Southern National Bancorp of Virginia Inc
Form 10-K
March 11, 2009
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

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

Commission file number: 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. Employee Identification No.)**

6830 Old Dominion Drive

McLean, Virginia 22101

(Address or principal executive offices) (Zip code)

(703) 893-7400

(Registrant s telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $0.01 par value	**Nasdaq Global Market**
(Title of each class)	**(Name of each exchange on which registered)**

Securities registered pursuant to Section 12(g) of the Act:

None

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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. (Check one):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2008 was approximately $42,778,028.

The number of shares of common stock outstanding as of March 2, 2009 was 6,798,547.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant s definitive proxy statement to be used in conjunction with the registrant s 2009 Annual Meeting of Shareholders are incorporated into Part III, Items 10-14 of this Form 10-K.

Table of Contents

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

FORM 10-K

INDEX

Table of Contents

PART I

Item 1. Business

Overview

Southern National Bancorp of Virginia, Inc. (SNBV) is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank, N. A. (Sonabank) a national bank chartered on April 14, 2005, under the laws of the United States of America. On January 1, 2009, Sonabank changed from a nationally chartered bank to a state chartered bank and moved its headquarters from Charlottesville to McLean, Virginia. Going forward, Sonabank will be regulated by the State Corporation Commission of Virginia and the Federal Reserve Bank of Richmond. Currently, all of the communities served by Sonabank are located in Virginia, and Sonabank has no lending programs outside Virginia. Moreover, the change should save the company in excess of $35 thousand in regulatory fees per year. The principal activities of Sonabank are to attract deposits and originate loans. Sonabank conducts full-service banking operations in Charlottesville, Clifton Forge, Leesburg, Warrenton and Fairfax County in Virginia. We also have loan production offices in Charlottesville, Fredericksburg, Warrenton and Richmond in Virginia. We have administrative offices in Warrenton and an executive office in Georgetown, Washington, D.C where senior management is located.

On December 19th, 2007, SNBV announced that it had entered into an agreement with Founders Corporation of Leesburg, Virginia to purchase certain assets and to assume its lease at 1 East Market Street in Leesburg in the 100 year old Loudoun National Bank building. Sonabank received approval from the Office of the Comptroller of the Currency (OCC) to open a branch at that location. The branch was opened February 11, 2008. The OCC also approved the opening of a drive-through/ATM facility that was opened on April 7, 2008.

General

Our principal business is the acquisition of deposits from the general public through our branch offices and deposit intermediaries and the use of these deposits to fund our loan and investment portfolios. We seek to be a full service community bank that provides a wide variety of financial services to our middle market corporate clients as well as to our retail clients. We are an active commercial lender, have been designated as a Preferred SBA Lender and participate in the Virginia Small Business Financing Authority lending program. In addition, we are an active commercial real estate lender. We also invest funds in mortgage-backed securities, securities sold with an agreement to repurchase, reverse repurchase agreements and securities issued by agencies of the federal government.

The principal sources of funds for our lending and investment activities are deposits, amortization and repayment of loans, prepayments from mortgage-backed securities, repayments of maturing investment securities, Federal Home Loan Bank advances and other borrowed money.

Principal sources of revenue are interest and fees on loans and investment securities, as well as fee income derived from the maintenance of deposit accounts and income from bank-owned life insurance policies. Our principal expenses include interest paid on deposits and advances from the Federal Home Loan Bank of Atlanta (FHLB) and other borrowings, and operating expenses.

Available Information

SNBV files annual, quarterly and other reports under the Securities Exchange Act of 1934 with the Securities and Exchange Commission (SEC). These reports are posted and are available at no cost on our website, *www.sonabank.com*, through the Investor Relations link, as soon as reasonably practicable after we file such documents with the SEC. Our filings are also available through the SEC s website at www.sec.gov.

Table of Contents

Lending Activities

Our primary strategic objective is to serve small to medium-sized businesses in our market with a variety of unique and useful services, including a full array of commercial mortgage and non-mortgage loans. These loans include commercial real estate loans, construction to permanent loans, development and builder loans, accounts receivable financing, lines of credit, equipment and vehicle loans, leasing, and commercial overdraft protection. We strive to do business in the areas served by our branches, which is also where our marketing is focused, and the vast majority of our loan customers are located in existing market areas. Virtually all of our loans are from Virginia, Maryland, West Virginia, or Washington D.C. The Small Business Administration may from time to time come to us because of our reputation and expertise as an SBA lender and ask us to review a loan outside of our core counties but within our market area. Prior to making a loan, we obtain loan applications to determine a borrower s ability to repay, and the more significant items on these applications are verified through the use of credit reports, financial statements and confirmations.

The following is a discussion of each of the major types of lending:

Commercial Real Estate Lending

Permanent. Commercial real estate lending includes loans for permanent financing and construction. Commercial real estate lending typically involves higher loan principal amounts and the repayment of loans is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. As a general practice, we require our commercial real estate loans to be secured by well-managed income producing properties with adequate margins and to be guaranteed by responsible parties. We look for opportunities where cash flow from the collateral properties provides adequate debt service coverage and the guarantor s net worth is strong. At December 31, 2008, our commercial real estate loans for permanent financing totaled $104.9 million.

Our underwriting guidelines for commercial real estate loans reflect all relevant credit factors, including, among other things, the income generated from the underlying property to adequately service the debt, the availability of secondary sources of repayment and the overall creditworthiness of the borrower. In addition, we look to the value of the collateral, while maintaining the level of equity invested by the borrower.

All valuations on property which will secure loans over $250 thousand are performed by independent outside appraisers who are reviewed by our executive vice president of risk management and reported annually to our credit committee. We retain a valid lien on real estate and obtain a title insurance policy (on first trust loans only) that insures the property is free of encumbrances.

Construction. We recognize that construction loans for commercial, multifamily and other non-residential properties can involve risk due to the length of time it may take to bring a finished real estate product to market. As a result, we will only make these types of loans when pre-leasing or pre-sales or other credit factors suggest that the borrower can carry the debt if the anticipated market and property cash flow projections change during the construction phase.

Income producing property loans are supported by evidence of the borrower s capacity to service the debt. All of our commercial construction loans are guaranteed by the principals or general partners. At December 31, 2008, we had $56.6 million of construction, land and development loans.

Construction loan borrowers are generally pre-qualified for the permanent loan by us or a third party. We obtain a copy of the contract with the general contractor who must be acceptable to us. All plans, specifications and surveys must include proposed improvements. We review feasibility studies and risk analyses showing sensitivity of the project to variables such as interest rates, vacancy rates, lease rates and operating expenses.

Table of Contents

Commercial Business Lending

These loans consist of lines of credit, revolving credit facilities, demand loans, term loans, equipment loans, SBA loans, stand-by letters of credit and unsecured loans. Commercial business loans are generally secured by accounts receivable, equipment, inventory and other collateral, such as readily marketable stocks and bonds with adequate margins, cash value in life insurance policies and savings and time deposits at Sonabank. At December 31, 2008, our commercial business loans totaled $60.8 million.

In general, commercial business loans involve more credit risk than residential mortgage loans and real estate-backed commercial loans and, therefore, usually yield a higher return to us. The increased risk for commercial business loans is due to the type of collateral securing these loans. The increased risk also derives from the expectation that commercial loans will be serviced principally from the operations of the business, and that those operations may not be successful. Historical trends have shown that these types of loans do have higher delinquencies than mortgage loans. Because of this, we often utilize the SBA 7(a) program (which guarantees the repayment of up to 85% of the principal and accrued interest to us) to reduce the inherent risk associated with commercial business lending.

Another way that we reduce risk in the commercial loan portfolio is by taking accounts receivable as collateral. Our accounts receivable financing facilities, which provide a relatively high yield with considerable collateral control, are lines of credit under which a company can borrow up to the amount of a borrowing base which covers a certain percentage of the company s receivables. From our customer s point of view, accounts receivable financing is an efficient way to finance expanding operations because borrowing capacity expands as sales increase. Customers can borrow from 75% to 90% of qualified receivables. In most cases, the borrower s customers pay us directly. For borrowers with a good track record for earnings and quality receivables, we will consider pricing based on an increment above the prime rate for transactions in which we lend up to a percentage of qualified outstanding receivables based on reported aging of the receivables portfolio.

We also actively pursue for our customers equipment lease financing opportunities. We provide financing and use a third party to service the leases. Payment is derived from the cash flow of the borrower, so credit quality may not be any lower than it would be in the case of an unsecured loan for a similar amount and term.

SBA Lending

We have developed an expertise in the federally guaranteed SBA program. The SBA program is an economic development program which finances the expansion of small businesses. We are a Preferred Lender in the Washington D.C. and Richmond Districts of the SBA. As an SBA Preferred lender, our pre-approved status allows us to quickly respond to customers needs. Under the SBA program, we originate and fund SBA 7(a) loans which qualify for guarantees up to 85% of principal and accrued interest. We also originate 504 chapter loans in which we generally provide 50% of the financing, taking a first lien on the real property as collateral.

We provide SBA loans to potential borrowers who are proposing a business venture, often with existing cash flow and a reasonable chance of success. We do not treat the SBA guarantee as a substitute for a borrower meeting our credit standards, and except for minimum capital levels or maximum loan terms, the borrower must meet our other credit standards as applicable to loans outside the SBA process.

Residential Mortgage Lending

Permanent. To a limited extent, we make fixed and adjustable rate first mortgage loans on residential properties with terms up to 30 years. In the case of conventional loans, we typically lend up to 80% of the appraised value of single-family residences and require mortgage insurance for loans exceeding that amount. We have no sub-prime loans. At December 31, 2008, we had $60.4 million of permanent residential mortgage loans. Of that amount, $37.1 million remain from the purchase of 1st Service Bank.

We retain a valid lien on real estate and obtain a title insurance policy that insures the property is free of encumbrances. We also require hazard insurance and flood insurance for all loans secured by real property if the real property is in a flood plain as designated by the Department of Housing and Urban Development. We also require most borrowers to advance funds on a monthly basis from which we make disbursements for items such as real estate taxes, private mortgage insurance and hazard insurance.

Construction. We typically make single family residential construction loans to builders/developers in our market areas. Construction loans generally have interest rates of prime plus one to two percent and fees of one to three points, loan-to-value ratios of 80% or less based on current appraisals and terms of generally nine months or less. In most cases, when we make a residential construction loan to a builder, the residence is pre-sold. All plans, specifications and surveys must include proposed improvements. Borrowers must evidence the capacity to service the debt.

Consumer Lending

To a limited extent, we offer various types of secured and unsecured consumer loans. We make consumer loans primarily for personal, family or household purposes as a convenience to our customer base since these loans are not the focus of our lending activities. As a general guideline, a consumer s debt service should not exceed 40% of his gross income or 45% of net income. For purposes of this calculation, debt includes house payment or rent, fixed installment payments, the estimated payment for the loan being requested and the minimum required payment on any revolving debt. At December 31, 2008, we had $3.1 million of consumer loans.

Credit Approval and Collection Policies

Because future loan losses are so closely intertwined with our underwriting policy, we have instituted what management believes is a stringent loan underwriting policy. Our underwriting guidelines are tailored for particular credit types, including lines of credit, revolving credit facilities, demand loans, term loans, equipment loans, real estate loans, SBA loans, stand-by letters or credit and unsecured loans. We will make extensions of credit based, among other factors, on the potential borrower s creditworthiness, likelihood of repayment and proximity to market areas served.

We have a standing Credit Committee comprised of certain officers, each of whom has a defined lending authority in combination with other officers. These individual lending authorities are determined by our chief executive officer and certain directors and are based on the individual s technical ability and experience. These authorities must be approved by our board of directors and our credit committee. Our credit committee is comprised of four levels of members: junior, regular, senior, and executive, based on experience. Our executive members are Ms. Derrico and Messrs. Porter and Stevens. Loans over a certain size must be approved by outside director, Neil Call. (See Management.) Under our loan approval process, the sponsoring loan officer s approval is required on all credit submissions. This approval must be included in or added to the individual and joining authorities outlined below. The sponsoring loan officer is primarily responsible for the customer s relationship with us, including, among other things, obtaining and maintaining adequate credit file information. We require each loan officer to maintain loan files in an order and detail that would enable a disinterested third party to review the file and determine the current status and quality of the credit.

In addition to approval of the sponsoring loan officer, we require approvals from one or more members of the Credit Committee on all loans. The approvals required differ based on the size of the borrowing relationship. At least one senior or one executive member must approve all loans in the amount of $100,000 or more. All three of the executive members of the committee must approve all loans of $1 million or more. Regardless of the number of approvals needed, we encourage each member not to rely on another member s approval as a basis for approval and to treat his approval as if it were the only approval necessary to approve the loan. Our legal lending limit to one borrower is limited to 15% of our unimpaired capital and surplus. We have an internal guidance line of 97% of the legal lending limit. As of December 31, 2008, our legal lending limit was approximately $9.0 million, although we have no loans to one borrower that approach our legal lending limit to date. Our largest group credit is $8.0 million.

Table of Contents

The following collection actions are the minimal procedures which management believes are necessary to properly monitor past due loans and leases. When a borrower fails to make a payment, we contact the borrower in person, in writing or on the telephone. At a minimum, all borrowers are notified by mail when payments of principal and/or interest are 10 days past due. Real estate and commercial loan borrowers are assessed a late charge when payments are 10-15 days past due. Customers are contacted by a loan officer before the loan becomes 60 days delinquent. After 90 days, if the loan has not been brought current or an acceptable arrangement is not worked out with the borrower, we will institute measures to remedy the default, including commencing foreclosure action with respect to mortgage loans and repossessions of collateral in the case of consumer loans.

If foreclosure is effected, the property is sold at a public auction in which we may participate as a bidder. If we are the successful bidder, we include the acquired real estate property in our real estate owned account until it is sold. These assets are carried at the lower of cost or the fair value net of estimated selling costs. To the extent there is a decline in value, that amount is charged to operating expense. At December 31, 2008, we had other real estate owned totaling $3.4 million.

Special Products and Services

To complement our array of loans, we also provide the following special products and services to our commercial customers:

Cash Management Services

Cash Management services are offered that enable the Bank s business customer to maximize the efficiency of their cash management. Specific products offered in our cash management services program include the following:

- Investment/sweep accounts
- Wire Transfer services
- Employer Services/Payroll processing services
- Zero balance accounts
- Night depository services
- Lockbox services
- Depository transfers
- Merchant services (third party)
- ACH originations
- Business debit cards

- Controlled disbursement accounts

- SONA 24/7 (Check 21 processing)

Three of the products listed above are described in-depth below.

SONA 24/7/Check 21: SONA 24/7 is ideal for landlords, property managers, medical professionals, and any other businesses that accept checks. Sonabank is a market leader in banking technology, and has created SONA 24/7 to empower its business customers. Now the customers of Sonabank can have total control over how, when, and where their checks will be deposited. SONA 24/7 uses the new Check Truncation technology outlined by the Check Clearing for the 21st Century Act , passed in October 2004 (Check 21). This act allows banks to have a universal technique for processing checks. With Check Truncation,

Table of Contents

paper checks can now be converted to electronic images and processed between participating banks, vastly speeding up the check clearing process. SONA In-House passes on the benefits of Check Truncation directly to Sonabank s business customers.

Lockbox Services: Sonabank will open a lockbox, retrieve and scan incoming checks, and deposit them directly into the customer s account. The images of the checks will then be available to view online. This makes bookkeeping for the customer fast and easy, and because Sonabank is checking the lockbox daily, funds will often be available sooner. Big businesses have been using lockboxes for decades as a cash management tool. Now Sonabank is making this service cost effective for all small and medium sized businesses as well.

Employer Services: Sonabank will provide its business clients with software that allows them to generate ACH payroll transactions to their employees accounts.

Other Consumer/Retail Products and Services. Other products and services that are offered by the Bank are primarily directed toward the individual customer and will include the following:

- Debit cards
- ATM services
- Travelers Checks
- Savings bonds
- Money Orders
- Notary service
- Wire transfers
- Telephone banking
- Online banking with bill payment services
- Credit Cards

Competition

The banking business is highly competitive, and our profitability depends principally on our ability to compete in the market areas in which our banking operations are located. We experience substantial competition in attracting and retaining savings deposits and in lending funds. The primary factors we encounter in competing for savings deposits are convenient office locations and rates offered. Direct competition for savings deposits comes from other commercial bank and thrift institutions, money market mutual funds and corporate and government securities which may offer more attractive rates than insured depository institutions are willing to pay. The primary factors we encounter in competing for loans include, among others, interest rate and loan origination fees and the range of services offered. Competition for origination of loans normally comes from other commercial banks, thrift institutions, mortgage bankers, mortgage brokers and insurance companies. We have been able to compete effectively with other financial institutions by:

- emphasizing customer service and technology;
- by establishing long-term customer relationships and building customer loyalty; and
- by providing products and services designed to address the specific needs of our customers.

Employees

At December 31, 2008, we had 65 full-time equivalent employees, four of whom were executive officers. Management considers its relations with its employees to be good. Neither we nor Sonabank are a party to any collective bargaining agreement.

Table of Contents

SUPERVISION AND REGULATION

The business of SNBV and the Bank are subject to extensive regulation and supervision under federal banking laws and other federal and state laws and regulations. In general, these laws and regulations are intended for the protection of the customers and depositors of the Bank and not for the protection of SNBV or its shareholders. Set forth below are brief descriptions of selected laws and regulations applicable to SNBV and the Bank. These descriptions are not intended to be a comprehensive description of all laws and regulations to which SNBV and the Bank are subject or to be complete descriptions of the laws and regulations discussed. The descriptions of statutory and regulatory provisions are qualified in their entirety by reference to the particular statutes and regulations. Changes in applicable statutes, regulations or regulatory policy may have a material effect on SNBV, the Bank and their business.

The Bank Holding Company Act of 1956

Under the Bank Holding Company Act of 1956, as amended (BHCA), SNBV is subject to periodic examination by the Federal Reserve Board (FRB) and required to file periodic reports regarding its operations and any additional information that the FRB may require. Our activities at the bank holding company level will be limited to:

- banking, managing or controlling banks;
- furnishing services to or performing services for our bank subsidiary; and
- engaging in other activities that the FRB has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

Some of the activities that the FRB has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser. SNBV does not currently plan to perform any of these activities, but may do so in the future.

With some limited exceptions, the BHCA requires every bank holding company to obtain the prior approval of the FRB before: (i) acquiring substantially all the assets of any bank; (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or (iii) merging or consolidating with another bank holding company.

In addition, and subject to some exceptions, the BHCA and the Change in Bank Control Act, together with their regulations, require FRB approval prior to any person or company acquiring control of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenging this rebuttable control presumption.

In November 1999, Congress enacted the Gramm-Leach-Bliley Act (GLBA), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized and well-managed and meet other conditions can elect to become financial holding companies. As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities such as insurance underwriting, securities underwriting and distribution, travel agency activities, insurance agency activities, merchant banking and other activities that the FRB determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the FRB, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. Although SNBV has not elected to become a financial holding company in order to exercise the broader activity powers provided by the GLBA, SNBV may elect to do so in the future.

