# 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, 2007**

**Commission File No. 001-33037**

# SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

**(Exact name of registrant as specified in its charter)**

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

**1770 Timberwood Boulevard**

**Suite 100**

**Charlottesville, Virginia 22911**

**(Address of principal executive offices) (zip code)**

**(434) 973-5242**

**(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 ¨

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

Large accelerated filer ¨ Accelerated filer ¨ Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2007, there were 6,798,547 shares of common stock outstanding.

**SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.**

**FORM 10-Q**

**September 30, 2007**

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**ITEM I - FINANCIAL INFORMATION**

**PART I - FINANCIAL STATEMENTS**

**SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.**

**CONSOLIDATED BALANCE SHEETS**

*(dollars in thousands) (Unaudited)*

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **ASSETS** | | |
| **Cash and cash equivalents:** | | |
| Cash and due from financial institutions | $ 1,016 | $ 3,306 |
| Interest-bearing deposits in other financial institutions | 632 | 4,820 |
| **Total cash and cash equivalents** | 1,648 | 8,126 |
| **Securities available for sale, at fair value** | 27,663 | 20,882 |
| **Securities held to maturity, at amortized cost (fair value of $34,135 and $35,331, respectively)** | 33,947 | 35,623 |
| **Loans, net of unearned income** | 243,262 | 204,544 |
| Less allowance for loan losses | (3,166) | (2,726) |
| **Net loans** | 240,096 | 201,818 |
| **Stock in Federal Reserve Bank and Federal Home Loan Bank** | 3,646 | 2,446 |
| **Bank premises and equipment, net** | 3,609 | 3,499 |
| **Goodwill** | 8,713 | 10,423 |
| **Core deposit intangibles, net** | 4,049 | 5,295 |
| **Bank-owned life insurance** | 12,702 | |
| **Other real estate owned** | 3,946 | |
| **Deferred tax assets, net** | 2,771 | 12 |
| **Other assets** | 3,465 | 2,450 |
| **Total assets** | $ 346,255 | $ 290,574 |
| **LIABILITIES AND STOCKHOLDERS EQUITY** | | |
| **Noninterest-bearing demand deposits** | $ 17,858 | $ 19,216 |
| **Interest-bearing deposits:** | | |
| NOW accounts | 5,934 | 9,639 |
| Money market accounts | 48,722 | 32,567 |
| Savings accounts | 2,475 | 2,853 |
| Time deposits | 165,122 | 151,529 |
| **Total interest-bearing deposits** | 222,253 | 196,588 |
| **Total deposits** | 240,111 | 215,804 |

| | | |
|---|---|---|
| **Short-term borrowings** | 14,356 | 5,033 |
| **Long-term borrowings** | 20,000 | |
| **Other liabilities** | 2,282 | 1,510 |
| **Total liabilities** | 276,749 | 222,347 |
| **Commitments and contingencies** | | |
| **Stockholders equity:** | | |
| Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding, 6,798,547 shares at September 30, 2007 and December 31, 2006 | 68 | 62 |
| Additional paid in capital | 69,434 | 69,436 |
| Retained earnings (accumulated deficit) | 342 | (1,247) |
| Accumulated other comprehensive income (loss) | (338) | (24) |
| **Total stockholders equity** | 69,506 | 68,227 |
| **Total liabilities and stockholders equity** | $ 346,255 | $ 290,574 |

*See accompanying notes to consolidated financial statements.*

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**SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.**

**CONSOLIDATED STATEMENTS OF INCOME**

*(dollars in thousands, except per share amounts) (Unaudited)*

| | For the Three Months Ended September 30, | | For the Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2007 | 2006 | 2007 | 2006 |
| **Interest and dividend income:** | | | | |
| Interest and fees on loans | $ 4,565 | $ 2,130 | $ 12,923 | $ 5,551 |
| Interest and dividends on securities | 904 | 550 | 2,503 | 1,484 |
| Interest and dividends on other earning assets | 80 | 37 | 225 | 130 |
| **Total interest and dividend income** | 5,549 | 2,717 | 15,651 | 7,165 |
| **Interest expense:** | | | | |
| Interest on deposits | 2,689 | 1,226 | 7,452 | 2,845 |
| Interest on short-term borrowings | 190 | 79 | 416 | 303 |
| **Total interest expense** | 2,879 | 1,305 | 7,868 | 3,148 |
| **Net interest income** | 2,670 | 1,412 | 7,783 | 4,017 |
| **Provision for loan losses** | 270 | 80 | 845 | 366 |
| **Net interest income after provision for loan losses** | 2,400 | 1,332 | 6,938 | 3,651 |
| **Noninterest income:** | | | | |
| Account maintenance and deposit service fees | 88 | 42 | 238 | 128 |
| Income from bank-owned life insurance | 121 | | 202 | |
| Other | 15 | 8 | 76 | 40 |
| **Total noninterest income** | 224 | 50 | 516 | 168 |
| **Noninterest expenses:** | | | | |
| Salaries and benefits | 872 | 527 | 2,463 | 1,556 |
| Occupancy expenses | 276 | 91 | 809 | 273 |
| Furniture and equipment expenses | 112 | 77 | 326 | 222 |
| Amortization of core deposit intangible | 182 | 108 | 545 | 326 |
| Virginia franchise tax expense | 137 | 52 | 412 | 159 |
| Data processing expense | 54 | 43 | 168 | 124 |
| Telephone and communication expense | 61 | 42 | 163 | 129 |
| Other operating expenses | 294 | 135 | 863 | 402 |
| **Total noninterest expenses** | 1,988 | 1,075 | 5,749 | 3,191 |
| Income before income taxes | 636 | 307 | 1,705 | 628 |
| Income tax expense | 169 | | 116 | |
| **Net income** | $ 467 | $ 307 | $ 1,589 | $ 628 |
| **Earnings per share, basic** | $ 0.07 | $ 0.08 | $ 0.23 | $ 0.16 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Earnings per share, diluted** | $ | 0.07 | $ | 0.08 | $ | 0.23 | $ | 0.16 |

*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, 2007 AND 2006**

*(dollars in thousands) (Unaudited)*

| | Common Stock | Additional Paid in Capital | Retained Earnings (Accumulated Deficit) | Accumulated Other Comprehensive Income (Loss) | Comprehensive Income | Total |
|---|---|---|---|---|---|---|
| **Balance - January 1, 2006** | $ 35 | $ 34,537 | $ (2,256) | $ (3) | | $ 32,313 |
| **Comprehensive income:** | | | | | | |
| **Net income** | | | 628 | | $ 628 | 628 |
| **Change in unrealized gain (loss) on available for sale securities (net of tax, $10)** | | | | (20) | (20) | (20) |
| **Total comprehensive income** | | | | | $ 608 | |
| **Balance - September 30, 2006** | $ 35 | $ 34,537 | $ (1,628) | $ (23) | | $ 32,921 |
| **Balance - January 1, 2007** | $ 62 | $ 69,436 | $ (1,247) | $ (24) | | $ 68,227 |
| **Comprehensive income:** | | | | | | |
| **Net income** | | | 1,589 | | $ 1,589 | 1,589 |
| **Stock-based compensation expense** | | 4 | | | | 4 |
| **Issuance of common stock for stock dividend** | $ 6 | (6) | | | | |
| **Change in unrealized gain (loss) on available for sale securities (net of tax, $162)** | | | | (314) | (314) | (314) |
| **Total comprehensive income** | | | | | $ 1,275 | |
| **Balance - September 30, 2007** | $ 68 | $ 69,434 | $ 342 | $ (338) | | $ 69,506 |

