Southern National Bancorp of Virginia Inc
Form 10-K
March 13, 2015

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to

Commission file number: 001-33037

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

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

6830 Old Dominion Drive
McLean, Virginia 22101
(Address or principal executive offices) (Zip code)

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

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

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

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

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 Act).

Yes No

The aggregate market value of voting stock held by non-affiliates of the registrant as of June 30, 2014 was approximately $116,704,383 based on the closing price of the common stock on such date.

The number of shares of common stock outstanding as of March 5, 2015 was 12,217,770.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement pursuant to Regulation 14A of the Securities Exchange Act of 1934 in conjunction with the registrant's 2015 Annual Meeting of Shareholders are incorporated into Part III, Items 10-14 of this Annual Report on Form 10-K.

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CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains statements about future expectations, activities and events that constitute forward-looking statements within the meaning of, and subject to the protection of, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act and are intended to be covered by the safe harbor provided by the same. Forward-looking statements are based on our beliefs, assumptions and expectations of our future financial and operating performance and growth plans, taking into account the information currently available to us. These statements are not statements of historical fact. The words "believe," "may," "forecast," "should," "anticipate," "estimat "expect," "intend," "continue," "would," "could," "hope," "might," "assume," "objective," "seek," "plan," "strive" or similar w negatives of these words, identify forward-looking statements.

Forward-looking statements involve risks and uncertainties that may 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 other factors discussed in the "Risk Factors" section of this Annual Report on Form 10-K, factors that could contribute to those differences include, but are not limited to:

the effects of future economic, business and market conditions and disruptions in the credit and financial markets, 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, as well as the adequacy of our cash flow from operations and borrowings to meet our short-term liquidity needs;

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 current or future acquisitions 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 properties that we assume upon foreclosure;

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- increased asset levels and changes in the composition of assets and the resulting impact on our capital levels and regulatory capital ratios;
- risks of current or future 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”), changes in the scope and cost of Federal Deposit Insurance Corporation (“FDIC”) insurance and other coverage; and the capital requirements promulgated by the Basel Committee on Banking Supervision (the “Basel Committee”);
- 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;
- failure to prevent a breach to our Internet-based system and online commerce security;
- changes in accounting policies, rules and practices and applications or determinations made thereunder;
- fraudulent and negligent acts by loan applicants, mortgage brokers and our employees;
- failure to establish and maintain effective internal controls and procedures;
- 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 file with the Securities and Exchange Commission (the “Commission” or “SEC”) under the Exchange Act.

Forward-looking statements are not guarantees of performance or results and should not be relied upon as representing management’s views as of any subsequent date. 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 Annual Report on Form 10-K. These statements speak only as of the date of this Annual Report on Form 10-K (or an earlier date to the extent applicable). Except as required by applicable law, we undertake no obligation to update publicly these statements in light of new information or future events.

PART I

Item 1. – Business

Overview

Southern National Bancorp of Virginia, Inc. ("Southern National"', "SNBV", '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 provides a range of financial services to individuals and small and medium sized businesses. Sonabank has fifteen branches in Virginia, located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Middleburg, Leesburg (2), South Riding, Front Royal, New Market, Haymarket, Richmond and Clifton Forge, and nine branches in Maryland, in Rockville, Shady Grove, Germantown, Frederick, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.As of December 31, 2014, we reported, on a consolidated basis, total assets of $916.6 million, total loans, net of deferred fees, of $703.5 million, total deposits of $742.4 million and shareholders' equity of $114.0 million.

While we offer a wide range of commercial banking services, we focus on making loans secured primarily by commercial real estate and other types of secured and unsecured commercial loans to small and medium-sized businesses in a number of industries, as well as loans to individuals for a variety of purposes. We are a leading Small Business Administration (SBA) lender among Virginia community banks. We also invest in real estate-related securities, including collateralized mortgage obligations and agency mortgage backed securities. Our principal sources of funds for loans and investing in securities are deposits and, to a lesser extent, borrowings. We offer a broad range of deposit products, including checking (NOW), savings, money market accounts and certificates of deposit. We actively pursue business relationships by utilizing the business contacts of our senior management, other bank officers and our directors, thereby capitalizing on our knowledge of our local market areas.

Effective December 4, 2009, Sonabank assumed certain deposits and liabilities and acquired certain assets of Greater Atlantic Bank from the FDIC, as receiver for Greater Atlantic Bank, pursuant to the terms of a purchase and assumption agreement entered into by the Bank and the FDIC on December 4, 2009 (the "Agreement"). On December 5, 2009, the former Greater Atlantic Bank offices, located in Reston, New Market, Front Royal and South Riding, Virginia and Rockville, Maryland opened as Sonabank branches.

The Bank paid no cash or other consideration to acquire Greater Atlantic Bank. The Bank and the FDIC entered into a loss sharing agreement (the "loss sharing agreement") on approximately $143.4 million (cost 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." Pursuant to the terms of the loss sharing agreement, the FDIC is obligated to reimburse the Bank for 80% of losses of up to $19 million with respect to the covered assets. The FDIC will reimburse the Bank for 95% of losses in excess of $19 million with respect to the covered assets. The Bank will reimburse the FDIC for 80% of recoveries with respect to losses for which the FDIC paid the Bank 80% reimbursement under the loss sharing agreement, and for 95% of recoveries with respect to losses for which the FDIC paid the Bank 95% reimbursement under the loss sharing agreement.

On October 1, 2011, we completed the acquisition of the Midlothian branch of the Bank of Hampton Roads in Richmond, Virginia. We assumed deposits in the amount of $42.2 million.

Effective April 27, 2012, Sonabank assumed substantially all of the deposits and liabilities and acquired substantially all of the assets of the HarVest Bank of Maryland from the FDIC as receiver. The acquisition included HarVest Bank's branches in Bethesda, North Rockville, Germantown and Frederick, Maryland. Adding these new branches to our existing branch in Rockville brought Sonabank's total number of branches in Maryland to five, four of which are in Montgomery County. This was a strategic acquisition for Sonabank in order to expand into an affluent market.

