

Southern National Bancorp of Virginia Inc  
Form 10-Q  
August 06, 2014

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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 June 30, 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	(I.R.S. Employer
jurisdiction	Identification No.)
of incorporation or	
organization)	

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  NO

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  NO

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:

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Large accelerated  
filer  Accelerated filer  Smaller reporting  
company

Non-accelerated filer  (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  
 No

As of July 30, 2014, there were 11,608,612 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.  
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June 30, 2014

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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)

	June 30, 2014	December 31, 2013
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from financial institutions	\$4,097	\$2,679
Interest-bearing deposits in other financial institutions	20,134	18,177
Total cash and cash equivalents	24,231	20,856
Securities available for sale, at fair value	2,207	1,993
Securities held to maturity, at amortized cost (fair value of \$83,491 and \$76,193, respectively)	84,830	82,443
Covered loans	49,320	51,701
Non-covered loans	541,030	494,357
Total loans	590,350	546,058
Less allowance for loan losses	(7,336 )	(7,090 )
Net loans	583,014	538,968
Stock in Federal Reserve Bank and Federal Home Loan Bank	6,908	5,915
Equity investment in mortgage affiliate	3,570	-
Preferred investment in mortgage affiliate	1,805	-
Bank premises and equipment, net	6,225	6,324
Goodwill	9,160	9,160
FDIC indemnification asset	4,378	5,804
Bank-owned life insurance	20,671	18,374
Other real estate owned	13,309	11,792
Deferred tax assets, net	8,107	8,281
Other assets	6,281	6,275
Total assets	\$774,696	\$716,185
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Noninterest-bearing demand deposits	\$49,270	\$44,643
Interest-bearing deposits:		
NOW accounts	22,028	24,297
Money market accounts	118,653	130,855
Savings accounts	24,111	16,999

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Time deposits	355,169	323,565
Total interest-bearing deposits	519,961	495,716
Total deposits	569,231	540,359
Securities sold under agreements to repurchase and other short-term borrowings	66,852	39,795
Federal Home Loan Bank (FHLB) advances	25,000	25,000
Other liabilities	4,771	4,417
Total liabilities	665,854	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, 11,608,612 shares at June 30, 2014 and 11,590,612 at December 31, 2013	116	116
Additional paid in capital	97,425	97,127
Retained earnings	14,352	12,561
Accumulated other comprehensive loss	(3,051 )	(3,190 )
Total stockholders' equity	108,842	106,614
Total liabilities and stockholders' equity	\$774,696	\$716,185

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.  
CONSOLIDATED STATEMENTS OF INCOME AND  
COMPREHENSIVE INCOME

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

	For the Three Months		For the Six Months Ended	
	Ended June 30,		June 30,	
	2014	2013	2014	2013
Interest and dividend income :				
Interest and fees on loans	\$8,100	\$7,765	\$15,856	\$16,109
Interest and dividends on taxable securities	570	507	1,083	1,036
Interest and dividends on tax exempt securities	96	50	188	88
Interest and dividends on other earning assets	160	227	440	339
Total interest and dividend income	8,926	8,549	17,567	17,572
Interest expense:				
Interest on deposits	897	1,020	1,793	2,120
Interest on borrowings	170	155	328	308
Total interest expense	1,067	1,175	2,121	2,428
Net interest income	7,859	7,374	15,446	15,144
Provision for loan losses	194	725	1,369	1,818
Net interest income after provision for loan losses	7,665	6,649	14,077	13,326
Noninterest income:				
Account maintenance and deposit service fees	195	203	373	396
Income from bank-owned life insurance	157	148	297	297
Equity income from mortgage affiliate	331	-	331	-
Gain on other assets	-	13	202	13
Net gain on sale of available for sale securities	-	-	-	142
Total other-than-temporary impairment losses (OTTI)	(25 )	-	(41 )	(3 )
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-	-	-
Net credit related OTTI recognized in earnings	(25 )	-	(41 )	(3 )
Other	55	84	92	139
Total noninterest income	713	448	1,254	984
Noninterest expenses:				
Salaries and benefits	2,427	2,176	4,816	4,422
Occupancy expenses	759	753	1,531	1,513
Furniture and equipment expenses	188	171	375	327
Amortization of core deposit intangible	45	123	90	246
Virginia franchise tax expense	113	115	229	242

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Merger expenses	209	-	422	-	
FDIC assessment	127	224	252	458	
Data processing expense	134	154	260	302	
Telephone and communication expense	180	163	358	341	
Change in FDIC indemnification asset	311	107	435	237	
Net (gain) loss on other real estate owned	180	62	(239)	) 118	
Other operating expenses	972	750	1,635	1,543	
Total noninterest expenses	5,645	4,798	10,164	9,749	
Income before income taxes	2,733	2,299	5,167	4,561	
Income tax expense	961	744	1,753	1,480	
Net income	\$1,772	\$1,555	\$3,414	\$3,081	
Other comprehensive income (loss):					
Unrealized gain (loss) on available for sale securities	\$74	\$(194)	) \$217	\$(195)	)
Realized amount on securities sold, net	-	-	-	(142)	)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	14	-	35	97	
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	(22)	) (12)	) (42)	) (20)	)
Net unrealized gain (loss)	66	(206)	) 210	(260)	)
Tax effect	(22)	) 70	(71)	) 88	
Other comprehensive income (loss)	44	(136)	) 139	(172)	)
Comprehensive income	\$1,816	\$1,419	\$3,553	\$2,909	
Earnings per share, basic and diluted	\$0.15	\$0.13	\$0.29	\$0.27	

See accompanying notes to consolidated financial statements.



SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE SIX MONTHS ENDED JUNE 30, 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			3,414		3,414
Change in unrealized loss on securities available for sale (net of tax benefit, \$74)				143	143
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, \$2 and accretion, \$42 and amounts recorded into other comprehensive income at transfer)				(4 )	(4 )
Dividends on common stock (\$.14 per share)			(1,623 )		(1,623 )
Issuance of common stock under Stock Incentive Plan (18,000 shares)		147			147
Stock-based compensation expense		151			151
Balance - June 30, 2014	\$ 116	\$ 97,425	\$ 14,352	\$ (3,051 )	\$ 108,842

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013  
(dollars in thousands) (Unaudited)

	2014	2013
Operating activities:		
Net income	\$3,414	\$3,081
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	351	329
Amortization of core deposit intangible	90	246
Other amortization, net	70	200
Accretion of loan discount	(1,474)	(1,577)
Amortization of FDIC indemnification asset	435	237
Provision for loan losses	1,369	1,818
Earnings on bank-owned life insurance	(297)	(297)
Equity income on mortgage affiliate	(331)	-
Stock based compensation expense	151	126
Net gain on sale of available for sale securities	-	(142)
Impairment on securities	41	3
Net (gain) loss on other real estate owned	(239)	118
Net decrease in other assets	630	621
Net increase (decrease) in other liabilities	354	(628)
Net cash and cash equivalents provided by operating activities	4,564	4,135
Investing activities:		
Proceeds from sales of available for sale securities	-	159
Purchases of held to maturity securities	(5,678)	(11,345)
Proceeds from paydowns, maturities and calls of held to maturity securities	3,264	12,014
Loan originations and payments, net	(48,350)	220
Purchase of bank-owned life insurance	(2,000)	-
Investment in mortgage affiliate	(5,043)	-
Net (increase) decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	(993)	972
Payments received on FDIC indemnification asset	1,004	171
Proceeds from sale of other real estate owned	2,424	2,578
Purchases of bank premises and equipment	(270)	(64)
Net cash and cash equivalents provided by (used in) investing activities	(55,642)	4,705
Financing activities:		
Net increase (decrease) in deposits	28,872	(5,339)
Cash dividends paid - common stock	(1,623)	(1,275)
Issuance of common stock under Stock Incentive Plan	147	-
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	27,057	(12,881)
Net cash and cash equivalents provided by (used in) financing activities	54,453	(19,495)
Increase (decrease) in cash and cash equivalents	3,375	(10,655)