*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, 2007 AND 2006**

*(dollars in thousands) (Unaudited)*

| | 2007 | 2006 |
|---|---|---|
| **Operating activities:** | | |
| Net income | $ 1,589 | $ 628 |
| Adjustments to reconcile net income to net cash and cash equivalents provided in operating activities: | | |
| Depreciation | 335 | 221 |
| Amortization , net | 407 | 313 |
| Provision for loan losses | 845 | 366 |
| Income on bank-owned life insurance | (202) | |
| Stock option expense | 4 | |
| Other, net | 176 | (383) |
| **Net cash and cash equivalents provided by operating activities** | 3,154 | 1,145 |
| **Investing activities:** | | |
| Purchases of securities available for sale | (11,008) | (6,588) |
| Proceeds from paydowns of securities available for sale | 3,871 | 1,052 |
| Purchases of securities held to maturity | (6,940) | (1,967) |
| Proceeds from paydowns of securities held to maturity | 8,739 | 3,840 |
| Net increase in loans | (43,779) | (30,917) |
| Purchase of bank-owned life insurance | (12,500) | |
| Net increase in stock in Federal Reserve Bank and Federal Home Loan Bank | (1,200) | (381) |
| Purchases of bank premises and equipment | (445) | (61) |
| **Net cash and cash equivalents used in investing activities** | (63,262) | (35,022) |
| **Financing activities:** | | |
| Net increase (decrease) in noninterest-bearing deposits | (1,358) | 442 |
| Net increase in interest-bearing deposits | 25,665 | 37,447 |
| Proceeds from Federal Home Loan Bank convertible advances | 20,000 | |
| Net increase (decrease) in short-term borrowings | 9,323 | (4,183) |
| **Net cash and cash equivalents provided by financing activities** | 53,630 | 33,706 |
| **Decrease in cash and cash equivalents** | (6,478) | (171) |
| **Cash and cash equivalents at beginning of period** | 8,126 | 1,663 |
| **Cash and cash equivalents at end of period** | $ 1,648 | $ 1,492 |
| **Supplemental Disclosure of Cash Flow Information** | | |
| Cash payments for: | | |
| Interest | $ 7,228 | $ 2,825 |
| Income taxes | 1,009 | |
| **Supplemental schedule of noncash investing and financing activities** | | |
| Transfer from loans to other real estate owned | $ 4,251 | $ |
| Transfer from deferred tax valuation allowance to goodwill | 1,945 | |

*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, 2007**

**1. ACCOUNTING POLICIES**

Southern National Bancorp of Virginia, Inc. ( SNBV ) is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank, N. A. ( Sonabank ) a national bank chartered on April 14, 2005, under the laws of the United States of America. The principal activities of Sonabank are to attract deposits and originate loans as permitted for federally chartered national banks under the laws of the United States of America. Sonabank conducts full-service banking operations in Charlottesville, McLean, Reston, Fairfax, Warrenton and Clifton Forge in Virginia.

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

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles ( U. S. GAAP ) for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U. S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in SNBV s Form 10-K for the year ended December 31, 2006.

**Use of Estimates**

To prepare financial statements in conformity with U. S. generally accepted accounting principles management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ. The allowance for loan losses, valuation of deferred tax assets, loan servicing rights, and fair values of financial instruments are particularly subject to change.

**Other Real Estate Owned**

Assets acquired through or instead of loan foreclosure are initially recorded at fair value when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expenses.

**Cash Surrender Value of Life Insurance**

SNBV has purchased life insurance policies on certain key executives. The life insurance is recorded at the amount that can be realized, which is referred to as the cash surrender value.

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**Recent Accounting Pronouncements**

In September 2006 the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS No. 157), which defines fair value, establishes a framework for measuring fair value under U. S. generally accepted accounting principles ( GAAP ), and expands disclosures about fair value measurements. This Statement does not require any new fair value measurements, but the application of this Statement may change current practice. Adoption is required as of the beginning of the first fiscal year that begins after November 15, 2007. We are assessing the effect that SFAS No. 157 will have on our consolidated financial statements.

In September 2006, the FASB Emerging Issues Task Force ( EITF ) finalized Issue No. 06-4, *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements.* This issue requires that a liability be recorded during the service period when a split-dollar life insurance agreement continues after participants employment or retirement. The required accrued liability will be based on either the post-employment benefit cost for the continuing life insurance or based on the future death benefit depending on the contractual terms of the underlying agreement. This issue is effective for fiscal years beginning after December 15, 2007. We have not completed our evaluation of the impact of the adoption of this standard.

In February 2007, FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*, ( SFAS No. 159 ) which provides companies with an option to report selected financial assets and liabilities at fair value. This statement requires companies to display on the face of the balance sheet the fair value of those assets and liabilities for which they have chosen to use fair value. SFAS 159 also requires companies to provide additional information that will help investors and other users of financial statements to easily understand the effect on earnings of the choice to use fair value. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. This statement is effective as of the beginning of the first fiscal year that begins after November 15, 2007. We are assessing the effect that SFAS No. 159 will have on our consolidated financial statements.

SNBV adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ( FIN 48 ), on January 1, 2007. The adoption of FIN 48 had no effect on our consolidated financial statements. We have no unrecognized tax benefits and do not anticipate any increase in unrecognized benefits during the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals exist as of September 30, 2007. SNBV and it subsidiary file a consolidated U. S. federal tax return and a Virginia state income tax return. These returns are subject to examination by taxing authorities for all years after 2004.

**2. STOCK- BASED COMPENSATION**

In 2004, the Board of Directors adopted a stock options 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. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employ of SNBV and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in SNBV s future success. Under the plans, the options 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.

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SNBV accounts for the plan under the recognition and measurement principles of FASB Statement No 123 Revised ( SFAS 123R ), Share Based Payment, effective January 1, 2006. In 2005 the plan was measured under the recognition and measurement principles of APB Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Prior to 2006, 168,025 options were granted under the plan. No stock-based compensation cost was reflected in net income, as all options granted had an exercise price equal to the market value of the underlying common stock on the grant date. In addition, all options granted prior to 2006 were fully vested as of December 31, 2005. Therefore, in 2006, no share-based compensation expense was recognized for these outstanding options.