The merger with Prince George's Federal Savings Bank (PGFSB) was completed on August 1, 2014. Southern National acquired PGFSB in a cash and stock transaction. PGFSB 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. Prince George's FSB has an excellent core deposit base reflecting its tenure in the communities it serves, and its lending activities have historically been focused on residential mortgages.

Full details on each of these acquisitions are contained in Form 8-Ks or 8-K/As filed with the SEC on December 10, 2009, October 4, 2011, July 13, 2012, and August 5, 2014, respectively.

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, completed the purchase of 62 percent of STM previously 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.

Sonabank's equity method investment in STM totaled \$3.2 million. Sonabank also acquired 1.8 million shares of preferred stock in the amount of \$1.8 million in STM with an annual dividend yield of 7.5%.

We primarily market our products and services to small and medium-sized businesses and to retail consumers. Our strategy is to provide superior service through our employees, who are relationship-oriented and committed to their respective customers. Through this strategy, we intend to grow our business, expand our customer base and improve our profitability. The key elements of our strategy are to:

Utilize the Strength of our Management Team. The experience and market knowledge of our management team is one of our greatest strengths and competitive advantages. Our chairman, Georgia S. Derrico, was the founder, chairman of the board and chief executive officer, and our president, R. Roderick Porter, was the president and chief operating officer, of Southern Financial Bancorp, Inc., a publicly traded bank holding company. At the time of its sale to Provident Bankshares, Inc. in April of 2004, Southern Financial had \$1.5 billion in assets and operated 34 full-service banking offices of Southern Financial Bank, which was founded in Fairfax County and subsequently expanded into Central and Southern Virginia. Including the members of our current senior management team, 35 of our employees previously worked with our chairman and president at Southern Financial Bank.

Leverage Our Existing Foundation for Additional Growth. Based on our management's depth of experience and certain infrastructure investments, we believe that we will be able to take advantage of certain economies of scale typically enjoyed by larger organizations to expand our operations both organically and through strategic cost-effective branch or bank acquisitions. We believe that the investments we have made in our data processing, risk management infrastructure, staff and branch network will be able to support a much larger asset base. We are committed, however, to control any additional growth in a manner designed to minimize the risk and to maintain strong capital ratios.

Continue to Pursue Selective Acquisition Opportunities. Historically, acquisitions have been a key part of our growth. Since our formation, we have completed the acquisition of PGFSB, the acquisition of HarVest Bank of Maryland on April 27, 2012, the acquisition of the Midlothian branch in Richmond, Virginia on October 1, 2011, the acquisition and assumption of certain assets and liabilities of Greater Atlantic Bank from the FDIC on December 4, 2009, the acquisition of a branch of Millennium Bank in Warrenton, Virginia on September 28, 2009, the acquisition of the Leesburg branch location from Founders Corporation which opened on February 11, 2008, the acquisition of 1st Service Bank in December of 2006 and the acquisition of the Clifton Forge branch of First Community Bancorp, Inc. in December of 2005. We intend to continue to review branch and whole bank acquisition opportunities, including possible acquisitions of failed financial institutions in FDIC -assisted transactions, and will pursue these opportunities if they represent the most efficient use of our capital under the circumstances. We believe that we have demonstrated the skill sets and experience necessary to acquire and integrate successfully both bank and branch acquisitions, and that with our strong capital position, we are well-positioned to take advantage of acquisition opportunities as they may arise. We intend to focus on targets in our market areas or other attractive areas with significant core deposits and/or a potential customer base compatible with our growth strategy.

De novo Branch Expansion. In addition to our acquisition strategy, we plan to open de novo branches from time to time to fill in our existing footprint as we did in Middleburg in 2011 and Haymarket in 2012.

Focus on the Business Owner. It is our goal to be the bank that business owners in our markets turn to first for commercial banking needs as a result of our superior personal service and the tailored products and services that we provide. To help achieve this goal, we:

have a standing credit committee that meets as often as necessary on a “when needed” basis to review completed loan applications, making extensive use of technology to facilitate our internal communications and thereby enabling us to respond to our customers promptly;

are an SBA approved “Preferred” lender, which permits us to make SBA loan decisions at Sonabank rather than waiting for SBA processing. We offer a number of different types of SBA loans designed for the small and medium-sized business owner and many of our SBA loan customers also have other relationships with Sonabank. This product group is complex and “paper intensive” and not well utilized by some of our competitors;

provide Internet business banking at www.sonabank.com which allows our business customers 24-hour web-based access to their accounts so they can confirm or transfer balances, pay bills, download statements and use our “Web Lockbox” or “Sona Cash Manager;”

provide our business customers with “Sona In-House,” a service that utilizes Check 21 technology to allow customers to make remote deposits from their business locations and gives them access to those funds within 24 to 48 hours; and

provide our business customers with access to SABL, our state-of-the-art asset-based lending system. Unlike most asset-based lending systems, which are based on manual processes or software that certifies a company’s borrowing base periodically, SABL provides a real time capability to analyze and adjust borrowing availability based on actual collateral levels. SABL is predicated on a link between any kind of accounting software used by the customer and Sonabank’s server.

Maintain Local Decision-Making and Accountability. We believe that we have a competitive advantage over larger national and regional financial institutions by providing superior customer service with experienced, knowledgeable management, localized decision-making capabilities and prompt credit decisions. We believe that our customers want to deal directly with the persons who make the credit decisions.
Focus on Asset Quality and Strong Underwriting. We consider asset quality to be of primary importance and have taken measures in an effort to ensure that, despite the growth in our loan portfolio, we maintain strong asset quality through strong underwriting standards.
Build a Stable Core Deposit Base. We intend to continue to grow a stable core deposit base of business and retail customers. To the extent that our asset growth outpaces this local deposit funding source, we plan to continue to borrow and raise deposits in the national market using deposit intermediaries. We intend to continue our practice of developing a deposit relationship with each of our loan customers.

