 and 501,438 for the three and nine months ended September 30, 2012, 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, mortgage products 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 Southern National'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:

		Fair Value Measurements Using		
(dollars in thousands)	Total at September 30, 2013	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				
Obligations of states and political subdivisions	$ 2,020	$ -	$ 2,020	$ -

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2012	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				
Obligations of states and political subdivisions	$ 2,289	$ -	$ 2,289	$ -
FHLMC preferred stock	102	102	-	-
Total available-for-sale securities	$ 2,391	$ 102	$ 2,289	$ -

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 11.12% to 15.19% at

September 30, 2013. 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.

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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 three months ended September 30, 2013. The assumptions used in the analysis included a 3.4% prepayment speed, 10.2% default rate, a 47% loss severity and an accounting yield of 2.51% during the three months ended September 30, 2013.

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. Discounts have predominantly been in the range of 0% to 8.4%. In some cases liquidation expenses may be netted from the appraised value which may result in a 0% discount. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $23.7 million (including SBA guarantees of $1.2 million and HarVest loans of $365 thousand) as of September 30, 2013 with an allocated allowance for loan losses totaling $819 thousand compared to a carrying amount of $23.7 million (including SBA guarantees of $2.6 million) with an allocated allowance for loan losses totaling $837 thousand at December 31, 2012. Charge offs related to the impaired loans at September 30, 2013 totaled $923 thousand and $1.8 million for the three and nine months ended September 30, 2013, respectively, compared to $963 thousand and $2.6 million for the three and nine months ended September 30, 2012.

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. Discounts have predominantly been in the range of 0% to 6.6%. In some cases liquidation expenses may be netted from the appraised value which may result in a 0% discount. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At September 30, 2013, the total amount of OREO was $15.7 million, of which $12.7 million was non-covered (including $509 thousand acquired from HarVest) and $3.0 million was covered.

At December 31, 2012, the total amount of OREO was $13.8 million, of which $13.2 million was non-covered (including $744 thousand acquired from HarVest) and $636 thousand was covered.

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

(dollars in thousands)	Total at September 30, 2013	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:				
Commercial real estate - owner occupied	7,543			7,543
Commercial real estate - non-owner occupied (1)	1,270			1,270
Construction and land development	2,107			2,107
Commercial loans	4,127			4,127
Residential 1-4 family	7,797			7,797
Impaired covered loans:				
Commercial real estate - owner occupied	135			135
Commercial real estate - non-owner occupied (1)	1,432			1,432
Commercial loans	43			43
Residential 1-4 family	1,546			1,546
Non-covered other real estate owned:				
Commercial real estate - owner occupied	461			461
Commercial real estate - non-owner occupied (1)	1,342			1,342
Construction and land development	6,422			6,422
Residential 1-4 family	4,510			4,510
Covered other real estate owned:				
Commercial real estate - owner occupied	557			557
Commercial real estate - non-owner occupied (1)	2,200			2,200
Commercial	79			79
Residential 1-4 family	127			127

(dollars in thousands)	Total at December 31, 2012	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:				

Commercial real estate - owner occupied	$ 3,318	$ 3,318
Commercial real estate - non-owner occupied (1)	2,622	2,622
Construction and land development	2,981	2,981
Commercial loans	5,212	5,212
Residential 1-4 family	8,719	8,719
Impaired covered loans:		
Commercial real estate - owner occupied	138	138
Commercial real estate - non-owner occupied (1)	2,114	2,114
Construction and land development	1,108	1,108
Commercial loans	212	212
Residential 1-4 family	1,555	1,555
Non-covered other real estate owned:		
Commercial real estate - owner occupied	461	461
Commercial real estate - non-owner occupied (1)	1,342	1,342
Construction and land development	6,484	6,484
Residential 1-4 family	4,913	4,913
Covered other real estate owned:		
Commercial real estate - owner occupied	557	557
Commercial	79	79

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

Fair Value of Financial Instruments

The carrying amount, estimated fair values and fair value hierarchy levels (previously defined) of financial instruments were as follows (in thousands):

