Southern National Bancorp of Virginia Inc
Form 10-Q
May 09, 2014

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2014

Commission File No. 001-33037

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x NO o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

YES x NO o

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

Large accelerated filer o Accelerated filer x Smaller reporting company o

Non-accelerated filer o (Do not check if a smaller reporting company)

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

As of May 2, 2014, there were 11,607,612 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
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ITEM I - FINANCIAL INFORMATION
PART I - FINANCIAL STATEMENTS

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

	March 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$3,710	$2,679
Interest-bearing deposits in other financial institutions	15,672	18,177
Total cash and cash equivalents	19,382	20,856
Securities available for sale, at fair value	2,135	1,993
Securities held to maturity, at amortized cost (fair value of $82,631 and $76,193, respectively)	86,106	82,443
Covered loans	50,335	51,701
Non-covered loans	488,714	494,357
Total loans	539,049	546,058
Less allowance for loan losses	(7,356)	(7,090)
Net loans	531,693	538,968
Stock in Federal Reserve Bank and Federal Home Loan Bank	4,793	5,915
Bank premises and equipment, net	6,260	6,324
Goodwill	9,160	9,160
Core deposit intangibles, net	768	813
FDIC indemnification asset	5,066	5,804
Bank-owned life insurance	20,514	18,374
Other real estate owned	13,755	11,792
Deferred tax assets, net	8,130	8,281
Other assets	5,466	5,462
Total assets	$713,228	$716,185
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$46,975	$44,643
Interest-bearing deposits:		
NOW accounts	22,457	24,297
Money market accounts	127,445	130,855
Savings accounts	17,410	16,999

Time deposits	342,004	323,565
Total interest-bearing deposits	509,316	495,716
Total deposits	556,291	540,359
Securities sold under agreements to repurchase and other short-term borrowings	19,727	39,795
Federal Home Loan Bank (FHLB) advances	25,000	25,000
Other liabilities	4,563	4,417
Total liabilities	605,581	609,571
Commitments and contingencies (See Note 5)	-	-
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding, 11,594,912 shares at March 31, 2014 and 11,590,612 at December 31, 2013	116	116
Additional paid in capital	97,234	97,127
Retained earnings	13,392	12,561
Accumulated other comprehensive loss	(3,095)	(3,190)
Total stockholders' equity	107,647	106,614
Total liabilities and stockholders' equity	$713,228	$716,185

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2014	2013
Interest and dividend income :		
Interest and fees on loans	$7,756	$8,343
Interest and dividends on taxable securities	513	530
Interest and dividends on tax exempt securities	92	38
Interest and dividends on other earning assets	280	112
Total interest and dividend income	8,641	9,023
Interest expense:		
Interest on deposits	896	1,100
Interest on borrowings	158	153
Total interest expense	1,054	1,253
Net interest income	7,587	7,770
Provision for loan losses	1,175	1,093
Net interest income after provision for loan losses	6,412	6,677
Noninterest income:		
Account maintenance and deposit service fees	178	193
Income from bank-owned life insurance	140	149
Gain on other assets	202	-
Net gain on sale of available for sale securities	-	142
Total other-than-temporary impairment losses (OTTI)	(16)	(3)
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-
Net credit related OTTI recognized in earnings	(16)	(3)
Other	37	55
Total noninterest income	541	536
Noninterest expenses:		
Salaries and benefits	2,389	2,246
Occupancy expenses	772	760
Furniture and equipment expenses	187	156
Amortization of core deposit intangible	45	123
Virginia franchise tax expense	116	127
Merger expenses	213	-
FDIC assessment	125	234

Data processing expense	126	148
Telephone and communication expense	178	178
Change in FDIC indemnification asset	124	130
Net (gain) loss on other real estate owned	(419)	56
Other operating expenses	663	793
Total noninterest expenses	4,519	4,951
Income before income taxes	2,434	2,262
Income tax expense	792	736
Net income	$1,642	$1,526
Other comprehensive income (loss):		
Unrealized gain (loss) on available for sale securities	$143	$(1)
Realized amount on securities sold, net	-	(142)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	21	97
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	(20)	(8)
Net unrealized gain (loss)	144	(54)
Tax effect	(49)	18
Other comprehensive income (loss)	95	(36)
Comprehensive income	$1,737	$1,490
Earnings per share, basic and diluted	$0.14	$0.13

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014
(dollars in thousands, except per share amounts) (Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2013	$116	$97,127	$12,561	$ (3,190)	$106,614
Comprehensive income:					
Net income			1,642		1,642
Change in unrealized loss on securities available for sale (net of tax benefit, $49)				94	94
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $0 and accretion, $20 and amounts recorded into other comprehensive income at transfer)				1	1
Dividends on common stock ($.07 per share)			(811)		(811)
Issuance of common stock under Stock Incentive Plan (4,300 shares)		30			30
Stock-based compensation expense		77			77
Balance - March 31, 2014	$116	$97,234	$13,392	$ (3,095)	$107,647

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(dollars in thousands) (Unaudited)

	2014	2013
Operating activities:		
Net income	$1,642	$1,526
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	172	167
Amortization of core deposit intangible	45	123
Other amortization, net	47	105
Accretion of loan discount	(706)	(775)
Amortization of FDIC indemnification asset	124	130
Provision for loan losses	1,175	1,093
Earnings on bank-owned life insurance	(140)	(149)
Stock based compensation expense	77	64
Net gain on sale of available for sale securities	-	(142)
Impairment on securities	16	3
Net (gain) loss on other real estate owned	(419)	56
Net decrease in other assets	121	286
Net increase (decrease) in other liabilities	146	(492)
Net cash and cash equivalents provided by operating activities	2,300	1,995
Investing activities:		
Proceeds from sales of available for sale securities	-	159
Purchases of held to maturity securities	(5,000)	(6,241)
Proceeds from paydowns, maturities and calls of held to maturity securities	1,320	8,353
Loan originations and payments, net	2,397	17,823
Purchase of bank-owned life insurance	(2,000)	-
Net decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	1,122	1,197
Payments received on FDIC indemnification asset	638	17
Proceeds from sale of other real estate owned	2,778	2,013
Purchases of bank premises and equipment	(112)	(19)
Net cash and cash equivalents provided by investing activities	1,143	23,302
Financing activities:		
Net increase in deposits	15,932	8,396
Cash dividends paid - common stock	(811)	(580)
Issuance of common stock under Stock Incentive Plan	30	-
Net decrease in securities sold under agreement to repurchase and other short-term borrowings	(20,068)	(17,800)
Net cash and cash equivalents used in financing activities	(4,917)	(9,984)
Increase (decrease) in cash and cash equivalents	(1,474)	15,313
Cash and cash equivalents at beginning of period	20,856	39,200
Cash and cash equivalents at end of period	$19,382	$54,513
Supplemental disclosure of cash flow information		

Cash payments for:		
Interest	$1,035	$1,201
Income taxes	918	1,363
Supplemental schedule of noncash investing and financing activities		
Transfer from non-covered loans to other real estate owned	4,409	312
Transfer from covered loans to other real estate owned	-	1,831

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2014

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. ("Southern National" or "SNBV") is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank ("Sonabank") a Virginia state chartered bank which commenced operations on April 14, 2005. The principal activities of Sonabank are to attract deposits and originate loans as permitted under applicable banking regulations. Sonabank operates 15 branches in Virginia located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Loudoun County (Middleburg, Leesburg (2), and South Riding), Front Royal, New Market, Richmond, Haymarket and Clifton Forge, and five branches in Maryland (four in Montgomery County and one in Frederick County).

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

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles ("U. S. GAAP") for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U. S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in Southern National's Form 10-K for the year ended December 31, 2013.