Insurance of Deposits. The Bank s deposit accounts have been insured by the FDIC up to a maximum of $100,000 per insured depositor ($250,000 for certain retirement accounts). On October 3, 2008, the FDIC temporarily increased deposit insurance from $100,000 per depositor to $250,000. This increase is effective until December 31, 2009. On October 14, 2008, the FDIC announced the Temporary Liquidity Guarantee Program (TLG Program) to strengthen confidence and encourage liquidity in the banking system. The program consists of two components: a temporary guarantee of newly-issued senior unsecured debt and a temporary unlimited guarantee of funds in noninterest-bearing transaction accounts at FDIC-insured institutions. Sonabank is participating in the Transaction Account Guarantee Program, but opted not to participate in the Debt Guarantee Program.

Under deposit insurance reform legislation which became effective in February 2006, deposit insurance coverage will be increased for inflation every five years beginning in 2011. The FDIC issues regulations, conducts periodic examinations, requires the filing of reports and generally supervises the operations of its insured banks. Any insured bank which is not operated in accordance with, or does not conform to FDIC regulations, policies and directives may be sanctioned for non-compliance. Proceedings may be instituted against any insured bank or any director, officer or employee of such bank engaging in unsafe and unsound practices including the violation of applicable laws and regulations. The FDIC has the authority to terminate insurance of accounts pursuant to procedures established for that purpose.

In February 2006, the Federal Deposit Insurance Reform Act of 2005 (Deposit Reform Act) was enacted. The Deposit Reform Act, among other things, consolidates the Bank Insurance Fund and Savings Association Insurance Fund into the DIF, establishes a range for reserves levels for the DIF of 1.15% to 1.50% and creates a mechanism for raising the ceiling on deposit insurance coverage to reflect future inflation. The FDIC has adopted final regulations with respect to the Deposit Reform Act effective as of January 1, 2007. Under the new deposit insurance assessment system, the FDIC will evaluate each institution s risk, and therefore its assessment rate, based on three primary sources of information: supervisory ratings for all insured institutions, financial ratios for most institutions and long-term debt issuer ratings for large institutions that have them. The FDIC assessment rates effective January 1, 2007 range from 0.05% to 0.43% of deposits. The rate paid by Sonabank for 2008 was 0.06% of deposits. The FDIC also set the designated reserve ratio for the DIF at 1.25% of estimated insured deposits.

For 2007 and 2008, Sonabank qualified for the best rating, Risk Category I. For banks under $10 billion in total assets in Risk Category I, the 2007 and 2008 deposit assessment ranged from 5 to 7 basis points of total qualified deposits. The actual assessment is dependent upon certain risk measures as defined in the final rule.

In October 2008, the FDIC published a restoration plan designed to replenish the Deposit Insurance Fund over a period of five years and to increase the deposit insurance reserve ratio, which decreased to 1.01% of insured deposits on June 30, 2008, to the statutory minimum of 1.15% of insured deposits by December 31, 2013. In order to implement the restoration plan, the FDIC proposes to change both its risk-based assessment system and its base assessment rates. For the first quarter of 2009 only, the FDIC increased all FDIC deposit assessment rates by 7 basis points. These new rates range from 12 to 14 basis points for Risk Category I institutions to 50 basis points for Risk Category IV institutions.

Under the FDIC s restoration plan, the FDIC proposes to establish new initial base assessment rates that will be subject to adjustment as described below. Beginning April 1, 2009, the base assessment rates would range from 10 to 14 basis points for Risk Category I institutions to 45 basis points for Risk Category IV institutions.

Changes to the risk-based assessment system would include increasing premiums for institutions that rely on excessive amounts of brokered deposits, increasing premiums for excessive use of secured liabilities (including

Table of Contents

Federal Home Loan Bank advances), lowering premiums for smaller institutions with very high capital levels, and adding financial ratios and debt issuer ratings to the premium calculations for banks with over $10 billion in assets, while providing a reduction for their unsecured debt.

Either an increase in the Risk Category of Sonabank or adjustments to the base assessment rates could result in a material increase in our expense for federal deposit insurance.

Safety and Soundness. There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event that the depository institution is insolvent or is in danger of becoming insolvent. These obligations and restrictions are not for the benefit of investors. Regulators may pursue an administrative action against any bank holding company or national bank which violates the law, engages in an unsafe or unsound banking practice or which is about to engage in an unsafe and unsound banking practice. The administrative action could take the form of a cease and desist proceeding, a removal action against the responsible individuals or, in the case of a violation of law or unsafe and unsound banking practice, a civil penalty action. A cease and desist order, in addition to prohibiting certain action, could also require that certain action be undertaken. Under the policies of the FRB, SNBV is required to serve as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where SNBV might not do so otherwise.

Capital Requirements. Each of the FRB and the FDIC has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, SNBV and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including specific off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital must be composed of Tier 1 Capital, which is defined as common equity, retained earnings and qualifying perpetual preferred stock, less certain intangibles. The remainder may consist of Tier 2 Capital, which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock and a limited amount of the loan loss allowance. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization s overall safety and soundness. In sum, the capital measures used by the federal banking regulators are:

- the Total Risk-Based Capital ratio, which is the total of Tier 1 Risk-Based Capital and Tier 2 Capital;
- the Tier 1 Risk-Based Capital ratio; and
- the leverage ratio.

Under these regulations, a national bank will be:

- well capitalized if it has a Total Risk-Based Capital ratio of 10% or greater, a Tier 1 Risk-Based Capital ratio of 6% or greater, a leverage ratio of 5% or greater, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure;
- adequately capitalized if it has a Total Risk-Based Capital ratio of 8% or greater, a Tier 1 Risk-Based Capital ratio of 4% or greater, and a leverage ratio of 4% or greater or 3% in certain circumstances and is not well capitalized;
- undercapitalized if it has a Total Risk-Based Capital ratio of less than 8% or greater, a Tier 1 Risk-Based Capital ratio of less than 4% (or 3% in certain circumstances), or a leverage ratio of less than 4% (or 3% in certain circumstances);

Table of Contents

significantly undercapitalized if it has a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3%, or a leverage ratio of less than 3%; or

critically undercapitalized if its tangible equity is equal to or less than 2% of tangible assets.

The risk-based capital standards of each of the FRB and the FDIC explicitly identify concentrations of credit risk and the risk arising from non-traditional activities, as well as an institution s ability to manage these risks, as important factors to be taken into account by the agency in assessing an institution s overall capital adequacy. The capital guidelines also provide that an institution s exposure to a decline in the economic value of its capital due to changes in interest rates be considered by the agency as a factor in evaluating a banking organization s capital adequacy.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions which it regulates. The federal banking agencies (including the FRB and the FDIC) have adopted substantially similar regulations to implement Section 38 of the FDIA. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which the FDIC may reclassify a well capitalized bank as adequately capitalized and may require an adequately capitalized bank or an undercapitalized bank to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized bank as critically undercapitalized).

The FRB and the FDIC may take various corrective actions against any undercapitalized bank and any bank that fails to submit an acceptable capital restoration plan or fails to implement a plan accepted by the FRB or the FDIC. These powers include, but are not limited to, requiring the institution to be recapitalized, prohibiting asset growth, restricting interest rates paid, requiring prior approval of capital distributions by any bank holding company that controls the institution, requiring divestiture by the institution of its subsidiaries or by the holding company of the institution itself, requiring a new election of directors, and requiring the dismissal of directors and officers.

Payment of Dividends. SNBV is a legal entity separate and distinct from Sonabank. The principal sources of SNBV s cash flow, including cash flow to pay dividends to its stockholders, are dividends that Sonabank pays to its sole shareholder, SNBV. Statutory and regulatory limitations apply to Sonabank s payment of dividends to us as well as to SNBV s payment of dividends to its stockholders.

The policy of the Federal Reserve Board that a bank holding company should serve as a source of strength to its subsidiary banks also results in the position of the Federal Reserve Board that a bank holding company should not maintain a level of cash dividends to its stockholders that places undue pressure on the capital of its bank subsidiary or that can be funded only through additional borrowings or other arrangements that may undermine the bank holding company s ability to serve as a source of strength. Sonabank has no present plans to pay dividends to SNBV.

Under federal law, the Bank cannot pay a dividend if, after paying the dividend, the bank will be undercapitalized. The bank regulatory agencies may declare a dividend payment to be unsafe and unsound even though the Bank would continue to meet its capital requirements after the dividend.

The ability of SNBV to pay dividends is also subject to the provisions of Virginia law. The payment of dividends by SNBV and Sonabank may also be affected by other factors, such as the requirement to maintain adequate capital above regulatory guidelines. The federal banking agencies have indicated that paying dividends that deplete a depository institution s capital base to an inadequate level would be an unsafe and unsound banking practice. Under the Federal Deposit Insurance Corporation Improvement Act of 1991, a depository institution may not pay any dividend if payment would cause it to become undercapitalized or if it already is undercapitalized. Moreover, the federal agencies have issued policy statements that provide that bank holding companies and insured banks should generally only pay dividends out of current operating earnings.

Because we are a legal entity separate and distinct from our subsidiary Sonabank, our right to participate in the distribution of assets of any subsidiary upon the subsidiary s liquidation or reorganization will be subject to the prior claims of the subsidiary s creditors. In the event of a liquidation or other resolution of an insured depository institution, the claims of depositors and other general or subordinated creditors are entitled to a priority of payment over the claims of holders of any obligation of the institution to its shareholders, arising as a result of their status as shareholders, including any depository institution holding company (such as us) or any shareholder or creditor thereof.

Gramm-Leach-Bliley Act of 1999. The Gramm-Leach-Bliley Act of 1999 (GLBA) was signed into law on November 12, 1999. The GLBA covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. The following description summarizes some of its significant provisions.

The GLBA repeals sections 20 and 32 of the Glass-Steagall Act, thus permitting unrestricted affiliations between banks and securities firms. It also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment, merchant banking, insurance underwriting, sales and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed and have at least a satisfactory Community Reinvestment Act rating.

The GLBA provides that the states continue to have the authority to regulate insurance activities, but prohibits the states in most instances from preventing or significantly interfering with the ability of a bank, directly or through an affiliate, to engage in insurance sales, solicitations or cross-marketing activities. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in specific areas identified under the law. Under the new law, the federal bank regulatory agencies adopted insurance consumer protection regulations that apply to sales practices, solicitations, advertising and disclosures.

The GLBA adopts a system of functional regulation under which the FRB is designated as the umbrella regulator for financial holding companies, but financial holding company affiliates are principally regulated by functional regulators such as the OCC for national bank affiliates, the SEC for securities affiliates, and state insurance regulators for insurance affiliates. It repeals the broad exemption of banks from the definitions of broker and dealer for purposes of the Exchange Act. It also identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a broker, and a set of activities in which a bank may engage without being deemed a dealer. Additionally, the new law makes conforming changes in the definitions of broker and dealer for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended.

The GLBA contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, both at the inception of the customer relationship and on an annual basis, the institution s policies and procedures regarding the handling of customers nonpublic personal financial information. The new law provides that, except for specific limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The GLBA also provides that the states may adopt customer privacy protections that are stricter than those contained in the act.

Privacy

Under the GLBA, financial institutions are required to disclose their policies for collecting and protecting confidential information. Customers generally may prevent financial institutions from sharing nonpublic personal financial information with nonaffiliated third parties except under narrow circumstances, such as the processing of transactions requested by the consumer or when the financial institution is jointly sponsoring a product or service with a nonaffiliated third party. Additionally, financial institutions generally may not disclose consumer account numbers to any nonaffiliated third party for use in telemarketing, direct mail marketing or other marketing to consumers. Sonabank has established policies and procedures to assure our compliance with all privacy provisions of the GLBA.

Consumer Credit Reporting

On December 4, 2003, President Bush signed the Fair and Accurate Credit Transactions Act amending the federal Fair Credit Reporting Act. These amendments to the Fair Credit Reporting Act (the FCRA Amendments) became effective in 2004.

The FCRA Amendments include, among other things:

- requirements for financial institutions to develop policies and procedures to identify potential identity theft and, upon the request of a consumer, place a fraud alert in the consumer s credit file stating that the consumer may be the victim of identity theft or other fraud;

- consumer notice requirements for lenders that use consumer report information in connection with risk-based credit pricing programs;

- for entities that furnish information to consumer reporting agencies (which would include Sonabank), requirements to implement procedures and policies regarding the accuracy and integrity of the furnished information and regarding the correction of previously furnished information that is later determined to be inaccurate; and

- a requirement for mortgage lenders to disclose credit scores to consumers.

The FCRA Amendments also prohibit a business that receives consumer information from an affiliate from using that information for marketing purposes unless the consumer is first provided a notice and an opportunity to direct the business not to use the information for such marketing purposes (the opt-out), subject to certain exceptions. We do not share consumer information among our affiliated companies for marketing purposes, except as allowed under exceptions to the notice and opt-out requirements. Because no affiliate of SNBV is currently sharing consumer information with any other affiliate for marketing purposes, the limitations on sharing of information for marketing purposes do not have a significant impact on us.

Anti-Terrorism and Money Laundering Legislation

Sonabank is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism of 2001 (the USA PATRIOT Act), the Bank Secrecy Act and rules and regulations of the Office of Foreign Assets Control (the OFAC). These statutes and related rules and regulations impose requirements and limitations on specific financial transactions and account relationships intended to guard against money laundering and terrorism financing. Sonabank has established a customer identification program under Section 326 of the USA PATRIOT Act and the Bank Secrecy Act, and otherwise has implemented policies and procedures intended to comply with the foregoing rules.

Virginia Law. Certain state corporation laws may have an anti-takeover affect. Virginia law restricts transactions between a Virginia corporation and its affiliates and potential acquirers. The following discussion summarizes the two Virginia statutes that may discourage an attempt to acquire control of SNBV.

Virginia Code Sections 13.1-725 727.1 govern Affiliated Transactions. These provisions, with several exceptions discussed below, require approval by the holders of at least two-thirds of the remaining voting shares of material acquisition transactions between a Virginia corporation and any holder of more than 10% of any class

of its outstanding voting shares. Affiliated Transactions include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of an interested shareholder, or any reclassification, including a reverse stock split, recapitalization, or merger of the corporation with its subsidiaries which increases the percentage of voting shares owned beneficially by any 10% shareholder by more than 5%.

For three years following the time that a shareholder becomes an owner of 10% of the outstanding voting shares, a Virginia corporation cannot engage in an Affiliated Transaction with that shareholder without approval of two-thirds of the voting shares other than those shares beneficially owned by that shareholder, and majority approval of the disinterested directors. A disinterested director is a member of the company s board of directors who was (i) a member on the date the shareholder acquired more than 10%, and (ii) recommended for election by, or was elected to fill a vacancy and received the affirmative vote of, a majority of the disinterested directors then on the board. At the expiration of the three-year period, the statute requires approval of Affiliated Transactions by two-thirds of the voting shares other than those beneficially owned by the 10% shareholder.

The principal exceptions to the special voting requirement apply to transactions proposed after the three-year period has expired and require either that the transaction be approved by a majority of the corporation s disinterested directors or that the transaction satisfies the fair-price requirement of the statute. In general, the fair-price requirement provides that in a two-step acquisition transaction, the 10% shareholder must pay the shareholders in the second step either the same amount of cash or the same amount and type of consideration paid to acquire the Virginia corporation s shares in the first step.

None of the foregoing limitations and special voting requirements applies to a transaction with any 10% shareholder whose acquisition of shares taking him or her over 10% was approved by a majority of the corporation s disinterested directors.

These provisions were designed to deter certain takeovers of Virginia corporations. In addition, the statute provides that, by affirmative vote of a majority of the voting shares other than shares owned by any 10% shareholder, a corporation can adopt an amendment to its articles of incorporation or bylaws providing that the Affiliated Transactions provisions shall not apply to the corporation. SNBV opted out of the Affiliated Transactions provisions when it incorporated.

Virginia law also provides that shares acquired in a transaction that would cause the acquiring person s voting strength to meet or exceed any of the three thresholds (20%, 33 $^{1}/3$% or 50%) have no voting rights for those shares exceeding that threshold, unless granted by a majority vote of shares not owned by the acquiring person. This provision empowers an acquiring person to require the Virginia corporation to hold a special meeting of shareholders to consider the matter within 50 days of the request. SNBV also opted out of this provision at the time of its incorporation.

Federal Reserve Monetary Policy. The Bank will be directly affected by government monetary and fiscal policy and by regulatory measures affecting the banking industry and the economy in general. The actions of the FRB as the nation s central bank can directly affect the money supply and, in general, affect the lending activities of banks by increasing or decreasing the cost and availability of funds. An important function of the FRB is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the FRB to implement this objective are open market operations in United States government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits, and interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future.

Reserve Requirements. In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any nonpersonal time deposits at an institution. For net transaction accounts in 2009, the first $10.3 million will be exempt from reserve requirements. A 3.0% reserve ratio will be assessed on net transaction accounts over $10.3 million to and including $44.4 million. A 10.0% reserve ratio will be applied to net transaction accounts in excess of $44.4 million. These percentages are subject to adjustment by the FRB.

Transactions with Affiliates. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B (i) limit the extent to which the bank or its subsidiaries may engage in covered transactions with any one affiliate to an amount equal to 10% of such institution s capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the bank as those provided to a nonaffiliate. The term covered transaction includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions. Section 23B applies to covered transactions as well as sales of assets and payments of money to an affiliate. These transactions must also be conducted on terms substantially the same, or at least favorable, to the bank as those provided to nonaffiliates.

Loans to Insiders. The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a principal shareholder of a bank, and to entities controlled by any of the foregoing, may not exceed, together with all other outstanding loans to such person and entities controlled by such person, the bank s loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank s unimpaired capital and unimpaired surplus until the bank s total assets equal or exceed $100 million, at which time the aggregate is limited to the bank s unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and principal shareholders of a bank or bank holding company, and to entities controlled by such persons, unless such loan is approved in advance by a majority of the board of directors of the bank with any interested director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000.00 or 5.0% of capital and surplus (up to $500,000.00). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons. Further, Section 402 of the Sarbanes-Oxley Act of 2002, with certain exceptions, prohibits loans to directors and executive officers. We do not have any loans to insiders as of December 31, 2008.

Community Reinvestment Act. Under the Community Reinvestment Act and related regulations, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. The Community Reinvestment Act requires the adoption by each institution of a Community Reinvestment Act statement for each of its market areas describing the depository institution s efforts to assist in its community s credit needs. Depository institutions are periodically examined for compliance with the Community Reinvestment Act and are periodically assigned ratings in this regard. Banking regulators consider a depository institution s Community Reinvestment Act rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries.

The Gramm-Leach-Bliley Act and federal bank regulators have made various changes to the Community Reinvestment Act. Among other changes, Community Reinvestment Act agreements with private parties must be disclosed and annual reports must be made to a bank s primary federal regulatory. A bank holding company will

Table of Contents

not be permitted to become a financial holding company and no new activities authorized under the GLBA may be commenced by a holding company or by a bank financial subsidiary if any of its bank subsidiaries received less than a satisfactory rating in its latest Community Reinvestment Act examination. The Bank received a satisfactory rating in the most recent examination for Community Reinvestment Act compliances in October 2007.