	Fair Value Hierarchy Level	September 30, 2013 Carrying Amount	September 30, 2013 Fair Value	December 31, 2012 Carrying Amount	December 31, 2012 Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$32,350	$32,350	$39,200	$39,200
Securities available for sale	See previous table	2,020	2,020	2,391	2,391
Securities held to maturity	Level 2 & Level 3	80,831	76,117	84,051	84,827
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	5,240	n/a	6,212	n/a
Net non-covered loans	Level 3	464,823	469,389	451,757	457,906
Net covered loans	Level 3	53,766	58,699	71,328	77,976
Accrued interest receivable	Level 2 & Level 3	1,973	1,973	2,455	2,455
FDIC indemnification asset	Level 3	5,338	3,622	6,735	6,735
Financial liabilities:					
Demand deposits	Level 1	70,237	70,237	72,418	72,418
Money market and savings accounts	Level 1	150,114	150,114	172,851	172,851
Certificates of deposit	Level 3	325,603	327,075	305,708	308,160
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	20,481	20,481	33,411	33,411
FHLB advances	Level 3	30,250	30,908	30,250	31,380
Accrued interest payable	Level 1 & Level 3	390	390	258	258

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. A discount for liquidity risk was not considered necessary in estimating the fair value of loans. 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 fair value of the FDIC indemnification asset was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium and represents the present value of our current expectation for recoveries from the FDIC on covered loans. 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. FDIC-ASSISTED ACQUISITION

On April 27, 2012, Sonabank entered into an agreement with the Federal Deposit Insurance Corporation ("FDIC") to assume all of the deposits and certain assets of HarVest Bank of Maryland ("HarVest") a state chartered non-Federal Reserve member commercial bank. HarVest operated four branches – North Rockville, Frederick, Germantown and Bethesda (all located in Maryland).

The assets and liabilities were recorded at their estimated fair values as of the April 27, 2012 acquisition date. A summary of the net assets acquired from the FDIC is as follows (in thousands):

Assets		
Cash and cash equivalents	$	21,704
Consideration due from the FDIC		25,553
Investment securities		38,379
Loans		64,966
Loans held for sale		7,568
Federal Home Loan Bank stock		1,167
Other real estate owned		750
Core deposit intangible		179
Other assets		576
Total assets acquired	$	160,842
Liabilities		
Deposits	$	140,484
FHLB advances		16,738
Other liabilities		136
Total liabilities	$	157,358
Net assets acquired (bargain purchase gain)	$	3,484

A valuation of the acquired loans and core deposit intangible was performed with the assistance of a third-party valuation consultant. The unpaid principal balance and fair value of performing loans was $67.4 million and $63.0 million, respectively. The discount of $4.4 million will be accreted through interest income over the life of the loans in accordance with Accounting Standards Codification (ASC) Topic 310-20. The unpaid principal balance and estimated fair value of acquired and retained non-performing loans was $5.3 million and $1.9 million, respectively. In accordance with ASC 310-30, the discount of $3.4 million for these credit impaired loans will not be accreted.

Because HarVest was a distressed financial institution that was seized by the FDIC, certain historical operating information is not available to us and the preparation of pro forma operating disclosures is not practicable.

The application of the acquisition method of accounting resulted in the recognition of a bargain purchase gain of $3.5 million, and the bargain purchase gain is equal to the amount by which the fair value of the net assets acquired exceeded the consideration transferred and is influenced significantly by the FDIC-assisted transaction process. However, the acquired loans in the HarVest transaction are not covered by an indemnification agreement with the FDIC.

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, 2012. Results of operations for the three and nine month periods ended September 30, 2013 are not necessarily indicative of results that may be attained for any other period.

FORWARD-LOOKING STATEMENTS

Statements and financial discussion and analysis contained in this Quarterly Report on Form 10-Q that are not statements of historical fact constitute forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. 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, 2012, factors that could contribute to those differences include, but are not limited to:

- the effects of future economic, business and market conditions and changes, domestic and foreign;
- changes in 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;
- 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, obligations of states and political subdivisions 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 and estimates underlying the establishment of and provisions made to the allowance for loan losses;
- our ability to expand and grow our business and operations, including the establishment of additional branches and acquisition of additional branches and banks, and our ability to realize the cost savings and revenue enhancements we expect from such activities;

changes in governmental monetary and fiscal policies, including interest rate policies of the Board of Governors of the Federal Reserve System, or 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;
the continued service of key management personnel;
the potential payment of interest on demand deposit accounts to effectively compete for customers;
potential environmental liability risk associated with lending activities;
increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
risks of mergers and acquisitions, including the related time and cost of implementing transactions and the potential failure to achieve expected gains, revenue growth or expense savings;
legislative and regulatory changes, including changes in banking, securities and tax laws and regulations and their application by our regulators, including those associated with the Dodd Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and changes in the scope and cost of Federal Deposit Insurance Corporation ("FDIC") insurance and other coverage;
increases in regulatory capital requirements for banking organizations generally, which may adversely affect our ability to expand our business or could cause us to shrink our business;
the effects of war or other conflicts, acts of terrorism or other catastrophic events that may affect general economic conditions;
changes in accounting policies, rules and practices and applications or determinations made thereunder;
the risk that our deferred tax assets could be reduced if future taxable income is less than currently estimated, if corporate tax rates in the future are less than current rates, or if sales of our capital stock trigger limitations on the amount of net operating loss carryforwards that we may utilize for income tax purposes; and
other factors and risks described under "Risk Factors" herein and in any of our subsequent reports that we make with the Securities and Exchange Commission (the "Commission" or "SEC") under the Exchange Act.