SNBV granted 5,500 options during the first quarter of 2007. 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, 2007:

| | |
|---|---|
| Dividend yield | 0.00% |
| Expected life | 10 years |
| Expected volatility | 18.23% |
| Risk-free interest rate | 4.81% |
| Weighted average fair value per option granted | $ 6.32 |

We have paid no dividends.

Due to SNBV s short existence, the volatility was estimated using historical volatility of comparative publicly traded financial institutions in the Virginia market for periods approximating the expected option life.

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.

SFAS 123R requires the recognition of stock-based compensation expense for the number of awards that are ultimately expected to vest. For the three and nine month periods ended September 30, 2007, stock-based compensation expense recorded was $2 thousand and $4 thousand, respectively. As of September 30, 2007, unrecognized compensation expense associated with stock options was $31 thousand which is expected to be recognized over a weighted average period of 5 years.

A summary of changes in outstanding stock options during the nine months ended September 30, 2007 follows:

| | Shares | Weighted Average Exercise Price |
|---|---|---|
| Options outstanding, beginning of period | 168,025 | $ 9.09 |
| Granted | 5,500 | 14.73 |
| Forfeited | | |
| Exercised | | |
| Options outstanding, end of period | 173,525 | $ 9.27 |

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The following table summarizes the options outstanding as of September 30, 2007 (dollars in thousands, except share and per share amounts):

| | Stock Options Outstanding | Stock Options Exercisable |
|---|---|---|
| Stock options | 173,525 | 168,025 |
| Weighted average remaining contractual life in years | 7.73 | 7.68 |
| Weighted average exercise price | $ 9.27 | $ 9.09 |
| Aggregate intrinsic value | $ 566 | $ 566 |

The estimated unamortized compensation expense, net of estimated forfeitures, related to stock options issued and outstanding as of September 30, 2007 will be recognized in future periods as follows (dollars in thousands):

| | |
|---|---|
| For the remaining three months of 2007 | $ 2 |
| For the year ended December 31, 2008 | 7 |
| For the year ended December 31, 2009 | 7 |
| For the year ended December 31, 2010 | 7 |
| For the year ended December 31, 2011 | 7 |
| For the year ended December 31, 2012 | 1 |
| | $ 31 |

**3. SECURITIES**

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and the carrying amount, unrecognized gains and losses and fair value of securities held to maturity as of September 30, 2007 and December 31, 2006 were as follows (in thousands):

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**September 30, 2007**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **Available for sale:** | | | | |
| **Mortgage-backed securities** | $ 6,541 | $ 253 | $ | $ 6,794 |
| **Collateralized mortgage obligations** | 4,574 | | (27) | 4,547 |
| **FHLMC preferred stock** | 2,000 | | (208) | 1,792 |
| **Corporate Bonds** | 15,060 | | (530) | 14,530 |
| | $ 28,175 | $ 253 | $ (765) | $ 27,663 |

| | Carrying Amount | Gross Unrecognized Gains | Gross Unrecognized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **Held to maturity:** | | | | |
| **Mortgage-backed securities** | $ 24,164 | $ 280 | $ (68) | $ 24,376 |
| **Collateralized mortgage obligations** | 9,783 | 10 | (34) | 9,759 |
| | $ 33,947 | $ 290 | $ (102) | $ 34,135 |

**December 31, 2006**

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **Available for sale:** | | | | |
| **Mortgage-backed securities** | $ 8,129 | $ | $ | $ 8,129 |
| **Collateralized mortgage obligations** | 5,937 | | (37) | 5,900 |
| **Corporate Bonds** | 6,853 | | | 6,853 |
| | $ 20,919 | $ | $ (37) | $ 20,882 |

| | Carrying Amount | Gross Unrecognized Gains | Gross Unrecognized Losses | Estimated Fair Value |
|---|---|---|---|---|
| **Held to maturity:** | | | | |
| **Mortgage-backed securities** | $ 21,807 | $ | $ (208) | $ 21,599 |
| **Collateralized mortgage obligations** | 13,816 | 7 | (91) | 13,732 |
| | $ 35,623 | $ 7 | $ (299) | $ 35,331 |

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of SNBV to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

The primary purpose of the securities portfolio is to generate income and meet liquidity needs of SNBV through readily saleable financial instruments. The portfolio includes mortgage-backed securities and collateralized mortgage obligations, whose prices move inversely with interest rates and trust preferred securities which float at a spread over LIBOR and whose prices are a function of spreads of bank-related paper to other instruments. At the end of any accounting period, the securities portfolio has unrealized and unrecognized gains and losses. SNBV monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to see if adjustments are needed. The primary concern in an unrealized loss situation is the credit quality of the business behind the instrument. There are 21 securities totaling approximately $37.7 million in the portfolio that are considered temporarily impaired at September 30, 2007. Management has concluded that these losses are not individually significant, or in the aggregate; the fair value is expected to recover as the securities approach their maturity date and/or market conditions improve, and management has the positive intent and ability to hold to recovery. The

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following tables present information regarding securities in a continuous unrealized loss position as of September 30, 2007 and December 31, 2006 (in thousands) by duration of time in a loss position:

**September 30, 2007**

| | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized Losses | Fair value | Unrealized Losses | Fair value | Unrealized Losses |
| **Available for sale:** | | | | | | |
| **FHLMC preferred stock** | $ 1,792 | $ (208) | $ | $ | $ 1,792 | $ (208) |
| **Corporate bonds** | 14,530 | (530) | | | 14,530 | (530) |
| **Collateralized mortgage obligations** | | | 4,331 | (27) | 4,331 | (27) |
| | $ 16,322 | $ (738) | $ 4,331 | $ (27) | $ 20,653 | $ (765) |

| | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrecognized Losses | Fair value | Unrecognized Losses | Fair value | Unrecognized Losses |
| **Held to maturity:** | | | | | | |
| **Mortgage-backed securities** | $ | $ | $ 11,469 | $ (68) | $ 11,469 | $ (68) |
| **Collateralized mortgage obligations** | | | 5,610 | (34) | 5,610 | (34) |
| | $ | $ | $ 17,079 | $ (102) | $ 17,079 | $ (102) |

**December 31, 2006**

| | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrealized Losses | Fair value | Unrealized Losses | Fair value | Unrealized Losses |
| **Available for sale:** | | | | | | |
| **Collateralized mortgage obligations** | $ | $ | $ 4,917 | $ (37) | $ 4,917 | $ (37) |
| | $ | $ | $ 4,917 | $ (37) | $ 4,917 | $ (37) |

| | Less than 12 months | | More than 12 months | | Total | |
|---|---|---|---|---|---|---|
| | Fair value | Unrecognized Losses | Fair value | Unrecognized Losses | Fair value | Unrecognized Losses |
| **Held to maturity:** | | | | | | |
| **Mortgage-backed securities** | $ 2,113 | $ (21) | $ 11,124 | $ (187) | $ 13,237 | $ (208) |
| **Collateralized mortgage obligations** | 3,544 | (40) | 9,309 | (51) | 12,853 | (91) |
| | $ 5,657 | $ (61) | $ 20,433 | $ (238) | $ 26,090 | $ (299) |