Fair Lending; Consumer Laws. In addition to the Community Reinvestment Act, other federal and state laws regulate various lending and consumer aspects of the banking business. Governmental agencies, including the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice, have become concerned that prospective borrowers experience discrimination in their efforts to obtain loans from depository and other lending institutions. These agencies have brought litigation against depository institutions alleging discrimination against borrowers. Many of these suits have been settled, in some cases for material sums, short of a full trial.

Recently, these governmental agencies have clarified what they consider to be lending discrimination and have specified various factors that they will use to determine the existence of lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act, including evidence that a lender discriminated on a prohibited basis, evidence that a lender treated applicants differently based on prohibited factors in the absence of evidence that the treatment was the result of prejudice or a conscious intention to discriminate, and evidence that a lender applied an otherwise neutral non-discriminatory policy uniformly to all applicants, but the practice had a discriminatory effect, unless the practice could be justified as a business necessity.

Banks and other depository institutions also are subject to numerous consumer-oriented laws and regulations. These laws, which include the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfer Act, the Equal Credit Opportunity Act, and the Fair Housing Act, require compliance by depository institutions with various disclosure requirements and requirements regulating the availability of funds after deposit or the making of some loans to customers.

The foregoing is only a brief summary of certain statutes, rules, and regulations that may affect SNBV and the Bank. Numerous other statutes and regulations also will have an impact on the operations of SNBV and the Bank. Supervision, regulation and examination of banks by the regulatory agencies are intended primarily for the protection of depositors, not shareholders.

Future Regulatory Uncertainty. Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal regulation of financial institutions may change in the future and impact our operations. SNBV fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Item 1A. Risk Factors

We have a limited operating history, which makes it difficult to predict our future prospects and financial performance.

Since we have been operating only three and a half years, we have not experienced a recession of the depth we have now.

We rely, in part, on external financing to fund our operations and the unavailability of such funds in the future could adversely affect our growth strategy and prospects.

Our ability to implement our business strategy will depend on our ability to obtain funding for loan originations, working capital, possible acquisitions and other general corporate purposes.

Table of Contents

We do not anticipate that our retail and commercial deposits will be sufficient to meet our funding needs in the foreseeable future. We therefore rely on deposits obtained through intermediaries, FHLB advances, securities sold under agreements to repurchase and other wholesale funding sources to obtain the funds necessary to implement our growth strategy.

To the extent we are not successful in obtaining such funding, we will be unable to implement our strategy as planned which could have a material adverse effect on our financial condition, results of operations and cash flows.

Our commercial real estate, construction and small business loan portfolios have significant type and geographic concentrations and an economic slowdown or depressed residential real estate market in our primary markets could be detrimental to our financial condition.

Almost all of our commercial real estate, construction and business loans are to customers located in Northern Virginia including Fairfax County, as well as in Richmond, Albemarle County and Charlottesville. In addition, we have loan concentrations in certain types of loans, including land subdivision, lessors of non-residential buildings and new home builders. All of these loans are secured by real estate in these markets.

Deterioration in economic conditions in these markets or in the housing market could have a material adverse effect on the quality of these portfolios and the demand for our products and services. In addition, during periods of economic recession, we may experience a decline in collateral values and an increase in delinquencies. Accordingly, the ultimate collectability of a substantial portion of our commercial loan portfolio is susceptible to economic changes in these markets including increases in interest rates. A significant downturn in the commercial or residential real estate market in these areas would be detrimental to our financial condition.

In addition, if any of these developments were to result in losses that materially and adversely affected Sonabank s capital, we and Sonabank might be subject to regulatory restrictions on operations and growth and to a requirement to raise additional capital.

If the value of real estate in our market areas were to decline materially, a significant portion of our loan portfolio could become under-collateralized, which could have a material adverse effect on our asset quality, capital structure and profitability.

A significant portion of our loan portfolio is comprised of loans secured by either commercial real estate or single family homes which are under construction. At December 31, 2008, approximately 79% of our loans had real estate as a component of collateral. In the majority of these loans, real estate was the primary collateral component. In some cases, and out of an abundance of caution, we take real estate as security for a loan even when it is not the primary component of collateral. The real estate collateral that provides an alternate source of repayment in the event of default may deteriorate in value during the term of the loan. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, our earnings and capital could be adversely affected. We are subject to increased lending risks in the form of loan defaults as a result of the high concentration of real estate lending in our loan portfolio should the real estate market in Virginia turn downward.

Our business strategy includes strategic growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively.

We completed the acquisition of 1st Service Bank in December 2006. We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies such as the continuing need for infrastructure and personnel, the time and costs inherent in integrating a series of different operations and the ongoing expense of acquiring and staffing new banks or branches. We may not be able to expand our presence in our existing markets or successfully enter new markets

Table of Contents

and any expansion could adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. There can be no assurance of success or the availability of branch or bank acquisitions in the future.

A loss of our executive officers could impair our relationship with our customers and adversely affect our business.

Many community banks attract customers based on the personal relationships that the banks officers and customers establish with each other and the confidence that the customers have in the officers. As a relatively new enterprise, we depend on the performance of Ms. Georgia S. Derrico, chairman and chief executive officer, and R. Roderick Porter, who is the president of SNBV and Sonabank, respectively. Ms. Derrico is a well-known banker in our market areas, having operated a successful financial institution there for more than 18 years prior to founding SNBV and Sonabank. We do not have an employment agreement with either individual. The loss of the services of either of these officers or their failure to perform management functions in the manner anticipated by our board of directors could have a material adverse effect on our business. Our success will be dependent upon the board s ability to attract and retain quality personnel, including these officers. We have attempted to reduce our risk by entering into a change in control agreement that includes a non-competition covenant with Ms. Derrico and Mr. Porter.

Our business is subject to interest rate risk and variations in interest rates may negatively affect our financial performance.

The majority of our assets and liabilities are monetary in nature and subject us to significant risk from changes in interest rates. Fluctuations in interest rates are not predictable or controllable. Like most financial institutions, changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities. Based on our analysis of the interest rate sensitivity of our assets, an increase in the general level of interest rates may negatively affect the market value of the portfolio equity, but will positively affect our net interest income since most of our assets have floating rates of interest that adjust fairly quickly to changes in market rates of interest. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan and mortgage-backed securities portfolios, and our overall results.

Our profitability depends significantly on economic conditions in our market area.

Our success depends to a large degree on the general economic conditions in the Virginia market. The local economic conditions in Virginia have a significant impact on the loans that we make to our borrowers, the ability of our borrowers to repay these loans, and the value of the collateral securing these loans. A significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact these local economic conditions and could negatively affect our financial condition and performance.

In recent years, there has been a proliferation of government contracting, technology and communication businesses in northern Virginia. The last recession in those industries had a significant adverse impact on a number of those businesses. While we do not have significant credit exposure to these businesses, the recession in these industries could have a negative impact on local economic conditions and real estate collateral values generally, which could negatively affect our profitability.

Table of Contents

There can be no assurance that recently enacted legislation will stabilize the U.S. financial system.

The U.S. Treasury and banking regulators are implementing a number of programs under the Emergency Economic Stabilization Act of 2008 and otherwise to address capital and liquidity issues in the banking system. There can be no assurance as to the actual impact that these programs will have on the financial markets, including the extreme levels of volatility and limited credit availability currently being experienced. The failure of these programs to stabilize the financial markets and a continuation or worsening of current financial market conditions could materially and adversely affect our business, financial condition, results of operations, or access to credit. We may be required to pay higher FDIC premiums than those published for 2009 because market developments have impacted the deposit insurance fund of the FDIC and reduced the ratio of reserves to insured deposits. See Part I, Item 1, Business Insurance of Deposits for more information.

Item 1B. Unresolved Staff Comments

SNBV does not have any unresolved staff comments to report for the year ended December 31, 2008.

Item 2. Properties

The following table sets forth the date opened or acquired, ownership status and the total deposits, not including brokered deposits for each of our banking locations as of December 31, 2008:

Location	Date Opened or Acquired	Owned or Leased	Deposits (in thousands)
Home Office and Branch:			
6830 Old Dominion Drive McLean, Virginia 22101	December 2006	Leased	$ 45,007
Branch Offices:			
511 Main Street Clifton Forge, Virginia 24442	December 2005	Owned	$ 41,450
1770 Timberwood Boulevard Charlottesville, Virginia 22911	April 2005	Leased	$ 27,549
11527 Sunrise Valley Drive Reston, Virginia 20191	December 2006	Leased	$ 21,677
10855 Fairfax Boulevard Fairfax, Virginia 22030	December 2006	Leased	$ 7,580
550 Broadview Avenue Warrenton, Virginia 20186	April 2007	Leased	$ 9,895
1 East Market Street Leesburg, Virginia 20176	April 2008	Leased	$ 13,383
Loan Production Offices:			
230 Court Square Charlottesville, Virginia 22902	March 2005	Leased	NA

2217 Princess Anne Street Fredericksburg, Virginia 22401	April 2005	Leased	NA
550 Broadview Avenue Warrenton, Virginia 20186	September 2005	Leased	NA
2805 McRae Road, Suite 5A Richmond, Virginia 23235	July 2007	Leased	NA
Executive Offices:			
1002 Wisconsin Avenue Washington, D.C. 20007	April 2005	Leased	NA

Table of Contents

Item 3. 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 as of December 31, 2008.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of the year ended December 31, 2008.

Table of Contents

PART II

Item 5. Market for Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

On November 6, 2006, SNBV closed on the initial public offering of its common stock, $0.01 par value. The shares of common stock sold in the offering were registered under the Securities Act of 1933, as amended on a Registration Statement (Registration No. 333-136285) that was declared effective by the Securities and Exchange Commission on October 31, 2006. The shares of common stock were sold at a price to the public of $14.00 per share (equivalent to $12.73 after the stock dividend declared in May 2007).

SNBV s common stock is traded on the Nasdaq Global Market under the symbol SONA . Our common stock began trading on the Nasdaq Capital Market in November 2006, and the exchange listing was upgraded to the Nasdaq Global Market at the open of trading on December 18, 2007.

There were 6,798,547 shares of our common stock outstanding at the close of business on March 2, 2009, which were held by 203 shareholders of record.

On April 19, 2007, SNBV s Board of Directors approved a 10% stock dividend payable May 18, 2007 to shareholders of record as of May 2, 2007. All share and per share amounts have been adjusted to reflect the stock dividend. There have been no cash dividends paid.

The following table summarizes the high and low closing sales prices for quarterly periods during 2008 and 2007:

	Market Values			
	2008		2007	
	High	Low	High	Low
First Quarter	$ 10.75	$ 8.12	$ 15.20	$ 13.95
Second Quarter	9.24	7.76	14.82	13.25
Third Quarter	8.50	5.52	13.95	12.05
Fourth Quarter	8.25	5.50	12.44	9.00

Recent Sales of Unregistered Securities

None

Issuer Purchases of Equity Securities

None

Table of Contents

Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2008, the Company had outstanding stock options granted under its Stock Option Plan, which is approved by the Company s shareholders. The following table provides information as of December 31, 2008 regarding the Company s equity compensation plans under which the Company s equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	212,925	$ 9.23	89,575
Equity compensation plans not approved by security holders			
Total	212,925	$ 9.23	89,575

21

Table of Contents

Performance Graph

The following chart compares the cumulative total shareholder return on SNBV common stock for the period from November 1, 2006, when the common stock was first listed on the Nasdaq Capital Market, to December 31, 2008, with the cumulative total return of the Russell 2000 Index and the SNL Bank and Thrift Index for the same period. Dividend reinvestment has been assumed. This comparison assumes $100 invested on November 1, 2006 in SNBV common stock, the Russell 2000 Index and the SNL Bank and Thrift Index. The historical stock price performance for SNBV common stock shown on the graph below is not necessarily indicative of future stock performance.

	Period Ending					
Index	**11/01/06**	**12/31/06**	**06/30/07**	**12/31/07**	**06/30/08**	**12/31/08**
Southern National Bancorp of Virginia, Inc.	100.00	108.14	100.97	64.50	58.33	42.57
Russell 2000	100.00	104.98	111.75	103.34	93.65	68.42
SNL Bank and Thrift Index	100.00	104.72	100.33	79.86	55.66	45.93

Source: SNL Financial LC, Charlottesville, VA © 2008

Table of Contents

Item 6. Selected Financial Data

The following table sets forth selected financial data for SNBV as of December 31, 2008, 2007, 2006 and 2005, and for the years ended December 31, 2008, 2007 and 2006, and the period from inception at April 14, 2005 through December 31, 2005:

	2008	2007	2006	2005
		(in thousands, except per share amounts)		
Results of Operations:				
Interest income	$ 24,326	$ 21,749	$ 10,784	$ 2,395
Interest expense	11,983	11,086	4,860	605
Net interest income	12,343	10,663	5,924	1,790
Provision for loan losses	1,657	1,290	546	1,020
Net interest income after provision for loan losses	10,686	9,373	5,378	770
Noninterest income (loss)	(54)	357	249	51
Noninterest expenses	9,109	7,886	4,618	3,077
Income (loss) before income taxes	1,523	1,844	1,009	(2,256)
Income tax expense	315	108		
Net income (loss)	$ 1,208	$ 1,736	$ 1,009	$ (2,256)
Per Share Data (1):				
Earnings (loss) per share Basic	$ 0.18	$ 0.26	$ 0.24	$ (0.59)
Earnings (loss) per share Diluted	$ 0.18	$ 0.25	$ 0.23	$ (0.59)
Book value per share	$ 10.12	$ 10.19	$ 10.04	$ 8.39
Tangible book value per share	$ 8.37	$ 8.34	$ 7.83	$ 7.61
Weighted average shares outstanding Basic	6,798,547	6,798,547	4,244,957	3,850,000
Weighted average shares outstanding Diluted	6,798,547	6,875,559	4,323,620	3,850,000
Shares outstanding at end of period	6,798,547	6,798,547	6,798,547	3,850,000
Selected Performance Ratios and Other Data:				
Return on average assets	0.29%	0.54%	0.65%	(5.35%)
Return on average equity	1.75%	2.51%	2.74%	(9.89%)
Yield on earning assets	6.43%	7.45%	7.29%	5.88%
Cost of funds	3.70%	4.75%	4.44%	3.58%
Cost of funds including non-interest bearing deposits	3.49%	4.42%	4.15%	3.17%
Net interest margin	3.26%	3.65%	4.01%	4.40%
Efficiency ratio (2)	67.05%	68.94%	74.81%	167.14%
Net charge-offs to average loans	0.32%	0.24%	0.21%	0.00%
Allowance for loan losses to total loans	1.40%	1.33%	1.33%	1.36%
Stockholders equity to total assets	15.92%	18.36%	23.48%	26.29%
Tangible stockholders equity to total tangible assets	13.55%	15.55%	19.31%	24.43%
Financial Condition:				
Total assets	$ 431,924	$ 377,283	$ 290,574	$ 122,908
Total loans, net of unearned income	302,266	261,407	204,544	75,031
Total deposits	309,460	265,469	215,804	77,263
Stockholders equity	68,776	69,275	68,227	32,313

(1) Reflects 10% stock dividend declared April 19, 2007.

(2) Efficiency ratio is calculated by dividing noninterest expense by the sum of net interest income plus noninterest income, excluding any gains/losses on sales of securities, gains/write-downs on OREO and gains on sale of loans.

Table of Contents

Item 7. 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.

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 f 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, economic concerns, 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.

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.

Based on management s calculation, an allowance of $4.2 million, or 1.40% of total loans was an adequate estimate of losses within the loan portfolio as of December 31, 2008. This estimate resulted in provision for loan losses on the income statement of $1.7 million during 2008. If the mix and amount of future charge off percentages differ significantly from those assumptions used by management in making its determination, an adjustment to the allowance for loan losses and the resulting effect on the income statement could be material.

Goodwill and Intangible Assets

Management is required to assess goodwill and other intangible assets annually for impairment or more often if certain factors are identified which could imply potential impairment. This assessment involves preparing analyses of market multiples for similar operations, and estimating the fair value of the reporting unit to which the goodwill is allocated. If the analysis results in an estimate of fair value materially less than the carrying value SNBV would be required to take a charge against earnings to write down the asset to the lower fair value. Based on its assessment completed with the help of an outside investment banking firm, SNBV believes its goodwill of $8.7 million and other identifiable intangibles of $3.1 million are not impaired and are properly recorded in the consolidated financial statements as of December 31, 2008.

Other Than Temporary Impairment of Investment Securities

Securities are monitored to determine whether a decline in their value is other than temporary. Management utilizes criteria outlined in FAS 115, FSP 157-3 and EITF 99-20 as amended in EITF 99-20-1, such as the probability of collecting amounts due per the contractual terms of the investment security agreement, to determine whether the loss in value is other than temporary. The term other than temporary is not intended to indicate that the decline in value is permanent. It indicates that the prospects for a near-term recovery of value are not necessarily favorable, or that there is a lack of evidence to support fair values equal to , or greater than, the carrying value of the investment. Once a decline in value is determined to be other than temporary, the value of the security is reduced and a corresponding charge to earnings is recognized.

Valuation of Deferred Tax Asset

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus changes in deferred taxes related primarily to differences between the basis of the net operating losses carryforward and allowance for loan losses. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision 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, 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 and reduced goodwill.

Table of Contents

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 December 31, 2008. SNBV and its 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.

OVERVIEW

Southern National Bancorp of Virginia, Inc. (SNBV) is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank, N. A. (Sonabank) a national bank chartered on April 14, 2005, under the laws of the United States of America. On January 1, 2009, Sonabank changed from a nationally chartered bank to a state chartered bank and moved its headquarters from Charlottesville to McLean, Virginia. Going forward, Sonabank will be regulated by the State Corporation Commission of Virginia and the Federal Reserve Bank of Richmond. Currently, all of the communities served by Sonabank are located in Virginia, and Sonabank has no lending programs outside Virginia. Moreover, the change should save the company in excess of $35 thousand in regulatory fees per year. 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, Clifton Forge, Leesburg, Warrenton and Fairfax County in Virginia.

On December 19th, 2007, SNBV announced that it had entered into an agreement with Founders Corporation of Leesburg, Virginia to purchase certain assets and to assume its lease at 1 East Market Street in Leesburg in the 100 year old Loudoun National Bank building. Sonabank received approval from the Office of the Comptroller of the Currency (OCC) to open a branch at that location. The branch was opened February 11, 2008. The OCC also approved the opening of a drive-through/ATM facility that was opened on April 7, 2008.

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2008, was $1.2 million compared to $1.7 million in the year ended December 31, 2007.