Use of Estimates

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

Recent Accounting Pronouncements

In January 2014, the FASB issued ASU No. 2014-04, "Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure." The objective of this guidance is to clarify when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. ASU No. 2014-04 states that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, ASU No. 2014-04 requires interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. ASU No. 2014-04 is effective for interim and annual reporting periods beginning after December 15, 2014. The adoption of ASU No. 2014-04 is not expected to have a material impact on the Southern National’s Consolidated Financial Statements.

2. STOCK- BASED COMPENSATION

In 2004, the Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. As of March 31, 2014, options to purchase an aggregate of 302,500 shares of common stock were outstanding and no shares remained available for issuance. The 2010 Stock Awards and Incentive Plan was approved by the Board of Directors in January 2010 and approved by the stockholders at the Annual Meeting in April 2010. The 2010 plan authorized the reservation of 700,000 shares of common stock for the granting of stock awards. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employ of Southern National and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in Southern National's future success. Under the plan, the option's price cannot be less than the fair market value of the stock on the grant date. The maximum term of the options is ten years and options granted may be subject to a graded vesting schedule.

Southern National granted no options during the first three months of 2014.

For the three months ended March 31, 2014 and 2013, stock-based compensation expense was $77 thousand and $64 thousand, respectively. As of March 31, 2014, unrecognized compensation expense associated with the stock options was $854 thousand, which is expected to be recognized over a weighted average period of 3.4 years.

A summary of the activity in the stock option plan during the three months ended March 31, 2014 follows (dollars in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding, beginning of period	631,075	$ 8.21		
Granted	-	-		
Forfeited	-	-		
Exercised	(4,300)	6.87		
Options outstanding, end of period	626,775	$ 8.22	5.8	$ 1,248
Vested or expected to vest	626,775	$ 8.22	5.8	$ 1,248
Exercisable at end of period	367,275	$ 8.19	3.9	$ 749

3. SECURITIES

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

March 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,300	$ -	$ (165)	$ 2,135

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,302	$ -	$ (309)	$ 1,993

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

March 31, 2014	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 24,722	$ 680	$ (172)	$ 25,230
Residential government-sponsored collateralized mortgage obligations	4,101	-	(60)	4,041
Government-sponsored agency securities	34,972	41	(2,910)	32,103
Obligations of states and political subdivisions	14,360	28	(555)	13,833
Other residential collateralized mortgage obligations	645	-	-	645
Trust preferred securities	7,306	1,241	(1,768)	6,779
	$ 86,106	$ 1,990	$ (5,465)	$ 82,631

December 31, 2013	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 25,609	$ 673	$ (294)	$ 25,988
Residential government-sponsored collateralized mortgage obligations	4,295	2	(349)	3,948
Government-sponsored agency securities	29,971	-	(3,994)	25,977
Obligations of states and political subdivisions	14,388	-	(987)	13,401
Other residential collateralized mortgage obligations	659	-	(12)	647
Trust preferred securities	7,521	939	(2,228)	6,232
	$ 82,443	$ 1,614	$ (7,864)	$ 76,193

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

The fair value and carrying amount, if different, of debt securities as of March 31, 2014, by contractual maturity were as follows (in thousands). Securities not due at a single maturity date, primarily mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Held to Maturity	Available for Sale

	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in five to ten years	$ 6,535	$ 6,363	$ -	$ -
Due after ten years	50,103	46,352	2,300	2,135
Residential government-sponsored mortgage-backed securities	24,722	25,230	-	-
Residential government-sponsored collateralized mortgage obligations	4,101	4,041	-	-
Other residential collateralized mortgage obligations	645	645	-	-
Total	$ 86,106	$ 82,631	$ 2,300	$ 2,135

Securities with a carrying amount of approximately $69.2 million and $65.3 million at March 31, 2014 and December 31, 2013, respectively, were pledged to secure public deposits, repurchase agreements and a line of credit for advances from the Federal Home Loan Bank of Atlanta ("FHLB").

Southern National monitors the portfolio for indicators of other than temporary impairment. At March 31, 2014 and December 31, 2013, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $62.3 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at March 31, 2014. Because the decline in fair value is attributable to changes in interest rates and market illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is likely that we will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired as of March 31, 2014. The following tables present information regarding securities in a continuous unrealized loss position as of March 31, 2014 and December 31, 2013 (in thousands) by duration of time in a loss position:

March 31, 2014

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	$ -	$ -	$ 2,135	$ (165)	$ 2,135	$ (165)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$ 12,392	$ (172)	$ -	$ -	$ 12,392	$ (172)
Residential government-sponsored collateralized mortgage obligations	4,041	(60)	-	-	4,041	(60)
Government-sponsored agency securities	9,064	(920)	17,998	(1,990)	27,062	(2,910)
Obligations of states and political subdivisions	8,875	(292)	3,442	(263)	12,317	(555)
Other residential collateralized mortgage obligations	-	-	-	-	-	-
Trust preferred securities	-	-	4,309	(1,768)	4,309	(1,768)
	$ 34,372	$ (1,444)	$ 25,749	$ (4,021)	$ 60,121	$ (5,465)

December 31, 2013

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	$ 409	$ (78)	$ 1,584	$ (231)	$ 1,993	$ (309)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$ 12,644	$ (294)	$ -	$ -	$ 12,644	$ (294)

Residential government-sponsored collateralized mortgage obligations	2,984	(349)	-	-	2,984	(349)
Government-sponsored agency securities	8,733	(1,250)	17,244	(2,744)	25,977	(3,994)
Obligations of states and political subdivisions	10,327	(588)	3,064	(399)	13,391	(987)
Other residential collateralized mortgage obligations	647	(12)	-	-	647	(12)
Trust preferred securities	-	-	4,070	(2,228)	4,070	(2,228)
	$ 35,335	$ (2,493)	$ 24,378	$ (5,371)	$ 59,713	$ (7,864)

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As of March 31, 2014, we owned pooled trust preferred securities as follows:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$ 6,340	$ 5,750	$ 4,107	16 %	$ 274	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	333	327	202	34 %	6	
						6,673	6,077	4,309		$ 280	
										Cumulative Other Comprehensive Loss (2)	Cumulative OTTI Related to Credit Loss (2)
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	520	520	41 %	605	$ 375
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,155	57	372	30 %	805	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	168	25 %	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,092	27	271	27 %	374	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,149	475	582	15 %	1,013	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,245	30	79	33 %	656	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,158	120	478	14 %	858	1,180
						14,338	1,229	2,470		$ 4,318	$ 8,791
Total						$ 21,011	$ 7,306	$ 6,779			

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

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

.5% of the remaining performing collateral will default or defer per annum.
Recoveries of 16% with a two year lag on all defaults and deferrals.
No prepayments for 10 years and then 1% per annum for the remaining life of the security.
Additionally banks with assets over $15 billion will no longer be allowed to count down streamed trust preferred proceeds as Tier 1 capital (although it will still be counted as Tier 2 capital). That will incent the large banks to prepay their trust preferred securities if they can or if it is economically desirable. As a consequence, we have projected in all of our pools that 10% of the collateral issued by banks with assets over $15 billion will prepay in the first year of the forecast, and 15% in the second year.
Our securities have been modeled using the above assumptions by independent third parties using the forward LIBOR curve to discount projected cash flows to present values.

We recognized OTTI charges of $16 thousand during the first quarter of 2014 compared to OTTI charges related to credit on the trust preferred securities totaling $3 thousand during the first quarter of 2013.