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Cash and cash equivalents at beginning of period	20,856	39,200
Cash and cash equivalents at end of period	\$24,231	\$28,545
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	\$2,042	\$2,326
Income taxes	2,123	2,238
Supplemental schedule of noncash investing and financing activities		
Transfer from non-covered loans to other real estate owned	4,409	1,605
Transfer from covered loans to other real estate owned	-	4,031

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

Notes to Consolidated Financial Statements (Unaudited)

June 30, 2014

1. ORGANIZATION AND 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.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606). These amendments affect any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards (e.g. insurance contracts or lease contracts). This ASU will supersede the revenue recognition requirements in Topic 605, Revenue Recognition, and most industry-specific guidance, and creates a Topic 606, Revenue from Contracts with Customers. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. This ASU will be effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period. Early adoption is not permitted. The ASU allows for either full retrospective or modified retrospective adoption. SNBV is assessing the effects of this ASU, which exclude financial instruments from its scope, but does not anticipate that it will have a material impact on its financial position or results of operations.

In June 2014, the FASB issued ASU No. 2014-12, Compensation—Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved After the Requisite Service Period. The amendments clarify the proper method of accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This ASU requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The performance target should not be reflected in estimating the grant-date fair value of the award. Compensation cost should be recognized in the period in which it becomes probable that the performance target will be achieved and should represent the compensation cost attributable to the period(s) for which the requisite service has already been rendered. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015. Earlier adoption is permitted. Management does not anticipate that this ASU will significantly impact SNBV.

## 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. 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 an additional 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 six months of 2014.

For the three and six months ended June 30, 2014 and 2013, stock-based compensation expense was \$75 thousand and \$151 thousand, respectively, compared to \$63 thousand and \$126 thousand for the same periods last year. As of June 30, 2014, unrecognized compensation expense associated with the stock options was \$779 thousand, which is expected to be recognized over a weighted average period of 3.2 years.

A summary of the activity in the stock option plan during the six months ended June 30, 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	(10,800 )	8.15		
Exercised	(18,000 )	8.15		
Options outstanding, end of period	602,275	\$ 8.22	5.5	\$ 1,784
Vested or expected to vest	602,275	\$ 8.22	5.5	\$ 1,784
Exercisable at end of period	381,425	\$ 8.25	3.9	\$ 1,100

### 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):

	Amortized Cost	Gains	Gross Unrealized Losses	Fair Value
June 30, 2014				
Obligations of states and political subdivisions	\$ 2,298	\$ -	\$ (91 )	\$ 2,207
December 31, 2013				
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):

June 30, 2014	Amortized Cost	Gross Gains	Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	\$23,464	\$752	\$(2)	\$24,214
Residential government-sponsored collateralized mortgage obligations	3,904	-	(41)	3,863
Government-sponsored agency securities	34,973	129	(1,887)	33,215
Obligations of states and political subdivisions	15,009	51	(278)	14,782
Other residential collateralized mortgage obligations	630	4	-	634
Trust preferred securities	6,850	1,521	(1,588)	6,783
	\$84,830	\$2,457	\$(3,796)	\$83,491

December 31, 2013	Amortized Cost	Gross Gains	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 June 30, 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	\$6,523	\$6,476	\$-	\$-
Due after ten years	50,309	48,304	2,298	2,207
Residential government-sponsored mortgage-backed securities	23,464	24,214	-	-
Residential government-sponsored collateralized mortgage obligations	3,904	3,863	-	-
Other residential collateralized mortgage obligations	630	634	-	-
Total	\$84,830	\$83,491	\$2,298	\$2,207



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Securities with a carrying amount of approximately \$67.7 million and \$65.3 million at June 30, 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”).

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Southern National monitors the portfolio for indicators of other than temporary impairment. At June 30, 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 \$50.8 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at June 30, 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 June 30, 2014. The following tables present information regarding securities in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013 (in thousands) by duration of time in a loss position:

June 30, 2014

Available for Sale	Less than 12 months		12 Months or More		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	\$ -	\$ -	\$ 2,207	\$ (91 )	\$ 2,207	\$ (91 )

Held to Maturity	Less than 12 months		12 Months or More		Total	
	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	\$ 2,442	\$ (2 )	\$ -	\$ -	\$ 2,442	\$ (2 )
Residential government-sponsored collateralized mortgage obligations	802	(8 )	3,061	(33 )	3,863	(41 )
Government-sponsored agency securities	-	-	28,086	(1,887 )	28,086	(1,887 )
Obligations of states and political subdivisions	469	(36 )	9,672	(242 )	10,141	(278 )
Trust preferred securities	-	-	4,044	(1,588 )	4,044	(1,588 )
	\$ 3,713	\$ (46 )	\$ 44,863	\$ (3,750 )	\$ 48,576	\$ (3,796 )

December 31, 2013

Available for Sale	Less than 12 months		12 Months or More		Total	
	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 )

Held to Maturity	Less than 12 months		12 Months or More		Total	
	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
	\$ 12,644	\$ (294 )	\$ -	\$ -	\$ 12,644	\$ (294 )

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Residential government-sponsored mortgage-backed securities						
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 June 30, 2014, we owned pooled trust preferred securities as follows:

Security	Tranche	Ratings When Purchased		Current Ratings		Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total	Previously Recognized Cumulative Loss (1)	Other Comprehensive Loss (2)
		Moody's	Fitch	Moody's	Fitch						
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	\$ 5,844	\$ 5,307	\$ 3,843	17%	\$ 272	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	331	325	201	34%	6	
						6,175	5,632	4,044		\$ 278	
(in thousands)											
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	509	509	41%	591	\$ 400
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,163	57	435	27%	813	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	227	23%	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	312	20%	377	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,149	475	602	15%	1,013	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,256	30	81	33%	667	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,165	120	573	14%	865	1,180
						14,367	1,218	2,739		\$ 4,333	\$ 8,816

Total	\$ 20,542	\$ 6,850	\$ 6,783
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(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 13% 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 \$25 thousand and \$41 thousand during the three and six months ended June 30, 2014 related to the TPREF Funding II security. We recognized no OTTI charges during the second quarter of 2013 and recognized OTTI charges of \$3 thousand during the first six months of 2013.

The following table presents a roll forward of the credit losses on our securities held to maturity recognized in earnings for the six months ended June 30, 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	41	3
Reductions due to realized losses	(2 )	(32 )
Amount of cumulative other-than-temporary impairment related to credit loss as of June 30	\$8,950	\$8,935

Changes in accumulated other comprehensive income by component for the three and six months ended June 30, 2014 and 2013 are shown in the table below. All amounts are net of tax (in thousands).