General

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

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

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

Available Information

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

Lending Activities

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

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

Commercial Real Estate Lending

Permanent. Commercial real estate lending includes loans for permanent financing. Commercial real estate lending typically involves higher loan principal amounts and the repayment of loans is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. As a general practice, we require our commercial real estate loans to be secured by well-managed income producing properties with adequate margins and to be guaranteed by responsible parties. We look for opportunities where cash flow from the collateral properties provides adequate debt service coverage and the guarantor's net worth is strong. At December 31, 2014, our commercial real estate loans for permanent financing including multi-family residential loans and loans secured by farmland totaled $359.6 million, of which $14.5 million was acquired in the HarVest transaction, $6.6 million was acquired in the Greater Atlantic transaction, and $3.7 million was acquired in the PGFSB transaction. Owner occupied commercial real estate loans totaled $136.6 million.

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

All valuations on property which will secure loans over $250 thousand are performed by independent outside appraisers who are reviewed by our executive vice president of risk management and/or our appraisal reviewer. We retain a valid lien on real estate and obtain a title insurance policy (on first trust loans only) that insures the property is free of encumbrances. In addition, we do title searches on all loans secured by real estate.

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

Income producing property loans are supported by evidence of the borrower's capacity to service the debt. All of our commercial construction loans are guaranteed by the principals or general partners. At December 31, 2014, we had $57.9 million of construction, land and development loans, of which $3.8 million was acquired in the HarVest transaction and $1.8 million was acquired in the PGFSB transaction.

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

Commercial Business Lending

These loans consist of lines of credit, revolving credit facilities, demand loans, term loans, equipment loans, SBA loans, stand-by letters of credit and unsecured loans. Commercial business loans are generally secured by accounts receivable, equipment, inventory and other collateral, such as readily marketable stocks and bonds with adequate margins, cash value in life insurance policies and savings and time deposits at Sonabank. At December 31, 2014, our commercial business loans totaled $114.7 million, of which $3.5 million was acquired in the HarVest transaction, $697 thousand was acquired in the Greater Atlantic transaction and $204 thousand was acquired in the PGFSB transaction.

In general, commercial business loans involve more credit risk than residential mortgage loans and real estate-backed commercial loans and, therefore, usually yield a higher return to us. The increased risk for commercial business loans is due to the type of collateral securing these loans. The increased risk also derives from the expectation that commercial loans will be serviced principally from the operations of the business, and that those operations may not be successful. Historical trends have shown that these types of loans do have higher delinquencies than mortgage loans. Because of this, we often utilize the SBA 7(a) program (which guarantees the repayment of up to 90% of the principal and accrued interest to us) to reduce the inherent risk associated with commercial business lending.

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

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

SBA Lending

We have developed an expertise in the federally guaranteed SBA program. The SBA program is an economic development program which finances the expansion of small businesses. We are a Preferred Lender in the Washington D.C. and Richmond Districts of the SBA. As an SBA Preferred Lender, our pre-approved status allows us to quickly respond to customers' needs. Under the SBA program, we originate and fund SBA 7(a) loans which qualify for guarantees up to 90% of principal and accrued interest. We also originate 504 chapter loans in which we generally provide 50% of the financing, taking a first lien on the real property as collateral.

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

Residential Mortgage Lending

Permanent. Our business model generally does not include making permanent residential mortgage loans. We do it only on a case-by-case basis. In the case of conventional loans, we typically lend up to 80% of the appraised value of single-family residences and require mortgage insurance for loans exceeding that amount. We have no sub-prime loans. Substantially all of the residential mortgage loans in our portfolio were acquired in previous acquisitions.

On May 15, 2014, we purchased a 44% equity investment and preferred stock of STM, a regional mortgage banking company headquartered in Virginia Beach. STM has mortgage banking originators in Virginia, Maryland, North Carolina and South Carolina. Southern Trust Mortgage only originates retail mortgage production.

Sonabank has established with STM underwriting guidelines under which it will purchase loans in its Virginia and Maryland footprint from STM. These will be largely loans that do not conform to FNMA or FHLMC standards because of size or acreage. Since we made the investment in STM in May 2014, we closed and purchased loans in an aggregate amount of $20.2 million.

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

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

Home Equity Lines of Credit. Sonabank rarely originates home equity lines of credit. At December 31, 2014, we had outstanding balances totaling $33.4 million, of which $23.7 million were acquired in the Greater Atlantic transaction, $1.7 million were acquired in the HarVest transaction and $3.5 million were acquired in the PGFSB transaction.

Consumer Lending

To a limited extent, we offer various types of secured and unsecured consumer loans. We make consumer loans primarily for personal, family or household purposes as a convenience to our customer base since these loans are not the focus of our lending activities. As a general guideline, a consumer's debt service should not exceed 40% of his gross income or 45% of net income. For purposes of this calculation, debt includes house payment or rent, fixed installment payments, the estimated payment for the loan being requested and the minimum required payment on any revolving debt. At December 31, 2014, we had $1.6 million of consumer loans outstanding.

Credit Approval and Collection Policies

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

We have a standing Credit Committee comprised of certain officers, each of whom has a defined lending authority in combination with other officers. These individual lending authorities are determined by our Chief Executive Officer and certain directors and are based on the individual's technical ability and experience. These authorities must be approved by our board of directors and our Credit Committee. Our Credit Committee is comprised of four levels of members: junior, regular, senior, and executive, based on experience. Our executive members are Ms. Derrico and Messrs. Porter and Baker. Mr. Stevens, Chief Risk Officer, must approve risk ratings for loans over $1.5 million, as well as exceptions to the Credit Policy. Loans over a certain size must be approved by the full Board of Directors or the Credit Committee plus two outside directors. Under our loan approval process, the sponsoring loan officer's approval is required on all credit submissions. This approval must be included in or added to the individual and joining authorities outlined below. The sponsoring loan officer is primarily responsible for the customer's relationship with us, including, among other things, obtaining and maintaining adequate credit file information. We require each loan officer to maintain loan files in an order and detail that would enable a disinterested third party to review the file and determine the current status and quality of the credit.