**4. ALLOWANCE FOR LOAN LOSSES**

The following summarizes activity in the allowance for loan losses for the nine months ended September 30, 2007 and 2006 (in thousands):

**For the Nine Months Ended**

| | September 30, 2007 | September 30, 2006 |
|---|---|---|
| **Balance, beginning of period** | $ 2,726 | $ 1,020 |
| **Provision charged to operations** | 845 | 366 |
| **Recoveries credited to allowance** | | |
| **Total** | 3,571 | 1,386 |
| **Loans charged off** | (405) | |
| **Balance, end of period** | $ 3,166 | $ 1,386 |

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**5. FEDERAL HOME LOAN BANK (FHLB) ADVANCES**

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| | (dollars in thousands) | |
| **Overnight FHLB advances with an interest rate of 5.44%** | $ 6,200 | $ |
| **FHLB convertible advances with a weighted average interest rate of 4.10% (1)** | 20,000 | |
| **Total FHLB advances** | $ 26,200 | $ |

(1) These advances have a five year maturity and are convertible to adjustable rate advances at the option of the FHLB of Atlanta after the first year and quarterly thereafter. If converted, the adjustable rate advances will be priced at a spread to 3-month LIBOR.

**6. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK**

SNBV is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are conditional commitments issued by SNBV to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $521 thousand and $477 thousand as of September 30, 2007 and December 31, 2006, respectively.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments 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, 2007 and December 31, 2006, we had unfunded loan commitments approximating $65.2 million and $54.6 million, respectively.

We use the same credit policies in making loan commitments and issuing letters of credit as we do for on balance sheet instruments.

**7. 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):

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| | Income (Numerator) | Weighted Average Shares (Denominator) | Per Share Amount |
|---|---|---|---|
| **For the three months ended September 30, 2007** | | | |
| **Basic EPS** | **$ 467** | **6,798,547** | **$ 0.07** |
| **Effect of dilutive stock options and warrants** | | **74,111** | |
| **Diluted EPS** | **$ 467** | **6,872,658** | **$ 0.07** |
| **For the three months ended September 30, 2006** | | | |
| **Basic EPS** | **$ 307** | **3,850,000** | **$ 0.08** |
| **Effect of dilutive stock options and warrants** | | **71,617** | |
| **Diluted EPS** | **$ 307** | **3,921,617** | **$ 0.08** |
| **For the nine months ended September 30, 2007** | | | |
| **Basic EPS** | **$ 1,589** | **6,798,547** | **$ 0.23** |
| **Effect of dilutive stock options and warrants** | | **86,526** | |
| **Diluted EPS** | **$ 1,589** | **6,885,073** | **$ 0.23** |
| **For the nine months ended September 30, 2006** | | | |
| **Basic EPS** | **$ 628** | **3,850,000** | **$ 0.16** |
| **Effect of dilutive stock options and warrants** | | **74,133** | |
| **Diluted EPS** | **$ 628** | **3,924,133** | **$ 0.16** |

There were 5,500 anti-dilutive options during the three and nine months ended September 30, 2007, and there were no anti-dilutive options during the three and nine months ended September 30, 2006.

**8. TOTAL COMPREHENSIVE INCOME**

Total comprehensive income was as follows:

| | For the Three Months Ended September 30, 2007 | 2006 | For the Nine Months Ended September 30, 2007 | 2006 |
|---|---|---|---|---|
| | (dollars in thousands) | | | |
| Net income | $ 467 | $ 307 | $ 1,589 | $ 628 |
| Change in unrealized gain (loss) on available for sale securities, net of reclassification and tax effects. | (395) | 28 | (314) | (20) |
| Total comprehensive income | $ 72 | $ 335 | $ 1,275 | $ 608 |

**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. Results of operations for the three and nine month periods ended September 30, 2007 are not necessarily indicative of results that may be attained for any other period.

**FORWARD-LOOKING STATEMENTS**

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as expect, believe, estimate, plan, project, or other statements concerning opinions or judgment of the Company and its management about future events. Although we believe that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of SNBV will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits. We do not update any forward-looking statements that may be made from time to time by or on behalf of SNBV.

**CRITICAL ACCOUNTING POLICIES**

Our accounting policies are in accordance with U. S. generally accepted accounting principles and with general practices within the banking industry. Management makes a number of estimates and assumptions relating to reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during periods presented. Different assumptions in the application of these methods or policies could result in material changes in our financial statements. As such, the following policies are considered critical accounting policies for us.

**Allowance for Loan Losses**

The allowance for loan losses is established and maintained at levels management and the board of directors deem adequate to absorb probable incurred credit losses from identified and otherwise inherent risks in the portfolio as of the balance sheet date. In assessing the adequacy of the allowance, we review the quality of, and risks in, loans in the portfolio. We also consider such factors as:

- composition of the loan portfolio;
- value and adequacy of the collateral;
- current economic conditions;
- historical loan loss experience; and
- other known internal and external factors that affect collectability as of the report date.

An analysis of the credit quality of the loan portfolio and the adequacy of the allowance for loan losses is prepared by our executive credit officer and presented to our board of directors for review and approval on at least a quarterly basis. We may determine, based on our analysis, which includes risk factors such as charge-off rates, past dues, portfolio composition and loan growth, that our future loan loss provision needs to increase or decrease in order for us to maintain the allowance at a level sufficient to absorb probable incurred credit losses. If we become aware that any of these factors has materially changed, our estimate of credit losses in the loan portfolio and the related allowance could also change. The allowance consists of general and unallocated components. The value of the general reserve is based on historical loss experience adjusted for qualitative factors.

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While it is our policy to charge off loans in the current period when a loss is considered probable, there are additional risks of future losses which cannot be quantified precisely or attributed to particular loans or classes of loans. Because these risks include the state of the economy, management s judgment as to the adequacy of the allowance is necessarily approximate and imprecise.

**Goodwill and Other Intangible Assets**

SNBV recorded $10.5 million of goodwill and $5.2 million of core deposit intangible assets in association with its acquisition of 1st Service Bank in 2006 and the Clifton Forge branch in 2005. SNBV is required to perform at least annually an assessment of goodwill and other intangible assets to determine potential impairment. Also, management, on an on-going basis, informally reviews and analyzes certain transactions or events that may indicate potential impairment of goodwill and other intangible assets throughout the year. The analysis and determination of potential impairment and the identification of relevant factors and events indicating potential impairment require a high degree of judgment from management. SNBV performed a formal assessment of goodwill and other intangible assets in September 2007. No such events were identified in 2007 to cause us to believe that goodwill or other intangible assets were impaired.