For the three months ended June 30, 2014	Unrealized Holding Gains (Losses) on		Total
	Available for Sale Securities	Held to Maturity Securities	
Beginning balance	\$ (109 )	\$ (2,986 )	\$ (3,095 )
Other comprehensive income/(loss) before reclassifications	49	(5 )	44
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	49	(5 )	44
Ending balance	\$ (60 )	\$ (2,991 )	\$ (3,051 )

For the six months ended June 30, 2014	Unrealized Holding Gains (Losses) on		Total
	Available for Sale Securities	Held to Maturity Securities	
Beginning balance	\$ (203 )	\$ (2,987 )	\$ (3,190 )
Other comprehensive income/(loss) before reclassifications	143	(4 )	139
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	143	(4 )	139
Ending balance	\$ (60 )	\$ (2,991 )	\$ (3,051 )

Unrealized  
Holding  
Gains (Losses) on

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For the three months ended June 30, 2013	Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	\$ (50 )	\$ (2,967 )	\$ (3,017 )
Other comprehensive income/(loss) before reclassifications	(128 )	(8 )	(136 )
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	(128 )	(8 )	(136 )
Ending balance	\$ (178 )	\$ (2,975 )	\$ (3,153 )

For the six months ended June 30, 2013	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	\$ 44	\$ (3,025 )	\$ (2,981 )
Other comprehensive income/(loss) before reclassifications	(129 )	52	(77 )
Amounts reclassified from accumulated other comprehensive income/(loss)	(93 )	(2 )	(95 )
Net current-period other comprehensive income/(loss)	(222 )	50	(172 )
Ending balance	\$ (178 )	\$ (2,975 )	\$ (3,153 )

## 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of June 30, 2014 and December 31, 2013:

	Covered Loans (1)	Non-covered Loans June 30, 2014	Total Loans	Covered Loans (1)	Non-covered Loans December 31, 2013	Total Loans
Loans secured by real estate:						
Commercial real estate - owner-occupied	\$ 1,548	\$ 106,716	\$ 108,264	\$ 1,603	\$ 106,225	\$ 107,828
Commercial real estate - non-owner-occupied	5,759	174,100	179,859	5,829	150,008	155,837
Secured by farmland	-	499	499	100	508	608
Construction and land loans	-	48,412	48,412	1	39,068	39,069
Residential 1-4 family	15,996	64,220	80,216	16,631	66,482	83,113
Multi- family residential	291	21,714	22,005	585	21,496	22,081
Home equity lines of credit	24,809	7,584	32,393	25,769	6,431	32,200
Total real estate loans	48,403	423,245	471,648	50,518	390,218	440,736
Commercial loans	828	117,800	118,628	1,097	104,284	105,381
Consumer loans	82	1,471	1,553	81	1,308	1,389
Gross loans	49,313	542,516	591,829	51,696	495,810	547,506
Less deferred fees on loans	7	(1,486 )	(1,479 )	5	(1,453 )	(1,448 )
Loans, net of deferred fees	\$49,320	\$ 541,030	\$590,350	\$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". As of June 30, 2014, non-covered loans included \$36.9 million of loans acquired in the HarVest acquisition.

Accretable discount on the acquired covered loans and the HarVest loans was \$7.8 million and \$8.9 million at June 30, 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):

June 30, 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	\$ 762	\$ 826	\$ -	\$ 10,771	\$ 10,841	\$ -	\$ 11,533	\$ 11,667	\$ -
Commercial real estate - non-owner occupied (2)	1,892	2,156	-	338	423	-	2,230	2,579	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	8,224	8,686	-	8,224	8,686	-
Residential 1-4 family (4)	1,209	1,423	-	6,152	6,204	-	7,361	7,627	-
Other consumer loans	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 3,863</b>	<b>\$ 4,405</b>	<b>\$ -</b>	<b>\$ 25,485</b>	<b>\$ 26,154</b>	<b>\$ -</b>	<b>\$ 29,348</b>	<b>\$ 30,559</b>	<b>\$ -</b>
With an allowance recorded									
Commercial real estate - owner occupied	\$ -	\$ -	\$ -	\$ 100	\$ 200	\$ 100	\$ 100	\$ 200	\$ 100
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	718	2,018	300	718	2,018	300
Residential 1-4 family (4)	-	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-	-

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Other  
consumer loans

Total	\$ -	\$ -	\$ -	\$ 818	\$ 2,218	\$ 400	\$ 818	\$ 2,218	\$ 400
Grand total	\$ 3,863	\$ 4,405	\$ -	\$ 26,303	\$ 28,372	\$ 400	\$ 30,166	\$ 32,777	\$ 400

(1) Recorded investment is after cumulative prior charge offs of \$1.9 million. These loans also have aggregate SBA guarantees of \$2.5 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)	-	-	-	-	-	-	-	-	-

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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.

The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three and six months ended June 30, 2014 and 2013 (in thousands):

Three months ended June 30, 2014	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded						
Commercial real estate - owner occupied	\$743	\$13	\$7,335	\$90	\$8,078	\$103
Commercial real estate - non-owner occupied (1)	1,883	3	339	8	2,222	11
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	4,941	20	4,941	20
Residential 1-4 family (2)	1,209	10	5,865	79	7,074	89
Other consumer loans	-	-	-	-	-	-
<b>Total</b>	<b>\$3,835</b>	<b>\$26</b>	<b>\$18,480</b>	<b>\$197</b>	<b>\$22,315</b>	<b>\$223</b>
With an allowance recorded						
Commercial real estate - owner occupied	\$-	\$-	\$106	\$4	\$106	\$4
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	851	-	851	-
Residential 1-4 family (2)	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
<b>Total</b>	<b>\$-</b>	<b>\$-</b>	<b>\$957</b>	<b>\$4</b>	<b>\$957</b>	<b>\$4</b>
<b>Grand total</b>	<b>\$3,835</b>	<b>\$26</b>	<b>\$19,437</b>	<b>\$201</b>	<b>\$23,272</b>	<b>\$227</b>

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

(2) Includes home equity lines of credit.

Three months ended June 30, 2013	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
With no related allowance recorded						
Commercial real estate - owner occupied	\$137	\$4	\$7,625	\$131	\$7,762	\$135
Commercial real estate - non-owner occupied (1)	1,463	30	963	21	2,426	51
Construction and land development	-	-	2,044	-	2,044	-
Commercial loans	45	1	2,165	8	2,210	9
Residential 1-4 family (2)	1,789	15	3,462	33	5,251	48
Other consumer loans	-	-	-	-	-	-
<b>Total</b>	<b>\$3,434</b>	<b>\$50</b>	<b>\$16,259</b>	<b>\$193</b>	<b>\$19,693</b>	<b>\$243</b>
With an allowance recorded						

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Commercial real estate - owner occupied	\$-	\$-	\$122	\$5	\$122	\$5
Commercial real estate - non-owner occupied (1)	-	-	971	17	971	17
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	2,625	-	2,625	-
Residential 1-4 family (2)	-	-	5,401	80	5,401	80
Other consumer loans	-	-	-	-	-	-
Total	\$-	\$-	\$9,119	\$102	\$9,119	\$102
Grand total	\$3,434	\$50	\$25,378	\$295	\$28,812	\$345

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

(2) Includes home equity lines of credit.

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Six months ended June 30, 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	\$26	\$6,325	\$180	\$7,067	\$206
Commercial real estate - non-owner occupied (1)	1,890	24	347	17	2,237	41
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	3,905	42	3,905	42
Residential 1-4 family (2)	1,214	22	5,570	157	6,784	179
Other consumer loans	-	-	-	-	-	-
Total	\$3,846	\$72	\$16,147	\$396	\$19,993	\$468
With an allowance recorded						
Commercial real estate - owner occupied	\$-	\$-	\$111	\$8	\$111	\$8
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	1,018	-	1,018	-
Residential 1-4 family (2)	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	\$-	\$-	\$1,129	\$8	\$1,129	\$8
Grand total	\$3,846	\$72	\$17,276	\$404	\$21,122	\$476

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

(2) Includes home equity lines of credit.

Six months ended June 30, 2013

	Covered Loans		Non-covered Loans		Total Loans		
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	
With no related allowance recorded							
Commercial real estate - owner occupied		\$137	\$9	\$5,536	\$176	\$5,673	\$185
Commercial real estate - non-owner occupied (1)		1,471	62	1,028	42	2,499	104
Construction and land development		-	-	1,699	23	1,699	23

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Commercial loans	45	2	2,178	20	2,223	22
Residential 1-4 family (2)	1,757	37	3,185	67	4,942	104
Other consumer loans	-	-	-	-	-	-
Total	\$3,410	\$110	\$13,626	\$328	\$17,036	\$438
With an allowance recorded						
Commercial real estate - owner occupied	\$-	\$-	\$127	\$9	\$127	\$9
Commercial real estate - non-owner occupied (1)	-	-	974	33	974	33
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	2,663	-	2,663	-
Residential 1-4 family (2)	-	-	5,480	168	5,480	168
Other consumer loans	-	-	-	-	-	-
Total	\$-	\$-	\$9,244	\$210	\$9,244	\$210
Grand total	\$3,410	\$110	\$22,870	\$538	\$26,280	\$648

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

(2) Includes home equity lines of credit.