In addition to the approval of the sponsoring loan officer, we require approvals from one or more members of the Credit Committee on all loans. The approvals required differ based on the size of the borrowing relationship. At least one senior or one executive member must approve all loans in the amount of $100,000 or more. All three of the executive members of the committee must approve all loans of $1 million or more. Regardless of the number of approvals needed, we encourage each member not to rely on another member's approval as a basis for approval and to treat his approval as if it were the only approval necessary to approve the loan. Our legal lending limit to one borrower is limited to 15% of our unimpaired capital and surplus. As of December 31, 2014, our legal lending limit was approximately $16.5 million. Our largest group credit as of December 31, 2014, was approximately $16.0 million.

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

If foreclosure is effected, the property is sold at a public auction in which we may participate as a bidder. If we are the successful bidder, we include the acquired real estate property in our real estate owned account until it is sold. These assets are initially recorded at fair value net of estimated selling costs. To the extent there is a subsequent decline in fair value, that amount is charged to operating expense. At December 31, 2014, we had other real estate owned totaling $13.1 million, of which $1.8 million, net of discount, resulted from foreclosures on loans that were acquired in the Greater Atlantic transaction.

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Special Products and Services

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

Cash Management Services

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

- Investment/sweep accounts
- Wire Transfer services
- Employer Services/Payroll processing services
- Zero balance accounts
- Night depository services
- Lockbox services
- Depository transfers
- Merchant services (third party)
- ACH originations
- Business debit cards
- Controlled disbursement accounts
- SONA 24/7 (Check 21 processing)
- Sonabank asset based lending (SABL)

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

SONA 24/7/Check 21: SONA 24/7 is ideal for landlords, property managers, medical professionals, and any other businesses that accept checks. Now the customers of Sonabank can have total control over how, when, and where their checks will be deposited. SONA 24/7 uses the Check Truncation technology outlined by the "Check Clearing for the 21st Century Act", passed in October 2004 (Check 21). With Check Truncation, paper checks can now be converted to electronic images and processed between participating banks, vastly speeding up the check clearing process. SONA In-House passes on the benefits of Check Truncation directly to Sonabank's business customers.

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

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

SABL: Asset Based Lending is a form of "collateral-based" lending. It is a combination of secured lending and short-term business lending. It is a specialized form of financing that allows a bank's commercial customers to pledge their working assets, typically accounts receivable and, to a lesser extent, inventory, as collateral to secure financing. Asset Based Lending borrowers are typically in the service, manufacturing or distribution fields.

SABL is an Asset Based Lending software system built by Sonabank that allows the bank to monitor the collateral of its commercial borrowers who have pledged their working assets (accounts receivables and other qualifying assets such as inventory) as collateral. SABL has the ability to track other offsets (liabilities, e.g. other loans the customer has with the bank) to the line of credit. SABL serves to provide the more stringent controls and supervision that this type of lending requires.

One control that is typical of Asset Based Lending is that the commercial borrower is required to have its customers remit invoice payments to a bank controlled lockbox. The bank retrieves these payments and the bank applies them directly to any outstanding balance on the line. SABL allows for this and can combine that service with remote capture (Check 21) if warranted.

Most Asset Based Lending systems are manual processes or software that certifies the borrowing base periodically. These certifications are usually provided in the form of manually created borrowing bases backed up with field exams. SABL provides a real time capability to analyze and adjust borrowing availability based on the levels of collateral at the moment.

SABL also offers an automated collateral upload, taking receivable information directly from the clients accounting system. SABL also offers discretionary borrowings and pay offs, allowing clients to borrow on or pay down their line at their discretion, as long as they are compliant with the SABL system. Lastly, SABL offers superior reporting, offering reports to bank officers that provide all the information they need to monitor risk. Customized reports can also be built for clients.

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

- Debit cards
- ATM services
- Travelers Checks
- Notary service in some branches
- Wire transfers
- Online banking with bill payment services
- Credit Cards

Competition

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

- emphasizing customer service and technology;
- establishing long-term customer relationships and building customer loyalty; and

providing products and services designed to address the specific needs of our customers.

Employees

At December 31, 2014, we had 173 full-time equivalent employees, five of whom were executive officers. Management considers its relations with its employees to be good. Neither we nor Sonabank are a party to any collective bargaining agreement.

SUPERVISION AND REGULATION

The business of Southern National and the Bank are subject to extensive regulation and supervision under federal banking laws and other federal and state laws and regulations, including primary oversight by the Board of Governors of the Federal Reserve System and secondary oversight by the Bureau of Financial Institutions, a regulatory division of the Virginia State Corporation Commission ("VBFI"), and possibly other authorities. In general, these laws and regulations are intended for the protection of the customers and depositors of the Bank and not for the protection of Southern National or its shareholders. Set forth below are brief descriptions of selected laws and regulations applicable to Southern National and the Bank. These descriptions are not intended to be a comprehensive description of all laws and regulations to which Southern National and the Bank are subject or to be complete descriptions of the laws and regulations discussed. The descriptions of statutory and regulatory provisions are qualified in their entirety by reference to the particular statutes and regulations. Changes in applicable statutes, regulations or regulatory policy may have a material effect on Southern National, the Bank and their business.