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. ("Southern National") 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 has fifteen branches in Virginia, located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Middleburg, Leesburg (2), South Riding, Front Royal, New Market, Haymarket, Richmond and Clifton Forge, and five branches in Maryland, in Rockville, Shady Grove, Germantown, Frederick and Bethesda. We have administrative offices in Warrenton and an executive office in Georgetown, Washington, D.C where senior management is located.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended September 30, 2013 was $1.8 million and $4.9 million for the nine months ended September 30, 2013. That compares to $1.2 million and $5.3 million for the three and nine months ended September 30, 2012.

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 $7.7 million in the quarter ended September 30, 2013 down from $8.1 million during the same period last year. Sonabank's net interest margin was 4.85% in the third quarter of 2013, down from 5.14% in the third quarter of 2012. Loan pricing at the margin has been brutally competitive as we wrote in the first quarter of 2013. It diminished somewhat in the second quarter but has intensified in the third. The competition seems to follow with a lag where the 10 year Treasury is trading. Average loans were $521.6 million in the third quarter compared to $505.1 in the second quarter of 2013 and $541.4 during the third quarter of 2012.

Net interest income was $22.9 million during the nine months ended September 30, 2013, compared to $23.6 million during the same period in the prior year. Average loans during the first nine months of 2013 were $513.6 million compared to $523.2 million during the same period last year. The Greater Atlantic Bank loan discount accretion contributed $1.2 million to net interest income during the first nine months of 2013, compared to $2.9 million during the nine months ended September 30, 2012. The loan discount accretion on the HarVest Bank portfolio contributed $1.5 million during the nine months ended September 30, 2013, compared to $412 thousand from the acquisition in the second quarter of 2012 through September 30, 2012.

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					
	9/30/2013			9/30/2012		
	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)	$521,569	$8,169	6.21 %	$541,405	$9,008	6.62 %
Investment securities	84,200	574	2.73 %	69,802	490	2.81 %
Other earning assets	26,617	104	1.55 %	17,520	102	2.32 %
Total earning assets	632,386	8,847	5.55 %	628,727	9,600	6.07 %
Allowance for loan losses	(7,896)			(7,246)		
Total non-earning assets	71,941			71,482		
Total assets	$696,431			$692,963		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW accounts	$22,720	15	0.26 %	$19,460	13	0.27 %
Money market accounts	141,317	97	0.27 %	167,313	333	0.79 %
Savings accounts	12,823	19	0.59 %	8,926	13	0.58 %
Time deposits	319,201	835	1.04 %	290,432	945	1.29 %
Total interest-bearing deposits	496,061	966	0.77 %	486,131	1,304	1.07 %
Borrowings	45,513	157	1.37 %	54,879	165	1.20 %
Total interest-bearing liabilities	541,574	1,123	0.82 %	541,010	1,469	1.08 %
Noninterest-bearing liabilities:						
Demand deposits	43,449			44,117		
Other liabilities	5,598			3,909		
Total liabilities	590,621			589,036		
Stockholders' equity	105,810			103,927		
Total liabilities and stockholders' equity	$696,431			$692,963		
Net interest income		7,724			8,131	
Interest rate spread			4.73 %			4.99 %
Net interest margin			4.85 %			5.14 %