The following tables present the aging of the recorded investment in past due loans by class of loans as of June 30, 2014 and December 31, 2013 (in thousands):

June 30, 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	\$ -	\$ -	\$ -	\$ -	\$ 152	\$ 1,396	\$ 1,548
Commercial real estate - non-owner occupied (1)	-	351	-	351	1,749	3,950	6,050
Construction and land development	-	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	828	828
Residential 1-4 family (2)	890	-	-	890	1,365	38,550	40,805
Other consumer loans	-	-	-	-	-	82	82
<b>Total</b>	<b>\$ 890</b>	<b>\$ 351</b>	<b>\$ -</b>	<b>\$ 1,241</b>	<b>\$ 3,266</b>	<b>\$ 44,806</b>	<b>\$ 49,313</b>
Non-covered loans:							
Commercial real estate - owner occupied	\$ 100	\$ -	\$ -	\$ 100	\$ 212	\$ 106,404	\$ 106,716
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	196,313	196,313
Construction and land development	731	-	-	731	-	47,681	48,412
Commercial loans	154	-	-	154	2,967	114,679	117,800
Residential 1-4 family (2)	1,401	448	-	1,849	521	69,434	71,804
Other consumer loans	19	-	-	19	-	1,452	1,471
<b>Total</b>	<b>\$ 2,405</b>	<b>\$ 448</b>	<b>\$ -</b>	<b>\$ 2,853</b>	<b>\$ 3,700</b>	<b>\$ 535,963</b>	<b>\$ 542,516</b>
Total loans:							
Commercial real estate - owner occupied	\$ 100	\$ -	\$ -	\$ 100	\$ 364	\$ 107,800	\$ 108,264
	-	351	-	351	1,749	200,263	202,363

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Commercial real estate - non-owner occupied (1)							
Construction and land development	731	-	-	731	-	47,681	48,412
Commercial loans	154	-	-	154	2,967	115,507	118,628
Residential 1-4 family (2)	2,291	448	-	2,739	1,886	107,984	112,609
Other consumer loans	19	-	-	19	-	1,534	1,553
<b>Total</b>	<b>\$ 3,295</b>	<b>\$ 799</b>	<b>\$ -</b>	<b>\$ 4,094</b>	<b>\$ 6,966</b>	<b>\$ 580,769</b>	<b>\$ 591,829</b>

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
<b>Total</b>	<b>\$ 544</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 544</b>	<b>\$ 1,622</b>	<b>\$ 49,530</b>	<b>\$ 51,696</b>

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
<b>Total</b>	<b>\$ 2,568</b>	<b>\$ 1,352</b>	<b>\$ -</b>	<b>\$ 3,920</b>	<b>\$ 7,814</b>	<b>\$ 484,076</b>	<b>\$ 495,810</b>

Total loans:

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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 \$2.5 million and \$1.9 million at June 30, 2014 and December 31, 2013, respectively.

Activity in the allowance for non-covered loan and lease losses for the three and six months ended June 30, 2014 and 2013 is summarized below (in thousands):

Non-covered loans:	Commercial		Construction and Land Development	Commercial Loans	1-4 Family Residential	Other		Total
	Real Estate Owner Occupied	Real Estate Non-owner Occupied (1)				Consumer Loans	Unallocated	
Three months ended June 30, 2014								
Allowance for loan losses:								
Beginning balance	\$ 616	\$ 810	\$ 1,152	\$ 2,648	\$ 1,102	\$ 50	\$ 927	\$ 7,305
Charge offs	-	-	-	(260 )	-	-	-	(260 )
Recoveries	4	6	1	58	1	-	-	70
Provision	(24 )	117	247	480	(318 )	9	(311 )	200
Ending balance	\$ 596	\$ 933	\$ 1,400	\$ 2,926	\$ 785	\$ 59	\$ 616	\$ 7,315

Three months  
ended June 30,  
2013

Allowance for loan losses:								
Beginning balance	\$ 898	\$ 1,191	\$ 1,048	\$ 2,095	\$ 1,296	\$ 64	\$ 560	\$ 7,152
Charge offs	-	-	-	(266 )	(480 )	(1 )	-	(747 )
Recoveries	8	51	3	35	2	1	-	100
Provision	(174 )	(152 )	(25 )	878	589	(9 )	(382 )	725
Ending balance	\$ 732	\$ 1,090	\$ 1,026	\$ 2,742	\$ 1,407	\$ 55	\$ 178	\$ 7,230

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

(2) Includes home equity lines of credit.

Non-covered loans:	Commercial		Construction and Land Development	Commercial Loans	1-4 Family Residential	Other		Total
	Real Estate Owner Occupied	Real Estate Non-owner Occupied (1)				Consumer Loans	Unallocated	
Six months ended June 30, 2014								
Allowance for loan losses:								
Beginning balance	\$ 814	\$ 985	\$ 1,068	\$ 2,797	\$ 1,302	\$ 54	\$ 19	\$ 7,039
Charge offs	(71 )	-	-	(848 )	(300 )	-	-	(1,219 )
Recoveries	8	12	1	92	2	5	-	120
Provision	(155 )	(64 )	331	885	(219 )	-	597	1,375
Ending balance	\$ 596	\$ 933	\$ 1,400	\$ 2,926	\$ 785	\$ 59	\$ 616	\$ 7,315

Six months ended

June 30, 2013

Allowance for loan  
losses:

Beginning balance	\$ 932	\$ 1,474	\$ 970	\$ 2,110	\$ 1,163	\$ 33	\$ 285	\$ 6,967
Charge offs	-	(199 )	(300 )	(665 )	(518 )	(141 )	-	(1,823 )
Recoveries	8	51	5	74	123	1	-	262
Provision	(208 )	(236 )	351	1,223	639	162	(107 )	1,824
Ending balance	\$ 732	\$ 1,090	\$ 1,026	\$ 2,742	\$ 1,407	\$ 55	\$ 178	\$ 7,230

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

(2) Includes home equity lines of credit.

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Activity in the allowance for covered loan and lease losses by class of loan for the three and six months ended June 30, 2014 and 2013 is summarized below (in thousands).

Covered loans:	Commercial		Construction and Land Development	Commercial Loans	1-4 Family Residential (3)	Other Consumer Loans	Unallocated	Total
	Real Estate Owner Occupied	Real Estate Non-owner Occupied (1)						
Three months ended June 30, 2014								
Allowance for loan losses:								
Beginning balance	\$ -	\$ 45	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ 51
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	(36 )	-	-	14	(2 )	-	(24 )
Provision	-	(9 )	-	-	3	-	-	(6 )
Ending balance	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ 4	\$ -	\$ 21

Three months ended  
June 30, 2013

Allowance for loan losses:								
Beginning balance	\$ -	\$ 45	\$ -	\$ -	\$ -	\$ 21	\$ -	\$ 66
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-	-
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.

Covered loans:	Commercial		Construction and Land Development	Commercial Loans	1-4 Family Residential (3)	Other Consumer Loans	Unallocated	Total
	Real Estate Owner Occupied	Real Estate Non-owner Occupied (1)						
Six months ended June 30, 2014								
Allowance for loan losses:								
Beginning balance	\$ -	\$ 45	\$ -	\$ -	\$ -	\$ 6	\$ -	\$ 51
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	(36 )	-	-	14	(2 )	-	(24 )

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Provision	-	(9 )	-	-	3	-	-	(6 )
Ending balance	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ 4	\$ -	\$ 21

Six months ended  
June 30, 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.