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The following table presents a roll forward of the credit losses on our securities held to maturity recognized in earnings for the three months ended March 31, 2014 and 2013 (in thousands):

	2014	2013
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$8,911	$8,964
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Amounts related to credit loss for which an other-than-temporary impairment was previously recognized	16	3
Reductions due to realized losses	(2)	(25)
Amount of cumulative other-than-temporary impairment related to credit loss as of March 31	$8,925	$8,942

Changes in accumulated other comprehensive income by component for the three months ended March 31, 2014 and 2013 are shown in the table below. All amounts are net of tax (in thousands).

For the three months ended March 31, 2014	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (203)	$ (2,987)	$(3,190)
Other comprehensive income/(loss) before reclassifications	94	1	95
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	94	1	95
Ending balance	$ (109)	$ (2,986)	$(3,095)

For the three months ended March 31, 2013	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ 44	$ (3,025)	$(2,981)
Other comprehensive income/(loss) before reclassifications	(1)	60	59
Amounts reclassified from accumulated other comprehensive income/(loss)	(93)	(2)	(95)
Net current-period other comprehensive income/(loss)	(94)	58	(36)
Ending balance	$ (50)	$ (2,967)	$(3,017)

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of March 31, 2014 and December 31, 2013:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	March 31, 2014			December 31, 2013		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$ 1,552	$ 105,121	$ 106,673	$ 1,603	$ 106,225	$ 107,828
Commercial real estate - non-owner-occupied	5,769	148,962	154,731	5,829	150,008	155,837
Secured by farmland	-	504	504	100	508	608
Construction and land loans	-	39,872	39,872	1	39,068	39,069
Residential 1-4 family	16,589	61,222	77,811	16,631	66,482	83,113
Multi- family residential	580	21,414	21,994	585	21,496	22,081
Home equity lines of credit	24,866	7,526	32,392	25,769	6,431	32,200
Total real estate loans	49,356	384,621	433,977	50,518	390,218	440,736
Commercial loans	898	104,258	105,156	1,097	104,284	105,381
Consumer loans	77	1,249	1,326	81	1,308	1,389
Gross loans	50,331	490,128	540,459	51,696	495,810	547,506
Less deferred fees on loans	4	(1,414)	(1,410)	5	(1,453)	(1,448)
Loans, net of deferred fees	$ 50,335	$ 488,714	$ 539,049	$ 51,701	$ 494,357	$ 546,058

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

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

As part of the Greater Atlantic acquisition, the Bank and the FDIC entered into loss sharing agreements on approximately $143.4 million (contractual basis) of Greater Atlantic Bank's assets. There are two agreements with FDIC, one for single family loans which is a 10-year agreement expiring in December 2019, and one for non-single family (commercial) assets which is a 5-year agreement expiring in December 2014. The Bank will share in the losses on the loans and foreclosed loan collateral with the FDIC as specified in the loss sharing agreements; we refer to these assets collectively as "covered assets." Loans that are not covered in the loss sharing agreement are referred to as "non-covered loans" at March 31, 2014. Non-covered loans included $38.1 million of loans acquired in the HarVest acquisition.

Accretable discount on the acquired covered loans and the HarVest loans was $8.3 million and $8.9 million at March 31, 2014 and December 31, 2013 respectively.

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

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

March 31, 2014	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$737	$835	$-	$7,624	$7,695	$-	$8,361	$8,530	$-
Commercial real estate - non-owner occupied (2)	2,137	2,477	-	347	435	-	2,484	2,912	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	3,406	3,844	-	3,406	3,844	-
Residential 1-4 family (4)	1,210	1,427	-	5,730	5,781	-	6,940	7,208	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$4,084	$4,739	$-	$17,107	$17,755	$-	$21,191	$22,494	$-
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$-	$109	$209	$109	$109	$209	$109
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	918	2,018	200	918	2,018	200
Residential 1-4 family (4)	-	-	-	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$-	$1,027	$2,227	$309	$1,027	$2,227	$309
Grand total	$4,084	$4,739	$-	$18,134	$19,982	$309	$22,218	$24,721	$309

(1) Recorded investment is after cumulative prior charge offs of $1.7 million. These loans also have aggregate SBA guarantees of $2.4 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.
(4) Includes home equity lines of credit.

December 31, 2013	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$745	$844	$-	$7,476	$7,476	$-	$8,221	$8,320	$-
Commercial real estate - non-owner occupied (2)	2,145	2,486	-	359	449	-	2,504	2,935	-
Construction and land development	-	-	-	2,107	2,307	-	2,107	2,307	-
Commercial loans	-	-	-	3,155	3,631	-	3,155	3,631	-

Residential 1-4 family (4)	1,220	1,439	-	5,358	5,358	-	6,578	6,797	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$4,110	$4,769	$-	$18,455	$19,221	$-	$22,565	$23,990	$-
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$-	$400	$500	$192	$400	$500	$192
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	1,718	2,518	325	1,718	2,518	325
Residential 1-4 family (4)	-	-	-	2,637	2,637	200	2,637	2,637	200
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$-	$4,755	$5,655	$717	$4,755	$5,655	$717
Grand total	$4,110	$4,769	$-	$23,210	$24,876	$717	$27,320	$29,645	$717

(1) Recorded investment is after cumulative prior charge offs of $1.4 million. These loans also have aggregate SBA guarantees of $2.4 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.
(4) Includes home equity lines of credit.

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The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three months ended March 31, 2014 and 2013 (in thousands):

Three months ended March 31, 2014	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded						
Commercial real estate - owner occupied	$742	$13	$7,550	$127	$8,292	$140
Commercial real estate - non-owner occupied (1)	2,141	21	354	9	2,495	30
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	3,169	21	3,169	21
Residential 1-4 family (2)	1,217	13	5,348	79	6,565	92
Other consumer loans	-	-	-	-	-	-
Total	$4,100	$47	$16,421	$236	$20,521	$283
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$114	$4	$114	$4
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	1,143	-	1,143	-
Residential 1-4 family (2)	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$1,257	$4	$1,257	$4
Grand total	$4,100	$47	$17,678	$240	$21,778	$287

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

Three months ended March 31, 2013	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded						
	$137	$5	$4,221	$45	$4,358	$50

Commercial real estate - owner occupied						
Commercial real estate - non-owner occupied (1)	2,017	32	1,077	21	3,094	53
Construction and land development	48	-	2,451	23	2,499	23
Commercial loans	45	1	4,879	12	4,924	13
Residential 1-4 family (2)	1,734	22	2,977	34	4,711	56
Other consumer loans	-	-	-	-	-	-
Total	$3,981	$60	$15,605	$135	$19,586	$195
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$131	$4	$131	$4
Commercial real estate - non-owner occupied (1)	-	-	976	16	976	16
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Residential 1-4 family (2)	-	-	5,786	88	5,786	88
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$6,893	$108	$6,893	$108
Grand total	$3,981	$60	$22,498	$243	$26,479	$303

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

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The following tables present the aging of the recorded investment in past due loans by class of loans as of March 31, 2014 and December 31, 2013 (in thousands):

March 31, 2014	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Covered loans:							
Commercial real estate - owner occupied	$142	$-	$-	$142	$-	$1,410	$1,552
Commercial real estate - non-owner occupied (1)	146	-	-	146	1,991	4,212	6,349
Construction and land development	-	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	898	898
Residential 1-4 family (2)	282	-	-	282	1,366	39,807	41,455
Other consumer loans	-	-	-	-	-	77	77
Total	$570	$-	$-	$570	$3,357	$46,404	$50,331
Non-covered loans:							
Commercial real estate - owner occupied	$708	$-	$-	$708	$212	$104,201	$105,121
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	170,880	170,880
Construction and land development	-	-	-	-	-	39,872	39,872
Commercial loans	636	-	-	636	3,094	100,528	104,258
Residential 1-4 family (2)	420	28	-	448	521	67,779	68,748
Other consumer loans	20	-	-	20	-	1,229	1,249
Total	$1,784	$28	$-	$1,812	$3,827	$484,489	$490,128
Total loans:							
Commercial real estate - owner occupied	$850	$-	$-	$850	$212	$105,611	$106,673
Commercial real estate - non-owner occupied (1)	146	-	-	146	1,991	175,092	177,229
Construction and land development	-	-	-	-	-	39,872	39,872
Commercial loans	636	-	-	636	3,094	101,426	105,156
Residential 1-4 family (2)	702	28	-	730	1,887	107,586	110,203
Other consumer loans	20	-	-	20	-	1,306	1,326
Total	$2,354	$28	$-	$2,382	$7,184	$530,893	$540,459