(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

	9/30/2013				9/30/2012			
	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)	$513,577	$24,277	6.32	%	$523,182	$26,387	6.74	%
Investment securities	84,095	1,699	2.69	%	59,976	1,401	3.11	%
Other earning assets	41,230	443	1.44	%	16,689	247	1.98	%
Total earning assets	638,902	26,419	5.53	%	599,847	28,035	6.24	%
Allowance for loan losses	(7,619)				(7,075)			
Total non-earning assets	71,558				71,758			
Total assets	$702,841				$664,530			
Liabilities and stockholders' equity								
Interest-bearing liabilities:								
NOW accounts	$23,520	46	0.26	%	$18,431	46	0.33	%
Money market accounts	151,889	411	0.36	%	159,859	959	0.80	%
Savings accounts	11,232	48	0.57	%	7,873	35	0.60	%
Time deposits	315,522	2,581	1.09	%	277,455	2,763	1.33	%
Total interest-bearing deposits	502,163	3,086	0.82	%	463,618	3,803	1.10	%
Borrowings	46,182	465	1.35	%	51,270	628	1.64	%
Total interest-bearing liabilities	548,345	3,551	0.87	%	514,888	4,431	1.15	%
Noninterest-bearing liabilities:								
Demand deposits	44,313				40,986			
Other liabilities	5,380				6,694			
Total liabilities	598,038				562,568			
Stockholders' equity	104,803				101,962			
Total liabilities and stockholders' equity	$702,841				$664,530			
Net interest income		$22,868				$23,604		
Interest rate spread			4.66	%			5.09	%
Net interest margin			4.79	%			5.26	%

(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 historical loss factors to each segment. The historical loss factors may be qualitatively adjusted by considering regulatory and peer data, and the application of management's judgment.

The provision for loan losses in the third quarter of 2013 was $1.2 million, down from $1.8 million in the third quarter of 2012. For the nine months ended September 30, 2013, the provision for loan losses was $3.0 million compared to $4.6 million for the same period last year.

Net charge offs during the quarter ended September 30, 2013 were $1.0 million compared to $1.6 million during the third quarter of 2012. Net charge offs during the nine months ended September 30, 2013 were $2.6 million compared to $4.0 million during the same period last year.

Noninterest Income

The following tables present the major categories of noninterest income for the three and nine months ended September 30, 2013 and 2012:

	For the Three Months Ended September 30,		
	2013	2012	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$198	$222	$(24)
Income from bank-owned life insurance	147	148	(1)
Net gain on sale of available for sale securities	-	287	(287)
Net impairment losses recognized in earnings	-	(480)	480
Other	30	63	(33)
Total noninterest income	$375	$240	$135

	For the Nine Months Ended September 30,		
	2013	2012	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$593	$624	$(31)
Income from bank-owned life insurance	445	649	(204)
Bargain purchase gain on acquisition	-	3,484	(3,484)
Gain on sale of loans	-	657	(657)
Gain on other assets	13	14	(1)
Net gain on sale of available for sale securities	142	274	(132)
Net impairment losses recognized in earnings	(3)	(717)	714
Other	169	198	(29)
Total noninterest income	$1,359	$5,183	$(3,824)

During the third quarter of 2013 we had noninterest income of $375 thousand compared to noninterest income of $240 thousand during the third quarter of 2012. The increase was primarily related to OTTI charges on trust preferred securities in the amount of $480 thousand which was partially offset by a gain on the sale of SBA pooled securities in the amount of $287 thousand during the third quarter of 2012.

Noninterest income decreased to $1.4 million in the first nine months of 2013 from $5.2 million in the first nine months of 2012. The decrease resulted primarily from the bargain purchase gain of $3.5 million from the HarVest transaction in the second quarter of 2012. In addition, there were OTTI charges of $717 thousand in trust preferred securities during the nine months ended September 30, 2012, compared to $3 thousand in OTTI charges during the first nine months of 2013. Income from bank owned life insurance (“BOLI”) contributed $445 thousand during the first nine months of 2013 compared to $649 thousand the same period in 2012. The first nine months of 2012 was affected by a death benefit. Also, during the nine months ended September 30, 2012, the bank sold the guaranteed portions of SBA loans and realized a $657 thousand gain.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three and nine months ended September 30, 2013 and 2012:

	For the Three Months Ended September 30,		
	2013	2012	Change
	(dollars in thousands)		
Salaries and benefits	$ 2,338	$ 2,073	$ 265
Occupancy expenses	768	753	15
Furniture and equipment expenses	197	149	48
Amortization of core deposit intangible	123	236	(113)
Virginia franchise tax expense	115	145	(30)
Merger expenses	-	11	(11)
FDIC assessment	218	146	72
Data processing expense	131	175	(44)
Telephone and communication expense	166	183	(17)
Change in FDIC indemnification asset	113	242	(129)
Net gain on other real estate owned	(698)	(24)	(674)
Other operating expenses	790	665	125
Total noninterest expense	$ 4,261	$ 4,754	$ (493)