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 June 30, 2014 and December 31, 2013 (in thousands):

	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
Non-covered loans: June 30, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ 100	\$ -	\$ -	\$ 300	\$ -	\$ -	\$ -	\$ 400
Collectively evaluated for impairment	496	933	1,400	2,626	785	59	616	6,915
Total ending allowance	\$ 596	\$ 933	\$ 1,400	\$ 2,926	\$ 785	\$ 59	\$ 616	\$ 7,315
Loans:								
Individually evaluated for impairment	\$ 100	\$ -	\$ -	\$ 718	\$ -	\$ -	\$ -	\$ 818
Collectively evaluated for impairment	106,616	196,313	48,412	117,082	71,804	1,471	-	541,698
Total ending loan balances	\$ 106,716	\$ 196,313	\$ 48,412	\$ 117,800	\$ 71,804	\$ 1,471	\$ -	\$ 542,516
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



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Total ending allowance

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 June 30, 2014 and December 31, 2013 (in thousands):

	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
Covered loans: June 30, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	-	-	-	-	17	4	-	21
Total ending allowance	\$ -	\$ -	\$ -	\$ -	\$ 17	\$ 4	\$ -	\$ 21
Loans:								
Individually evaluated for impairment	\$ 762	\$ 1,892	\$ -	\$ -	\$ 1,209	\$ -	\$ -	\$ 3,863
Collectively evaluated for impairment	786	4,158	-	828	39,596	82	-	45,450
Total ending loan balances	\$ 1,548	\$ 6,050	\$ -	\$ 828	\$ 40,805	\$ 82	\$ -	\$ 49,313

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 that it would not otherwise consider. 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 three and six months ending June 30, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the three and six months ending June 30, 2014, 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 June 30, 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.

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As of June 30, 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):

June 30, 2014	Covered Loans			Non-covered Loans				Classified/ Criticized
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard		Total	
					(3)	Pass		
Commercial real estate - owner occupied	\$762	\$786	\$1,548	\$790	\$10,871	\$95,055	\$106,716	\$12,423
Commercial real estate - non-owner occupied (2)	1,892	4,158	6,050	-	338	195,975	196,313	2,230
Construction and land development	-	-	-	619	-	47,793	48,412	619
Commercial loans	-	828	828	31	8,942	108,827	117,800	8,973
Residential 1-4 family (4)	1,209	39,596	40,805	168	6,152	65,484	71,804	7,529
Other consumer loans	-	82	82	-	-	1,471	1,471	-
<b>Total</b>	<b>\$3,863</b>	<b>\$45,450</b>	<b>\$49,313</b>	<b>\$1,608</b>	<b>\$26,303</b>	<b>\$514,605</b>	<b>\$542,516</b>	<b>\$31,774</b>

  

December 31, 2013	Covered Loans			Non-covered Loans				Classified/ Criticized
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard		Total	
					(3)	Pass		
Commercial real estate - owner occupied	\$745	\$858	\$1,603	\$802	\$7,876	\$97,547	\$106,225	\$9,423
Commercial real estate - non-owner occupied (2)	2,145	4,369	6,514	-	359	171,653	172,012	2,504
Construction and land development	-	1	1	618	2,107	36,343	39,068	2,725
Commercial loans	-	1,097	1,097	31	4,873	99,380	104,284	4,904
Residential 1-4 family (4)	1,220	41,180	42,400	176	7,995	64,742	72,913	9,391
Other consumer loans	-	81	81	-	-	1,308	1,308	-
<b>Total</b>	<b>\$4,110</b>	<b>\$47,586</b>	<b>\$51,696</b>	<b>\$1,627</b>	<b>\$23,210</b>	<b>\$470,973</b>	<b>\$495,810</b>	<b>\$28,947</b>

(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 \$2.5 million and \$2.4 million as of June 30, 2014 and December 31, 2013, respectively.

(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 June 30, 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 June 30, 2014 and December 31, 2013, we had unfunded lines of credit and undisbursed construction loan funds totaling \$106.9 million and \$105.8 million, respectively. We had approved loan commitments of \$8.9 million at June 30, 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 June 30, 2014			
Basic EPS	\$ 1,772	11,607	\$0.15
Effect of dilutive stock options and warrants	-	79	-
Diluted EPS	\$ 1,772	11,686	\$0.15
For the three months ended June 30, 2013			
Basic EPS	\$ 1,555	11,590	\$0.13
Effect of dilutive stock options and warrants	-	44	-
Diluted EPS	\$ 1,555	11,634	\$0.13
For the six months ended June 30, 2014			
Basic EPS	\$ 3,414	11,599	\$0.29
Effect of dilutive stock options and warrants	-	70	-
Diluted EPS	\$ 3,414	11,669	\$0.29
For the six months ended June 30, 2013			
Basic EPS	\$ 3,081	11,590	\$0.27
Effect of dilutive stock options and warrants	-	33	-
Diluted EPS	\$ 3,081	11,623	\$0.27

There were 605,439 and 614,535 anti-dilutive options and warrants for the three and six months ended June 30, 2014, respectively. Anti-dilutive options and warrants totaled 671,262 and 682,365 for the three and six months ended June 30, 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

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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:

	Total at June 30, 2014	Fair Value Measurements Using Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	\$ 2,207	\$ -	\$ 2,207	\$ -

	Total at December 31, 2013	Fair Value Measurements Using Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(dollars in thousands)				
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 9.03% to 14.24% at June 30, 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 June 30, 2014. The assumptions used in the analysis included a 4.8% prepayment speed, 3.3% default rate, a 58% loss severity and an accounting yield of 2.38% at June 30, 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%.

## 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 June 30, 2014 and December 31, 2013. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled \$26.3 million (including SBA guarantees of \$2.5 million and HarVest loans of \$859 thousand) as of June 30, 2014 with an allocated allowance for loan losses totaling \$400 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 June 30, 2014 totaled \$260 thousand and \$776 thousand for the three and six months ended June 30, 2014, respectively, compared to \$746 thousand and \$1.2 million for the three and six months ended June 30, 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 June 30, 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 June 30, 2014, the total amount of OREO was \$13.3 million, of which \$11.9 million was non-covered and \$1.4 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:

(dollars in thousands)	Total at June 30, 2014	Fair Value Measurements Using Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities held to maturity:				
Trust preferred securities	\$ 509			\$ 509
Impaired non-covered loans:				
Commercial real estate - owner occupied	10,771			10,771
Commercial real estate - non-owner occupied (1)	338			338
Commercial loans	8,642			8,642
Residential 1-4 family	6,152			6,152
Impaired covered loans:				
Commercial real estate - owner occupied	762			762
Commercial real estate - non-owner occupied (1)	1,892			1,892
Residential 1-4 family	1,209			1,209
Non-covered other real estate owned:				
Commercial real estate - owner occupied	461			461
Construction and land development	7,324			7,324
Residential 1-4 family	4,074			4,074
Covered other real estate owned:				
Commercial real estate - non-owner occupied (1)	1,450			1,450

(dollars in thousands)	Total at December 31, 2013	Fair Value Measurements Using Significant		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:	\$ 7,684			\$ 7,684

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Commercial real estate - owner occupied		
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):

	Fair Value Hierarchy Level	June 30, 2014		December 31, 2013	
		Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	\$ 24,231	\$ 24,231	\$ 20,856	\$ 20,856
	See previous table				
Securities available for sale	Level 2 &	2,207	2,207	1,993	1,993
Securities held to maturity	Level 3	84,830	83,491	82,443	76,193
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	6,908	n/a	5,915	n/a
Net non-covered loans	Level 3	533,715	538,120	487,318	493,472
Net covered loans	Level 3	49,299	55,207	51,650	57,564
	Level 2 &				
Accrued interest receivable	Level 3	2,298	2,298	2,186	2,186
FDIC indemnification asset	Level 3	4,378	2,274	5,804	4,220
Financial liabilities:					
Demand deposits	Level 1	71,298	71,298	68,940	68,940
Money market and savings accounts	Level 1	142,764	142,764	147,854	147,854
Certificates of deposit	Level 3	355,169	355,905	323,565	324,733
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	66,852	66,852	34,545	34,545
FHLB advances	Level 3	25,000	25,734	30,250	31,168
	Level 1 &				
Accrued interest payable	Level 3	420	420	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. ACQUISITIONS

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 \$871 million in total assets, \$660 million in total deposits, and \$656 million in total loans.