December 31, 2013	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans

Covered loans:							
Commercial real estate - owner occupied	$-	$-	$-	$-	$-	$1,603	$1,603
Commercial real estate - non-owner occupied (1)	503	-	-	503	245	5,766	6,514
Construction and land development	-	-	-	-	-	1	1
Commercial loans	-	-	-	-	-	1,097	1,097
Residential 1-4 family (2)	41	-	-	41	1,377	40,982	42,400
Other consumer loans	-	-	-	-	-	81	81
Total	$544	$-	$-	$544	$1,622	$49,530	$51,696
Non-covered loans:							
Commercial real estate - owner occupied	$708	$283	$-	$991	$-	$105,234	$106,225
Commercial real estate - non-owner occupied (1)	359	-	-	359	-	171,653	172,012
Construction and land development	8	3	-	11	2,107	36,950	39,068
Commercial loans	522	968	-	1,490	3,070	99,724	104,284
Residential 1-4 family (2)	957	98	-	1,055	2,637	69,221	72,913
Other consumer loans	14	-	-	14	-	1,294	1,308
Total	$2,568	$1,352	$-	$3,920	$7,814	$484,076	$495,810
Total loans:							
Commercial real estate - owner occupied	$708	$283	$-	$991	$-	$106,837	$107,828
Commercial real estate - non-owner occupied (1)	862	-	-	862	245	177,419	178,526
Construction and land development	8	3	-	11	2,107	36,951	39,069
Commercial loans	522	968	-	1,490	3,070	100,821	105,381
Residential 1-4 family (2)	998	98	-	1,096	4,014	110,203	115,313
Other consumer loans	14	-	-	14	-	1,375	1,389
Total	$3,112	$1,352	$-	$4,464	$9,436	$533,606	$547,506

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

Non-covered nonaccrual loans include SBA guaranteed amounts totaling $2.4 million and $1.9 million at March 31, 2014 and December 31, 2013, respectively.

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Activity in the allowance for non-covered loan and lease losses for the three months ended March 31, 2014 and 2013 is summarized below (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
Three months ended March 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 814	$ 985	$ 1,068	$ 2,797	$ 1,302	$ 54	$ 19	$ 7,039
Charge offs	(71)	-	-	(588)	(300)	-	-	(959)
Recoveries	4	6	-	35	-	5	-	50
Provision	(131)	(181)	84	404	100	(9)	908	1,175
Ending balance	$ 616	$ 810	$ 1,152	$ 2,648	$ 1,102	$ 50	$ 927	$ 7,305
Three months ended March 31, 2013								
Allowance for loan losses:								
Beginning balance	$ 932	$ 1,474	$ 970	$ 2,110	$ 1,163	$ 33	$ 285	$ 6,967
Charge offs	-	(199)	(300)	(399)	(38)	(140)	-	(1,076)
Recoveries	-	-	2	39	121	-	-	162
Provision	(34)	(84)	376	345	50	171	275	1,099
Ending balance	$ 898	$ 1,191	$ 1,048	$ 2,095	$ 1,296	$ 64	$ 560	$ 7,152

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

Activity in the allowance for covered loan and lease losses by class of loan for the three months ended March 31, 2014 and 2013 is summarized below (in thousands).

Covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (3)	Other Consumer Loans	Unallocated	Total
Three months ended March 31, 2014								
Allowance for loan losses:								
Beginning balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-	-
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51

Three months ended March 31, 2013

Allowance for loan losses:								
Beginning balance	$ -	$ 45	$ -	$ 43	$ -	$ 11	$ -	$ 99
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	(35)	-	8	-	(27)
Provision	-	-	-	(8)	-	2	-	(6)
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 21	$ -	$ 66

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

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The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of March 31, 2014 and December 31, 2013 (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
March 31, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$109	$-	$-	$200	$-	$-	$-	$309
Collectively evaluated for impairment	507	810	1,152	2,448	1,102	50	927	6,996
Total ending allowance	$616	$810	$1,152	$2,648	$1,102	$50	$927	$7,305
Loans:								
Individually evaluated for impairment	$7,733	$347	$-	$4,324	$5,730	$-	$-	$18,134
Collectively evaluated for impairment	97,388	170,533	39,872	99,934	63,018	1,249	-	471,994
Total ending loan balances	$105,121	$170,880	$39,872	$104,258	$68,748	$1,249	$-	$490,128
December 31, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$192	$-	$-	$325	$200	$-	$-	$717
Collectively evaluated for impairment	622	985	1,068	2,472	1,102	54	19	6,322
Total ending allowance	$814	$985	$1,068	$2,797	$1,302	$54	$19	$7,039
Loans:								
Individually evaluated for impairment	$7,876	$359	$2,107	$4,873	$7,995	$-	$-	$23,210
Collectively evaluated for impairment	98,349	171,653	36,961	99,411	64,918	1,308	-	472,600
Total ending loan balances	$106,225	$172,012	$39,068	$104,284	$72,913	$1,308	$-	$495,810

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

The following tables present the balance in the allowance for covered loan losses and the recorded investment in covered loans by portfolio segment and based on impairment method as of March 31, 2014 and December 31, 2013 (in thousands):

	Commercial Real Estate Owner	Commercial Real Estate Non-owner	Construction and Land	Commercial	1-4 Family	Other Consumer

		Occupied			Residential			
Covered loans:	Occupied	(1)	Development	Loans	(2)	Loans	Unallocated	Total
March 31, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	45	-	-	-	6	-	51
Total ending allowance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Loans:								
Individually evaluated for impairment	$ 737	$ 2,137	$ -	$ -	$ 1,210	$ -	$ -	$ 4,084
Collectively evaluated for impairment	815	4,212	-	898	40,245	77	-	46,247
Total ending loan balances	$ 1,552	$ 6,349	$ -	$ 898	$ 41,455	$ 77	$ -	$ 50,331
December 31, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	45	-	-	-	6	-	51
Total ending allowance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Loans:								
Individually evaluated for impairment	$ 745	$ 2,145	$ -	$ -	$ 1,220	$ -	$ -	$ 4,110
Collectively evaluated for impairment	858	4,369	1	1,097	41,180	81	-	47,586
Total ending loan balances	$ 1,603	$ 6,514	$ 1	$ 1,097	$ 42,400	$ 81	$ -	$ 51,696

(1) Includes loans secured by farmland and multi-family residential loans.
(2) Includes home equity lines of credit.

Troubled Debt Restructurings

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

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

During the periods ending March 31, 2014 and March 31, 2013, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the quarters ending March 31, 2014 and March 31, 2013, which had been modified in the previous 12 months.

Credit Quality Indicators

Through its system of internal controls Southern National evaluates and segments loan portfolio credit quality on a quarterly basis using regulatory definitions for Special Mention, Substandard and Doubtful. Special Mention loans are considered to be criticized. Substandard and Doubtful loans are considered to be classified. Southern National had no loans classified Doubtful at March 31, 2014 or December 31, 2013.