	For the Nine Months Ended September 30,		
	2013	2012	Change
	(dollars in thousands)		
Salaries and benefits	$ 6,760	$ 5,868	$ 892
Occupancy expenses	2,280	2,040	240
Furniture and equipment expenses	524	448	76
Amortization of core deposit intangible	368	694	(326)
Virginia franchise tax expense	357	436	(79)
Merger expenses	-	360	(360)
FDIC assessment	676	417	259
Data processing expense	433	474	(41)
Telephone and communication expense	507	418	89
Change in FDIC indemnification asset	350	481	(131)
Net (gain) loss on other real estate owned	(580)	2,376	(2,956)
Other operating expenses	2,334	2,417	(83)
Total noninterest expense	$ 14,009	$ 16,429	$ (2,420)

Noninterest expenses were $4.3 million and $14.0 million during the third quarter and the first nine months of 2013, respectively, compared to $4.8 million and $16.4 million during the same periods in 2012. When we purchased HarVest during the second quarter of 2012 we established a fair market value on its OREO of $750 thousand which was the bid for the OREO from the buyer of the HarVest loans which we sold. We allocated all of that to a single property which we believed to be the most likely to sell. That property has not yet sold, and during the third quarter of 2013 we recognized impairment in the value of the property in the amount of $200 thousand. But this quarter we did sell two properties which had negligible carrying value for a gain of $1.1 million. This was partially offset by the recognition of impairment in the value of two other properties in the amount of $200 thousand.

Noninterest expenses for the nine months ended September 30, 2012, included the recognition of impairment in the values of five OREO properties in the Charlottesville market and one in the Culpeper market in the amount of $2.2 million. Also affecting the second quarter of 2012 were merger expenses relating to the HarVest transaction totaling $360 thousand. Occupancy and furniture and equipment expenses were $2.8 million during the first nine months of 2013, compared to $2.5 million during 2012. Of this increase, $379 thousand resulted from operating five additional branches, four from the HarVest acquisition and one denovo. In addition, salaries and benefits expense has increased $892 thousand during the nine months ended September 30, 2013, compared to 2012 due to the HarVest acquisition and other additional personnel. Full-time equivalent employees have increased from 138 at September 30, 2012, to 140 at September 30, 2013. Audit and accounting fees, which are included in "other operating expenses", have decreased from $680 thousand during the nine months ended September 30, 2012 to $351 thousand during the first nine months of 2013. These fees were abnormally high in 2012 because of the restatement of 2010 and 2009 financial statements.
This decrease was partially offset by increases in foreclosure related expenses.

The efficiency ratio was 60.60% during the nine months ended September 30, 2013 compared to 56.48% during the first nine months of 2012.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $707.9 million as of September 30, 2013 compared to $723.8 million as of December 31, 2012. Loans receivable, net of deferred fees, decreased from $530.1 million at the end of 2012 to $526.0 million at September 30, 2013. Within that total, covered loans declined by $17.5 million while the non-covered loan portfolio increased by $13.4 million.

Total deposits were $546.0 million at September 30, 2013 compared to $551.0 million at December 31, 2012. Certificates of deposit increased $19.9 million during the nine months. This was offset by a decrease in money market accounts of $27.1 million during the nine months ended September 30, 2013. Noninterest-bearing deposits were $46.5 million at September 30, 2013 and $49.6 million at December 31, 2012. Noninterest-bearing deposits were historically high at December 31, 2012, primarily because of large balances held by title companies.

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.”

The following table summarizes the composition of our loan portfolio as of September 30, 2013 and December 31, 2012:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	September 30, 2013			December 31, 2012		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$1,618	$ 100,182	$101,800	$4,143	$ 93,288	$97,431
Commercial real estate - non-owner-occupied	5,863	139,773	145,636	10,246	130,152	140,398
Secured by farmland	101	512	613	-	1,479	1,479
Construction and land loans	4	31,872	31,876	1,261	44,946	46,207
Residential 1-4 family	17,933	65,658	83,591	21,005	61,319	82,324
Multi- family residential	590	21,570	22,160	614	18,774	19,388
Home equity lines of credit	26,457	6,667	33,124	31,292	9,178	40,470
Total real estate loans	52,566	366,234	418,800	68,561	359,136	427,697
Commercial loans	1,162	105,959	107,121	2,672	99,081	101,753
Consumer loans	85	1,300	1,385	88	1,623	1,711
Gross loans	53,813	473,493	527,306	71,321	459,840	531,161
Less deferred fees on loans	4	(1,278)	(1,274)	7	(1,017)	(1,010)
Loans, net of deferred fees	$53,817	$ 472,215	$526,032	$71,328	$ 458,823	$530,151

(1) Covered Loans were acquired in the Greater Atlantic transaction and are covered under an FDIC loss-share agreement.

As of September 30, 2013 and December 31, 2012, 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.