On May 15, 2014, Southern National Bancorp of Virginia Inc., Jerry Flowers of Southern Trust Mortgage (STM), and Eastern Virginia Bankshares (EVB), the holding company for EVB, announced that the two banks and Jerry Flowers have completed the previously announced purchase of the 62 percent of STM currently owned by Middleburg Bank. Jerry Flowers and other STM executives now own 51.1 percent of STM, Sonabank owns 44 percent and EVB owns 4.9 percent.

Sonabanks's investment in STM totaled \$5.0 million, including preferred shares in the amount of \$1.8 million. The investment is being accounted for under the equity method.

STM is a mortgage banking company headquartered in Virginia Beach. It was founded in 1998 by Jerry Flowers, and has mortgage banking originators in Virginia, Maryland, North Carolina and South Carolina. Southern Trust Mortgage only originates retail mortgage production.

STM is an approved Fannie Mae, Freddie Mac, VA and FHA lender. In addition, Southern Trust Mortgage is one of a select few lenders to have received approval from Ginnie Mae to issue securities on its behalf. Having all agency approvals greatly expands the mortgage products and therefore expands Sonabank's ability to positively impact the lives of our customer base with mortgage products suited to every economic spectrum. Southern Trust Mortgage is experienced in originating FHLB first time homebuyer grants for low to moderate income borrowers in their lending footprint. Sonabank is particularly excited about the future of FHLB programs for underserved markets and low income borrowers.

This relationship provides us a partnership in which to expand our consumer real estate services with STM loan officers assigned to various Sonabank branches. STM will originate nonconforming residential mortgage loans for Sonabank's portfolio in its footprint in accordance with credit criteria provided by Sonabank. Southern Trust Mortgage has a history of originating portfolio loans for their banking partners with a focus on compliance and risk management. This is similar to arrangements that had been in place with Middleburg Bank.

## 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 six month period ended June 30, 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;

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 June 30, 2014 was \$1.8 million and \$3.4 million for the first half of 2014. That compares to \$1.6 million and \$3.1 million for the three and six months ended June 30, 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.

Net interest income was \$7.9 million in the quarter ended June 30, 2014 compared to \$7.4 million during the same period last year. The accretion of the discount on Greater Atlantic Bank’s loans contributed \$511 thousand to second quarter 2014 net interest income compared to \$361 thousand during the second quarter of 2013. The accretion of the discount on HarVest’s loans contributed \$255 thousand in the second quarter of 2014 compared to \$440 thousand during the second quarter of 2013. Sonabank’s net interest margin was 4.71% in the second quarter of 2014 compared to 4.57% during the comparable quarter last year and 4.72% during the first quarter of 2014.

Net interest income was \$15.4 million during the six months ended June 30, 2014, compared to \$15.1 million during the comparable period in the prior year. The accretion of the discount on Greater Atlantic Bank's loans contributed \$923 thousand to net interest income during the six months ended June 30, 2014, compared to \$808 thousand during the first half of 2013. The accretion of the discount on HarVest's loans contributed \$532 thousand in the first six months of 2014 compared to \$809 thousand during the same period last year. The cost of funds decreased from 0.89% for the six months ended June 30, 2013, to 0.76% for the six months ended June 30, 2014. Sonabank's net interest margin was 4.71% in the first six months of 2014 compared to 4.76% during the same period last year.

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

	Average Balance Sheets and Net Interest Analysis For the Quarters Ended						
	Average Balance	6/30/2014 Interest Income/ Expense	Yield/ Rate		Average Balance	6/30/2013 Interest Income/ Expense	Yield/ Rate
(Dollar amounts in thousands)							
Assets							
Interest-earning assets:							
Loans, net of unearned income (1) (2)	\$ 562,483	\$ 8,100	5.78 %		\$ 505,106	\$ 7,765	6.17 %
Investment securities	88,213	666	3.02 %		83,521	557	2.67 %
Other earning assets	18,662	160	3.44 %		58,488	227	1.56 %
Total earning assets	669,358	8,926	5.35 %		647,115	8,549	5.30 %
Allowance for loan losses	(7,483 )				(7,304 )		
Total non-earning assets	73,920				72,567		
Total assets	\$ 735,795				\$ 712,378		
Liabilities and stockholders' equity							
Interest-bearing liabilities:							
NOW accounts	\$ 23,810	7	0.11 %		\$ 23,101	16	0.28 %
Money market accounts	122,431	85	0.28 %		155,843	124	0.32 %
Savings accounts	19,751	32	0.65 %		10,759	16	0.60 %
Time deposits	348,817	773	0.89 %		322,638	864	1.07 %
Total interest-bearing deposits	514,809	897	0.70 %		512,341	1,020	0.80 %
Borrowings	58,271	170	1.17 %		45,799	155	1.36 %
Total interest-bearing liabilities	573,080	1,067	0.75 %		558,140	1,175	0.84 %
Noninterest-bearing liabilities:							
Demand deposits	49,738				43,920		

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Other liabilities	4,766		5,550	
Total liabilities	627,584		607,610	
Stockholders' equity	108,211		104,768	
Total liabilities and stockholders' equity	\$ 735,795		\$ 712,378	
Net interest income		7,859		7,374
Interest rate spread			4.60 %	4.45 %
Net interest margin			4.71 %	4.57 %

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

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

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

	Average Balance	6/30/2014 Interest Income/ Expense	Yield/ Rate		Average Balance	6/30/2013 Interest Income/ Expense	Yield/ Rate
(Dollar amounts in thousands)							
Assets							
Interest-earning assets:							
Loans, net of unearned income (1) (2)	\$ 553,347	\$ 15,856	5.78 %		\$ 509,514	\$ 16,109	6.38 %
Investment securities	86,421	1,271	2.94 %		84,041	1,124	2.67 %
Other earning assets	21,068	440	4.21 %		48,659	339	1.40 %
Total earning assets	660,836	17,567	5.36 %		642,214	17,572	5.52 %
Allowance for loan losses	(7,455 )				(7,478 )		
Total non-earning assets	71,640				71,364		
Total assets	\$ 725,021				\$ 706,100		
Liabilities and stockholders' equity							
Interest-bearing liabilities:							
NOW accounts	\$ 23,408	13	0.11 %		\$ 23,927	31	0.26 %
Money market accounts	125,973	174	0.28 %		157,263	314	0.40 %
Savings accounts	18,549	59	0.64 %		10,424	29	0.56 %
Time deposits	340,483	1,547	0.92 %		313,652	1,746	1.12 %
Total interest-bearing deposits	508,413	1,793	0.71 %		505,266	2,120	0.85 %
Borrowings	56,158	328	1.18 %		46,522	308	1.34 %
Total interest-bearing liabilities	564,571	2,121	0.76 %		551,788	2,428	0.89 %
Noninterest-bearing liabilities:							
Demand deposits	48,023				44,751		
Other liabilities	4,691				5,270		
Total liabilities	617,285				601,809		
Stockholders' equity	107,736				104,291		
Total liabilities and stockholders' equity	\$ 725,021				\$ 706,100		
Net interest income		\$ 15,446				\$ 15,144	
Interest rate spread			4.60 %				4.63 %
Net interest margin			4.71 %				4.76 %

- (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 second quarter of 2014 was \$194 thousand, down from \$725 thousand in the second quarter of 2013. For the six months ended June 30, 2014, the provision for loan losses was \$1.4 million compared to \$1.8 million for the same period last year.