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

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

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

As of March 31, 2014 and December 31, 2013, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

March 31, 2014	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$737	$815	$1,552	$796	$7,733	$96,592	$105,121	$9,266	$97,407	$106,673
Commercial real estate - non-owner occupied (2)	2,137	4,212	6,349	-	347	170,533	170,880	2,484	174,745	177,229
Construction and land development	-	-	-	618	-	39,254	39,872	618	39,254	39,872
Commercial loans	-	898	898	31	4,324	99,903	104,258	4,355	100,801	105,156
Residential 1-4 family (4)	1,210	40,245	41,455	171	5,730	62,847	68,748	7,111	103,092	110,203
Other consumer loans	-	77	77	-	-	1,249	1,249	-	1,326	1,326
Total	$4,084	$46,247	$50,331	$1,616	$18,134	$470,378	$490,128	$23,834	$516,625	$540,459

December 31, 2013	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$745	$858	$1,603	$802	$7,876	$97,547	$106,225	$9,423	$98,405	$107,828
Commercial real estate - non-owner occupied (2)	2,145	4,369	6,514	-	359	171,653	172,012	2,504	176,022	178,526
Construction and land development	-	1	1	618	2,107	36,343	39,068	2,725	36,344	39,069
	-	1,097	1,097	31	4,873	99,380	104,284	4,904	100,477	105,381

Commercial loans										
Residential 1-4 family (4)	1,220	41,180	42,400	176	7,995	64,742	72,913	9,391	105,922	115,313
Other consumer loans	-	81	81	-	-	1,308	1,308	-	1,389	1,389
Total	$4,110	$47,586	$51,696	$1,627	$23,210	$470,973	$495,810	$28,947	$518,559	$547,506

(1) Credit quality is enhanced by a loss sharing agreement with the FDIC in the covered portfolio. The same credit quality indicators used in the non-covered portfolio are combined.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) Includes SBA guarantees of $2.4 million as of March 31, 2014 and December 31, 2013.
(4) Includes home equity lines of credit.

5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Southern National is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by Southern National to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $7.8 million and $6.9 million as of March 31, 2014 and December 31, 2013, respectively.

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

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

At March 31, 2014 and December 31, 2013, we had unfunded lines of credit and undisbursed construction loan funds totaling $113.7 million and $105.8 million, respectively. We had approved loan commitments of $15.0 million at March 31, 2014, and we had no approved loan commitments as of December 31, 2013. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

6. EARNINGS PER SHARE

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

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2014			
Basic EPS	$ 1,642	11,591	$0.14
Effect of dilutive stock options and warrants	-	66	-
Diluted EPS	$ 1,642	11,657	$0.14
For the three months ended March 31, 2013			
Basic EPS	$ 1,526	11,590	$0.13
Effect of dilutive stock options and warrants	-	26	-
Diluted EPS	$ 1,526	11,616	$0.13

There were 643,199 and 591,843 anti-dilutive options and warrants for the three months ended March 31, 2014 and 2013, respectively.

7. FAIR VALUE

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

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

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

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

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

Securities Available for Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U. S.

agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of Southern National's available-for-sale debt securities are considered to be Level 2 securities.

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

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(dollars in thousands)	Total at March 31, 2014	(Level 1)	(Level 2)	(Level 3)
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	$ 2,135	$-	$2,135	$ -

		Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
(dollars in thousands)	Total at December 31, 2013	(Level 1)	(Level 2)	(Level 3)
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	$ 1,993	$-	$1,993	$ -

Assets and Liabilities Measured on a Non-recurring Basis:

Trust Preferred Securities Classified as Held-to-Maturity

The base input in calculating fair value is a Bloomberg Fair Value Index yield curve for single issuer trust preferred securities which correspond to the ratings of the securities we own. We also use composite rating indices to fill in the gaps where the bank rating indices did not correspond to the ratings in our portfolio. When a bank index that matches the rating of our security is not available, we used the bank index that most closely matches the rating, adjusted by the spread between the composite index that most closely matches the security's rating and the composite index with a rating that matches the bank index used. Then, we use the adjusted index yield, which is further adjusted by a liquidity premium, as the discount rate to be used in the calculation of the present value of the same cash flows used to evaluate the securities for OTTI. The liquidity premiums were derived in consultation with a securities advisor. The liquidity premiums we used ranged from 2% to 5%, and the adjusted discount rates ranged from 9.30% to 14.49% at March 31, 2014. The liquidity premiums we used ranged from 2% to 5%, and the adjusted discount rates ranged from 10.97% to 14.97% at December 31, 2013. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility. We have determined that our trust preferred securities are classified within Level 3 of the fair value hierarchy.

Other Residential Collateralized Mortgage Obligation Classified as Held-to Maturity

The fair value was estimated within Level 2 fair value hierarchy, as the fair value is based on either pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. We have evaluated this security for potential impairment and, based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support, it has been determined that no OTTI charge for credit exists for the three months ended March 31, 2014. The assumptions used in the analysis included a 6.1% prepayment speed, 6.4% default rate, a 57% loss severity and an accounting yield of 2.38% at March 31, 2014. The assumptions used in the analysis at December 31, 2013, included a 4.3% prepayment speed, 8.9% default rate, a 51% loss severity and an accounting yield of 1.38%.

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Impaired Loans

Generally, we measure the impairment for impaired loans considering the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral is determined by an independent appraisal or evaluation less estimated costs related to selling the collateral. In some cases appraised value is net of costs to sell. Estimated selling costs range from 6% to 10% of collateral valuation at March 31, 2014 and December 31, 2013. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $18.1 million (including SBA guarantees of $2.4 million and HarVest loans of $868 thousand) as of March 31, 2014 with an allocated allowance for loan losses totaling $309 thousand compared to a carrying amount of $23.2 million (including SBA guarantees of $2.4 million) with an allocated allowance for loan losses totaling $717 thousand at December 31, 2013. Charge offs related to the impaired loans at March 31, 2014 totaled $516 thousand for the quarter ended March 31, 2014 compared to $555 thousand for the quarter ended March 31, 2013.

Other Real Estate Owned (OREO)

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or evaluation less cost to sell. In some cases appraised value is net of costs to sell. Selling costs have been in the range from 6% to 7.6% of collateral valuation at March 31, 2014 and December 31, 2013. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At March 31, 2014, the total amount of OREO was $13.8 million, of which $12.1 million was non-covered and $1.7 million was covered.

At December 31, 2013, the total amount of OREO was $11.8 million, of which $9.6 million was non-covered (including $509 thousand acquired from HarVest) and $2.2 million was covered.