In addition to the system of regulation and supervision referenced above, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which is discussed in greater detail below, created the Consumer Financial Protection Bureau (the "Bureau"), a new federal regulatory body with broad authority to regulate the offering and provision of consumer financial products. The Bureau officially came into being on July 21, 2011, and rulemaking authority for a range of consumer financial protection laws (such as the Truth in Lending Act, the Electronic Fund Transfer Act and the Real Estate Settlement Procedures Act, among others) transferred from the federal prudential banking regulators to the Bureau on that date. The Dodd-Frank Act gave the Bureau authority to supervise and examine depository institutions with more than $10 billion in assets for compliance with these federal consumer laws. The authority to supervise and examine depository institutions with $10 billion or less in assets for compliance with federal consumer laws remains largely with those institutions' primary regulators. However, the Bureau may participate in examinations of these smaller institutions on a "sampling basis" and may refer potential enforcement actions against such institutions to their primary regulators. The Bureau also has supervisory and examination authority over certain nonbank institutions that offer consumer financial products. The Dodd-Frank Act identified a number of covered nonbank institutions, and also authorizes the Bureau to identify additional institutions that will be subject to its jurisdiction. Accordingly, the Bureau may participate in examinations of the Bank, and could supervise and examine other direct or indirect subsidiaries of Southern National that offer consumer financial products.

The earnings of the Bank and therefore of Southern National are affected by general economic conditions, changes in federal and state laws and regulations and actions of various regulatory authorities, including those referenced above. Additional changes to the laws and regulations applicable to us are frequently proposed at both the federal and state levels. The regulatory framework under which we operate has and will continue to change substantially over the next several years as the result of the enactment of the Dodd-Frank Act, which calls for a variety of mandatory and permissive rulemakings to implement its requirements. The Dodd-Frank Act represents a significant overhaul of many aspects of the regulation of the financial services industry, addressing, among other things, systemic risk, capital adequacy, deposit insurance assessments, consumer financial protection, interchange fees, derivatives, lending limits, mortgage lending practices, registration of investment advisors and changes among the bank regulatory agencies.

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

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

Some of the activities that the FRB has determined by regulation to be proper incidents to the business of a bank holding company include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser. In approving acquisitions of banking or nonbanking organizations or the addition of nonbanking activities, the FRB considers, among other things, whether the acquisition or the additional activities can reasonably be expected to produce benefits to the public, such as greater convenience, increased competition, or gains in efficiency, that outweigh such possible adverse effects as undue concentration of resources, decreased or unfair competition, conflicts of interest or unsound banking practices. Southern National does not currently plan to perform any of these activities, but may do so in the future.

With some limited exceptions, the BHCA requires every bank holding company to obtain the prior approval of the FRB before: (i) acquiring substantially all the assets of any bank; (ii) acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or (iii) merging or consolidating with another bank holding company. In approving bank acquisitions by bank holding companies, the FRB is required to consider, among other things, the financial and managerial resources and future prospects of the bank holding company and the banks concerned, the convenience and needs of the communities to be served, and various competitive factors.

In addition, and subject to some exceptions, the BHCA and the Change in Bank Control Act, together with their regulations, require FRB approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of voting securities of the bank holding company. Control is rebuttably presumed to exist if a person acquires 10% or more, of any class of voting securities and either has registered securities under Section 12 of the Exchange Act or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenging this rebuttable control presumption. On September 22, 2008, the FRB issued a policy statement on equity investments in bank holding companies and banks, which allows the FRB to generally be able to conclude that an entity's investment is not "controlling" if the entity does not own in excess of 15% of the voting power and 33% of the total equity of the bank holding company or bank. Depending on the nature of the overall investment and the capital structure of the banking organization, based on the policy statement, the FRB will permit noncontrolling investments in the form of voting and nonvoting shares that represent in the aggregate (i) less than one-third of the total equity of the banking organization (and less than one-third of any class of voting securities, assuming conversion of all convertible nonvoting securities held by the entity) and (ii) less than 15% of any class of voting securities of the banking organization.

In November 1999, Congress enacted the Gramm-Leach-Bliley Act ("GLBA"), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized under the prompt-corrective-action provisions of the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA") and well-managed under applicable FRB regulations and meet other conditions can elect to become "financial holding companies" and engage in certain activities that are not permissible for a bank holding company. As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities such as insurance underwriting, securities underwriting and distribution, travel agency activities, insurance agency activities, merchant banking and other activities that the FRB determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the FRB, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. Furthermore, if after becoming a financial holding company and undertaking activities not permissible for a bank holding company, the company fails to continue to meet any of the prerequisites for financial holding company status, the company must enter into an agreement with the FRB to comply with all applicable capital and management requirements. If the company does not return to compliance within 180 days, the FRB may order the company to divest its subsidiary bank or the company may discontinue or divest investments in companies engaged in, activities permissible only for a bank holding company that has elected to be treated as a financial holding company. Although Southern National has not elected to become a financial holding company in order to exercise the broader activity powers provided by the GLBA, we may elect to do so in the future.

In addition, as a member of the Federal Reserve System, the Bank is also subject to primary federal oversight by the FRB, as well as secondary oversight by the VBFI and the Bureau. Notably, the discussions below are relevant to both Southern National and the Bank.

Bank Permitted Activities and Investments. Under the Federal Deposit Insurance Act ("FDIA"), the activities and investments of state member banks are generally limited to those permissible for national banks, notwithstanding state law. With appropriate regulatory approval, a member bank may engage in activities not permissible for a national bank if the appropriate bank regulator determines that the activity does not pose a significant risk to the Deposit Insurance Fund ("DIF") and that the bank meets its minimum capital requirements.