During the quarter ended September 30, 2007, adjustments of approximately $184 thousand were made to goodwill related to the 1st Service Bank acquisition. During the second quarter of 2007, the deferred tax asset valuation allowance reversal of $1.9 million related to the net deferred tax assets obtained in the 1st Service Bank acquisition was recognized as an adjustment to goodwill. As of September 30, 2007, the amount of goodwill is $8.7 million.

**Valuation of Deferred Tax Asset**

We evaluate deferred tax assets quarterly. We will realize this asset to the extent we are profitable or carry back tax losses to periods in which we paid income taxes. Our determination of the realization of the deferred tax asset will be based upon management s judgment of various future events and uncertainties, including the timing and amount of future income we will earn and the implementation of various tax plans to maximize realization of the deferred tax assets. Management believes we will generate sufficient operating earnings to realize the deferred tax benefits. Examinations of our income tax returns or changes in tax law may impact the tax liabilities and resulting provisions for income taxes.

Until the second quarter of 2007, SNBV maintained a valuation allowance against its deferred tax assets. During the second quarter of 2007, however, management concluded that the valuation allowance on the net deferred tax assets was no longer necessary given the sustained income and growth over the past six calendar quarters. The tax valuation allowance reversal was $2.5 million, of which $1.9 million was related to the net deferred tax assets obtained in the 1st Service Bank acquisition.

**OVERVIEW**

Sonabank commenced operations in April 2005, and we had our first profitable quarter in the period ended December 31, 2005.

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In December 2005, we closed on the purchase of a branch in Clifton Forge where we acquired $42.5 million in deposits, $7.1 million in loans and $2.4 million in retail repurchase agreements as well as the branch banking center and other assets in the amount of $2.2 million. As part of the purchase price allocation, Sonabank recorded $3.1 million in core deposit intangibles. The core deposit intangible assets are being amortized over 7 years.

On November 6, 2006, SNBV closed on the initial public offering of its common stock, $0.01 par value. All 2,000,000 shares of common stock registered in the offering, including 214,000 shares of common stock covered by an over- allotment option granted to the underwriter, were sold at a price to the public of $14.00 per share. The aggregate gross proceeds from the shares of common stock sold by SNBV were $28.0 million. The aggregate net proceeds to SNBV from the offering were approximately $26.4 million after deducting an aggregate of $866 thousand in underwriting commissions and $713 thousand in other expenses incurred in connection with the offering.

SNBV contributed most of the net proceeds of this offering to Sonabank to provide capital to support its internal asset growth as well as the asset growth expected to result from the three branches acquired in the merger with 1st Service. We also opened a new branch in Warrenton, Virginia, in April 2007, which should generate additional growth, requiring additional capital. The excess net proceeds have been temporarily employed to reduce our higher cost liabilities including institutional certificates of deposit. The precise amounts and timing of our use of the net proceeds will depend upon market conditions and the availability of other funds, among other factors.

As of the close of business on December 1, 2006, we completed the acquisition of 1st Service Bank, which operated three branch offices in Fairfax County, Virginia. 1st Service Bank transactions have been included in our financial results since December 1, 2006. The fair value of the assets acquired as of December 1, 2006 were approximately $118.0 million including $107.1 million in loans, of which approximately $17 million were securitized by the end of December 2006, and reflected on the balance sheet as investment securities. We also acquired approximately $78.9 million in deposits. We also recorded $2.1 million in core deposit intangibles, and goodwill totaled approximately $8.7 million as adjusted. The core deposit intangible asset for this acquisition is being amortized over 7 years.

## RESULTS OF OPERATIONS

### Net Income

For the three months ended September 30, 2007, our net income was $467 thousand, or $0.07 per share on a diluted basis, compared to net income of $307 thousand, or $0.08 per share on a diluted basis, for the same period in 2006.

For the three months ended September 30, 2007 compared to the three months ended June 30, 2007, net income decreased $180 thousand, or 27.8%, from $647 thousand to $467 thousand. Earnings per share, on a diluted basis, decreased from $0.09 per share to $0.07 per share. Net income for the quarter and the six months ended June 30, 2007 included a tax benefit of $53 thousand. During the third quarter of 2007 we recognized tax expense of $169 thousand.

Net income for the nine months ended September 30, 2007 increased to $1.6 million, or $0.23 per share on a diluted basis, from $628 thousand, or $0.16 per share on a diluted basis, for the same period in 2006.

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**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 for the three months ended September 30, 2007 was $2.7 million compared to $1.4 million for the same period last year. Average interest-earning assets for the three months ended September 30, 2007 increased $147.7 million over the same period in 2006. Approximately $124.7 million of this growth was an increase in average loans outstanding, most of which was generated by the acquisition of $90.1 million of loans (net of $17.0 million of securitized loans) from the 1st Service Bank merger in December 2006. Average investment securities increased by $19.9 million in the quarter ended September 30, 2007, compared to the same period last year. The average yield on interest-earning assets increased from 7.41% in 2006 to 7.51% in 2007 primarily because most of the increase in average earning assets was in the higher yielding loans. Average interest-bearing liabilities for the three months ended September 30, 2007 increased $126.5 million compared to the same period in 2006. Average interest-bearing deposits increased by $116.2 million, while average borrowings increased by $10.3 million compared to the second quarter of 2006. We acquired $67.3 million in interest-bearing deposits in the merger with 1st Service Bank. The average cost of interest-bearing liabilities increased from 4.64% in 2006 to 4.80% in 2007. The interest rate spread for the three months ended September 30, 2007 decreased from 2.77% to 2.71% compared to the same period last year. The net interest margin for the three months ended September 30, 2007 decreased to 3.61% from 3.85% compared to the same period last year, primarily because the cost of deposits has increased more than the yield on earning assets. We have mitigated that somewhat by using convertible advances from the Federal Home Loan Bank of Atlanta (FHLB) beginning in August 2007. These advances have a five year maturity and a fixed rate that is subject to being converted to an adjustable rate after the first year at the option of the FHLB. At September 30, 2007, we had convertible advances totaling $20 million at an average interest rate of 4.10%. This has contributed to the decrease in the cost of borrowings compared to the same quarter last year.

Net interest income for the nine months ended September 30, 2007 was $7.8 million compared to $4.0 million for the same period last year. Average interest-earning assets for the nine months ended September 30, 2007 increased $146.4 million over the same period in 2006. Approximately $125.5 million of this growth was an increase in average loans outstanding, most of which was generated by the acquisition of $90.1 million of loans (net of $17.0 million of securitized loans) from the 1st Service Bank merger in December 2006. Average investment securities increased by $18.7 million in the nine months ended September 30, 2007, compared the same period last year. The average yield on interest-earning assets increased from 7.21% in 2006 to 7.49% in 2007 primarily because most of the increase in average earning assets was in the higher yielding loans. Average interest-bearing liabilities for the nine months ended September 30, 2007 increased $119.6 million compared to the same period in 2006. Average interest-bearing deposits increased by $116.5 million compared to the same period in 2006. We acquired $67.3 million in interest-bearing deposits in the merger with 1st Service Bank. The average cost of interest-bearing liabilities increased from 4.20% in 2006 to 4.81% in 2007. The interest rate spread for the nine months ended September 30, 2007 decreased from 2.98% to 2.69% compared to the same period last year. The net interest margin for the nine months ended September 30, 2007 decreased to 3.73% from 4.04% compared to the same period last year, primarily because the cost of deposits has increased more than the yield on earning assets.