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

		Fair Value Measurements Using		
(dollars in thousands)	Total at March 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities held to maturity:				
Trust preferred securities	$ 520			$ 520
Impaired non-covered loans:				
Commercial real estate - owner occupied	7,624			7,624
Commercial real estate - non-owner occupied (1)	347			347
Construction and land development	-			-
Commercial loans	4,124			4,124
Residential 1-4 family	5,730			5,730
Impaired covered loans:				
Commercial real estate - owner occupied	737			737
Commercial real estate - non-owner occupied (1)	2,137			2,137
Residential 1-4 family	1,210			1,210
Non-covered other real estate owned:				
Commercial real estate - owner occupied	461			461
Commercial real estate - non-owner occupied (1)	-			-
Construction and land development	7,564			7,564
Residential 1-4 family	4,074			4,074
Covered other real estate owned:				
Commercial real estate - owner occupied	-			-
Commercial real estate - non-owner occupied (1)	1,450			1,450
Commercial	79			79
Residential 1-4 family	127			127

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:				

Commercial real estate - owner occupied	$ 7,684	$ 7,684
Commercial real estate - non-owner occupied (1)	359	359
Construction and land development	2,107	2,107
Commercial loans	4,548	4,548
Residential 1-4 family	7,795	7,795
Impaired covered loans:		
Commercial real estate - owner occupied	745	745
Commercial real estate - non-owner occupied (1)	2,145	2,145
Residential 1-4 family	1,220	1,220
Non-covered other real estate owned:		
Commercial real estate - owner occupied	461	461
Commercial real estate - non-owner occupied (1)	1,342	1,342
Construction and land development	6,066	6,066
Residential 1-4 family	1,710	1,710
Covered other real estate owned:		
Commercial real estate - owner occupied	557	557
Commercial real estate - non-owner occupied (1)	1,450	1,450
Commercial	79	79
Residential 1-4 family	127	127

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

Fair Value of Financial Instruments

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

		March 31, 2014		December 31, 2013	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$19,382	$19,382	$20,856	$20,856
Securities available for sale	See previous table	2,135	2,135	1,993	1,993
Securities held to maturity	Level 2 & Level 3	86,106	82,631	82,443	76,193
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	4,793	n/a	5,915	n/a
Net non-covered loans	Level 3	481,409	487,745	487,318	493,472
Net covered loans	Level 3	50,284	56,589	51,650	57,564
Accrued interest receivable	Level 2 & Level 3	2,015	2,015	2,186	2,186
FDIC indemnification asset	Level 3	5,066	3,606	5,804	4,220
Financial liabilities:					
Demand deposits	Level 1	69,432	69,432	68,940	68,940
Money market and savings accounts	Level 1	144,855	144,855	147,854	147,854
Certificates of deposit	Level 3	342,004	342,920	323,565	324,733
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	19,727	19,727	34,545	34,545
FHLB advances	Level 3	25,000	25,828	30,250	31,168
Accrued interest payable	Level 1 & Level 3	371	371	341	341

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, demand deposits, savings accounts, money market accounts, short-term debt, and variable rate loans that reprice frequently and fully. For fixed rate loans or deposits and for variable rate loans with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. A discount for liquidity risk was not considered necessary in estimating the fair value of loans. It was not practicable to determine the fair value of Federal Reserve Bank and Federal Home Loan Bank stock due to restrictions placed on its transferability. Fair value of long-term debt is based on current rates for similar financing. The fair value of the FDIC indemnification asset was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium and represents the present value of our current expectation for recoveries from the FDIC on covered loans. The fair value of off-balance-sheet items is not considered material. The fair value of loans is not presented on an exit price basis.

8. ACQUISTIONS

As previously announced, on January 8, 2014, Southern National Bancorp of Virginia, Inc. entered into a merger agreement with Prince George's Federal Savings Bank (FSB). Prince George's FSB, with assets of approximately $104 million, was founded in 1931 and is headquartered in Upper Marlboro, which is the County Seat of Prince George's County, Maryland. Prince George's FSB has four offices, all of which are in Maryland, including a main office in Upper Marlboro and three branch offices in Dunkirk, Brandywine and Huntingtown. Upon completion of the cash and stock transaction with a value of approximately $11.5 million, the combined company will have approximately $805 million in total assets, $700 million in total deposits, and $600 million in total loans.

Sonabank has entered into an agreement to purchase 44% of the common stock of Southern Trust Mortgage LLC (STM) from the Middleburg Bank. The CEO of STM, Jerry Flowers, and EVB will be purchasing the remainder of the stock held by Middleburg Bank. Upon consummation of the transaction, STM management will own 51.1%, Sonabank 44% and EVB 4.9%. We hope to close this transaction in the second quarter.

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of SNBV. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2013. Results of operations for the three month period ended March 31, 2014 are not necessarily indicative of results that may be attained for any other period.

FORWARD-LOOKING STATEMENTS

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

Many possible events or factors could affect our future financial results and performance and could cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2013, factors that could contribute to those differences include, but are not limited to:

- the effects of future economic, business and market conditions and changes, domestic and foreign;
- changes in the local economies in our market areas adversely affect our customers and their ability to transact profitable business with us, including the ability of our borrowers to repay their loans according to their terms or a change in the value of the related collateral;
- changes in the availability of funds resulting in increased costs or reduced liquidity;
- a deterioration or downgrade in the credit quality and credit agency ratings of the securities in our securities portfolio;
- impairment concerns and risks related to our investment portfolio of collateralized mortgage obligations, agency mortgage-backed securities, obligations of states and political subdivisions and pooled trust preferred securities;
- the incurrence and possible impairment of goodwill associated with an acquisition and possible adverse short-term effects on our results of operations;
- increased credit risk in our assets and increased operating risk caused by a material change in commercial, consumer and/or real estate loans as a percentage of our total loan portfolio;
- the concentration of our loan portfolio in loans collateralized by real estate;
- our level of construction and land development and commercial real estate loans;
- changes in the levels of loan prepayments and the resulting effects on the value of our loan portfolio;
- the failure of assumptions and estimates underlying the establishment of and provisions made to the allowance for loan losses;

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

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

OVERVIEW

Southern National Bancorp of Virginia, Inc. (“Southern National”, “we” or “our”) is the bank holding company for Sonabank (“Sonabank” or the “Bank”), a Virginia state chartered bank which commenced operations on April 14, 2005. Sonabank conducts full-service community banking operations from locations in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Loudoun County (Middleburg, Leesburg (2), and South Riding), Front Royal, New Market, Richmond, Haymarket and Clifton Forge, and five branches in Maryland (four in Montgomery County and one in Frederick County) and maintains loan production offices in Richmond, Charlottesville, Warrenton and Fredericksburg. We have administrative offices in Warrenton and an executive office in Georgetown, Washington, D.C where senior management is located.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended March 31, 2014 was $1.6 million compared to $1.5 million during the first quarter of 2013.

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.

During the first quarter net interest income before the provision for loan losses was $7.6 million, down slightly from $7.8 million during the first quarter of 2013. Average loans during the first quarter of 2014 were $544.1 million compared to $514.0 million during the same period last year. The net interest margin was 4.72% in the first quarter of 2014, down from 4.94% in the first quarter of 2013. The loan discount accretion on the Greater Atlantic Bank (GAB) portfolio contributed $412 thousand to net interest income during the first quarter of 2014, compared to $447 thousand during the first quarter of 2013. The loan discount accretion on the HarVest Bank portfolio contributed $378 thousand during the first quarter of 2014, compared to $369 thousand during the same period last year. Before taking the discount accretion related to the GAB and HarVest acquisitions into account, the net interest margin was still strong at 4.29% in the first quarter of 2014 compared to 4.43% in the first quarter of 2013, despite the margin compression we experienced over the past year.

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

	Average Balance Sheets and Net Interest Analysis For the Three Months Ended					
	3/31/2014			3/31/2013		
	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 deferred fees (1) (2)	$544,110	$7,756	5.78 %	$513,972	$8,343	6.58 %
Investment securities	84,609	605	2.86 %	84,566	568	2.69 %
Other earning assets	23,501	280	4.83 %	38,720	112	1.17 %
Total earning assets	652,220	8,641	5.37 %	637,258	9,023	5.74 %
Allowance for loan losses	(7,426)			(7,655)		
Total non-earning assets	69,332			70,149		
Total assets	$714,126			$699,752		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW accounts	$23,002	6	0.11 %	$24,762	15	0.25 %
Money market accounts	129,554	90	0.28 %	158,698	192	0.49 %
Savings accounts	17,333	27	0.64 %	10,085	14	0.56 %
Time deposits	332,057	773	0.94 %	304,566	879	1.17 %
Total interest-bearing deposits	501,946	896	0.72 %	498,111	1,100	0.90 %
Borrowings	54,021	158	1.19 %	47,253	153	1.31 %
Total interest-bearing liabilities	555,967	1,054	0.77 %	545,364	1,253	0.93 %
Noninterest-bearing liabilities:						
Demand deposits	46,290			45,591		
Other liabilities	4,614			4,988		
Total liabilites	606,871			595,943		
Stockholders' equity	107,255			103,809		
Total liabilities and stockholders' equity	$714,126			$699,752		
Net interest income		$7,587			$7,770	
Interest rate spread			4.60 %			4.81 %
Net interest margin			4.72 %			4.94 %

(1) Includes loan fees in both interest income and the calculation of the yield on loans.