Loans, net of deferred fees, decreased $4.1 million from $530.2 million at the end of 2012 to $526.0 million at September 30, 2013, but increased $16.0 million from March 31, 2013. We had payoffs of large loans of approximately $19.8 million and $5.1 million in foreclosures during the last two quarters. However, that was offset during the second and third quarters by very strong loan closings of $57.0 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 and the relatively short period of time since the loans were originated. Whether our loss and delinquency experience in the area of our portfolio will increase significantly depends upon the value of the real estate securing loans and economic factors such as the overall economy of the region.

Non-covered Loans and Assets

Non-covered loans evaluated for impairment totaled $23.7 million with allocated allowance for loan losses in the amount of $819 thousand as of September 30, 2013, including $5.3 million of nonaccrual loans. This compares to $23.7 million of impaired loans with allocated allowance for loan losses in the amount of $837 thousand at December 31, 2012, including $7.6 million of nonaccrual loans. The nonaccrual loans included SBA guaranteed amounts of $1.2 million and $2.6 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012 there were no loans past due 90 days or more and accruing interest.

Non-covered nonperforming assets decreased from $20.8 million at December 31, 2012 to $18.1 million at September 30, 2013.

Non-covered OREO as of September 30, 2013 was $12.7 million compared to $13.2 million as of the end of the previous year. During the three months ended September 30, 2013 we had two foreclosures in the non-covered portfolio in the amount of $1.4 million and OREO sales of $1.4 million. For the nine months ended September 30, 2013 we had six foreclosures in the non-covered portfolio totaling $3.1 million and OREO sales of $3.9 million.

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. While charge-offs on loans are down significantly overall, we have experienced an increase in past due loans in our 1-4 family residential portfolio primarily attributable to one large single family loan. Based primarily on this uncertainty, we feel it prudent at this time to continue to maintain an elevated overall allowance for loan loss percentage and coverage ratio as noted in the table below. We believe the allowance for loan losses is sufficient to cover probable incurred credit losses at September 30, 2013.

The following table presents a comparison of non-covered nonperforming assets as of September 30, 2013 and December 31, 2012 (in thousands):

	September 30, 2013		December 31, 2012	
Nonaccrual loans	$ 5,322		$ 7,628	
Loans past due 90 days and accruing interest	-		-	
Total nonperforming loans	5,322		7,628	
Other real estate owned	12,736		13,200	
Total nonperforming assets	$ 18,058		$ 20,828	
SBA guaranteed amounts included in nonaccrual loans	$ 1,237		$ 2,607	
Allowance for loan losses to nonperforming loans	138.90	%	91.33	%
Allowance for loan losses to total non-covered loans	1.57	%	1.52	%
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	2.58	%	2.80	%

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

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

Troubled debt restructurings as of September 30, 2013 and June 30, 2013 by class of loan consisted of the following (in thousands):

	September 30, 2013	June 30, 2013
Commercial real estate - owner-occupied	$ 710	$ 712
Construction and land loans	-	1,275
Total troubled debt restructurings	$ 710	$ 1,987

As of September 30, 2013, we had one commercial real estate owner-occupied loan modified in a troubled debt restructuring with an unpaid principal balance of $710 thousand which was restructured by reducing the principal portion of the contractual principal and interest payment without modifying the interest rate. This loan is 30-59 days delinquent as of September 30, 2013. There is no additional commitment to lend to this borrower. At June 30, 2013, we reported one construction and land loan modified in a troubled debt restructuring with an unpaid principal balance of $1.3 million which had defaulted subsequent to restructuring and was a nonaccrual loan. This loan was transferred to other real estate owned during the third quarter of 2013.

Covered Loans and Assets

Covered loans identified as impaired totaled $3.2 million as of September 30, 2013 and $5.1 million at December 31, 2012. Nonaccrual loans were $1.6 million and $3.6 million at September 30, 2013 and December 31, 2012, respectively. At September 30, 2013 and December 31, 2012, there were no loans past due 90 days or more and accruing interest.

Covered OREO as of September 30, 2013 was $3.0 million compared to $636 thousand as of the end of 2012. In the covered portfolio we had one foreclosure during the three months ended September 30, 2013 in the amount of $127 thousand and during the nine months had three foreclosures totaling $4.2 million. In the second quarter of 2013, we sold the property foreclosed on in the first quarter of 2013 for $1.9 million which resulted in a small gain.

Securities

Investment securities, available for sale and held to maturity, were $82.9 million at September 30, 2013 and $86.4 million at December 31, 2012.