Southern National Bancorp s earnings in both 2008 and 2007 were adversely affected by other than temporary impairment (OTTI) charges taken in connection with Freddie Mac s Perpetual Preferred Stock. Freddie Mac was taken into conservatorship by the U.S. Treasury in September 2008 and the U.S. Treasury made the decision to default on the perpetual preferred stocks of both Government-Sponsored Enterprises (GSE s). Absent the Freddie Mac OTTI s Southern National Bancorp s earnings were as follows (in thousands):

	2008	2007
Actual net income	$ 1,208	$ 1,736
Add: OTTI charges, net of tax	1,014	290
Net income excluding OTTI	$ 2,222	$ 2,026

Net income for the year ended December 31, 2007, was $1.7 million compared to $1.0 million in the year ended December 31, 2006. Income before income taxes for 2007 increased to $1.8 million from $1.0 million in 2006, an increase of 83%.

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 year ended December 31, 2008 was $12.3 million compared to $10.7 million for the same period last year. Average interest-earning assets for the year ended December 31, 2008 increased $86.4 million over the same period in 2007. Approximately $63.4 million of this growth was an increase in average loans outstanding. Average investment securities increased by $15.8 million in the year ended December 31, 2008, compared to the same period last year. The average yield on interest-earning assets decreased from 7.45% in 2007 to 6.43% in 2008 primarily because of the prime rate decreases of 400 basis points during the 2008 which accompanied the Federal Reserve Board s reductions in its federal funds target rate. Average interest-bearing liabilities for the year ended December 31, 2008 increased $90.6 million compared to the same period in 2007. Average interest-bearing deposits increased by $62.4 million, while average borrowings increased by $28.3 million compared to 2007. The average cost of interest-bearing liabilities decreased from 4.75% in 2007 to 3.70% in 2008. The interest rate spread for the year ended December 31, 2008 increased from 2.70% to 2.73% compared to the same period last year. The net interest margin for the year ended December 31, 2008 decreased to 3.26% from 3.65% compared to the same period last year. The decline in the interest margin was a result of several factors. In addition to the prime rate decreases previously discussed, we have maintained much more cash in interest-earning accounts at the Federal Home Loan Bank of Atlanta and the Federal Reserve Bank of Richmond during the second half of 2008 than we usually do. As of September 30, 2008, we had pre-funded our total brokered certificate of deposit (CD) maturities through November 2008. As of December 31, 2008, we had pre-funded our brokered CD maturities for January 2009. As a result, our cash and cash equivalents at December 31, 2008 were $14.8 million compared to $1.3 million at the end of last year. The negative carry on our interest-earning deposit accounts cost us 4 basis points. Also, the failure of our Freddie Mac preferred stock to pay dividends during the second half of 2008 cost us 2 basis points.

Net interest income for the year ended December 31, 2007 was $10.7 million compared to $5.9 million for the same period in 2006. Average interest-earning assets for 2007 increased $144.0 million over 2006. Approximately $122.5 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 $20.4 million in 2007, compared to 2006. The average yield on interest-earning assets increased from 7.29% in 2006 to 7.45% in 2007 primarily because most of the increase in average earning assets was in the higher yielding loans. Average interest-bearing liabilities for 2007 increased $123.7 million compared to 2006. Average interest-bearing deposits increased by $113.5 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 4.44% in 2006 to 4.75% in 2007. The interest rate spread for the year ended December 31, 2007 decreased from 2.85% to 2.70% compared to the same period last year. The net interest margin for 2007 decreased to 3.65% from 4.01% compared to the same period last year.

Our commercial loans (non-real estate), 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) or our marginal cost of funds and fixed for one, three or 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 liabilities reprice only at maturity resulting in a lag which can adversely affect net interest income and the net interest margin when interest rates decline. The decreases in the federal funds target rate during 2007 and 2008 have had a negative impact on our net interest margin. In order to protect the Bank s margins, as of November 2008 we have begun to set floors on all new loans as well as renewals. In addition, Sonabank has reviewed a majority of its home equity lines of credit (HELOCs) to ensure adequate loan-to-value ratios.

Table of Contents

The following tables detail 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 Years

Ended December 31, 2008, 2007 and 2006

	2008			2007			2006		
	Average Balance	Interest Income/ Expense	Yield/ Rate	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)	$ 287,249	$ 19,800	6.89%	$ 223,881	$ 17,892	7.99%	$ 101,411	$ 8,465	8.35%
Investment securities	78,227	4,194	5.36%	62,459	3,552	5.69%	42,052	2,073	4.93%
Other earning assets	12,698	332	2.61%	5,472	305	5.57%	4,374	246	5.62%
Total earning assets	378,174	24,326	6.43%	291,812	21,749	7.45%	147,837	10,784	7.29%
Allowance for loan losses	(3,943)			(2,966)			(1,360)		
Intangible assets	12,244			13,791			3,301		
Other non-earning assets	29,143			19,257			4,852		
Total assets	$ 415,618			$ 321,894			$ 154,630		
Liabilities and stockholders equity									
Interest-bearing liabilities:									
NOW accounts	$ 6,356	14	0.22%	$ 6,569	17	0.26%	$ 5,545	14	0.25%
Money market accounts	52,803	1,226	2.32%	40,855	1,712	4.19%	16,772	553	3.30%
Savings accounts	2,186	5	0.23%	2,658	12	0.45%	2,406	13	0.53%
Time deposits	214,624	9,271	4.32%	163,531	8,489	5.19%	75,341	3,826	5.08%
Total interest-bearing deposits	275,969	10,516	3.81%	213,613	10,230	4.79%	100,064	4,406	4.40%
Borrowings	47,865	1,467	3.06%	19,592	856	4.37%	9,453	454	4.80%
Total interest-bearing liabilities	323,834	11,983	3.70%	233,205	11,086	4.75%	109,517	4,860	4.44%
Noninterest-bearing liabilities:									
Demand deposits	19,992			17,698			7,666		
Other liabilities	2,723			1,798			577		
Total liabilities	346,549			252,701			117,760		
Stockholders equity	69,069			69,193			36,870		
Total liabilities and stockholders equity	$ 415,618			$ 321,894			$ 154,630		
Net interest income		$ 12,343			$ 10,663			$ 5,924	
Interest rate spread			2.73%			2.70%			2.85%
Net interest margin			3.26%			3.65%			4.01%

(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.

Table of Contents

The following table summarizes changes in net interest income attributable to changes in the volume of interest-bearing assets and liabilities compared to changes in interest rates. The change in interest, due to both rate and volume, has been proportionately allocated between rate and volume.

	Year Ended December 31, 2008 vs. 2007 Increase (Decrease) Due to Change in:			Year Ended December 31, 2007 vs. 2006 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands)					
Interest-earning assets:						
Loans, net of unearned income	$ 3,710	$ (1,802)	$ 1,908	$ 9,772	$ (345)	$ 9,427
Investment securities	830	(188)	642	1,123	356	1,479
Other earning assets	45	(18)	27	61	(2)	59
Total interest-earning assets	4,585	(2,008)	2,577	10,956	9	10,965
Interest-bearing liabilities:						
NOW accounts	(1)	(2)	(3)	3		3
Money market accounts	926	(1,412)	(486)	975	184	1,159
Savings accounts	(2)	(5)	(7)	2	(3)	(1)
Time deposits	1,690	(908)	782	4,576	87	4,663
Total interest-bearing deposits	2,613	(2,327)	286	5,556	268	5,824
Borrowings	770	(159)	611	439	(37)	402
Total interest-bearing liabilities	3,383	(2,486)	897	5,995	231	6,226
Change in net interest income	$ 1,202	$ 478	$ 1,680	$ 4,961	$ (222)	$ 4,739

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 collectablity. 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 years ended December 31, 2008, 2007 and 2006 was $1.7 million, $1.3 million, and $546 thousand, respectively. We had charge-offs totaling $923 thousand during 2008, $540 thousand during 2007, and charge-offs during 2006 were $214 thousand. There were recoveries totaling $8 thousand during 2008, and there were no recoveries during 2007 and 2006. The increase in the provision for loan losses during 2008 was due to overall growth in the loan portfolio, charge offs and adverse economic factors.

Table of Contents

Noninterest Income

The following table presents the major categories of noninterest income for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	Change
Account maintenance and deposit service fees	$ 499	$ 338	$ 161
Income from bank-owned life insurance	588	347	241
Gain on sale of loans	107		107
Net gain (loss) on other real estate owned	(136)	21	(157)
Net loss on securities	(1,267)	(440)	(827)
Other	155	91	64
Total noninterest income (loss)	$ (54)	$ 357	$ (411)

	2007	2006	Change
Account maintenance and deposit service fees	$ 338	$ 188	$ 150
Income from bank-owned life insurance	347		347
Gain on other real estate owned	21		21
Loss on securities	(440)		(440)
Other	91	61	30
Total noninterest income	$ 357	$ 249	$ 108

Noninterest loss was $54 thousand during 2008, compared to income of $357 thousand during 2007. The decline in noninterest income was largely attributable to the OTTI charge of $1.5 million on the Freddie Mac preferred stock in 2008. Noninterest income for 2008 included gains of $107 thousand from the sale of the guaranteed portion of SBA loans and gains of $269 thousand from the sale of $15.5 million of available-for-sale mortgage-backed securities. Also during 2008, we had a write-down on other real estate owned (OREO) in the amount of $200 thousand which was offset by gains of $64 thousand on the sales of OREO. Income from account maintenance fees increased due to an increase in the number of accounts. Bank-owned life insurance also increased compared to 2007, as we had a full year of earnings.

The increase in noninterest income in 2007 compared to 2006 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 income was adversely affected in 2007 by an OTTI charge of $440 thousand on the Freddie Mac preferred stock.

Noninterest Expense

The following table presents the major categories of noninterest expense for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	Change
Salaries and benefits	$ 4,016	$ 3,346	$ 670
Occupancy expenses	1,494	1,086	408
Furniture and equipment expenses	484	439	45
Amortization of core deposit intangible	727	727	
Virginia franchise tax expense	549	550	(1)
Data processing expense	260	224	36
Telephone and communication expense	256	222	34
Other operating expenses	1,323	1,292	31

Total noninterest expense	$ 9,109	$ 7,886	$ 1,223

Table of Contents

	2007	2006	Change
Salaries and benefits	$ 3,346	$ 2,284	$ 1,062
Occupancy expenses	1,086	416	670
Furniture and equipment expenses	439	303	136
Amortization of core deposit intangible	727	458	269
Virginia franchise tax expense	550	211	339
Data processing expense	224	171	53
Telephone and communication expense	222	176	46
Other operating expenses	1,292	599	693
Total noninterest expense	$ 7,886	$ 4,618	$ 3,268

In February 2008 Sonabank opened a branch and a drive-through facility in Leesburg, Virginia. The incremental costs of these facilities were approximately $638 thousand per annum. Despite these additional costs, Southern National s efficiency ratio improved from 68.9% for the year ended December 31, 2007 to 67.1% for the year ended December 31, 2008, excluding the impairment charges, gains on sales of securities, gains on sales of loans and gains/write-downs on OREO. As of December 31, 2008 we had 65 full-time equivalent employees compared to 59 at the end of 2007. We had seven branches and the Leesburg drive-through facility at year end 2008 compared to six branches at the end of 2007. The increase of $670 thousand in salaries and benefits expense in 2008 compared to 2007 is attributable to staffing the Leesburg branch and drive-through facility, the deferred compensation plan, and general increases in salaries and benefits. The increase in occupancy expense is attributable to the Leesburg branch and drive-through facility.

Much of the $3.3 million increase in noninterest expense in 2007 over 2006 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 December 31, 2007 we had 59 full-time equivalent employees compared to 50 at December 31, 2006, following the 1st Service acquisition. At September 30, 2006, we had 32 full-time equivalent employees. We had six branches at year end 2007, compared to two branches prior to the 1st Service acquisition in December 2006.

FINANCIAL CONDITION

Total assets were $431.9 million as of December 31, 2008, up from $377.3 million as of December 31, 2007. Net loans grew from $257.9 million at the end of 2007 to $298.0 million at the end of 2008. Total cash and cash equivalents increased from $1.3 million as of December 31, 2007 to $14.8 million at the end of 2008. The increase in cash was intended to build up liquidity to fund maturities of brokered certificates of deposit.

Total deposits rose from $265.5 million at December 31, 2007, to $309.5 million as of December 31, 2008. The growth was attributable to an increase in brokered certificates of deposit and other time deposits. Brokered certificates of deposit were $118.3 million at December 31, 2008, compared to $101.3 million at December 31, 2007. Other time deposits were $106.5 million at the end of 2008 compared to $78.9 at year end 2007.

Loan Portfolio

Loans, net of unearned income, grew from $261.4 million at the end of 2007 to $302.3 million at the end of 2008. Commercial real estate loans grew 20% from $87.2 million at year end 2007 to $104.9 million at the end of 2008. Non-real estate commercial loans increased 14% from $53.2 million at the end of 2007 to $60.8 million at the end of 2008. Construction and land loans grew 12% from $50.5 million at the end of 2007 to $56.6 million at year end 2008.

Our residential mortgage loan portfolio increased from $51.9 million at December 31, 2007, to $60.4 million at December 31, 2008. The residential mortgage portfolio includes $37.1 million remaining from the 1st Service acquisition. Sonabank is not in the retail residential mortgage origination business, but in the ordinary course of business does provide residential mortgage financing to its business clients.

Table of Contents

Our commercial real estate lending program includes both loans closed under the Small Business Administration (SBA) 7(a) and 504 loan programs and loans closed outside of the SBA programs that serve both the investor and owner-occupied facility market. The 504 loan program is used to finance long-term fixed assets, primarily real estate and heavy equipment and gives borrowers access to up to 90% financing for a project. SBA 7(a) loans may be used for the purchase of real estate, construction, renovation or leasehold improvements, as well as machinery, equipment, furniture, fixtures, inventory and in some instances, working capital and debt refinancing. The SBA guarantees up to 85% of the loan balance in the 7(a) program, and start-up businesses are eligible to participate in the program. During 2008 we closed loans totaling $6.6 million through the SBA s 7(a) program and $4.4 million under the SBA s 504 program. During 2007 we closed loans totaling $9.6 million through the SBA s 7(a) program and $10.2 million under the SBA s 504 program.

The following table summarizes the composition of our loans, net of unearned income at the dates indicated:

	2008		2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
				(in thousands)				
Mortgage loans on real estate:								
Commercial	$ 104,866	34.7%	$ 87,150	33.3%	$ 70,553	34.4%	$ 41,668	55.3%
Construction and land loans	56,588	18.7%	50,510	19.3%	34,607	16.9%	15,954	21.2%
Residential 1-4 family	60,376	19.9%	51,862	19.8%	63,141	30.8%	7,814	10.4%
Multi-family residential	5,581	1.8%	8,273	3.2%	3,720	1.8%		0.0%
Equity lines of credit	11,509	3.8%	8,428	3.2%	10,509	5.1%	1,125	1.5%
Total real estate loans	238,920	78.9%	206,223	78.8%	182,530	89.0%	66,561	88.4%
Commercial loans	60,820	20.1%	53,208	20.3%	19,581	9.6%	6,720	8.9%
Consumer loans	3,074	1.0%	2,476	0.9%	2,861	1.4%	2,011	2.7%
Gross loans	302,814	100.0%	261,907	100.0%	204,972	100.0%	75,292	100.0%
Less unearned income on loans	(548)		(500)		(428)		(261)	
Loans, net of unearned income	$ 302,266		$ 261,407		$ 204,544		$ 75,031	

As of December 31, 2008, substantially all of our loans were to customers located in Virginia. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

At December 31, 2008 we had $104.9 million in commercial real estate loans, of which approximately 74% were loans secured by owner occupied/operated real estate and 26% were non-owner occupied commercial real estate loans.

Of the owner occupied/operated commercial real estate loans, approximately 39% is secured with retail space including a funeral parlor, a vet clinic, and a car wash, 25% is office space and 36% is secured by other types of real estate.

Non-owner occupied commercial real estate loans totaling approximately $26.0 million include a $4.5 million convention center loan, a $5.5 million office building loan.

32

Table of Contents

The following table sets forth the contractual maturity ranges of the commercial business and construction loan portfolio and the amount of those loans with fixed and floating interest rates in each maturity range as of December 31, 2008 (in thousands):

	One Year or Less	After 1 Year Through 5 Years Fixed Rate	After 1 Year Through 5 Years Floating Rate	After 5 Years Fixed Rate	After 5 Years Floating Rate	Total
Real estate construction	$ 31,772	$ 1,311	$ 15,718	$	$ 7,787	$ 56,588
Commercial and industrial	18,668	16,471	8,150	2,794	14,737	60,820
Total	$ 50,440	$ 17,782	$ 23,868	$ 2,794	$ 22,524	$ 117,408

Past Due Loans and Nonperforming Assets

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 possible specific allocations or write-down to their net realizable 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.

The following table presents a comparison of nonperforming assets as of December 31, (in thousands):

	2008	2007	2006	2005
Nonaccrual loans	$ 1,078	$ 371	$	$
Loans past due 90 days and accruing interest	135			
Total nonperforming loans	1,213	371		
Other real estate owned	3,434	3,648		
Total nonperforming assets	$ 4,647	$ 4,019	$	$
Allowance for loan losses to nonaccrual loans	347.73%	936.93%	na	na
Nonperforming assets to total assets	1.08%	1.07%	na	na

Allowance for Loan Losses

We are very focused on the asset quality of our loan portfolio, both before and after the loan is made. We have established underwriting standards that have proven to be effective in maintaining high credit quality in our loan portfolio. We have experienced loan officers who take personal responsibility for the loans they underwrite, a standing credit committee that reviews each loan application carefully, and a requirement that loans that are 60% or more of our legal lending limit must be approved by three executive members of our standing credit committee and an outside director. We have implemented standardized underwriting and credit analysis.

Our allowance for loan losses is established through charges to earnings in the form of a provision for loan losses. Management evaluates the allowance at least quarterly. In addition, on a quarterly basis our board of directors reviews our loan portfolio, evaluates credit quality, reviews the loan loss provision and the allowance for loan and lease losses and makes changes as may be required. In evaluating the allowance, management and the Board of directors consider the growth, composition and industry diversification of the portfolio, historical loan loss experience, current delinquency levels and all other known factors affecting loan collectability.

The allowance for loan losses represents management s estimate of an amount appropriate to provide for probable incurred losses in the loan portfolio in the normal course of business. We make specific allowances for each loan based on its type and classification as discussed below. However, there are additional factors contributing to losses that cannot be quantified precisely or attributed to particular loans or categories of loans, including general economic and business conditions and credit quality trends. We have established an unallocated portion of the allowance based on our evaluation of these factors, which management believes is prudent and consistent with regulatory requirements. Due the uncertainty of risks in the loan portfolio, management s judgment of the amount necessary to absorb loan losses is approximate. The allowance is also subject to regulatory examinations and determination by the regulatory agencies as to the appropriate level of the allowance.

Our loan review program is conducted by a third party consultant who reports directly to the Audit Committee of the Board of Directors. In 2008 loan review reviewed more than 60% of the non-consumer and non-residential loan portfolio outstanding as of December 31, 2007. In 2009 loan review will review at least 60% of the non-consumer and non-residential loan portfolio outstanding as of December 31, 2008. The purpose of loan review is to validate management s assessment of risk of the individual loans in the portfolio and to determine whether the loan was approved, underwritten and is being monitored in accordance with the bank s credit policy and regulatory guidance. Management s risk assessment of individual loans takes into consideration among other factors, the estimated value of the underlying collateral, the borrower s ability to repay, the borrower s payment history and current payment status.