(2) Calculations include non-accruing loans in average loan amounts outstanding.

Provision for Loan Losses

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

The provision for loan losses in the first quarter of 2014 was $1.2 million, compared to $1.1 million in the first quarter of 2013. Net charge offs during the quarter ended March 31, 2014 were $909 thousand compared to $914 thousand during the first quarter of 2013.

Noninterest Income

The following table presents the major categories of noninterest income for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,		
	2014	2013	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$178	$193	$(15)
Income from bank-owned life insurance	140	149	(9)
Gain on other assets	202	-	202
Net gain on sale of available for sale securities	-	142	(142)
Net impairment losses recognized in earnings	(16)	(3)	(13)
Other	37	55	(18)
Total noninterest income	$541	$536	$5

Noninterest income was $541 thousand during the first quarter of 2014, compared to $536 thousand during the same quarter of 2013. During the first quarter of 2014, we sold part of our investment in CapitalSouth Partners Fund III, a Small Business Investment Company, for a gain of $202 thousand. We had a gain on the sale of available for sale FHLMC preferred stock in the amount of $142 thousand during the quarter ended March 31, 2013.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three months ended March 31, 2014 and 2013:

	For the Three Months Ended March 31,		
	2014	2013	Change
	(dollars in thousands)		
Salaries and benefits	$ 2,389	$ 2,246	$ 143
Occupancy expenses	772	760	12
Furniture and equipment expenses	187	156	31
Amortization of core deposit intangible	45	123	(78)
Virginia franchise tax expense	116	127	(11)
Merger expenses	213	-	213
FDIC assessment	125	234	(109)
Data processing expense	126	148	(22)
Telephone and communication expense	178	178	-
Change in FDIC indemnification asset	124	130	(6)
Net (gain) loss on other real estate owned	(419)	56	(475)
Other operating expenses	663	793	(130)
Total noninterest expense	$ 4,519	$ 4,951	$ (432)

Noninterest expense was $4.5 million for the first quarter of 2014 compared to $5.0 million for the first quarter of 2013. During the first quarter of 2014, we sold two properties in Other Real Estate Owned (OREO) resulting in gains of $637 thousand. We also sold two other OREO properties resulting in losses of $218 thousand, and the net gain for the quarter ended March 31, 2014 was $419 thousand. This compared to a loss on OREO of $56 thousand for the first quarter of 2013.

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The efficiency ratio was 62.18% during the quarter ended March 31, 2014 compared to 59.94% during the first quarter of 2013. It continues to be a challenge to support the additional risk management costs mandated by the regulators.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $713.2 million as of March 31, 2014 compared to $716.2 million as of December 31, 2013. Net loans receivable decreased from $539.0 million at the end of 2013 to $531.7 million at March 31, 2014.

Total deposits were $556.3 million at March 31, 2014 compared to $540.4 million at December 31, 2013. Certificates of deposit increased $18.4 million during the quarter. This was partially offset by a decrease in money market accounts of $3.4 million during the quarter ended March 31, 2014. Noninterest-bearing deposits were $47.0 million at March 31, 2014 and $44.6 million at December 31, 2013.

Loan Portfolio

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

The following table summarizes the composition of our loan portfolio as of March 31, 2014 and December 31, 2013:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	March 31, 2014			December 31, 2013		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$1,552	$ 105,121	$106,673	$1,603	$ 106,225	$107,828
Commercial real estate - non-owner-occupied	5,769	148,962	154,731	5,829	150,008	155,837
Secured by farmland	-	504	504	100	508	608
Construction and land loans	-	39,872	39,872	1	39,068	39,069
Residential 1-4 family	16,589	61,222	77,811	16,631	66,482	83,113
Multi- family residential	580	21,414	21,994	585	21,496	22,081
Home equity lines of credit	24,866	7,526	32,392	25,769	6,431	32,200
Total real estate loans	49,356	384,621	433,977	50,518	390,218	440,736
Commercial loans	898	104,258	105,156	1,097	104,284	105,381
Consumer loans	77	1,249	1,326	81	1,308	1,389
Gross loans	50,331	490,128	540,459	51,696	495,810	547,506
Less deferred fees on loans	4	(1,414)	(1,410)	5	(1,453)	(1,448)
Loans, net of deferred fees	$50,335	$ 488,714	$539,049	$51,701	$ 494,357	$546,058

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

As of March 31, 2014 and December 31, 2013, substantially all of our loans were to customers located in Virginia and Maryland. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

After the strong loan closings in the fourth quarter of 2013, the momentum diminished somewhat in the first quarter of 2014, although going forward the pipeline remains strong. Margin pressure continues but is not as brutal as a year ago.

Total loans outstanding declined from $546.1 million at December 31, 2013 to $539.0 million at the end of the first quarter of 2014. The decline was largely attributable to prepayments on three residential mortgages aggregating $2.8 million and a foreclosure on a $2.4 million residence.

Asset Quality

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

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

Our loss and delinquency experience on our loan portfolio has been limited by a number of factors, including our underwriting standards and the relatively short period of time since the loans were originated. Whether our loss and delinquency experience in the area of our portfolio will increase significantly depends upon the value of the real estate securing loans and economic factors such as the overall economy of the region.

Non-covered Loans and Assets

Non-covered loans evaluated for impairment totaled $18.1 million with allocated allowance for loan losses in the amount of $309 thousand as of March 31, 2014, including $3.8 million of nonaccrual loans. This compares to $23.2 million of impaired loans with allocated allowance for loan losses in the amount of $717 thousand at December 31, 2013, including $7.8 million of nonaccrual loans. The nonaccrual loans included SBA guaranteed amounts of $2.4 million $1.9 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014 and December 31, 2013 there were no loans past due 90 days or more and accruing interest.

Non-covered nonperforming assets decreased from $17.4 million at December 31, 2013 to $15.9 million at March 31, 2014.

Non-covered OREO as of March 31, 2014 was $12.1 million compared to $9.6 million as of the end of 2013. During the first quarter of 2014 we disposed of two non-covered properties in the aggregate amount of $1.9 million. In addition, OREO increased by an aggregate of $4.4 million as a result of foreclosures.

Sonabank has an internal loan review and a loan committee, both of which provide on-going monitoring to identify and address issues with problem loans. The loan loss provision is determined after consideration of all known relevant internal and external factors affecting loan collectability to maintain the allowance for loan and lease losses at a level necessary to absorb estimated credit losses. We believe the allowance for loan losses is sufficient to cover probable incurred credit losses at March 31, 2014.

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The following table presents a comparison of non-covered nonperforming assets as of March 31, 2014 and December 31, 2013 (in thousands):

	March 31, 2014		December 31, 2013	
Nonaccrual loans	$3,828		$7,814	
Loans past due 90 days and accruing interest	-		-	
Total nonperforming loans	3,828		7,814	
Other real estate owned	12,099		9,579	
Total nonperforming assets	$15,927		$17,393	
SBA guaranteed amounts included in nonaccrual loans	$2,389		$1,852	
Allowance for loan losses to nonperforming loans	190.83	%	90.08	%
Allowance for loan losses to total non-covered loans	1.49	%	1.42	%
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	2.05	%	2.35	%

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

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

During the periods ending March 31, 2014 and March 31, 2013, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the quarters ending March 31, 2014 and March 31, 2013, which had been modified in the previous 12 months.