Investment activity during the first nine months of 2013 was concentrated on municipal bonds (as it was in the fourth quarter of 2012) and to a lesser extent on callable agencies. The yields available on FNMA and FHLMC mortgage pass through securities where we have historically invested excess cash have been adversely affected by the Federal Reserve Board's third round of quantitative easing and its purchases of $40 billion a month in mortgage-backed securities. The yields on higher quality, bank qualified municipal bonds have been significantly higher on a taxable equivalent basis although they do entail some extension risk. We went into the strategy of investing in municipals with an overall asset sensitive balance sheet and are monitoring it to ensure we do not get outside our risk tolerance level. Through the end of the third quarter of 2013, we had assembled a portfolio of $13.0 million with a taxable equivalent yield of 3.02% and ratings as follows:

Rating Service	Rating	Amount (in thousands)
Moody's	Aaa	$ 505
Moody's	Aa2	3,206
Moody's	Aa3	723
Standard & Poor's	AAA	2,673
Standard & Poor's	AA	3,676
Standard & Poor's	AA-	2,228
		$ 13,011

In accordance with regulatory guidance we have performed an independent analysis on each security and monitor the portfolio on an ongoing basis.

As of September 30, 2013 we owned pooled trust preferred securities as follows:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)
						(in thousands)				
ALESCO VII A1B	Senior	Aaa	AAA	Baa3	BB	$6,654	$6,020	$4,077	16%	$281

MMCF III B	Senior Sub	A3	A-	Ba1	CC	421	413	241	30%	8	
						7,075	6,433	4,318		$289	
										Cumulative Other Comprehensive Loss (2)	Cum C Re C L
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	515	512	41%	626	$3
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,140	56	104	39%	791	1
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	76	29%	7	2
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,084	27	239	30%	366	6
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	586	18%	1,014	6
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,222	30	105	35%	633	2
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,143	119	572	15%	844	1
						14,278	1,222	2,194		$4,281	$8
Total						$21,353	$7,655	$6,512			

(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

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Each of these securities has been evaluated for potential impairment under Accounting Standards Codification Topic 325. In performing a detailed cash flow analysis of each security, Sonabank works with independent third parties to identify the most reflective estimate of the cash flow estimated to be collected. If this estimate results in a present value of expected cash flows that is less than the amortized cost basis of a security (that is, credit loss exists), an OTTI is considered to have occurred. If there is no credit loss, any impairment is considered temporary.

We recognized no OTTI charges during the third quarter of 2013 and recognized OTTI charges of $3 thousand during the first nine months of 2013 compared to OTTI charges related to credit on the trust preferred securities totaling $480 thousand and $717 thousand during the same periods of 2012.

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 cash flow forecast for one year with the first three months prepared on a weekly basis and on a monthly basis thereafter. The projections incorporate all scheduled maturities of loans excluding impaired loans and all scheduled maturities of out of area certificates of deposit. In addition, prepayments on investment securities are estimated by using a projection produced by our bond accounting system. To estimate loan growth over the one year period, the projection incorporates the scheduled loan closings in the Loan Pipeline Report along with other management estimates.

During the nine months ended September 30, 2013, 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, 2013, we had $98.3 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $25.8 million at September 30, 2013. 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, 2013									
Southern National									
Tier 1 risk-based capital ratio	$98,937	19.15	%	$20,661	4.00	%	$30,991	6.00	%
Total risk-based capital ratio	105,391	20.40	%	41,321	8.00	%	51,652	10.00	%
Leverage ratio	98,937	14.41	%	27,471	4.00	%	34,339	5.00	%
Sonabank									
Tier 1 risk-based capital ratio	$98,266	19.04	%	$20,650	4.00	%	$30,974	6.00	%
Total risk-based capital ratio	104,717	20.28	%	41,299	8.00	%	51,624	10.00	%
Leverage ratio	98,266	14.31	%	27,459	4.00	%	34,325	5.00	%
December 31, 2012									
Southern National									
Tier 1 risk-based capital ratio	$95,539	18.33	%	$20,853	4.00	%	$31,280	6.00	%
Total risk-based capital ratio	102,048	19.57	%	41,707	8.00	%	52,133	10.00	%
Leverage ratio	95,539	13.69	%	27,908	4.00	%	34,884	5.00	%
Sonabank									
Tier 1 risk-based capital ratio	$94,754	18.18	%	$20,842	4.00	%	$31,264	6.00	%
Total risk-based capital ratio	101,260	19.43	%	41,685	8.00	%	52,106	10.00	%
Leverage ratio	94,754	13.59	%	27,896	4.00	%	34,871	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.