Our commercial loans, acquisition and development loans, construction loans and SBA loans are predominately priced to a spread over the prime rate. Commercial real estate loans are generally priced at a spread over the one, three or five year constant maturity treasury yield (CMT) and fixed for three to five years. On the liability side of the balance sheet we have a large segment of our funding which floats; however, the prime rate loans reprice virtually immediately, but the

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liabilities reprice only at maturity resulting in a lag which can adversely affect net interest income when interest rates decline. The 50 basis point decrease in the federal funds target rate during the third quarter may have a short-term negative impact on our net interest margin in the fourth quarter. Further reductions in the fourth quarter would constrain net interest income until the liabilities reprice.

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 Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2007 | | | September 30, 2006 | | |
| | 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 | $ 223,979 | $ 4,565 | 8.09% | $ 99,315 | $ 2,130 | 8.51% |
| Investment securities | 63,506 | 904 | 5.69% | 43,611 | 550 | 5.04% |
| Other earning assets | 5,731 | 80 | 5.54% | 2,584 | 37 | 5.68% |
| **Total earning assets** | 293,216 | 5,549 | 7.51% | 145,510 | 2,717 | 7.41% |
| Allowance for loan losses | (2,978) | | | (1,327) | | |
| Total non-earning assets | 37,698 | | | 7,350 | | |
| **Total assets** | $ 327,936 | | | $ 151,533 | | |
| **Liabilities and stockholders equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | $ 6,477 | 4 | 0.27% | $ 4,183 | 3 | 0.28% |
| Money market accounts | 46,353 | 523 | 4.48% | 15,191 | 127 | 3.32% |
| Savings accounts | 2,697 | 4 | 0.51% | 2,357 | 3 | 0.50% |
| Time deposits | 165,786 | 2,158 | 5.16% | 83,432 | 1,093 | 5.20% |
| **Total interest-bearing deposits** | 221,313 | 2,689 | 4.82% | 105,163 | 1,226 | 4.63% |
| Borrowings | 16,852 | 190 | 4.47% | 6,538 | 79 | 4.79% |
| **Total interest-bearing liabilities** | 238,165 | 2,879 | 4.80% | 111,701 | 1,305 | 4.64% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 18,144 | | | 6,594 | | |
| Other liabilities | 2,073 | | | 517 | | |
| **Total liabilities** | 258,382 | | | 118,812 | | |
| Stockholders equity | 69,554 | | | 32,721 | | |
| **Total liabilities and stockholders equity** | $ 327,936 | | | $ 151,533 | | |
| Net interest income | | 2,670 | | | 1,412 | |
| Interest rate spread | | | 2.71% | | | 2.77% |
| Net interest margin | | | 3.61% | | | 3.85% |

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| | Average Balance Sheets and Net Interest Analysis for the Nine Months Ended September 30, 2007 | | | September 30, 2006 | | |
|---|---|---|---|---|---|---|
| | 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 | $ 214,745 | $ 12,923 | 8.05% | $ 89,236 | $ 5,551 | 8.32% |
| Investment securities | 59,197 | 2,503 | 5.64% | 40,517 | 1,484 | 4.88% |
| Other earning assets | 5,377 | 225 | 5.59% | 3,173 | 130 | 5.48% |
| **Total earning assets** | 279,319 | 15,651 | 7.49% | 132,926 | 7,165 | 7.21% |
| Allowance for loan losses | (2,854) | | | (1,211) | | |
| Total non-earning assets | 30,732 | | | 7,539 | | |
| **Total assets** | $ 307,197 | | | $ 139,254 | | |
| **Liabilities and stockholders equity** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| NOW accounts | $ 6,814 | 14 | 0.27% | $ 5,663 | 10 | 0.24% |
| Money market accounts | 36,841 | 1,174 | 4.26% | 15,664 | 353 | 3.01% |
| Savings accounts | 2,727 | 10 | 0.49% | 2,362 | 9 | 0.51% |
| Time deposits | 160,595 | 6,254 | 5.21% | 66,829 | 2,473 | 4.95% |
| **Total interest-bearing deposits** | 206,977 | 7,452 | 4.81% | 90,518 | 2,845 | 4.20% |
| Borrowings | 12,115 | 416 | 4.59% | 8,926 | 303 | 4.54% |
| **Total interest-bearing liabilities** | 219,092 | 7,868 | 4.80% | 99,444 | 3,148 | 4.23% |
| Noninterest-bearing liabilities: | | | | | | |
| Demand deposits | 17,389 | | | 6,872 | | |
| Other liabilities | 1,697 | | | 425 | | |
| **Total liabilities** | 238,178 | | | 106,741 | | |
| Stockholders equity | 69,019 | | | 32,513 | | |
| **Total liabilities and stockholders equity** | $ 307,197 | | | $ 139,254 | | |
| Net interest income | | $ 7,783 | | | $ 4,017 | |
| Interest rate spread | | | 2.69% | | | 2.98% |
| Net interest margin | | | 3.73% | | | 4.04% |

**Provision for Loan Losses**

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

The provision for loan losses charged to operations for the three months ended September 30, 2007 and 2006 were $270 thousand and $80 thousand, respectively. We had charge-offs totaling $3 thousand during the quarter ended September 30, 2007, and we had no charge-offs during the same quarter of 2006.

The provision for loan losses charged to operations for the nine months ended September 30, 2007 and 2006 were $845 thousand and $366 thousand, respectively. We had charge-offs totaling $405 thousand during the nine months ended September 30, 2007, and we had no charge-offs during the same period of 2006. The increase in the provision for loan losses during the three and nine months ended September 30, 2007 was due to overall growth in the loan portfolio.

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**Noninterest Income**

The following table presents the major categories on noninterest income for the three and nine months ended September 30, 2007 and 2006:

| | For the Three Months Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | Change |
| | (dollars in thousands) | | |
| Account maintenance and deposit service fees | $ 88 | $ 42 | $ 46 |
| Income from bank-owned life insurance | 121 | | 121 |
| Other | 15 | 8 | 7 |
| Total noninterest income | $ 224 | $ 50 | $ 174 |

| | For the Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | Change |
| | (dollars in thousands) | | |
| Account maintenance and deposit service fees | $ 238 | $ 128 | $ 110 |
| Income from bank-owned life insurance | 202 | | 202 |
| Other | 76 | 40 | 36 |
| Total noninterest income | $ 516 | $ 168 | $ 348 |

The increase in noninterest income was largely attributable to two factors. First, account maintenance and deposit service fees increased reflecting the impact of the increased number of accounts due in part to the acquisition of 1st Service Bank in the fourth quarter of 2006. Second, we purchased a bank-owned life insurance (BOLI) policy during the first quarter of 2007, and we purchased a second policy in July 2007. We owned no BOLI during 2006.