The following table presents an analysis of the allowance for loan losses for the periods indicated (in thousands):

	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	For the Year Ended December 31, 2006	For the Period From Inception at April 14, 2005 Through December 31, 2005
Balance, beginning of period	$ 3,476	$ 2,726	$ 1,020	$
Allowance from acquired bank			1,374	
Provision charged to operations	1,657	1,290	546	1,020
Recoveries credited to allowance	8			
Total	5,141	4,016	2,940	1,020
Loans charged off:				
Real estate commercial	65	50		
Real estate construction, land and other		400	200	
Real estate residential 1-4 family	738	75		
Commercial	120			
Consumer		15	14	
Total loans charged off	923	540	214	
Balance, end of period	$ 4,218	$ 3,476	$ 2,726	$ 1,020
Net charge-offs to average loans, net of unearned income	0.32%	0.24%	0.21%	

Table of Contents

The following table describes the allocation of the allowance for loan losses among various categories of loans and certain other information for the dates indicated. The allocation is made for analytical purposes only and is not necessarily indicative of the categories in which future losses may occur.

	As of December 31, 2008		As of December 31, 2007		As of December 31, 2006		As of December 31, 2005	
	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans	Amount	Percent of Loans in Each Category to Total Loans
	(in thousands)							
Commercial	$ 787	20.1%	$ 700	20.3%	$ 270	9.6%	$ 75	8.9%
Consumer	90	1.0%	82	0.9%	98	1.4%	21	2.7%
Real estate commercial	1,337	34.7%	1,080	33.3%	907	33.8%	120	55.3%
Real estate multifamily residential	198	1.8%	104	3.2%	48	1.8%		
Real estate construction and land loans	1,334	18.7%	1,080	19.3%	927	17.5%	234	21.2%
Real estate residential 1-4 family	347	23.7%	301	23.0%	394	35.9%	7	11.9%
Unallocated	125		129		82		563	
Total	$ 4,218	100.0%	$ 3,476	100.0%	$ 2,726	100.0%	$ 1,020	100.0%

Because there are additional risks of losses that cannot be quantified precisely or attributed to particular loans or types of loans, including general economic and business conditions and credit quality trends, we have established an unallocated portion of the allowance for loan losses based on our evaluation of these risks. The unallocated portion of our allowance is determined based on various factors including, but not limited to, general economic conditions of our market area, the growth, composition and diversification of our loan portfolio and types of collateral securing our loans. During 2005, as a de novo bank, we did not have net loss experience of our own so we considered the net loss experience of other commercial banks headquartered in Virginia to determine the unallocated portion of the allowance for loan losses.

We believe that the allowance for loan losses at December 31, 2008 is sufficient to absorb probable incurred credit losses in our loan portfolio based on our assessment of all known factors affecting the collectability of our loan portfolio. Our assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination, may require additional charges to the provision for loan losses in future periods if the results of their reviews warrant additions to the allowance for loan losses.

Investment Securities

Our securities portfolio composition is meant to provide a rate-sensitive, stable source of income until we can deploy a large portion of these assets into underwritten loans. Our securities portfolio also provides us with required liquidity and securities to pledge as required collateral for certain governmental deposits and borrowed funds.

Our securities portfolio is managed by our president and our treasurer, both of whom have significant experience in this area, with the concurrence of our Asset/Liability Committee. In addition to our president (who is chairman of the Asset/Liability Committee) and our treasurer, this committee is comprised of two outside directors. Investment management is performed in accordance with our investment policy, which is approved

Table of Contents

annually by the Asset/Liability Committee and the board of directors. Our investment policy addresses our investment strategies, approval process, approved securities dealers and authorized investments. Our investment policy authorizes us to invest in:

- Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities (MBS)
- Collateralized mortgage obligations
- Treasury securities
- Agency securities
- Pooled trust preferred securities comprised of a minimum of 80% bank collateral with an investment grade rating or a minimum of 60% bank collateral with a AAA rating at purchase
- Other corporate debt securities rated Aa3/AA- or better at purchase

Mortgage-backed securities are securities that have been developed by pooling a number of real estate mortgages and which are principally issued by government sponsored entities (GSE s) such as the GNMA, FNMA and FHLMC. These securities are deemed to have high credit ratings, and minimum regular monthly cash flows of principal and interest are guaranteed by the issuing agencies.

Unlike U.S. Treasury and U.S. government agency securities, which have a lump sum payment at maturity, mortgage-backed securities provide cash flows from regular principal and interest payments and principal prepayments throughout the lives of the securities. Mortgage-backed securities which are purchased at a premium will generally suffer decreasing net yields as interest rates drop because homeowners tend to refinance their mortgages. Thus, the premium paid must be amortized over a shorter period. Conversely, mortgage-backed securities purchased at a discount will obtain higher net yields in a decreasing interest rate environment. As interest rates rise, the opposite will generally be true. During a period of increasing interest rates, fixed rate mortgage-backed securities do not tend to experience heavy prepayments of principal, and consequently the average life of these securities will be lengthened. If interest rates begin to fall, prepayments will increase.

Collateralized mortgage obligations (CMOs) are bonds that are backed by pools of mortgages. The pools can be GNMA, FNMA or FHLMC pools or they can be private-label pools. The CMOs are designed so that the mortgage collateral will generate a cash flow sufficient to provide for the timely repayment of the bonds. The mortgage collateral pool can be structured to accommodate various desired bond repayment schedules, provided that the collateral cash flow is adequate to meet scheduled bond payments. This is accomplished by dividing the bonds into classes to which payments on the underlying mortgage pools are allocated. The bond s cash flow, for example, can be dedicated to one class of bondholders at a time, thereby increasing call protection to bondholders. In private-label CMOs, losses on underlying mortgages are directed to the most junior of all classes and then to the classes above in order of increasing seniority, which means that the senior classes have enough credit protection to be given the highest credit rating by the rating agencies.

SNBV s corporate bonds consist of pooled trust preferred securities issued by banks, thrifts and insurance companies. The collateral pools of these trust preferred securities are generally at least 80% banks or thrifts. If the rating is Aaa/AAA, the collateral pool must be at least 60% banks or thrifts. These securities generally have a long term (25 years or more), allow early redemption by the issuers, make periodic variable interest payments and mature at face value. Trust preferred securities allow the deferral of interest payments for up to five years.

We classify our securities as either: held-to-maturity or available-for-sale. Securities totaling $59.3 million were in the held-to-maturity portfolio at December 31, 2008, compared to $34.3 million at December 31, 2007. Securities totaling $15.6 million were in the available-for-sale portfolio at December 31, 2008, compared to $40.7 million at December 31, 2007.

36

Table of Contents

Effective July 1, 2008, we transferred $23.9 million par value of bank pooled trust preferred securities from its securities available for sale portfolio to its securities held to maturity portfolio. The transferred securities had a fair value of $19.1 million at June 30, 2008, and a weighted average maturity of 29 years. As a result of the transfer, it is expected that $4.0 million of unrealized pre-tax losses associated with the transferred securities that were previously recognized in Accumulated Other Comprehensive Income (Loss) will be recovered in tangible capital over the remaining life of the securities. Unrealized pre-tax losses in the amount of $65 thousand were recovered during the second half of 2008. It is also expected that there will be no other future impact on Accumulated Other Comprehensive Income, earnings or capital related to these securities unless the transferred securities are determined to be other than temporarily or permanently impaired.

SNBV owns 80,000 shares of FHLMC perpetual preferred 5.57% stock Series V. Management recognized a $1.5 million other than temporary impairment (OTTI) charge during 2008. We have recorded total OTTI charges on this security of approximately $2.0 million. Only $24 thousand remained on the books as of December 31, 2008. In accordance with SFAS 115, when a decline in fair value below cost is deemed other than temporary, the unrealized loss must be recognized as a charge to earnings. As current market conditions make it difficult to precisely forecast a time period for the security to fully recover, an impairment charge was recorded.

As of December 31, 2008 Sonabank s held to maturity investment portfolio included $11.2 million of trust preferred securities in nine issues which were rated A or above at the time of original purchase. All of the issues owned by Sonabank have one or more investment grade ratings. In these nine issues the underlying collateral is at least 80% bank and thrift holding company collateral. The underlying collateral includes no REIT collateral.

During the fourth quarter the secondary market for trust preferred securities, partly as a result of the Treasury failing to protect Fannie Mae and Freddie Mac perpetual preferred stock was in disarray. Mark to market prices of pooled trust preferred securities have fallen to levels which reflect illiquidity and extreme distress.

All but one of the nine issues owned by Sonabank continue to pay principal and interest in accordance with the contractual terms of the securities. MMCF XVIII reported new deferrals which caused a failure in the Class A/B Principal Coverage Test. When this happens the cash flows to the lower classes are temporarily suspended and used to pay down the principal of the senior classes in order to restore the over-collateralization levels of the senior classes. The bonds will continue to accrue interest, but it will be capitalized rather than paid in cash, also known as payment in kind. Interest will be earned on the capitalized interest. Once the senior class coverage test is satisfied, the lower classes will begin to receive current interest as well as capitalized interest. Accordingly, we did not receive the interest payment on MMCF XVIII in December 2008 since the deferrals are handled as payments in kind. This security was downgraded to Ca by Moody s but retains a Fitch rating of A-. The fair market value of this security as of December 31, 2008 was $152 thousand, and the book value was $746 thousand.

Sonabank has evaluated each of these securities for potential impairment under SFAS No. 115 and EITF 99-20-1. Sonabank has reviewed each of the issues collateral participants using various techniques including the ratings provided in the Bank Financial Quarterly published by IDC Financial Publishing, Inc. Sonabank has also reviewed the interest and principal coverage of each of the tranches it owns, performing stress tests to determine the adequacy of the collateral. While further deterioration in the entire banking sector is possible, at this time the issues owned by Sonabank have cushions above the expected defaults or deferrals and are generating cash flows so that it is probable that we will receive all contractual cash flows. If further deterioration occurs in the banking sector, it could change the results of our analysis and lead to an other than temporary impairment charge.

In addition, we own $7.9 million of the AAA rated tranche of the ALESCO VII A1B security. The interest coverage ratio on our tranche was 206%. As of December 31, 2008 the fair market value of this security was $4.0 million. Sonabank has evaluated this security for potential impairment under SFAS No. 115 and determined that an other than temporary impairment does not exist.

Table of Contents

Trust preferred securities which are issued by financial institutions and insurance companies are classified as held-to-maturity securities. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active market has become comparatively inactive. As such, management utilized guidance in FSP FAS 157-3 to value these securities. The pricing for these securities utilized a discount rate from the Bloomberg Fair Value Index yield curve for single issuer trust preferred securities with similar ratings, interest rates and maturity dates (an observable input). In addition a liquidity premium was utilized to take into account liquidity risk (a management estimate and thus an unobservable input). 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 also own $2.5 million of the SARM 2005-22 1A2. This CMO is still rated AAA by Standard and Poors but has been downgraded to BBB by Fitch. As we reported last quarter this security was originated in 2005. The average FICO score of the underlying loans at origination was 748. As of December 31, 2008, delinquencies of more than 60 days, foreclosures, REO and bankruptcies totaled 21.5% compared to 15.7% at September 30, 2008. However, credit support is 16.55 compared to 14 when originally issued, which provides coverage of 2.44 times projected losses in the collateral. The fair market value is $1.7 million. Sonabank has evaluated this security for potential impairment under EITF 99-20-1 and determined that an other than temporary impairment does not exist.

The following table sets forth a summary of the investment securities available for sale and held to maturity as of the dates indicated (in thousands):

	December 31, 2008		December 31, 2007	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available for sale:				
Mortgage-backed securities	$ 15,431	$ 15,609	$ 13,053	$ 13,345
Collateralized mortgage obligations			3,834	3,814
Corporate bonds			23,375	22,015
FHLMC preferred stock	24	24	1,560	1,560
	$ 15,455	$ 15,633	$ 41,822	$ 40,734
Held to maturity:				
Mortgage-backed securities	$ 34,924	$ 35,636	$ 25,329	$ 25,663
Collateralized mortgage obligations	5,282	4,463	8,938	8,934
Corporate bonds	19,120	8,685		
	$ 59,326	$ 48,784	$ 34,267	$ 34,597

The following table sets forth the amortized cost and estimated fair value of our investment securities by contractual maturity at December 31, 2008. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Securities Available for Sale		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Mortgage-backed securities:			
Due after ten years	$ 15,431	$ 15,609	5.76%
FHLMC preferred stock	24	24	0.00%
	$ 15,455	$ 15,633	5.76%

Table of Contents

	Securities Held to Maturity		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Mortgage-backed securities:			
Due after ten years	$ 34,924	$ 35,636	5.31%
Collateralized mortgage obligations:			
Due after five years through ten years	573	580	5.86%
Due after ten years	4,709	3,883	4.68%
Total collateralized mortgage obligations	5,282	4,463	4.81%
Corporate bonds			
Due after ten years	19,120	8,685	4.36%
	$ 59,326	$ 48,784	4.96%

Deposits and Other Borrowings

The market for deposits is competitive. We offer a line of traditional deposit products that currently includes non-interest-bearing and interest-bearing checking (or NOW accounts), commercial checking, money market accounts, savings accounts and certificates of deposit. We compete for deposits through our banking branches with competitive pricing, advertising and online banking. We use deposits as a principal source of funding for our lending, purchasing of investment securities and for other business purposes.

Non-interest bearing deposits increased from $18.1 million at December 31, 2007, to $23.2 million at December 31, 2008.

Interest bearing deposits rose from $247.4 million at December 31, 2007, to $286.2 million as of December 31, 2008. The growth was attributable to an increase in brokered certificates of deposit and other time deposits. Brokered certificates of deposit were $118.3 million at December 31, 2008, compared to $101.3 million at December 31, 2007. Other time deposits were $106.5 million at the end of 2008 compared to $78.9 at year end 2007.

We utilize brokered certificates of deposit and brokered money market deposits and will continue to utilize these sources for deposits when they can be cost-effective. At December 31, 2008 and 2007, these brokered deposits constituted approximately 47.0% and 48.4% of our total deposits, respectively. The brokered certificates of deposit we typically obtain have terms to maturity of three months to two years. These deposits generally have the effect of slightly increasing our cost of funds and slightly decreasing our net interest margin when compared to our local deposit base.

The following table sets forth the average balance and average rate paid on each of the deposit categories for the years ended December 31, 2008, 2007 and 2006:

	2008		2007		2006	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
			(in thousands)			
Noninterest-bearing deposits	$ 19,992		$ 17,698		$ 7,666	
Interest-bearing deposits:						
Savings accounts	2,186	0.23%	2,658	0.45%	2,406	0.53%
Money market accounts	52,803	2.32%	40,855	4.19%	16,772	3.30%
NOW accounts	6,356	0.22%	6,569	0.26%	5,545	0.25%
Time deposits	214,624	4.32%	163,531	5.19%	75,341	5.08%
Total interest-bearing deposits	275,969	3.81%	213,613	4.79%	100,064	4.40%

Total deposits	$ 295,961	$ 231,311	$ 107,730

Table of Contents

The following table sets forth the maturities of certificates of deposit of $100 thousand and over as of December 31, 2008 (in thousands):

Within 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
$ 8,456	$ 17,396	$ 34,302	$ 5,625	$ 65,779

The variety of deposit accounts we offered has allowed us to be competitive in obtaining funds and in responding to the threat of disintermediation (the flow of funds away from depository institutions such as banking institutions into direct investment vehicles such as government and corporate securities). Our ability to attract and maintain deposits, and the effect of such retention on our cost of funds, has been, and will continue to be, significantly affected by the general economy and market rates of interest.

We use borrowed funds, primarily on a short term basis, to support our liquidity needs and to temporarily satisfy our funding needs from increased loan demand and for other shorter term purposes. One source of these borrowed funds is securities sold under agreements to repurchase, which are reflected at the amount of cash received in connection with the transactions, and may require additional collateral based on the fair value of the underlying securities pledged. We engage in these transactions with retail customers and with established third parties, primarily large securities brokerage firms. We also are a member of the FHLB and are authorized to obtain advances from the FHLB from time to time to as needed. The FHLB has a credit program for members with different maturities and interest rates, which may be fixed or variable. We are required to collateralize our borrowings from the FHLB with our FHLB stock and other collateral acceptable to the FHLB. At December 31, 2008 and 2007, total FHLB borrowings were $30.0 million and $30.5 million, respectively. At December 31, 2008 we had $62.4 million of unused and available FHLB lines of credit.

Interest Rate Sensitivity and 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 borrowing. 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.

Table of Contents

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 December 31, 2008 and 2007:

Sensitivity of Market Value of Portfolio Equity As of December 31, 2008					
	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	$ 58,494	$ (148)	-0.25%	13.54%	85.05%
Up 200	59,229	587	1.00%	13.71%	86.12%
Up 100	59,369	727	1.24%	13.75%	86.32%
Base	58,642		0.00%	13.58%	85.27%
Down 100	55,649	(2,993)	-5.10%	12.88%	80.91%
Down 200	53,797	(4,845)	-8.26%	12.46%	78.22%
Down 300	53,535	(5,107)	-8.71%	12.39%	77.84%

Sensitivity of Market Value of Portfolio Equity As of December 31, 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	$ 77,007	$ 2,366	3.17%	20.41%	111.16%
Up 200	76,473	1,832	2.45%	20.27%	110.39%
Up 100	75,713	1,072	1.44%	20.07%	109.29%
Base	74,641		0.00%	19.78%	107.75%
Down 100	72,501	(2,140)	-2.87%	19.22%	104.66%
Down 200	69,495	(5,146)	-6.89%	18.42%	100.32%
Down 300	66,479	(8,162)	-10.94%	17.62%	95.96%

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 December 31, 2008 and December 31, 2007 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 December 31, 2008				
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 300	$ 13,134	$ 1,682	3.31%	0.42%
Up 200	12,609	1,157	3.18%	0.29%
Up 100	12,058	606	3.05%	0.16%
Base	11,452		2.89%	0.00%
Down 100	12,205	753	3.08%	0.19%
Down 200	12,892	1,440	3.25%	0.36%

Down 300	12,891	1,439	3.25%	0.36%

41

Table of Contents

	Sensitivity of Net Interest Income As of December 31, 2007			
	Adjusted Net Interest Income		Net Interest Margin	
Change in Interest Rates in Basis Points (Rate Shock)	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 300	$ 12,733	$ 2,675	3.67%	0.76%
Up 200	11,859	1,801	3.42%	0.51%
Up 100	10,971	913	3.17%	0.26%
Base	10,058		2.91%	0.00%
Down 100	8,980	(1,078)	2.60%	-0.31%
Down 200	7,780	(2,278)	2.26%	-0.65%
Down 300	6,574	(3,484)	1.91%	-1.00%

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.