In June 2012, the Office of the Comptroller of the Currency, the Federal Reserve and the FDIC proposed rules that would revise and replace the current capital rules to align with the Basel III capital standards and meet certain requirements of the Dodd-Frank Act. In July 2013, the Federal Reserve approved revisions to its Basel III capital adequacy guidelines. The final rule requires Southern National and Sonabank to comply with the following new minimum capital ratios, effective January 1, 2015:

(1) a new common equity tier 1 capital ratio of 4.5% of risk-weighted assets;
(2) a tier 1 capital ratio of 6% of risk-weighted assets (increased from 4%);
(3) a total capital ratio of 8% of risk-weighted assets (unchanged);
(4) a leverage ratio of 4% of average total assets (unchanged).

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 simulation modeling 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 economic value of equity (EVE) over a range of interest rate scenarios. EVE is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts using assumptions about estimated loan prepayment rates, reinvestment rates and deposit decay rates.

During the fourth quarter of 2012, we converted to an enhanced model with FTN Financial that uses detailed data on loans and deposits that is extracted directly from the loan and deposit applications and requires more detailed assumptions about interest rates on new volumes. The new model also accommodates the analysis of floors, ceilings, etc. on a loan-by-loan basis. The greater level of input detail provides more meaningful reports compared to the summarized input data previously used.

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in EVE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of September 30, 2013 and as of December 31, 2012, and all changes are within our ALM Policy guidelines:

Sensitivity of Economic Value of Equity
As of September 30, 2013

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Economic Value of Equity as a % of Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$104,569	$(12,013)	-10.30 %	14.77 %	98.68 %
Up 300	106,882	(9,700)	-8.32 %	15.10 %	100.86 %
Up 200	110,097	(6,485)	-5.56 %	15.55 %	103.89 %
Up 100	114,955	(1,627)	-1.40 %	16.24 %	108.48 %
Base	116,582	-	0.00 %	16.47 %	110.01 %
Down 100	113,630	(2,952)	-2.53 %	16.05 %	107.23 %
Down 200	110,226	(6,356)	-5.45 %	15.57 %	104.01 %

Sensitivity of Economic Value of Equity
As of December 31, 2012

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Economic Value of Equity as a % of Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$105,710	$(11,198)	-9.58 %	14.60 %	102.46 %
Up 300	107,601	(9,307)	-7.96 %	14.87 %	104.29 %
Up 200	110,442	(6,466)	-5.53 %	15.26 %	107.04 %
Up 100	115,426	(1,482)	-1.27 %	15.95 %	111.87 %
Base	116,908	-	0.00 %	16.15 %	113.31 %
Down 100	111,153	(5,755)	-4.92 %	15.36 %	107.73 %
Down 200	111,252	(5,656)	-4.84 %	15.37 %	107.83 %

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, 2013 and December 31, 2012 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, 2013

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	$ 32,005	$ 6,047	4.78 %	0.88 %
Up 300	30,024	4,066	4.49 %	0.59 %
Up 200	28,150	2,192	4.22 %	0.32 %
Up 100	26,762	804	4.02 %	0.12 %
Base	25,958	-	3.90 %	0.00 %
Down 100	25,963	5	3.90 %	0.00 %
Down 200	25,645	(313)	3.85 %	-0.05 %

Sensitivity of Net Interest Income
As of December 31, 2012

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	$ 34,211	$ 6,829	4.93 %	0.97 %
Up 300	32,008	4,626	4.62 %	0.66 %
Up 200	29,925	2,543	4.33 %	0.37 %
Up 100	28,423	1,041	4.11 %	0.15 %
Base	27,382	-	3.96 %	0.00 %
Down 100	27,663	281	4.00 %	0.04 %
Down 200	27,755	373	4.02 %	0.06 %

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in EVE requires the making of certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. Accordingly, although the EVE tables and 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 EVE 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 upon that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

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

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

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Southern National and Sonabank may, from time to time, be a party to various legal proceedings arising in the ordinary course of business. There are no proceedings pending, or to management's knowledge, threatened, against Southern National or Sonabank as of September 30, 2013.

ITEM 1A – RISK FACTORS

As of September 30, 2013 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, 2012.

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

Not applicable

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. – OTHER INFORMATION

Not applicable

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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.

* 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 12, 2013 (Date)	/s/ Georgia S. Derrico Georgia S. Derrico, Chairman of the Board and Chief Executive Officer
November 12, 2013 (Date)	/s/ William H. Lagos William H. Lagos, Senior Vice President and Chief Financial Officer

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