Net charge offs during the quarter ended June 30, 2014 were \$190 thousand compared to \$648 thousand during the second quarter of 2013. Net charge offs during the six months ended June 30, 2014 were \$1.1 million compared to \$1.6 million during the first half of 2013.

## Noninterest Income

The following tables present the major categories of noninterest income for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended		
	2014	June 30, 2013	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	\$ 195	\$ 203	\$(8 )
Income from bank-owned life insurance	157	148	9
Equity income from mortgage affiliate	331	-	331
Net impairment losses recognized in earnings	(25 )	-	(25 )
Gain on other assets	-	13	(13 )
Other	55	84	(29 )
Total noninterest income	\$ 713	\$ 448	\$ 265

	For the Six Months Ended		
	2014	June 30, 2013	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	\$ 373	\$ 396	\$(23 )
Income from bank-owned life insurance	297	297	-
Equity income from mortgage affiliate	331	-	331
Gain on other assets	202	13	189
Net gain on sale of available for sale securities	-	142	(142 )
Net impairment losses recognized in earnings	(41 )	(3 )	(38 )
Other	92	139	(47 )
Total noninterest income	\$ 1,254	\$ 984	\$ 270

During the second quarter of 2014, Sonabank had noninterest income of \$713 thousand compared to noninterest income of \$448 thousand during the second quarter of 2013. We recognized income from our investment in STM in the amount of \$331 thousand. In addition, there was an other than temporary impairment (“OTTI”) of \$25 thousand in one trust preferred security during the second quarter of 2014 compared to no OTTI charges during the second quarter of 2013.

Noninterest income increased to \$1.3 million in the first six months of 2014 from \$984 thousand in the first six months of 2013. In addition to the income from the STM investment, we sold part of our investment in CapitalSouth Partners Fund III, a Small Business Investment Company, for a gain of \$202 thousand. There were OTTI charges of \$41 thousand in one trust preferred security during the six months ended June 30, 2014. During the same period last year, there were OTTI charges of \$3 thousand, and a gain on the sale of available for sale securities in the amount of \$142 thousand.

## Noninterest Expense

The following tables present the major categories of noninterest expense for the three and six months ended June 30, 2014 and 2013:

	For the Three Months Ended		
	2014	June 30, 2013	Change
	(dollars in thousands)		
Salaries and benefits	\$2,427	\$2,176	\$251
Occupancy expenses	759	753	6
Furniture and equipment expenses	188	171	17
Amortization of core deposit intangible	45	123	(78)
Virginia franchise tax expense	113	115	(2)
Merger expenses	209	-	209
FDIC assessment	127	224	(97)
Data processing expense	134	154	(20)
Telephone and communication expense	180	163	17
Change in FDIC indemnification asset	311	107	204
Net loss on other real estate owned	180	62	118
Other operating expenses	972	750	222
Total noninterest expense	\$5,645	\$4,798	\$847

  

	For the Six Months Ended		
	2014	June 30, 2013	Change
	(dollars in thousands)		
Salaries and benefits	\$4,816	\$4,422	\$394
Occupancy expenses	1,531	1,513	18
Furniture and equipment expenses	375	327	48
Amortization of core deposit intangible	90	246	(156)
Virginia franchise tax expense	229	242	(13)
Merger expenses	422	-	422
FDIC assessment	252	458	(206)
Data processing expense	260	302	(42)
Telephone and communication expense	358	341	17
Change in FDIC indemnification asset	435	237	198
Net (gain) loss on other real estate owned	(239)	118	(357)
Other operating expenses	1,635	1,543	92
Total noninterest expense	\$10,164	\$9,749	\$415

Noninterest expenses were \$5.6 million and \$10.2 million during the second quarter and the first half of 2014, respectively, compared to \$4.8 million and \$9.7 million during the same periods in 2013. Merger and deal expenses were \$209 thousand in the second quarter of 2014 and \$422 thousand during the first half of 2014. There were no such expenses in 2013. During the six months ended June 30, 2014, we sold five properties in Other Real Estate Owned (OREO) resulting in gains of \$705 thousand. We also sold three other OREO properties resulting in losses of \$466 thousand, and the net gain for the six months ended June 30, 2014 was \$239 thousand. This compared to a loss on

OREO of \$118 thousand for the first half of 2013. We retained an outside firm to perform an analysis of our FDIC indemnification asset. It is the same firm which performed the same analysis a year ago. The results of the analysis will be to increase the amortization of our Indemnification Asset over the next three quarters since the commercial loans of Greater Atlantic Bank have performed significantly better than we expected and the Indemnification Asset on the commercial loan portfolio expires at the end of this year. The residential Indemnification Asset has more than five years left to run. As a result of the analysis of the FDIC indemnification asset, the amortization expense of the indemnification asset increased from \$237 thousand for the six months ended June 30, 2013, to \$435 thousand for the six months ended June 30, 2014. For the quarter ended June 30, 2014, the amortization expense was \$311 thousand compared to \$107 thousand for the second quarter of 2013.



The efficiency ratio was 62.90% during the six months ended June 30, 2014 compared to 60.28% during the first six months 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 \$774.7 million as of June 30, 2014 compared to \$716.2 million as of December 31, 2013. Net loans receivable increased from \$539.0 million at the end of 2013 to \$583.0 million at June 30, 2014.

Total deposits were \$569.2 million at June 30, 2014 compared to \$540.4 million at December 31, 2013. Certificates of deposit increased \$31.6 million during the six months. This was partially offset by a decrease in money market accounts of \$12.2 million during the six months ended June 30, 2014. Noninterest-bearing deposits were \$49.3 million at June 30, 2014 and \$44.6 million at December 31, 2013. Savings accounts increased from \$17.0 million at December 31, 2013, to \$24.1 million at June 30, 2014.

### 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 June 30, 2014 and December 31, 2013:

	Covered Loans (1)	Non-covered Loans June 30, 2014	Total Loans	Covered Loans (1)	Non-covered Loans December 31, 2013	Total Loans
Loans secured by real estate:						
Commercial real estate - owner-occupied	\$1,548	\$106,716	\$108,264	\$1,603	\$106,225	\$107,828
Commercial real estate - non-owner-occupied	5,759	174,100	179,859	5,829	150,008	155,837
Secured by farmland	-	499	499	100	508	608
Construction and land loans	-	48,412	48,412	1	39,068	39,069
Residential 1-4 family	15,996	64,220	80,216	16,631	66,482	83,113
Multi- family residential	291	21,714	22,005	585	21,496	22,081
Home equity lines of credit	24,809	7,584	32,393	25,769	6,431	32,200
Total real estate loans	48,403	423,245	471,648	50,518	390,218	440,736
Commercial loans	828	117,800	118,628	1,097	104,284	105,381
Consumer loans	82	1,471	1,553	81	1,308	1,389
Gross loans	49,313	542,516	591,829	51,696	495,810	547,506
Less deferred fees on loans	7	(1,486 )	(1,479 )	5	(1,453 )	(1,448 )
Loans, net of deferred fees	\$49,320	\$541,030	\$590,350	\$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 June 30, 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.

Total loans outstanding increased from \$546.1 million at the end of 2013 to \$590.4 million at June 30, 2014. Some of the increase was due to the loans purchased from STM (\$2.5 million) and some was attributable to the increase in the outstandings under the warehouse line for STM to \$10 million at the end of the quarter. The remainder (\$31.8 million) was attributable to loan growth in the ordinary course of events. The brutally competitive environment which characterized what we had to deal with a year ago has diminished. We're seeing what we believe is real economic growth in our markets, For example, one of our clients with three car washes is building another. Another with three gas stations is looking at buying another.