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 of credit from the Federal Home Loan Bank of Atlanta and utilize securities sold under agreements to repurchase and reverse repurchase agreement borrowings from approved securities dealers.

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

During the year ended December 31, 2008, we funded our financial obligations with deposits, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank of Atlanta. At December 31, 2008, we had $39.0 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $2.1 million at December 31, 2008. The amount of certificate of deposit accounts maturing in 2009 is $197.4 million as of December 31, 2008. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

Capital management consists of providing equity to support both current and future operations. We are subject to capital adequacy requirements imposed by the Federal Reserve and the Bank is subject to capital adequacy requirements imposed by the FDIC. The Federal Reserve and the FDIC have adopted risk-based capital requirements for assessing bank holding company and member bank capital adequacy. These standards define capital and establish minimum capital requirements in relation to assets and off-balance sheet exposure, adjusted for credit risk. The risk-based capital standards currently in effect are designed to make regulatory capital requirements more sensitive to differences in risk profiles among bank holding companies and banks, to account for off-balance sheet exposure and to minimize disincentives for holding liquid assets. Assets and off-balance sheet items are assigned to broad risk categories, each with appropriate relative risk weights. The resulting capital ratios represent capital as a percentage of total risk-weighted assets and off-balance sheet items.

Table of Contents

The risk-based capital standards issued by the Federal Reserve require all bank holding companies to have Tier 1 capital of at least 4.0% and total risk-based capital (Tier 1 and Tier 2) of at least 8.0% of total risk-adjusted assets. Tier 1 capital generally includes common stockholders equity and qualifying perpetual preferred stock together with related surpluses and retained earnings, less deductions for goodwill and various other intangibles. Tier 2 capital may consist of a limited amount of intermediate-term preferred stock, a limited amount of term subordinated debt, certain hybrid capital instruments and other debt securities, perpetual preferred stock not qualifying as Tier 1 capital, and a limited amount of the general valuation allowance for loan losses. The sum of Tier 1 capital and Tier 2 capital is total risk-based capital.

The Federal Reserve has also adopted guidelines which supplement the risk-based capital guidelines with a minimum ratio of Tier 1 capital to average total consolidated assets, or leverage ratio, of 3.0% for institutions with well diversified risk, including no undue interest rate exposure; excellent asset quality; high liquidity; good earnings; and that are generally considered to be strong banking organizations, rated composite 1 under applicable federal guidelines, and that are not experiencing or anticipating significant growth. Other banking organizations are required to maintain a leverage ratio of at least 4.0%. These rules further provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain capital positions substantially above the minimum supervisory levels and comparable to peer group averages, without significant reliance on intangible assets.

Under the Federal Deposit Insurance Corporation Improvement Act of 1991, each federal banking agency revised its risk-based capital standards to ensure that those standards take adequate account of interest rate risk, concentration of credit risk and the risks of nontraditional activities, as well as reflect the actual performance and expected risk of loss on multifamily mortgages. Under that statute, the Federal Deposit Insurance Corporation has promulgated regulations setting the levels at which an insured institution such as the bank would be considered well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. The bank is classified well capitalized purposes of the FDIC s prompt corrective action regulations. See Supervision and Regulation Capital Requirements.

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 December 31, 2008	2007
SNBV				
Tier 1 risk-based capital ratio	4.00%	N/A	17.46%	18.50%
Total risk-based capital ratio	8.00%	N/A	18.71%	19.63%
Leverage ratio	4.00%	N/A	13.71%	16.03%
Sonabank				
Tier 1 risk-based capital ratio	4.00%	6.00%	16.73%	17.71%
Total risk-based capital ratio	8.00%	10.00%	17.98%	18.84%
Leverage ratio	4.00%	5.00%	13.14%	15.35%

Impact of Inflation and Changing Prices

The financial statements and related financial data presented in this prospectus concerning SNBV have been prepared in accordance with U. S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant impact on our performance than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services.

Table of Contents

Our interest rate risk management is the responsibility of Sonabank s Asset/Liability Management Committee (the Asset/Liability Committee). The Asset/Liability Committee has established policies and limits for management to monitor, measure and coordinate our sources, uses and pricing of funds. The Asset/Liability Committee makes reports to the board of directors on a quarterly basis.

Seasonality and Cycles

We do not consider our commercial banking business to be seasonal.

Contractual Obligations

The following table reflects the contractual maturities of our term liabilities as of December 31, 2008. The amounts shown do not reflect any early withdrawal or prepayment assumptions.

	Contractual Obligations (in thousands)				
	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
Certificates of deposit (1)	$ 197,415	$ 23,231	$ 4,171	$	$ 224,817
Securities sold under agreements to repurchase	20,890				20,890
FHLB long-term advances		5,000	25,000		30,000
Operating leases	1,025	1,928	1,459	1,303	5,715
Total	$ 219,330	$ 30,159	$ 30,630	$ 1,303	$ 281,422

(1) Certificates of deposit give customers rights to early withdrawal. Early withdrawals may be subject to penalties. *The penalty amount depends on the remaining time to maturity at the time of early withdrawal.*

Off-Balance Sheet Arrangements

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 written 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 $1.6 million and $1.2 million as of December 31, 2008 and 2007, 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 it does 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 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 December 31, 2008 and 2007, we had unfunded loan commitments approximating $41.1 million and $65.3 million, respectively.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

This information is incorporated herein by reference from Item 7, Management s Discussion and Analysis of Financial Condition and Results of Operations, on pages 40 through 42 of this Form 10-K.

Table of Contents

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

Shareholders and Board of Directors

Southern National Bancorp of Virginia, Inc.

McLean, Virginia

We have audited the accompanying balance sheets of Southern National Bancorp of Virginia, Inc. as of December 31, 2008 and 2007 and the related statements of income, changes in stockholders equity, and cash flows for each of the two years in the period ended December 31, 2008. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2008 and 2007, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

Crowe Horwath LLP

Louisville, Kentucky

March 5, 2009

Table of Contents

Report of Independent Registered Public Accounting Firm

Board of Directors

Southern National Bancorp of Virginia, Inc.

McLean, Virginia

We have audited the accompanying consolidated statements of income, stockholders equity, and cash flows of Southern National Bancorp of Virginia, Inc. and subsidiary for the year ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of Southern National Bancorp of Virginia, Inc. and subsidiary operations and its cash flows for the year ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

BDO Seidman, LLP

Richmond, Virginia

February 23, 2007

Table of Contents

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED BALANCE SHEETS

(dollars in thousands)

	December 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	**$ 1,506**	$ 1,299
Interest-bearing deposits in other financial institutions	**13,256**	9
Total cash and cash equivalents	**14,762**	1,308
Securities available for sale, at fair value	**15,633**	40,734
Securities held to maturity, at amortized cost (fair value of $48,784 and $34,597, respectively)	**59,326**	34,267
Loans, net of unearned income	**302,266**	261,407
Less allowance for loan losses	**(4,218)**	(3,476)
Net loans	**298,048**	257,931
Stock in Federal Reserve Bank and Federal Home Loan Bank	**4,041**	3,908
Bank premises and equipment, net	**3,598**	3,496
Goodwill	**8,713**	8,713
Core deposit intangibles, net	**3,141**	3,867
Bank-owned life insurance	**13,435**	12,847
Other real estate owned	**3,434**	3,648
Deferred tax assets, net	**4,813**	3,476
Other assets	**2,980**	3,088
Total assets	**$ 431,924**	$ 377,283
LIABILITIES AND STOCKHOLDERS EQUITY		
Noninterest-bearing demand deposits	**$ 23,219**	$ 18,097
Interest-bearing deposits:		
NOW accounts	**8,472**	7,259
Money market accounts	**51,040**	57,466
Savings accounts	**1,912**	2,400
Time deposits	**224,817**	180,247
Total interest-bearing deposits	**286,241**	247,372
Total deposits	**309,460**	265,469
Securities sold under agreements to repurchase and other short-term borrowings	**20,890**	15,501
Federal Home Loan Bank (FHLB) advances	**30,000**	25,000
Other liabilities	**2,798**	2,038
Total liabilities	**363,148**	308,008

Commitments and contingencies (see note 16)		
Stockholders equity:		
Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding, 6,798,547 shares at December 31, 2008 and 2007	**68**	68
Additional paid in capital	**69,516**	69,436
Retained earnings	**1,697**	489
Accumulated other comprehensive loss	**(2,505)**	(718)
Total stockholders equity	**68,776**	69,275
Total liabilities and stockholders equity	**$ 431,924**	$ 377,283

See accompanying notes to consolidated financial statements.

Table of Contents

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands, except per share amounts)

	For the Years Ended December 31,		
	2008	**2007**	**2006**
Interest and dividend income:			
Interest and fees on loans	**$ 19,800**	$ 17,892	$ 8,465
Interest and dividends on taxable securities	**4,194**	3,552	2,073
Interest and dividends on other earning assets	**332**	305	246
Total interest and dividend income	**24,326**	21,749	10,784
Interest expense:			
Interest on deposits	**10,516**	10,230	4,406
Interest on borrowings	**1,467**	856	454
Total interest expense	**11,983**	11,086	4,860
Net interest income	**12,343**	10,663	5,924
Provision for loan losses	**1,657**	1,290	546
Net interest income after provision for loan losses	**10,686**	9,373	5,378
Noninterest income:			
Account maintenance and deposit service fees	**499**	338	188
Income from bank-owned life insurance	**588**	347	
Gain on sale of loans	**107**		
Net gain (loss) on other real estate owned	**(136)**	21	
Net loss on securities	**(1,267)**	(440)	
Other	**155**	91	61
Total noninterest income (loss)	**(54)**	357	249
Noninterest expenses:			
Salaries and benefits	**4,016**	3,346	2,284
Occupancy expenses	**1,494**	1,086	416
Furniture and equipment expenses	**484**	439	303
Amortization of core deposit intangible	**727**	727	458
Virginia franchise tax expense	**549**	550	211
Data processing expense	**260**	224	171
Telephone and communication expense	**256**	222	176
Other operating expenses	**1,323**	1,292	599
Total noninterest expenses	**9,109**	7,886	4,618
Income before income taxes	**1,523**	1,844	1,009
Income tax expense	**315**	108	

Net income	**$ 1,208**	$ 1,736	$ 1,009
Earnings per share, basic	**$ 0.18**	$ 0.26	$ 0.24
Earnings per share, diluted	**$ 0.18**	$ 0.25	$ 0.23

See accompanying notes to consolidated financial statements.

Table of Contents

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(dollars in thousands)

	Common Stock	Additional Paid in Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Loss	Comprehensive Income (Loss)	Total
Balance January 1, 2006	$ 35	$ 34,537	$ (2,256)	$ (3)		$ 32,313
Comprehensive income:						
Net income			1,009		$ 1,009	1,009
Change in unrealized loss on securities available for sale (net of tax, $10)				(21)	(21)	(21)
Total comprehensive income					$ 988	
Issuance of common stock (2,000,000 shares), net	20	26,400				26,420
Issuance of common stock in exchange for net assets in acquisition (680,449 shares)	7	8,499				8,506
Balance December 31, 2006	62	69,436	(1,247)	(24)		68,227
Comprehensive income:						
Net income			1,736		$ 1,736	1,736
Change in unrealized loss on securities available for sale (net of tax, $358)				(694)	(694)	(694)
Total comprehensive income					$ 1,042	
Stock-based compensation expense		6				6
Issuance of common stock for stock dividend	6	(6)				
Balance December 31, 2007	68	69,436	489	(718)		69,275
Comprehensive income:						
Net income			1,208		$ 1,208	1,208
Change in unrealized loss on securities available for sale (net of tax, $921)				(1,787)	(1,787)	(1,787)
Total comprehensive loss					$ (579)	
Stock-based compensation expense		29				29
Issuance of warrants		51				51
Balance December 31, 2008	$ 68	$ 69,516	$ 1,697	$ (2,505)		$ 68,776

See accompanying notes to consolidated financial statements.

Table of Contents

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	For the Years Ended December 31, 2008	2007	2006
Operating activities:			
Net income	**$ 1,208**	$ 1,736	$ 1,009
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Depreciation	**529**	456	306
Amortization , net	**574**	559	461
Provision for loan losses	**1,657**	1,290	546
Earnings on bank-owned life insurance	**(588)**	(347)	
Stock based compensation expense	**29**	6	
Gain on sale of loans	**(107)**		
Net loss on securities	**1,267**	440	
Net (gain) loss on other real estate owned	**136**	(21)	
Net (increase) decrease in other assets	**(477)**	(1,374)	121
Net increase (decrease) in other liabilities	**310**	725	(1,740)
Net cash and cash equivalents provided by operating activities	**4,538**	3,470	703
Investing activities:			
Purchases of securities available for sale	**(19,824)**	(26,135)	(7,588)
Proceeds from sale of securities available for sale	**15,525**		
Proceeds from paydowns, maturities and calls of securities available for sale	**6,421**	4,951	2,033
Purchases of securities held to maturity	**(20,405)**	(9,471)	(1,967)
Proceeds from paydowns, maturities and calls of securities held to maturity	**14,658**	10,982	6,405
Loan originations and payments, net	**(43,879)**	(61,653)	(37,764)
Proceeds from sale of SBA loans	**1,895**		
Purchase of bank-owned life insurance		(12,500)	
Net cash paid in bank acquisition			(863)
Net (increase) decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	**(133)**	(1,462)	654
Proceeds from sale of other real estate owned	**408**	320	
Purchases of bank premises and equipment	**(130)**	(453)	(132)
Net cash and cash equivalents used in investing activities	**(45,464)**	(95,421)	(39,222)
Financing activities:			
Net increase in deposits	**43,991**	49,665	59,615
Proceeds from Federal Home Loan Bank advances	**5,000**	30,500	
Repayment of Federal Home Loan Bank advances			(33,680)
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	**5,389**	4,968	(7,373)
Issuance of common stock, net of issuance costs			26,420
Net cash and cash equivalents provided by financing activities	**54,380**	85,133	44,982
Increase (decrease) in cash and cash equivalents	**13,454**	(6,818)	6,463
Cash and cash equivalents at beginning of period	**1,308**	8,126	1,663

Cash and cash equivalents at end of period	**$ 14,762**	$ 1,308	$ 8,126
Supplemental Disclosure of Cash Flow Information			
Cash payments for:			
Interest	**$ 11,814**	$ 10,485	$ 4,394
Income taxes	**1,120**	1,154	
Supplemental schedule of noncash investing and financing activities			
Transfer from securities available for sale to securities held to maturity	**$ 19,125**	$	$
Transfer from loans to other real estate owned	**317**	4,251	
Transfer from deferred tax valuation allowance to goodwill		1,945	
Acquisition of fixed assets related to Leesburg Branch	**501**		
Securitization of residential mortgage loans			17,045
Issuance of common stock in exchange for net assets in acquisition			8,506

See accompanying notes to consolidated financial statements.

Table of Contents

1. ORGANIZATION AND SIGNIFICANT 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. On January 1, 2009, Sonabank changed from a nationally chartered bank to a state chartered bank and moved its headquarters from Charlottesville to McLean, Virginia. Going forward, Sonabank will be regulated by the State Corporation Commission of Virginia and the Federal Reserve Bank of Richmond. Currently, all of the communities served by Sonabank are located in Virginia, and Sonabank has no lending programs outside Virginia. Moreover, the change should save the company in excess of $35 thousand in regulatory fees per year. The principal activities of Sonabank are to attract deposits and originate loans as permitted under applicable banking regulations. Sonabank conducts full-service banking operations in Charlottesville, Clifton Forge, Leesburg, Warrenton and Fairfax County in Virginia.

The accounting policies and practices of SNBV and subsidiary conform to U. S. generally accepted accounting principles and to general practice within the banking industry. Major policies and practices are described below:

Principles of Consolidation

The consolidated financial statements include the accounts of SNBV and its wholly owned subsidiary. SNBV is a bank holding company that owns all of the outstanding common stock of its banking subsidiary, Sonabank, N. A. All material intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Investment Securities

Debt securities that SNBV has the positive intent and ability to hold to maturity are classified as held-to-maturity and carried at amortized cost.

Securities classified as available for sale are those debt and equity securities that may be sold in response to changes in interest rates, liquidity needs or other similar factors. Securities available for sale are carried at fair value, with unrealized gains or losses net of deferred taxes, included in accumulated other comprehensive income (loss) in stockholders equity.

Purchased premiums and discounts are recognized in interest income using the interest method over the terms of the securities without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

SNBV purchases amortizing investment securities in which the underlying assets are residential mortgage loans subject to prepayments. The actual principal reduction on these assets varies from the expected contractual principal reduction due to principal prepayments resulting from the borrowers election to refinance the underlying mortgage based on market and other conditions. The purchase premiums and discounts associated with these assets are amortized or accreted to interest income over the estimated life of the related assets. The estimated life is calculated by projecting future prepayments and the resulting principal cash flows until maturity. Prepayment rate projections utilize actual prepayment speed experience and available market information on like-kind instruments. The prepayment rates form the basis for income recognition of premiums and discounts on the related assets. Changes in prepayment estimates may cause the earnings recognized on these assets to vary over the term that the assets are held, creating volatility in the net interest margin. Prepayment rate assumptions are monitored and updated monthly to reflect actual activity and the most recent market projections.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (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.

Loans

SNBV provides mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by non-residential mortgage loans throughout its market area. The ability of SNBV s debtors to honor their contracts is in varying degrees dependent upon the real estate market conditions and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are carried at their outstanding unpaid principal balances adjusted for the allowance for loan losses, and any deferred loan fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method without anticipating prepayments.

The accrual of interest on all loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collection of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management s determination of the adequacy of the allowance is based on historical loss experience adjusted for current industry and economic conditions and estimates of their affect on loan collectability. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is considered impaired when, based on current information and events, it is probable that SNBV will be unable to collect the scheduled payments of principal or interest when due according to the terms of the loan documentation. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Individual consumer and residential loans are evaluated for impairment based on regulatory guidelines.

Servicing Rights

Servicing rights were acquired in connection with the acquisition of 1st Service Bank in December 2006, and were recorded at fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. SNBV compares the valuation model inputs and results to published industry data in order to validate the model results and assumptions. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If SNBV later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with other noninterest income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income which is reported on the income statement as other noninterest income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Net servicing fee income totaled $38 thousand, $26 thousand and $3 thousand for the years ended December 31, 2008, 2007 and 2006, respectively. Late fees and ancillary fees related to loan servicing are not material.

Bank Premises and Equipment

Bank premises and equipment are carried at cost less accumulated depreciation and amortization, and land is carried at cost. Depreciation and amortization are computed using the straight-line method. It is the policy of SNBV to capitalize additions and improvements and to depreciate the cost thereof over their estimated useful lives ranging from 3 to 30 years. Maintenance and repairs are expensed as they are incurred.

Goodwill and Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified. Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions. They are initially measured at fair value and then are amortized over their estimated useful lives, which range from 7 to 10 years.