Dodd-Frank Wall Street Reform and Consumer Protection Act. In July 2010, Congress enacted the Dodd-Frank Act regulatory reform legislation, which the President signed into law on July 21, 2010. Many aspects of the Dodd-Frank Act are subject to further rulemaking and will take effect over several years, making it difficult for us to fully anticipate the overall financial impact to us or across the industry. The Dodd-Frank Act broadly affects the financial services industry by implementing changes to the financial regulatory landscape aimed at strengthening the sound operation of the financial services sector, including provisions that, among other things:

Created a new regulatory authority, the Bureau, responsible for implementing, examining and enforcing compliance with federal consumer financial laws;

Established new regulatory capital requirements, including changes to leverage and risk-based capital standards and changes to the components of permissible tiered capital;

Broadened the base for FDIC insurance assessments from the amount of insured deposits to average total consolidated assets less average tangible equity during the assessment period;

Permanently increased FDIC deposit insurance to $250,000;

Permitted banks to engage in de novo interstate branching if the laws of the state where the new branch is to be established would permit the establishment of the branch if it were chartered by such state;

Repealed the federal prohibitions on the payment of interest on demand deposits, thereby permitting depository institutions to pay interest on business transaction and other accounts;

Required financial holding companies to be well capitalized and well managed as of July 21, 2011. Bank holding companies and banks must also be both well capitalized and well managed in order to acquire banks located outside their home state;

Eliminated the ceiling on the size of the DIF and increased the floor of the size of the DIF;

Added new limitations on federal preemption;

Imposed new prohibitions and restrictions on the ability of a banking entity and nonbank financial company to engage in proprietary trading and have certain interests in, or relationships with, a hedge fund or private equity fund (the "Volcker Rule");

Required that sponsors of asset-backed securities retain a percentage of the credit risk underlying the securities;

Required banking regulators to remove references to and requirements of reliance upon credit ratings from their regulations and replace them with appropriate alternatives for evaluating creditworthiness;

Implemented corporate governance revisions, including with regard to executive compensation and proxy access by shareholders, that apply to all public companies, not just financial institutions;

Amended the Electronic Fund Transfer Act which, among other things, gave the FRB the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer; and

Increased the authority of the FRB to examine us and our non-bank subsidiaries.

Some of these and other major changes could materially impact the profitability of our business, the value of assets we hold or the collateral available for our loans, require changes to business practices, or force us to discontinue businesses and expose us to additional costs, taxes, liabilities, enforcement actions and reputational risk. Many of these provisions became effective upon enactment of the Dodd-Frank Act, while others are subject to further study, rulemaking, and the discretion of regulatory bodies. In light of these significant changes and the discretion afforded to federal regulators, we cannot fully predict the effect that compliance with the Dodd-Frank Act or any implementing regulations will have on our businesses or ability to pursue future business opportunities. Additional regulations resulting from the Dodd-Frank Act may materially adversely affect our business, financial condition or results of operations.

The likelihood, timing, and scope of any such change and the impact any such change may have on us are impossible to determine with any certainty. Also, additional changes to the laws and regulations applicable to us are frequently proposed at both the federal and state levels. We cannot predict whether new legislation or regulations will be enacted and, if enacted, the effect that it, or any regulations, would have on our business, financial condition or results of operations. Set forth below is a brief description of the significant federal and state laws and regulations to which we are currently subject. These descriptions do not purport to be complete and are qualified in their entirety by reference to the particular statutory or regulatory provision.

Deposit Insurance. Substantially all of the deposits of the Bank are insured up to applicable limits by the DIF of the FDIC and the Bank must pay deposit insurance assessments to the FDIC for such deposit insurance protection. The FDIC maintains the DIF by designating a required reserve ratio. If the reserve ratio falls below the designated level, the FDIC must adopt a restoration plan that provides that the DIF will return to an acceptable level generally within 5 years. The DIF reserve ratio is maintained by assessing depository institutions an insurance premium based upon statutory factors, including the degree of risk the institution poses to the DIF.

The Dodd-Frank Act amended the statutory regime governing the DIF. Among other things, the Dodd-Frank Act established a minimum designated reserve ratio ("DRR") of 1.35 percent of estimated insured deposits, required that the fund reserve ratio reach 1.35 percent by September 30, 2020 and directed the FDIC to amend its regulations to redefine the assessment base used for calculating deposit insurance assessments. Specifically, the Dodd-Frank Act requires the assessment base to be an amount equal to the average consolidated total assets of the insured depository institution during the assessment period, minus the sum of the average tangible equity of the insured depository institution during the assessment period and an amount the FDIC determines is necessary to establish assessments consistent with the risk-based assessment system found in the FDIA.

On February 7, 2011, the FDIC approved a final rule that amended its existing DIF restoration plan and implemented certain provisions of the Dodd-Frank Act. This rule, which took effect April 1, 2011, changed the FDIC's assessment system from one based on domestic deposits to one based on the average consolidated total assets of a bank minus its average tangible equity during each quarter. Under the February 7, 2011 final rule, the total base assessment rates will vary depending on the DIF reserve ratio. For example, for banks in the best risk category, the total base assessment rate will be between 2.5 and 9 basis points when the DIF reserve ratio is below 1.15 percent, between 1.5 and 7 basis points when the DIF reserve ratio is between 1.15 percent and 2 percent, between 1 and 6 basis points when the DIF reserve ratio is between 2 percent and 2.5 percent and between 0.5 and 5 basis points when the DIF reserve ratio is 2.5 percent or higher.

Safety and Soundness. There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the DIF in the event that the depository institution is insolvent or is in danger of becoming insolvent. These obligations and restrictions are not for the benefit of investors. The FRB's Regulation Y, for example, generally requires a holding company to give the FRB prior notice of any redemption or repurchase of its own equity securities, if the consideration to be paid, together with the consideration paid for any repurchases or redemptions in the preceding year, is equal to 10% or more of the holding company's consolidated net worth. The FRB may oppose the transaction if it believes that the transaction would constitute an unsafe or unsound practice or would violate any law or regulation. Depending upon the circumstances, the FRB could take the position that paying a dividend would constitute an unsafe or unsound banking practice.