#### 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.

#### Non-covered Loans and Assets

Non-covered loans evaluated for impairment totaled \$26.3 million with allocated allowance for loan losses in the amount of \$400 thousand as of June 30, 2014, including \$3.7 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 \$2.5 million \$1.9 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 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 \$15.6 million at June 30, 2014.

Non-covered OREO as of June 30, 2014 was \$11.9 million compared to \$9.6 million as of the end of 2013. During the first six months 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. We also recognized impairment losses on two properties totaling \$200 thousand.

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 June 30, 2014.

The following table presents a comparison of non-covered nonperforming assets as of June 30, 2014 and December 31, 2013 (in thousands):

	June 30, 2014		December 31, 2013	
Nonaccrual loans	\$3,700		\$7,814	
Loans past due 90 days and accruing interest	-		-	
Total nonperforming loans	3,700		7,814	
Other real estate owned	11,859		9,579	
Total nonperforming assets	\$15,559		\$17,393	
SBA guaranteed amounts included in nonaccrual loans	\$2,462		\$1,852	
Allowance for loan losses to nonperforming loans	197.68	%	90.08	%
Allowance for loan losses to total non-covered loans	1.35	%	1.42	%
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	1.81	%	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 that it would not otherwise consider. 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.

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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 three and six months ending June 30, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the three and six months ending June 30, 2014, which had been modified in the previous 12 months.

#### Covered Loans and Assets

Covered loans identified as impaired totaled \$3.9 million as of June 30, 2014 and \$4.1 million as of December 31, 2013. Nonaccrual loans were \$3.3 million and \$1.6 million at June 30, 2014 and December 31, 2013, respectively. At June 30, 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 \$87.0 million at June 30, 2014 and \$84.4 million at December 31, 2013. The increase was primarily due to the purchases of \$5.0 million in a callable agency security and \$670 thousand in a municipal bond net of repayments in the first six months of 2014.

At June 30, 2014, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche	Ratings		Current Ratings		Par Value (in thousands)	Book Value	% of Current Defaults and Estimated Deferrals to		Previously Recognized Cumulative Other
		When Purchased	Fitch	Moody's	Fitch			Fair Value	Total Collateral	
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	\$5,844	\$5,307	\$3,843	17	% \$272
MMCF III B	Senior Sub	A3	A-	Ba1	CC	331,6175	325,5,632	201,4,044	34	% 6 \$278
Other Than Temporarily Impaired:										Cumulative Other Cumulative OTTI Related Comprehensive to Credit Loss (2) Loss (2)
TPREF FUNDING	Mezzanine	A1	A-	Caa3	C	1,500	509	509	41	% 591 \$400

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II												
TRAP												
2007-XII												
C1	Mezzanine	A3	A	C	C	2,163	57	435	27	%	813	1,293
TRAP												
2007-XIII												
D	Mezzanine	NR	A-	NR	C	2,039	-	227	23	%	7	2,032
MMC												
FUNDING												
XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	312	20	%	377	691
ALESCO V												
C1	Mezzanine	A2	A	C	C	2,149	475	602	15	%	1,013	661
ALESCO												
XV C1	Mezzanine	A3	A-	C	C	3,256	30	81	33	%	667	2,559
ALESCO												
XVI C	Mezzanine	A3	A-	C	C	2,165	120	573	14	%	865	1,180
						14,367	1,218	2,739			\$4,333	\$8,816
Total						\$20,542	\$6,850	\$6,783				

(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,) BBB (Fitch) and B+ (S&P).

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 \$25 thousand and \$41 thousand during the three and six months ended June 30, 2014 related to the TPREF Funding II security. We recognized no OTTI charges during the second quarter of 2013 and recognized OTTI charges of \$3 thousand during the first six months of 2013.

Other securities in our investment portfolio are as follows:

residential government-sponsored mortgage-backed securities in the amount of \$23.5 million and residential government-sponsored collateralized mortgage obligations totaling \$3.9 million

callable agency securities in the amount of \$35.0 million

municipal bonds in the amount of \$17.3 million with a taxable equivalent yield of 3.13% and ratings as follows:

Rating		Amount
		(in
Service	Rating	thousands)
Moody's	Aaa	\$ 505
Moody's	Aa2	3,633
Moody's	Aa3	719
Moody's	A1	1,188
Standard & Poor's	AAA	3,144
Standard & Poor's	AA	7,423
Standard & Poor's	AA-	604
		\$ 17,216

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 \$630 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 six months ended June 30, 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 June 30, 2014, we had \$106.9 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were \$8.9 million at June 30, 2014. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

### Capital Resources

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

	Actual		Required For Capital Adequacy Purposes		To Be Categorized as Well Capitalized			
	Amount	Ratio	Amount	Ratio	Amount	Ratio		
June 30, 2014								
Southern National								
Tier 1 risk-based capital ratio	\$ 101,985	17.23	% \$ 23,671	4.00	% \$ 35,506	6.00	%	
Total risk-based capital ratio	109,320	18.47	% 47,342	8.00	% 59,177	10.00	%	
Leverage ratio	101,985	14.04	% 29,055	4.00	% 36,319	5.00	%	
Sonabank								
Tier 1 risk-based capital ratio	\$ 100,835	17.05	% \$ 23,657	4.00	% \$ 35,486	6.00	%	
Total risk-based capital ratio	108,171	18.29	% 47,314	8.00	% 59,143	10.00	%	
Leverage ratio	100,835	13.89	% 29,042	4.00	% 36,303	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 June 30, 2014 and as of December 31, 2013, and all changes are within our ALM Policy guidelines:

Sensitivity of Economic Value of Equity  
As of June 30, 2014

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity			Economic Value of Equity as a % of				
	Amount	\$ Change From Base	% Change From Base	Total Assets	Equity Book Value			
	(Dollar amounts in thousands)							
Up 400	\$ 104,281	\$ (18,337 )	-14.95 %	13.46 %	95.81 %			
Up 300	107,446	(15,172 )	-12.37 %	13.87 %	98.72 %			
Up 200	111,297	(11,321 )	-9.23 %	14.37 %	102.26 %			
Up 100	116,522	(6,096 )	-4.97 %	15.04 %	107.06 %			
Base	122,618	-	0.00 %	15.83 %	112.66 %			
Down 100	120,547	(2,071 )	-1.69 %	15.56 %	110.75 %			
Down 200	117,401	(5,217 )	-4.25 %	15.15 %	107.86 %			

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

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity			Economic Value of Equity as a % of				
	Amount	\$ Change From Base	% Change From Base	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 June 30, 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 June 30, 2014

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin			
	Amount	\$ Change	Percent		% Change	
		From Base	(Dollar amounts in thousands)		From Base	
Up 400	\$ 34,616	\$ 6,633	4.74	%	0.89	%
Up 300	32,665	4,682	4.48	%	0.63	%
Up 200	30,804	2,821	4.23	%	0.38	%
Up 100	29,187	1,204	4.02	%	0.17	%
Base	27,983	-	3.85	%	0.00	%
Down 100	27,951	(32 )	3.85	%	0.00	%
Down 200	27,656	(327 )	3.81	%	-0.04	%

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	Percent		% Change	
		From Base	(Dollar amounts in thousands)		From Base	
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 June 30, 2014.

##### ITEM 1A – RISK FACTORS

As of June 30, 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





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)

August 6, 2014  
(Date)

/s/ Georgia S. Derrico  
Georgia S. Derrico,  
Chairman of the Board and Chief Executive  
Officer

August 6, 2014  
(Date)

/s/ William H. Lagos  
William H. Lagos,  
Senior Vice President and Chief Financial  
Officer