Covered Loans and Assets

Covered loans identified as impaired totaled $4.1 million as of March 31, 2014 and December 31, 2013. Nonaccrual loans were $3.4 million and $1.6 million at March 31, 2014 and December 31, 2013, respectively. At March 31, 2014 and December 31, 2013, there were no loans past due 90 days or more and accruing interest.

Securities

Investment securities, available for sale and held to maturity, were $88.2 million at March 31, 2014 and $84.4 million at December 31, 2013. The increase was primarily due to the purchase of $5.0 million in a callable agency security net of repayments in the first quarter of 2014.

At March 31, 2014, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$6,340	$5,750	$4,107	16 %	$ 274	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	333	327	202	34 %	6	
						6,673	6,077	4,309		$ 280	
										Cumulative Other Comprehensive Loss (2)	Cumulative OTTI Related to Credit Loss (2)
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	520	520	41 %	605	$ 375
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,155	57	372	30 %	805	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	168	25 %	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,092	27	271	27 %	374	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,149	475	582	15 %	1,013	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,245	30	79	33 %	656	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,158	120	478	14 %	858	1,180
						14,338	1,229	2,470		$ 4,318	$ 8,791
Total						$21,011	$7,306	$6,779			

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

(2) Pre-tax

Our largest pooled trust preferred security is ALESCO VII A 1B , which was rated triple A at acquisition which is now rated A3 (Moody's) and BBB (Fitch).

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

We recognized OTTI charges of $16 thousand during the first quarter of 2014 compared to OTTI charges related to credit on the trust preferred securities totaling $3 thousand during the first quarter of 2013.

Other securities in our investment portfolio are as follows:

residential government-sponsored mortgage-backed securities in the amount of $24.7 million and residential government-sponsored collateralized mortgage obligations totaling $4.1 million

callable agency securities in the amount of $35.0 million

municipal bonds in the amount of $16.5 million with a taxable equivalent yield of 3.11% and ratings as follows:

Rating Service	Rating	Amount (in thousands)
Moody's	Aaa	$ 505
Moody's	Aa2	3,635
Moody's	Aa3	721
Moody's	A1	1,196
Standard & Poor's	AAA	3,152
Standard & Poor's	AA	6,681
Standard & Poor's	AA-	605
		$ 16,495

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

SARM 2005-22 1A2 in the amount of $645 thousand, a residential collateralized mortgage obligation that is not government-sponsored

Liquidity and Funds Management

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

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

During the three months ended March 31, 2014, we funded our financial obligations with deposits, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank of Atlanta. At March 31, 2014, we had $113.7 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $15.0 million at March 31, 2014. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

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Capital Resources

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

	Actual		Required For Capital Adequacy Purposes		To Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2014						
Southern National						
Tier 1 risk-based capital ratio	$ 100,784	18.80 %	$ 21,443	4.00 %	$ 32,164	6.00 %
Total risk-based capital ratio	107,478	20.05 %	42,886	8.00 %	53,607	10.00 %
Leverage ratio	100,784	14.30 %	28,191	4.00 %	35,239	5.00 %
Sonabank						
Tier 1 risk-based capital ratio	$ 99,880	18.64 %	$ 21,431	4.00 %	$ 32,146	6.00 %
Total risk-based capital ratio	106,571	19.89 %	42,862	8.00 %	53,577	10.00 %
Leverage ratio	99,880	14.18 %	28,179	4.00 %	35,224	5.00 %
December 31, 2013						
Southern National						
Tier 1 risk-based capital ratio	$ 99,700	18.56 %	$ 21,489	4.00 %	$ 32,234	6.00 %
Total risk-based capital ratio	106,406	19.81 %	42,978	8.00 %	53,723	10.00 %
Leverage ratio	99,700	14.22 %	28,038	4.00 %	35,048	5.00 %
Sonabank						
Tier 1 risk-based capital ratio	$ 98,958	18.43 %	$ 21,478	4.00 %	$ 32,217	6.00 %
Total risk-based capital ratio	105,660	19.68 %	42,956	8.00 %	53,695	10.00 %
Leverage ratio	98,958	14.12 %	28,027	4.00 %	35,034	5.00 %

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

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in EVE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of March 31, 2014 and as of December 31, 2013, and all changes are within our ALM Policy guidelines:

Sensitivity of Economic Value of Equity
As of March 31, 2014

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$107,518	$(14,953)	-12.21%	15.07%	99.88%
Up 300	110,059	(12,412)	-10.13%	15.43%	102.24%
Up 200	113,401	(9,070)	-7.41%	15.90%	105.35%
Up 100	118,157	(4,314)	-3.52%	16.57%	109.76%
Base	122,471	-	0.00%	17.17%	113.77%
Down 100	120,508	(1,963)	-1.60%	16.90%	111.95%
Down 200	117,254	(5,217)	-4.26%	16.44%	108.92%

Sensitivity of Economic Value of Equity
As of December 31, 2013

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$104,514	$(15,340)	-12.80%	14.59%	98.03%
Up 300	106,947	(12,907)	-10.77%	14.93%	100.31%
Up 200	110,177	(9,677)	-8.07%	15.38%	103.34%
Up 100	114,794	(5,060)	-4.22%	16.03%	107.67%
Base	119,854	-	0.00%	16.74%	112.42%
Down 100	117,479	(2,375)	-1.98%	16.40%	110.19%
Down 200	114,952	(4,902)	-4.09%	16.05%	107.82%

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 March 31, 2014 and December 31, 2013 remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. All changes are within our ALM Policy guidelines.

Sensitivity of Net Interest Income
As of March 31, 2014

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 400	$32,663	$6,436	4.98 %	0.96 %
Up 300	30,656	4,429	4.68 %	0.66 %
Up 200	28,743	2,516	4.40 %	0.38 %
Up 100	27,219	992	4.17 %	0.15 %
Base	26,227	-	4.02 %	0.00 %
Down 100	26,226	(1)	4.02 %	0.00 %
Down 200	25,895	(332)	3.97 %	-0.05 %

Sensitivity of Net Interest Income
As of December 31, 2013

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 400	$32,376	$5,627	4.87 %	0.83 %
Up 300	30,565	$3,816	4.60 %	0.56 %
Up 200	28,856	$2,107	4.35 %	0.31 %
Up 100	27,547	$798	4.16 %	0.12 %
Base	26,749	$-	4.04 %	0.00 %
Down 100	27,206	$457	4.11 %	0.07 %
Down 200	26,319	$(430)	3.97 %	-0.07 %

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

ITEM 4 – CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Southern National and Sonabank may, from time to time, be a party to various legal proceedings arising in the ordinary course of business. There are no proceedings pending, or to management's knowledge, threatened, against Southern National or Sonabank as of March 31, 2014.

ITEM 1A – RISK FACTORS

As of March 31, 2014 there were no material changes to the risk factors previously disclosed on our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Not applicable

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. – OTHER INFORMATION

Not applicable

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ITEM 6 - EXHIBITS

(a) Exhibits.

Exhibit No.	Description
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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

Signatures

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

	Southern National Bancorp of Virginia, Inc. (Registrant)
May 9, 2014 (Date)	/s/ Georgia S. Derrico Georgia S. Derrico, Chairman of the Board and Chief Executive Officer
May 9, 2014 (Date)	/s/ William H. Lagos William H. Lagos, Senior Vice President and Chief Financial Officer