**Noninterest Expense**

The following table presents the major categories on noninterest expense for the three and nine months ended September 30, 2007 and 2006:

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| | For the Three Months Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | Change |
| | (dollars in thousands) | | |
| Salaries and benefits | $ 872 | $ 527 | $ 345 |
| Occupancy expenses | 276 | 91 | 185 |
| Furniture and equipment expenses | 112 | 77 | 35 |
| Amortization of core deposit intangible | 182 | 108 | 74 |
| Virginia franchise tax expense | 137 | 52 | 85 |
| Data processing expense | 54 | 43 | 11 |
| Telephone and communication expense | 61 | 42 | 19 |
| Other operating expenses | 294 | 135 | 159 |
| Total noninterest expense | $ 1,988 | $ 1,075 | $ 913 |

| | For the Nine Months Ended September 30, | | |
|---|---|---|---|
| | 2007 | 2006 | Change |
| | (dollars in thousands) | | |
| Salaries and benefits | $ 2,463 | $ 1,556 | $ 907 |
| Occupancy expenses | 809 | 273 | 536 |
| Furniture and equipment expenses | 326 | 222 | 104 |
| Amortization of core deposit intangible | 545 | 326 | 219 |
| Virginia franchise tax expense | 412 | 159 | 253 |
| Data processing expense | 168 | 124 | 44 |
| Telephone and communication expense | 163 | 129 | 34 |
| Other operating expenses | 863 | 402 | 461 |
| Total noninterest expense | $ 5,749 | $ 3,191 | $ 2,558 |

Despite the rapid growth of the Bank s assets and the addition of a branch in Warrenton and a loan production office in Richmond, our operating expenses were well controlled. The efficiency ratio declined to 69.27% during the first nine months of 2007 from 76.25% in 2006.

Much of the increase of $2.6 million in noninterest expense is attributable to the acquisition of 1st Service Bank in December 2006 and the opening of the Warrenton branch office and the loan production office in Richmond during 2007. As of September 30, 2007 we had 58 full-time equivalent employees compared to 32 at September 30, 2006, and we had six branches at September 30, 2007, compared to two branches a year ago.

**FINANCIAL CONDITION**

**Balance Sheet Overview**

Total assets were $346.3 million at September 30, 2007, as compared to $290.6 million at December 31, 2006. Our asset growth has been funded primarily by growth in deposits and borrowings. Net loans grew from $201.8 million at the end of 2006 to $240.1 million at September 30, 2007. Investment securities, available for sale and held to maturity, grew to $61.6 million at September 30, 2007 compared to $56.5 million at December 31, 2006. Both the growth in the net loans and the growth in the securities portfolio were a result of originations and

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purchases outpacing very heavy prepayments of residential mortgages and residential mortgage-backed securities. We also purchased a bank-owned life insurance policy in the amount of $5.0 million during the first quarter of 2007 and a second one in the amount of $7.5 million in the third quarter of 2007.

As of September 30, 2007, total deposits were $240.1 million compared to $215.8 million as of December 31, 2006. The growth was attributable mostly to an increase in brokered certificates of deposit and money market accounts. Brokered certificates of deposit were $83.1 million at September 30, 2007, compared to $78.1 million at December 31, 2006. Brokered money market deposits were $17 million at September 30, 2007; there were none at December 31, 2006.

In addition to short-term borrowings, we began using convertible advances from the FHLB beginning in August 2007. These advances have a five year maturity and a fixed rate that is subject to being converted to an adjustable rate based on a spread to 3-month LIBOR after the first year at the option of the FHLB. At September 30, 2007, we had convertible advances totaling $20 million at an average interest rate of 4.10%.

**Loan Portfolio**

In the loan portfolio, repayments in the hybrid adjustable rate (ARM) residential mortgage portfolio acquired in the 1st Service Bank acquisition were heavy as expected. Prepayments in the residential mortgage portfolio acquired from 1st Service Bank were $9.1 million during the first half of 2007, but decreased to $2.1 million during the third quarter. As a result the single family portfolio fell 15.4% to $53.4 million. With the exception of home equity lines of credit (largely acquired from 1st Service Bank) and loans to individuals, all other loan categories were up strongly. The commercial and industrial loan category grew the fastest at 122.7%, rising from $19.6 million at year-end to $43.6 million at September 30, 2007. The construction and development loan category rose 30.8% to $46.8 million, and commercial real estate was up 17.4% to $81.4 million.

The following table summarizes the composition of our loan portfolio as of September 30, 2007 and December 31, 2006 (in thousands):

| | September 30, 2007 | December 31, 2006 |
|---|---|---|
| **Mortgage loans on real estate:** | | |
| **Commercial** | $ 81,406 | $ 69,338 |
| **Construction, land and other loans** | 46,847 | 35,822 |
| **Residential 1-4 family** | 53,434 | 63,141 |
| **Multi- family residential** | 7,969 | 3,720 |
| **Equity lines of credit** | 8,143 | 10,509 |
| **Total real estate loans** | 197,799 | 182,530 |
| **Commercial loans** | 43,615 | 19,581 |
| **Consumer loans** | 2,321 | 2,861 |
| **Gross loans** | 243,735 | 204,972 |
| **Less unearned income on loans** | (473) | (428) |
| **Loans, net of unearned income** | $ 243,262 | $ 204,544 |

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**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 believe the borrower cannot 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, including those categorized as non-performing 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 possible write-down to their net realizable values. We record other real estate owned at 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 loan portfolio loss and delinquency experience will increase significantly depends upon the value of collateral securing loans and regional economic factors.

At September 30, 2007, and December 31, 2006, the recorded investment in loans which have been identified as impaired loans, in accordance with Statement of Financial Accounting Standards No. 114, Accounting by Creditors for Impairment of a Loan (SFAS 114) totaled $3.4 million, and $7.5 million, respectively. During the second quarter of 2007 two loans totaling $4.0 million were transferred to other real estate owned (OREO) as the Bank accepted deeds in lieu of foreclosure. The OREO is comprised of 32 finished lots in Culpeper, Virginia and a single family home in Warrenton, Virginia. The single family home was sold during the third quarter resulting in a gain on sale of approximately $21 thousand, and it was replaced by another residential property acquired through foreclosure in the amount of $251 thousand during the third quarter. The Bank is actively marketing both properties. Other real estate owned totaled $3.9 million at September 30, 2007; there was none at December 31, 2006.