Regulators may pursue an administrative action against any bank holding company or state member bank which violates the law, engages in an unsafe or unsound banking practice or which is about to engage in an unsafe and unsound banking practice. The administrative action could take the form of a cease and desist proceeding, a removal action against the responsible individuals or, in the case of a violation of law or unsafe and unsound banking practice, a civil penalty action. A cease and desist order, in addition to prohibiting certain action, could also require that certain action be undertaken. Under the policies of the FRB, Southern National is required to serve as a source of financial strength to the Bank and to commit resources to support the Bank in circumstances where Southern National might not do so otherwise. Notably, the Dodd-Frank Act codified the FRB's "source of strength" doctrine; this statutory change became effective in July 21, 2011. In addition to the foregoing requirements, the Dodd-Frank Act's new provisions authorize the FRB to require a company that directly or indirectly controls a bank to submit reports that are designed both to assess the ability of such company to comply with its "source of strength" obligations and to enforce the company's compliance with these obligations. The FRB and other federal banking regulators have not yet issued rules implementing this requirement, though it is understood that regulators are engaged in a joint effort to produce these rules.

Capital Requirements. Each of the FRB and the FDIC has issued risk-based and leverage capital guidelines under a two-tier capital framework applicable to banking organizations that it supervises.
However, as a result of new regulations that banking regulators recently issued, which are discussed below, we are required to comply with higher minimum capital requirements as of January 1, 2015.

Under the risk-based capital requirements that applied prior to January 1, 2015, Southern National and the Bank were each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including specific off-balance sheet activities, such as standby letters of credit) of 8%. At least half of the total capital was required to be composed of “Tier 1 Capital,” which generally consists of common shareholders' equity, retained earnings, a limited amount of qualifying perpetual preferred stock, qualifying trust preferred securities and noncontrolling interests in the equity accounts of consolidated subsidiaries, less goodwill and certain intangibles. Although elements other than common shareholders' equity may be included within Tier 1 Capital, voting common shareholders' equity generally should be the dominant element within Tier 1 Capital. Tier 2 capital generally consists of certain hybrid capital instruments and perpetual debt, mandatory convertible debt securities and a limited amount of subordinated debt, qualifying preferred stock, loan loss allowance and unrealized holding gains on certain equity securities. In addition, each of the federal banking regulatory agencies had established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations were required to maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to not less than 3% to not less than 4%, subject to federal bank regulatory evaluation of an organization’s overall safety and soundness. In sum, the capital measures used by the federal banking regulators were:

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

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

The federal banking agencies' risk-based and leverage ratios are minimum supervisory ratios generally applicable to banking organizations that meet certain specified criteria. Banking organizations not meeting these criteria are expected to operate with capital positions well above the minimum ratios. The federal bank regulatory agencies may set capital requirements for a particular banking organization that are higher than the minimum ratios when circumstances warrant. FRB guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In addition to requiring undercapitalized institutions to submit a capital restoration plan, agency regulations contain broad restrictions on certain activities of undercapitalized institutions including asset growth, acquisitions, branch establishment and expansion into new lines of business. With certain exceptions, an insured depository institution is prohibited from making capital distributions, including dividends, and is prohibited from paying management fees to control persons if the institution would be undercapitalized after any such distribution or payment.

As an institution's capital decreases, the FRB's enforcement powers become more severe. A significantly undercapitalized institution is subject to mandated capital raising activities, restrictions on interest rates paid and transactions with affiliates, removal of management and other restrictions. The FRB has only very limited discretion in dealing with a critically undercapitalized institution and is virtually required to appoint a receiver or conservator.

Banks with risk-based capital and leverage ratios below the required minimums may also be subject to certain administrative actions, including the termination of deposit insurance upon notice and hearing, or a temporary suspension of insurance without a hearing in the event the institution has no tangible capital.

Revisions to Capital Adequacy Requirements. The regulatory capital framework has recently changed as a result of the Dodd-Frank Act and a separate, international capital initiative known as "Basel III." Regulators recently issued rules implementing these requirements ("Revised Capital Rules"). Among other things, the Revised Capital Rules raise the minimum thresholds for required capital and revise certain aspects of the definitions and elements of the capital that can be used to satisfy these required minimum thresholds. While the rules became effective on January 1, 2014 for certain large banking organizations, most banking organizations, including Southern National and the Bank, were required to begin complying with these new requirements on January 1, 2015.

The Revised Capital Rules, among other things, (i) introduce as a new capital measure "Common Equity Tier 1" ("CET1"), (ii) specify that Tier 1 capital consists of CET1 and "Additional Tier 1 capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the adjustments as compared to existing regulations. Further, the Revised Capital Rules set forth the following minimum capital ratios, which began to phase in for certain banking organizations, including Southern National, on January 1, 2015:

4.5 percent CET1 to risk-weighted assets.
6.0 percent Tier 1 Capital to risk-weighted assets.
8.0 percent Total Capital to risk-weighted assets.
4.0 percent Tier 1 leverage ratio to average consolidated assets.

The Revised Capital Rules also introduce a minimum "capital conservation buffer" equal to 2.5% of an organization's total risk-weighted assets, which exists in addition to the required minimum CET1, Tier 1, and Total Capital ratios identified above. The "capital conservation buffer" must consist entirely of CET1 and is designed to absorb losses during periods of economic stress. Thus, when fully phased in on January 1, 2019, the Revised Capital Rules will require us to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (resulting in an effective minimum ratio of CET1 to risk-weighted assets of at least 7%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (resulting in an effective minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (resulting in an effective minimum total capital ratio of 10.5%) and (iv) a minimum leverage ratio of 4%, calculated as the ratio of Tier 1 capital to average assets.

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Under the Revised Capital Rules, for most banking organizations, the most common form of Additional Tier 1 capital will be non-cumulative perpetual preferred stock, and the most common form of Tier 2 capital will be subordinated notes and a portion of the allocation for loan losses, in each case, subject to certain specific requirements set forth in the regulation. Under the capital standards that applied prior to January 1, 2015, the effects of accumulated other comprehensive income items included in shareholders' equity under U.S. GAAP are excluded for the purposes of determining capital ratios. Under the Revised Capital Rules, the effects of certain accumulated other comprehensive items are not excluded. However, the Revised Capital Rules permit most banking organizations to make a one-time election to continue to exclude these items. This election must be made when we file the first of certain periodic regulatory reports after January 1, 2015.