Stock Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award

Bank-owned Life Insurance

SNBV has purchased life insurance policies on certain key executives. In accordance with EITF 06-5, bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Foreclosed Assets

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell 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 expensed.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Long-term Assets

Premises and equipment, core deposit intangible assets, and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Retirement Plans

Employee 401(k) plan expense is the amount of matching contributions. Deferred compensation plan expense allocates the benefits over years of service.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Equity

Stock dividends in excess of 20% are reported by transferring the par value of the stock issued from retained earnings to common stock. Stock dividends for 20% or less are reported by transferring the fair value, as of the

Table of Contents

ex-dividend date, of the stock issued from retained earnings to common stock and additional paid-in capital. Stock dividends for 20% or less are reported by transferring the par amount from additional paid in capital to common stock when there is an accumulated deficit. Fractional share amounts are paid in cash with a reduction in retained earnings.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a company-wide basis. Discrete financial information is not available other than on a company-wide basis. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Until the second quarter of 2007, SNBV maintained a valuation allowance against its deferred tax assets. During the second quarter of 2007, 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.

SNBV adopted the provisions of FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), on January 1, 2007. A tax position is recognized as a benefit only if it is more likely than not that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. The adoption of FIN 48 had no effect on our consolidated financial statements.

SNBV recognizes interest and/or penalties related to income tax matters in income tax expense.

Consolidated Statements of Cash Flows

For purposes of reporting cash flows, SNBV defines cash and cash equivalents as cash due from banks and interest-bearing deposits in other banks with maturities less than 90 days. Net cash flows are reported for customer loan and deposit transactions and short-term borrowings.

Table of Contents

Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net income (loss) by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by SNBV relate solely to outstanding stock options and warrants and are determined using the treasury stock method.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale which are also recognized as a separate component of equity.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, SNBV has entered into commitments to extend credit and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Recent Accounting Pronouncements

In September 2006, the FASB issued Statement No. 157, *Fair Value Measurements (FAS 157).* This Statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This Statement establishes a fair value hierarchy about the assumptions used to measure fair value and clarifies assumptions about risk and the effect of a restriction on the sale or use of an asset. The standard is effective for fiscal years beginning after November 15, 2007. In February 2008, the FASB issued Staff Position (FSP) 157-2, *Effective Date of FASB Statement No. 157.* This FSP delays the effective date of FAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value on a recurring basis (at least annually) to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. The impact of adoption was not material.

In January 2009, the FASB issued FSP EITF 99-20-1 *Amendments to the Impairment Guidance of EITF Issue No. 99-20.* This FSP amends the impairment guidance in EITF Issue No. 99-20, *Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to Be Held by a Transferor in Securitized Financial Assets*, to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, and other related guidance.

In October 2008, the FASB issued FSP No. 157-3, *Determining the Fair Value of a Financial Asset When the Market for that Asset Is Not Active.* The FSP clarifies the application of FAS 157 in a market that is not active. This guidance was applied to certain securities in inactive markets to determine fair value. See Note 2.

In February 2007, the FASB issued Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159).* The standard provides companies with an option to report selected financial assets and liabilities at fair value and establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. We did not elect the fair value option for any financial assets or financial liabilities as of January 1, 2008, the effective date of the standard or subsequently.

In September 2006, the 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. Our adoption of this standard did not have a material impact on our consolidated financial statements.

On November 5, 2007, the SEC issued Staff Accounting Bulletin No. 109, *Written Loan Commitments Recorded at Fair Value through Earnings* (SAB 109). Previously, SAB 105, *Application of Accounting Principles to Loan Commitments*, stated that in measuring the fair value of a derivative loan commitment, a company should not incorporate the expected net future cash flows related to the associated servicing of the loan. SAB 109 supersedes SAB 105 and indicates that the expected net future cash flows related to the associated servicing of the loan should be included in measuring fair value for all written loan commitments that are accounted for at fair value through earnings. SAB 105 also indicated that internally-developed intangible assets should not be recorded as part of the fair value of a derivative loan commitment, and SAB 109 retains that view. SAB 109 is effective for derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. The impact of adoption was not material.

In December 2007, the SEC issued SAB No. 110, which expresses the views of the SEC regarding the use of a simplified method, as discussed in SAB No. 107, in developing an estimate of expected term of plain vanilla share options in accordance with SFAS No. 123(R), Share-Based Payment. The SEC concluded that a company could, under certain circumstances, continue to use the simplified method for share option grants after December 31, 2007. SNBV does not use the simplified method for share options and therefore SAB No. 110 has no impact on our consolidated financial statements.

Effect of Newly Issued But Not Yet Effective Accounting Standards:

In December 2007, the FASB issued FAS No. 141 (revised 2007), Business Combinations (FAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on our results of operations or financial position.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interest in Consolidated Financial Statements, an amendment of ARB No. 51* (SFAS No. 160), which will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity within the consolidated balance sheets. FAS No. 160 is effective as of the beginning of the first fiscal year beginning on or after December 15, 2008. Earlier adoption is prohibited, and we do not expect the adoption of FAS No. 160 to have a significant impact on our results of operations or financial position.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133 . FAS No. 161 amends and expands the disclosure requirements of SFAS No. 133 for derivative instruments and hedging activities. FAS No. 161 requires qualitative disclosure about objectives and strategies for using derivative and hedging instruments, quantitative disclosures about fair value amounts of the instruments and gains and losses on such instruments, as well as disclosures about credit-risk features in derivative agreements. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on our results of operations or financial position.

Table of Contents

2. SECURITIES

The 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):

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2008			
Mortgage-backed securities	$ 15,609	$ 243	$ (65)
FHLMC preferred stock	24		
Total	$ 15,633	$ 243	$ (65)

	Fair Value	Gross Unrealized Gains	Gross Unrealized Losses
December 31, 2007			
Mortgage-backed securities	$ 13,345	$ 292	$
Collateralized mortgage obligations	3,814		(20)
Corporate Bonds	22,015		(1,360)
Total debt securities	39,174	292	(1,380)
FHLMC preferred stock	1,560		
Total	$ 40,734	$ 292	$ (1,380)

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

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2008				
Mortgage-backed securities	$ 34,924	$ 783	$ (71)	$ 35,636
Collateralized mortgage obligations	5,282	15	(834)	4,463
Corporate Bonds	19,120		(10,435)	8,685
	$ 59,326	$ 798	$ (11,340)	$ 48,784

	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
December 31, 2007				
Mortgage-backed securities	$ 25,329	$ 353	$ (19)	$ 25,663
Collateralized mortgage obligations	8,938	15	(19)	8,934
	$ 34,267	$ 368	$ (38)	$ 34,597

During the year ended December 31, 2008, we sold $15.5 million of available-for-sale mortgage-backed securities resulting in gross gains of $269 thousand. There were no sales of available-for-sale securities during 2007 and 2006. The tax provision related to these realized gains was $91 thousand.

SNBV owns 80,000 shares of FHLMC perpetual preferred 5.57% stock Series V. SNBV recognized a $1.5 million other than temporary impairment (OTTI) charge during 2008. We have recorded total OTTI charges on this security of approximately $2.0 million. Only $24 thousand remained on the books as of December 31, 2008. In accordance with SFAS 115, when a decline in fair value below cost is deemed other than temporary, the unrealized loss must be recognized as a charge to earnings. As current market conditions make it difficult to precisely forecast a time period for the security to fully recover, an impairment charge was recorded.

Table of Contents

Effective July 1, 2008, SNBV transferred $23.9 million par value of bank pooled trust preferred securities from its securities available for sale portfolio to its securities held to maturity portfolio. The transferred securities had a fair value of $19.1 million at June 30, 2008, and a weighted average maturity of 29 years. As a result of the transfer, it is expected that $4.0 million of unrealized pre-tax losses associated with the transferred securities that were previously recognized in Accumulated Other Comprehensive Income (Loss) will be accreted into tangible capital over the remaining life of the securities. Unrealized pre-tax losses in the amount of $65 thousand were accreted during the second half of 2008. It is also expected that there will be no other future impact on Accumulated Other Comprehensive Income, earnings or capital related to these securities unless the transferred securities are determined to be other than temporarily or permanently impaired.

The fair value of debt securities and carrying amount, if different, at year end 2008 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
	Carrying Amount	Fair Value	Fair Value
Due after ten years	$ 19,120	$ 8,685	$
Mortgage-backed securities	34,924	35,636	15,609
Collateralized mortgage obligations	5,282	4,463	
Total	$ 59,326	$ 48,784	$ 15,609

Securities with a carrying amount of approximately $55.8 million and $45.2 million at December 31, 2008 and 2007, respectively, were pledged to secure public deposits, repurchase agreements and a line of credit for advances from the Federal Home Loan Bank of Atlanta (FHLB).

SNBV monitors the portfolio which is subject to liquidity needs, market rate changes and credit risk changes to see if adjustments are needed. As outlined in the table below, there are 17 securities with stated maturities totaling approximately $19.7 million in the portfolio that are considered temporarily impaired at December 31, 2008. Management has concluded that 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. All the securities continue to perform according to the contractual terms except for MMCF XVIII which has deferred interest payments (see discussion in subsequent paragraphs). The following tables present information regarding securities in a continuous unrealized loss position as of December 31, 2008 and 2007 (in thousands) by duration of time in a loss position:

	Less than 12 months		12 Months or More		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
December 31, 2008						
Mortgage-backed securities	$ 9,372	$ (136)	$	$	$ 9,372	$ (136)
Collateralized mortgage obligations	1,676	(834)			1,676	(834)
Corporate bonds	4,028	(3,860)	4,657	(6,574)	8,685	(10,434)
	$ 15,076	$ (4,830)	$ 4,657	$ (6,574)	$ 19,733	$ (11,404)

Table of Contents

	Less than 12 months		12 Months or More		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
December 31, 2007						
Mortgage-backed securities	$ 2,597	$ (9)	$ 2,805	$ (10)	$ 5,402	$ (19)
Collateralized mortgage obligations			6,713	(39)	6,713	(39)
Corporate bonds	22,015	(1,360)			22,015	(1,360)
	$ 24,612	$ (1,369)	$ 9,518	$ (49)	$ 34,130	$ (1,418)

As of December 31, 2008 Sonabank s investment portfolio included $11.2 million of trust preferred securities in nine issues which were rated A or above at the time of original purchase. All of the issues owned by Sonabank have one or more investment grade rating. In these nine issues the underlying collateral is at least 80% bank and thrift holding company collateral. The underlying collateral includes no REIT collateral.

All but one of the nine issues owned by Sonabank continue to pay principal and interest in accordance with the contractual terms of the securities. MMCF XVIII reported new deferrals which caused a failure in the Class A/B Principal Coverage Test. When this happens the cash flows to the lower classes are temporarily suspended and used to pay down the principal of the senior classes in order to restore the over-collateralization levels of the senior classes. The bonds will continue to accrue interest, but it will be capitalized rather than paid in cash, also known as payment in kind. Interest will be earned on the capitalized interest. Once the senior class coverage test is satisfied, the lower classes will begin to receive current interest as well as capitalized interest. Accordingly, Sonabank did not receive the interest payment on MMCF 18 in December 2008 since the deferrals are handled as payments in kind. This security was downgraded to Ca by Moody s but retains a Fitch rating of A-. The fair market value of this security as of December 31, 2008 was $152 thousand, and the book value was $746 thousand.

Sonabank has evaluated each of these securities for potential impairment under EITF 99-20-1. Sonabank has reviewed each of the issues collateral participants using various techniques including the ratings provided in the Bank Financial Quarterly published by IDC Financial Publishing, Inc. Sonabank has also reviewed the interest and principal coverage of each of the tranches it owns. While further deterioration in the entire banking sector is possible, at this time the issues owned by Sonabank have cushions above the expected defaults or deferrals and are generating cash flows so that it is probable that we will receive all contractual cash flows.

In addition, we own $7.9 million of the AAA rated tranche of the ALESCO VII A1B security. The interest coverage ratio on our tranche was 206%. As of December 31, 2008 the fair market value of this security was $4.0 million. Sonabank has evaluated this security for potential impairment under SFAS No. 115 and determined that an other than temporary impairment does not exist.

We also own $2.5 million of the SARM 2005-22 1A2. This CMO is still rated AAA by Standard and Poors but has been downgraded to BBB by Fitch. As we reported last quarter this security was originated in 2005. The average FICO score of the underlying loans at origination was 748. As of December 31, 2008, delinquencies of more than 60 days, foreclosures, REO and bankruptcies totaled 21.5% compared to 15.7% at September 30, 2008. However, credit support is 16.55 compared to 14 when originally issued, which provides coverage of 2.44 times projected losses in the collateral. The fair market value is $1.7 million. Sonabank has evaluated this security for potential impairment under EITF 99-20-1 and determined that an other than temporary impairment does not exist.

Table of Contents

3. LOANS

Loans, net of unearned income, consist of the following at year end (in thousands):

	2008	2007
Mortgage loans on real estate:		
Commercial	$ 104,866	$ 87,150
Construction loans to residential builders	4,752	6,133
Other construction and land loans	51,836	44,377
Residential 1-4 family	60,376	51,862
Multi- family residential	5,581	8,273
Home equity lines of credit	11,509	8,428
Total real estate loans	238,920	206,223
Commercial loans	60,820	53,208
Consumer loans	3,074	2,476
Gross loans	302,814	261,907
Less unearned income on loans	(548)	(500)
Loans, net of unearned income	$ 302,266	$ 261,407

Impaired loans were as follows (in thousands):

	2008	2007
Year end loans with allocated allowance for loan losses	$ 974	$ 4,203
Total	$ 974	$ 4,203
Amount of the allowance for loan losses allocated	$ 378	$ 61

	2008	2007	2006
Average of impaired loans during the year	$ 1,031	$ 4,755	$ 610
Interest income recognized during impairment	17	292	80
Cash-basis interest income recognized	17	282	46

Nonaccrual loans and loans past due 90 days and still on accrual were as follows (in thousands):

	2008	2007
Loans past due over 90 days still on accrual	$ 135	$
Nonaccrual loans	1,078	371

Nonaccrual loans and loans past due 90 days and still accruing include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

Residential 1-4 family mortgage loans in the amount of approximately $60.1 and $50.0 million were pledged as collateral for Federal Home Loan Bank of Atlanta (FHLB) advances as of December 31, 2008 and 2007, respectively. Commercial mortgage loans in the amount of approximately $72.7 million were pledged as collateral for FHLB advances as of December 31, 2008, and there were no commercial mortgage loans pledged as of December 31, 2007.

4. ALLOWANCE FOR LOAN AND LEASE LOSSES

Activity in the allowance for loan and lease losses for the years ended December 31, 2008, 2007 and 2006 is summarized below (in thousands):

	2008	2007	2006
Balance, beginning of period	$ 3,476	$ 2,726	$ 1,020
Allowance from acquired bank			1,374
Provision charged to operations	1,657	1,290	546
Recoveries credited to allowance	8		
Total	5,141	4,016	2,940
Loans charged off	923	540	214
Balance, end of period	$ 4,218	$ 3,476	$ 2,726

5. FAIR VALUE

FAS 157 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

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

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Available for sale securities	$ 15,633	$	$ 15,633	$

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

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 SNBV s available-for-sale securities are considered to be level 2 securities.

Assets and Liabilities Measured on a Non-recurring Basis:

Impaired Loans

SFAS 157 applies to loans measured for impairment using the practical expedients permitted by SFAS 114 at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Fair value is classified as Level 3 in the fair value hierarchy. After charge offs during the period in the amount of $290 thousand and allocated allowance for loan losses totaling $378 thousand, loans identified as impaired in accordance with SFAS 114 totaled $974 thousand as of December 31, 2008.

Fair Value of Financial Instruments

The carrying amount and estimated fair values of financial instruments, not previously presented, were as follows at year end (in thousands):

	2008		2007	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
Financial assets:				
Cash and cash equivalents	$ 14,762	$ 14,762	$ 1,308	$ 1,308
Securities held to maturity	59,326	48,784	34,267	34,597
Stock in Federal Reserve Bank and Federal Home Loan Bank	4,041	n/a	3,908	n/a
Net loans	298,048	298,304	257,931	259,240
Accrued interest receivable	1,395	1,395	1,546	1,546
Financial liabilities:				
Deposits:				
Demand deposits	31,691	31,691	25,356	25,356
Money market and savings accounts	52,952	52,952	59,866	59,866
Certificates of deposit	224,817	227,743	180,247	181,215
Securities sold under agreements to repurchase and other short-term borrowings	20,890	20,890	15,501	15,501
FHLB advances	30,000	33,436	25,000	24,057
Accrued interest payable	1,422	1,422	1,253	1,253

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, short-term debt, and variable rate loans that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. It was not practicable to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of long-term debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not considered material.

Trust preferred securities which are issued by financial institutions and insurance companies are classified as held-to-maturity securities. The decline in the level of observable inputs and market activity in this class of investments by the measurement date has been significant and resulted in unreliable external pricing. Broker pricing and bid/ask spreads, when available, vary widely. The once active market has become comparatively inactive. As such, management utilized guidance in FSP FAS 157-3 to value these securities. The pricing for these securities utilized a discount rate from the Bloomberg Fair Value Index yield curve for single issuer trust preferred securities with similar ratings, interest rates and maturity dates (an observable input). In addition a liquidity premium was utilized to take into account liquidity risk (a management estimate and thus an unobservable input). 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.

Table of Contents

6. LOAN SERVICING
Activity for mortgage servicing rights follows (in thousands):

	2008	2007	2006
Servicing rights:			
Beginning of year	$ 405	$ 701	$
Adjustment of acquired servicing rights beginning fair value		(177)	
Acquired in merger			707
Amortized to expense	(118)	(119)	(6)
End of year	$ 287	$ 405	$ 701

The adjustment to the beginning fair value of acquired servicing rights in 2007 was made to goodwill during the allocation period and resulted from the finalization of the estimated fair value analysis.

Fair value of servicing rights was $605 thousand and $690 thousand at year-end 2008 and 2007. Fair value at 2008 was determined using discount rates ranging from 12.50% to 17.36% and prepayment speeds ranging from 149.9% to 224.5%. Fair value at 2007 was determined using discount rates ranging from 12.50% to 15.86% and prepayment speeds ranging from 174.8% to 287.0%.

The weighted average amortization period is 7 years. Estimated amortization expense for each of the next five years is (in thousands):

2009	100
2010	83
2011	40
2012	20
2013	10

During the third quarter of 2008 we sold approximately $1.8 million of the guaranteed portion of some SBA loans and recognized servicing assets in the amount of $40 thousand. These assets are being amortized over the remaining lives of the loans, and the unamortized servicing asset at December 31, 2008 was $37 thousand which approximates fair value.

7. BANK PREMISES AND EQUIPMENT
Bank premises and equipment as of December 31, 2008 and 2007 are as follows (in thousands):

	2008	2007
Land	$ 38	$ 38
Building and improvements	1,546	1,546
Leasehold improvements	1,604	1,170
Furniture and equipment	1,814	1,617
	5,002	4,371
Less accumulated depreciation and amortization	1,404	875
Bank premises and equipment, net	$ 3,598	$ 3,496

Table of Contents

Depreciation and amortization expense for 2008, 2007 and 2006 was $529 thousand, $456 thousand and $306 thousand, respectively. Future minimum rental payments required under non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2008 are as follows (in thousands):

2009	$ 1,025
2010	955
2011	973
2012	799
2013	660
Thereafter	1,303
	$ 5,715

The leases contain options to extend for periods of 2 to 6 years. Rental expense for 2008, 2007 and 2006 was $1.0 million, $707 thousand and $231 thousand, respectively.