There were no non-accrual loans at September 30, 2007 or December 31, 2006. There was one loan in the amount of $64 thousand that was past due 90 days or more and accruing interest at September 30, 2007, and there were no loans past due 90 days or more and accruing interest at December 31, 2006.

**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 available-for-sale investment securities. In addition, we maintain lines credit from the Federal Home Loan Bank of Atlanta and utilize securities sold under agreements to repurchase from approved securities dealers and retail customers.

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We prepare a monthly cash flow report which forecasts weekly cash needs and availability for the coming three months, based on forecasts of loan closings from our pipeline report and other factors. Management anticipates that future funding requirements will 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 periods indicated to the minimum and well-capitalized regulatory standards:

| | Minimum Required for Capital Adequacy Purposes | To Be Categorized as Well Capitalized Under Prompt Corrective Action Provisions | Actual Ratio at September 30, 2007 | Actual Ratio at December 31, 2006 |
|---|---|---|---|---|
| **SNBV** | | | | |
| Tier 1 risk-based capital ratio | 4.00% | N/A | 20.44% | 24.69% |
| Total risk-based capital ratio | 8.00% | N/A | 21.57% | 25.94% |
| Leverage ratio | 4.00% | N/A | 18.10% | 28.46% |
| **Sonabank** | | | | |
| Tier 1 risk-based capital ratio | 4.00% | 6.00% | 19.57% | 23.53% |
| Total risk-based capital ratio | 8.00% | 10.00% | 20.70% | 24.78% |
| Leverage ratio | 4.00% | 5.00% | 17.33% | 27.13% |

The most recent regulatory notification categorized the Bank 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 the Bank s category.

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**ITEM 3 QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

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

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in MVPE resulting from instantaneous and sustained parallel shifts in the yield curve (plus or minus 300 basis points, measured in 100 basis point increments) as of September 30, 2007 and December 31, 2006:

**Sensitivity of Market Value of Portfolio Equity**

**As of September 30, 2007**

| | Market Value of Portfolio Equity | | | Market Value of Portfolio Equity as a % of | |
|---|---|---|---|---|---|
| **Change in Interest Rates in Basis Points (Rate Shock)** | **Amount** | **$ Change From Base** | **% Change From Base** | **Total Assets** | **Portfolio Equity Book Value** |
| | (Dollar amounts in thousands) | | | | |
| Up 300 | $ 75,935 | $ 2,338 | 3.18% | 21.91% | 108.70% |
| Up 200 | 75,345 | 1,748 | 2.38% | 21.74% | 107.86% |
| Up 100 | 74,617 | 1,020 | 1.39% | 21.53% | 106.82% |
| Base | 73,597 | | 0.00% | 21.23% | 105.36% |
| Down 100 | 71,769 | (1,828) | -2.48% | 20.71% | 102.74% |
| Down 200 | 69,179 | (4,418) | -6.00% | 19.96% | 99.03% |
| Down 300 | 66,164 | (7,433) | -10.10% | 19.09% | 94.71% |

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**Sensitivity of Market Value of Portfolio Equity**

**As of December 31, 2006**

| Change in Interest Rates in Basis Points (Rate Shock) | Market Value of Portfolio Equity Amount | $ Change From Base | % Change From Base | Market Value of Portfolio Equity as a % of Total Assets | Portfolio Equity Book Value |
|---|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | | |
| Up 300 | $ 72,383 | $ (641) | -0.87% | 24.91% | 106.09% |
| Up 200 | 72,810 | (214) | -0.29% | 25.06% | 106.72% |
| Up 100 | 73,021 | (3) | 0.00% | 25.13% | 107.03% |
| Base | 73,024 | | 0.00% | 25.13% | 107.03% |
| Down 100 | 72,542 | (482) | -0.65% | 24.97% | 106.32% |
| Down 200 | 71,475 | (1,549) | -2.10% | 24.60% | 104.76% |
| Down 300 | 70,112 | (2,912) | -3.96% | 24.13% | 102.76% |

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, 2007 and December 31, 2006 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.

**Sensitivity of Net Interest Income**

**As of September 30, 2007**

| Change in Interest Rates in Basis Points (Rate Shock) | Adjusted Net Interest Income Amount | Adjusted Net Interest Income $ Change From Base | Net Interest Margin Percent | Net Interest Margin % Change From Base |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| Up 300 | $ 12,725 | $ 2,303 | 4.08% | 0.73% |
| Up 200 | 11,960 | 1,538 | 3.84% | 0.49% |
| Up 100 | 11,209 | 787 | 3.60% | 0.25% |
| Base | 10,422 | | 3.35% | 0.00% |
| Down 100 | 9,526 | (896) | 3.07% | -0.28% |
| Down 200 | 8,447 | (1,975) | 2.73% | -0.62% |
| Down 300 | 7,280 | (3,142) | 2.35% | -1.00% |

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**Sensitivity of Net Interest Income**

| Change in Interest Rates in Basis Points (Rate Shock) | As of December 31, 2006 Adjusted Net Interest Income Amount | $ Change From Base | Net Interest Margin Percent | % Change From Base |
|---|---|---|---|---|
| | (Dollar amounts in thousands) | | | |
| Up 300 | $ 12,409 | $ 1,492 | 4.56% | 0.54% |
| Up 200 | 11,918 | 1,001 | 4.38% | 0.36% |
| Up 100 | 11,429 | 512 | 4.21% | 0.19% |
| Base | 10,917 | | 4.02% | 0.00% |
| Down 100 | 10,318 | (599) | 3.80% | -0.22% |
| Down 200 | 9,586 | (1,331) | 3.54% | -0.48% |
| Down 300 | 8,917 | (2,000) | 3.29% | -0.73% |

Certain shortcomings are inherent in the methodology used in the above interest rate risk measurements. Modeling changes in MVPE requires the making of certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. Accordingly, although the MVPE tables and Sensitivity of Net Interest Income 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.

### ITEM 4 CONTROLS AND PROCEDURES

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 of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, our chief executive officer and chief financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation.

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.

## PART II - OTHER INFORMATION

### ITEM 1 LEGAL PROCEEDINGS

While SNBV 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 SNBV or Sonabank at this time.

### ITEM 1A RISK FACTORS

As of September 30, 2007 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, 2006.

### ITEM 6 EXHIBITS

(a) Exhibits.

The following exhibits are filed as part of this Form 10-Q and this list includes the Exhibit Index:

| 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. |

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## Signatures

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

| | |
|---|---|
| | **Southern National Bancorp of Virginia, Inc.**<br>(Registrant) |
| November 14, 2007<br>(Date) | /s/ Georgia S. Derrico<br>**Georgia S. Derrico,**<br>**Chairman of the Board and Chief Executive Officer** |
| November 14, 2007<br>(Date) | /s/ William H. Lagos<br>**William H. Lagos,**<br>**Senior Vice President and Chief Financial Officer** |