8. GOODWILL AND INTANGIBLE ASSETS

Goodwill

The change in the balance for goodwill during the year follows (in thousands):

	2008	2007
Beginning of year	$ 8,713	$ 10,423
Adjustment related to deferred tax assets obtained in 1st Service Bank acquisition		(1,945)
Other adjustments related to 1st Service Bank acquisition		235
End of year	$ 8,713	$ 8,713

During 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, and the beginning fair value of acquired loan servicing rights was adjusted in the amount of $177 thousand. Other adjustments to goodwill were made during the allocation period in 2007 in the amount of $58 thousand.

Acquired Intangible Assets

Acquired intangible assets were as follows at year end (in thousands):

	December 31, 2008		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$ 5,089	$ (1,948)	$ 3,141

	December 31, 2007		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$ 5,089	$ (1,222)	$ 3,867

Amortization expense of intangibles for the years ended December 31, 2008, 2007 and 2006 was $727 thousand, $727 thousand and $458 thousand, respectively. Estimated amortization expense of intangibles for the years ended December 31 follows (in thousands):

2009	$ 727
2010	727
2011	727
2012	691
2013	270

9. DEPOSITS

The aggregate amount of time deposits in denominations of $100,000 or more at December 31, 2008 and 2007 was $65.8 million and $38.9 million, respectively. At December 31, 2008, the scheduled maturities of time deposits are as follows (in thousands):

2009	$ 197,415
2010	20,948
2011	2,283
2012	2,846
2013	1,325
	$ 224,817

10. SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER SHORT-TERM BORROWINGS

Other short-term borrowings can consist of Federal Home Loan Bank (FHLB) overnight advances, federal funds purchased and securities sold under agreements to repurchase that mature within one year, which are secured transactions with customers or broker/dealers. Other short-term borrowings consist of the following (in thousands):

	2008	2007	2006
FHLB overnight advances	$	$ 5,500	$
Securities sold under agreements to repurchase	20,890	10,001	5,033
Total	$ 20,890	$ 15,501	$ 5,033
Weighted average interest rate at year end	0.54%	3.91%	4.07%
For the periods ended December 31, 2008, 2007 and 2006:			
Average outstanding balance	$ 18,179	$ 11,729	$ 9,453
Average interest rate during the year	1.82%	4.53%	4.80%
Maximum month-end outstanding balance	$ 23,007	$ 26,607	$ 14,337

11. FEDERAL HOME LOAN BANK ADVANCES

At year end, advances from the Federal Home Loan Bank were as follows (in thousands):

	2008	2007
FHLB fixed rate advance maturing January 2010 with a rate of 2.82%	$ 5,000	$
FHLB convertible advances maturing from August 2012 through October 2012 with fixed rates from 3.86% to 4.20%, and a weighted average interest rate of 4.05% (1)	25,000	25,000
Total FHLB advances	$ 30,000	$ 25,000

(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.

Table of Contents

Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances paid off earlier than maturity. FHLB advances are collateralized by eligible investment securities and a blanket pledge of eligible real estate loans. At December 31, 2008, Sonabank had available collateral to borrow an additional $62 million from the FHLB.

12. INCOME TAXES

Net deferred tax assets consist of the following components as of December 31, 2008 and 2007 (in thousands):

	2008	2007
Deferred tax assets:		
Allowance for loan losses	$ 1,195	$ 1,001
Organization costs	291	323
Unearned loan fees and other	187	170
Net operating loss carryover	1,103	1,306
Purchase accounting	365	725
Other than temporary impairment charge	672	150
Net unrealized loss on securities available for sale	1,291	370
Other	81	24
Total deferred tax assets	5,185	4,069
Deferred tax liabilities:		
Core deposit intangible amortization	252	430
Depreciation	120	163
Total deferred tax liabilities	372	593
	4,813	3,476
Valuation allowance		
Net deferred tax assets	$ 4,813	$ 3,476

Until the second quarter of 2007, SNBV maintained a valuation allowance against its deferred tax assets. During the second quarter of 2007, 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.

At December 31, 2008, SNBV had net operating loss carryforwards of approximately $3.2 million which expire in 2026. 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 existed as of December 31, 2008 or 2007. SNBV and its subsidiary file a consolidated U. S. federal tax return, and SNBV files a Virginia state income tax return. These returns are subject to examination by taxing authorities for all years after 2004.

The provision for income taxes consists of the following for the years ended December 31, 2008, 2007 and 2006 (in thousands):

	2008	2007	2006
Current tax expense	$ 731	$ 877	$ 423
Deferred tax benefit	(416)	(385)	(423)
Change in valuation allowance		(384)	

Income tax expense	$ 315	$ 108	$

67

Table of Contents

The income tax expense differed from the amount of income tax determined by applying the U.S. Federal income tax rate of 34% to pretax income for the years ended December 31, 2008, 2007 and 2006 due to the following (in thousands):

	2008	2007	2006
Computed expected tax expense	$ 518	$ 627	$ 343
Reduction in tax expense resulting from:			
Change in valuation allowance		(384)	(343)
Income from bank-owned life insurance	(200)	(118)	
Other, net	(3)	(17)	
Income tax expense	$ 315	$ 108	$

13. EMPLOYEE BENEFITS

SNBV has a 401(k) plan that allows employees to make pre-tax contributions for retirement. The 401(k) plan provides for discretionary matching contributions by SNBV. Expense for 2008 and 2007 was $60 thousand and $52 thousand, respectively. In 2006 there were no matching contributions made by SNBV. The 401(k) does not provide for investment in SNBV stock.

A deferred compensation plan that covers two executive officers was established in 2007. Under the plan, the Bank pays each participant, or their beneficiary, the amount of compensation deferred plus accrued interest over 10 years, beginning with the individual s retirement. A liability is accrued for the obligation under these plans. The expense incurred for the deferred compensation in 2008 and 2007 was $160 thousand and $65 thousand, respectively. The deferred compensation liability was $226 thousand and $65 thousand as of December 31, 2008 and 2007, respectively.

14. 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. 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 option s exercise 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.

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:

	2008	2007	2006
Dividend yield	0.00%	0.00%	
Expected life	10 years	10 years	
Expected volatility	19.17%	18.23%	
Risk-free interest rate	3.51%	4.81%	
Weighted average fair value per option granted	$ 3.51	$ 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.

Table of Contents

A summary of the activity in the stock option plan for 2008 follows:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding, beginning of period	173,525	$ 9.27		
Granted	44,500	9.20		
Forfeited	(5,100)	10.39		
Exercised				
Options outstanding, end of period	212,925	$ 9.23	6.9	$
Vested or expected to vest	212,925	$ 9.23	6.9	$
Exercisable at end of period	168,905	$ 9.12	6.4	$

As of December 31, 2008, unrecognized compensation expense associated with stock options was $128 thousand which is expected to be recognized over a weighted average period of 4 years.

15. WARRANTS

As part of the purchase price of the fixed assets related to the Leesburg branch, SNBV issued 61,000 warrants for the purchase of its common stock at an exercise price of $12.73 per share during the first quarter of 2008. The warrants expire in three years. The fair value of each warrant issued was estimated using the Black-Scholes options-pricing model. As a result of issuing the warrants, $51 thousand was recorded as Additional paid in capital. The following weighted-average assumptions were used to value the warrants:

Dividend yield	0.00%
Expected life	3 years
Expected volatility	19.17%
Risk-free interest rate	2.11%
Weighted average fair value per warrant	$ 0.84

16. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

SNBV is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by SNBV to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $1.6 million and $1.2 million as of December 31, 2008 and 2007, 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 it does 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.

Table of Contents

At December 31, 2008 and 2007, we had unfunded lines of credit and undisbursed construction loan funds totaling $39.0 million and $54.5 million, respectively. Our approved loan commitments were $2.1 million and $10.8 million at December 31, 2008 and 2007, respectively. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

17. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the basic and diluted EPS computations for 2008, 2007 and 2006 (in thousands, except per share data):

	Income (Loss) (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the year ended December 31, 2008			
Basic EPS	$ 1,208	6,799	$ 0.18
Effect of dilutive stock options and warrants			
Diluted EPS	$ 1,208	6,799	$ 0.18
For the year ended December 31, 2007			
Basic EPS	$ 1,736	6,799	$ 0.26
Effect of dilutive stock options and warrants		77	
Diluted EPS	$ 1,736	6,876	$ 0.25
For the year ended December 31, 2006			
Basic EPS	$ 1,009	4,245	$ 0.24
Effect of dilutive stock options and warrants		79	
Diluted EPS	$ 1,009	4,324	$ 0.23

There were 356,425 anti-dilutive options and warrants during 2008. There were 5,500 anti-dilutive options during 2007, and there were no anti-dilutive options during 2006.

18. REGULATORY MATTERS

SNBV and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on SNBV s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), SNBV must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. At December 31, 2008 and 2007, the most recent regulatory notifications categorized the Bank as well capitalized under regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require SNBV to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to average assets (as defined). Management believes, as of December 31, 2008, that SNBV meets all capital adequacy requirements to which it is subject.

Table of Contents

The capital amounts and ratios for SNBV and Sonabank at year end are presented in the following table (in thousands):

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2008						
SNBV						
Tier 1 risk-based capital ratio	$ 58,495	17.46%	$ 13,404	4.00%	N/A	N/A
Total risk-based capital ratio	62,684	18.71%	26,808	8.00%	N/A	N/A
Leverage ratio	58,495	13.71%	17,063	4.00%	N/A	N/A
Sonabank						
Tier 1 risk-based capital ratio	$ 56,055	16.73%	$ 13,402	4.00%	$ 20,103	6.00%
Total risk-based capital ratio	60,243	17.98%	26,804	8.00%	33,505	10.00%
Leverage ratio	56,055	13.14%	17,063	4.00%	21,329	5.00%
2007						
SNBV						
Tier 1 risk-based capital ratio	$ 56,662	18.50%	$ 12,253	4.00%	N/A	N/A
Total risk-based capital ratio	60,138	19.63%	24,506	8.00%	N/A	N/A
Leverage ratio	56,662	16.03%	14,136	4.00%	N/A	N/A
Sonabank						
Tier 1 risk-based capital ratio	$ 54,237	17.71%	$ 12,251	4.00%	$ 18,376	6.00%
Total risk-based capital ratio	57,713	18.84%	24,502	8.00%	30,628	10.00%
Leverage ratio	54,237	15.35%	14,136	4.00%	17,670	5.00%

SNBV s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2009, the Bank could, without prior approval, declare dividends of approximately $1.7 million plus any 2009 net profits retained to the date of the dividend declaration.

Table of Contents

19. PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information of Southern National Bancorp of Virginia, Inc. follows (in thousands):

CONDENSED BALANCE SHEETS

DECEMBER 31,

	2008	2007
ASSETS		
Cash	$ 2,384	$ 2,375
Investment in subsidiary	66,336	66,850
Other assets	56	50
Total assets	$ 68,776	$ 69,275
LIABILITIES AND STOCKHOLDERS EQUITY		
Stockholders equity:		
Common stock	$ 68	$ 68
Additional paid in capital	69,516	69,436
Retained earnings	1,697	489
Accumulated other comprehensive loss	(2,505)	(718)
Total stockholders equity	68,776	69,275
Total liabilities and stockholders equity	$ 68,776	$ 69,275

CONDENSED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(in thousands)

	2008	2007	2006
Equity in undistributed net income of subsidiary	$ 1,273	$ 1,785	$ 1,009
Other operating expenses	99	74	
Income before income taxes	1,174	1,711	1,009
Income tax benefit	(34)	(25)	
Net income	$ 1,208	$ 1,736	$ 1,009

72

Table of Contents

CONDENSED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(in thousands)

	2008	2007	2006
Operating activities:			
Net income	$ 1,208	$ 1,736	$ 1,009
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Equity in undistributed net income of subsidiary	(1,273)	(1,785)	(1,009)
Other, net	74	(44)	
Net cash and cash equivalents provided (used) by operating activities	9	(93)	
Investing activities:			
Investment in subsidiary			(24,002)
Net cash and cash equivalents used in investing activities			(24,002)
Financing activities:			
Issuance of common stock			26,420
Net cash and cash equivalents provided by financing activities			26,420
Increase (decrease) in cash and cash equivalents	9	(93)	2,418
Cash and cash equivalents at beginning of period	2,375	2,468	50
Cash and cash equivalents at end of period	$ 2,384	$ 2,375	$ 2,468
Supplemental schedule of noncash investing and financing activities			
Issuance of common stock in exchange for net assets in acquisition	$	$	$ 8,506

20. OTHER COMPREHENSIVE INCOME (LOSS)

Other comprehensive income (loss) components and related tax effects were as follows (in thousands):

	2008	2007	2006
Change in unrealized loss on available for sale securities	$ (1)	$ (1,492)	$ (31)
Reclassification adjustment for net losses realized in income	1,267	440	
Unrealized loss on securities transferred from available for sale to held to maturity, net of recovery	(3,974)		
Net unrealized loss	(2,708)	(1,052)	(31)
Tax effect	921	358	10
Net-of-tax amount	$ (1,787)	$ (694)	$ (21)

73

Table of Contents

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Income (Loss) Before Taxes	Net Income (Loss)	Earnings (Loss) Per Share Basic	Earnings (Loss) Per Share Diluted
	(dollars in thousands)					
2008						
First quarter	$ 6,388	$ 3,195	$ 677	$ 501	$ 0.07	$ 0.07
Second quarter	5,848	2,915	601	450	0.07	0.07
Third quarter (1)	6,020	3,031	(526)	(757)	(0.11)	(0.11)
Fourth quarter	6,070	3,202	771	1,014	0.15	0.15
2007						
First quarter	$ 4,854	$ 2,466	$ 474	$ 474	$ 0.07	$ 0.07
Second quarter	5,248	2,647	594	647	0.10	0.09
Third quarter	5,549	2,670	636	467	0.07	0.07
Fourth quarter	6,098	2,880	140	146	0.02	0.02

(1) In the third quarter of 2008 management recognized an other than temporary impairment charge on FHLMC preferred stock. See Footnote 2 in the Financial Statements.

Table of Contents

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

Previously reported under Item 4.01 in a Current Report on Form 8-K filed on March 7, 2007.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures. SNBV maintains disclosure controls and procedures, as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the Exchange Act). In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, the Chief Executive Officer and Chief Financial Officer have concluded that SNBV s disclosure controls and procedures were effective.

Management s Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) of the Exchange Act. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of SNBV s internal control over financial reporting as of December 31, 2008. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in Internal Control-Integrated Framework. Based on the assessment using those criteria, management concluded that the internal control over financial reporting was effective as of December 31, 2008. This annual report does not include an attestation report of the company s registered public accounting firm regarding internal control over financial reporting. Management s report was not subject to attestation by the company s registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the company to provide only management s report in this annual report.

Changes in Internal Control over Financial Reporting. There was no change in the internal control over financial reporting that occurred during the quarter ended December 31, 2008 that has materially affected, or is reasonably likely to materially affect, the internal control over financial reporting.

Item 9B. Other Information

None.

[Table of Contents](#)

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the captions Election of Directors , Continuing Directors and Executive Officers,   Section 16(a) Beneficial Ownership Reporting Compliance , Corporate Governance Committees of the Board Audit Committee, Corporate Governance Director Nominations Process and Corporate Governance Code of Ethics in the Company s definitive Proxy Statement for its 2008 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2008 pursuant to Regulation 14A under the Exchange Act (the 2009 Proxy Statement), is incorporated herein by reference in response to this item.

Item 11. Executive Compensation

The information under the captions Executive Compensation and Other Matters and Director Compensation in the 2009 Proxy Statement is incorporated herein by reference in response to this item.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information under the caption Beneficial Ownership of Common Stock by Management of the Company and Principal Stockholders in the 2009 Proxy Statement is incorporated herein by reference in response to this item.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information under the captions Corporate Governance Director Independence and Certain Relationships and Related Party Transactions in the 2009 Proxy Statement is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services

The information under the caption Fees and Services of Independent Registered Public Accounting Firm in the 2009 Proxy Statement is incorporated herein by reference in response to this item.

Table of Contents

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and report of independent registered public accounting firm are in Part II, Item 8 on pages 45 through 74

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets December 31, 2008 and 2007

Consolidated Statements of Income Years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Changes in Stockholders Equity Years ended December 31, 2008, 2007 and 2006

Consolidated Statements of Cash Flows Years ended December 31, 2008, 2007 and 2006

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

Table of Contents

(a)(3) Exhibits

The following are filed or furnished, as noted below, as part of this Form 10-K and this list includes the Exhibit Index.

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
3.2	Certificate of Amendment to the Articles of Incorporation dated February 1, 2005 (incorporated herein by reference to Exhibit 3.2 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
3.3	Certificate of Amendment to the Articles of Incorporation dated May 16, 2006 (incorporated herein by reference to Exhibit 3.3 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
3.4	Amended and Restated Bylaws (incorporated by reference to SNBV s Annual Report on Form 10-K for the year ended December 31, 2006)
4.1	Specimen Stock Certificate of SNBV (incorporated herein by reference to Exhibit 4.1 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
4.2	Form of Warrant Agreement (incorporated herein by reference to Exhibit 4.2 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
4.3	Form of Amendment to Warrant Agreement (incorporated herein by reference to Exhibit 4.3 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
10.1+	2004 Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
10.2+	Form of Change in Control Agreement with Ms. Derrico and Mr. Porter (incorporated herein by reference to Exhibit 10.2 to SNBV s Registration Statement on Form S-1 (Registration No. 333-136285))
11.0	Statement re: Computation of Per Share Earnings (incorporated by reference to Note 13 of the notes to consolidated financial statements included in this report
21.0*	Subsidiaries of the Registrant
23.1*	Consent of BDO Seidman, LLP
23.2*	Consent of Crowe Horwath LLP
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

+ Management contract or compensatory plan or arrangement
* Filed herewith
** Furnished herewith

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ GEORGIA S. DERRICO Date: March 11, 2009

Georgia S. Derrico

Chairman of the Board and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 11, 2009.

Signature	Title
/s/ GEORGIA S. DERRICO **Georgia S. Derrico**	Chairman of the Board and Chief Executive Officer
/s/ R. RODERICK PORTER **R. Roderick Porter**	President and Director
/s/ NEIL J. CALL **Neil J. Call**	Director
/s/ CHARLES A. KABASH **Charles A. Kabash**	Director
/s/ FREDERICK L. BOLLERER **Frederick L. Bollerer**	Director
/s/ ROBIN R. SHIELD **Robin R. Shield**	Director
/s/ JOHN J. FORCH **John J. Forch**	Director
/s/ WILLIAM H. LAGOS **William H. Lagos**	Sr. Vice President and Chief Financial Officer