In addition, under the Revised Capital Rules, certain hybrid securities, such as trust preferred securities, do not qualify as Tier 1 capital. However for bank holding companies that had assets of less than $15 billion as of December 31, 2009, trust preferred securities issued prior to May 19, 2010 can be treated as Tier 1 capital to the extent that they do not exceed 25% of Tier 1 capital after the application of capital deductions and adjustments.

Prompt Corrective Action. Under Section 38 of the FDIA, each federal banking agency is required to implement a system of prompt corrective action for institutions that it regulates. The federal banking agencies (including the FRB) have adopted substantially similar regulations to implement Section 38 of the FDIA. Section 38 of the FDIA and the regulations promulgated thereunder also specify circumstances under which the FDIC may reclassify a well-capitalized bank as adequately capitalized and may require an adequately capitalized bank or an undercapitalized bank to comply with supervisory actions as if it were in the next lower category (except that the FDIC may not reclassify a significantly undercapitalized bank as critically undercapitalized). The thresholds for each of these categories were recently revised pursuant to the Revised Capital Rules, which are discussed above. These revised categories began to apply to the Bank on January 1, 2015. Both the prior standards and the revised standards are discussed below.

Under these regulations, insured state banks are assigned to one of the following capital categories:

"well capitalized" – under the standards that applied prior to January 1, 2015, an insured depository institution was well capitalized if it had a Total Risk-Based Capital ratio of 10% or greater, a Tier 1 Risk-Based Capital ratio of 6% or greater, a leverage ratio of 5% or greater, and was not subject to any written agreement, order, capital directive, or prompt corrective action directive by a federal bank regulatory agency to meet and maintain a specific capital level for any capital measure. Under the Revised Capital Rules, a well capitalized institution is one that (i) has a total risk-based capital ratio of 10 percent or greater, (ii) has a Tier 1 risk-based capital ratio of 8 percent or greater, (iii) has a CET1 capital ratio of 6.5 percent or greater, (iv) has a leverage capital ratio of 5 percent or greater and (v) is not subject to any order or written directive to meet and maintain a specific capital level for any capital measure.

"adequately capitalized" – under the prior standards, an insured depository institution was adequately capitalized if it had a Total Risk-Based Capital ratio of 8% or greater, a Tier 1 Risk-Based Capital ratio of 4% or greater, and a leverage ratio of 4% or greater—or 3% in certain circumstances—and was not well capitalized. Under the Revised Capital Rules, an adequately capitalized depository institution is one that has (i) a total risk based capital ratio of 8 percent or more, (ii) a Tier 1 capital ratio of 6 percent or more, (iii) a CET1 capital ratio of 4.5 percent or more, and (iv) a leverage ratio of 4 percent or more.

"undercapitalized" – under the prior standards, an insured depository institution was undercapitalized if it had a Total Risk-Based Capital ratio of less than 8% or greater, a Tier 1 Risk-Based Capital ratio of less than 4%, or a leverage ratio of less than 4% (or 3% in certain circumstances). Under the Revised Capital Rules, an undercapitalized depository institution is one that has (i) a total capital ratio of less than 8 percent, (ii) a Tier 1 capital ratio of less than 6 percent, (iii) a CET1 capital ratio of less than 4.5 percent, or (iv) a leverage ratio of less than 4 percent.

“significantly undercapitalized” – under the prior standards, an insured depository institution was significantly undercapitalized if it had a Total Risk-Based Capital ratio of less than 6%, a Tier 1 Risk-Based Capital ratio of less than 3%, or a leverage ratio of less than 3%. Under the Revised Capital Rules, a significantly undercapitalized institution is one that has (i) a total risk-based capital ratio of less than 6 percent (ii) a Tier 1 capital ratio of less than 4 percent, (iii) a CET1 ratio of less than 3 percent or (iv) a leverage capital ratio of less than 3 percent.
“critically undercapitalized” – an insured depository institution is critically undercapitalized if its tangible equity is equal to or less than 2% of tangible assets. The Revised Capital Rules retain the 2% threshold, but make certain changes to the framework for calculating an institution’s ratio of tangible equity to total assets.

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

If certain criteria are met, the aggregate liability of the holding company of an undercapitalized bank is limited to the lesser of 5% of the institution’s total assets at the time it became undercapitalized or the amount necessary to cause the institution to be “adequately capitalized.” The bank regulators have greater power in situations where an institution becomes “significantly” or “critically” undercapitalized or fails to submit a capital restoration plan. For example, a bank holding company controlling such an institution can be required to obtain prior FRB approval of proposed dividends, or might be required to consent to a consolidation or to divest the troubled institution or other affiliates.

Brokered Deposit Restrictions. Adequately capitalized institutions (as defined for purposes of the prompt corrective action rules described above) cannot accept, renew or roll over brokered deposits except with a waiver from the FDIC, and are subject to restrictions on the interest rates that can be paid on such deposits. Undercapitalized institutions may not accept, renew, or roll over brokered deposits.

Volcker Rule. In December 2013, federal regulators, including the FRB, issued final rules to implement Section 619 of the Dodd-Frank Act, known as the Volcker Rule, to prohibit insured depository institutions, such as the Bank, and their affiliates, such as Southern National, from proprietary trading and acquiring certain interests in hedge or private equity funds. The final rules contain certain exemptions from the prohibition and permit the retention of certain ownership interests. Insured depository institutions are required to conform their activities and investments to the requirements by July 21, 2015. Conformance with the provisions prohibiting certain “covered funds” activities has since been extended by a FRB order that provided for an extension of the Volcker Rule conformance period for legacy ownership interests and sponsorship of covered funds until July 21, 2016. The FRB expressed its intention to grant the last available statutory extension for such covered funds activities until July 21, 2017, by an order to be issued in 2015.

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

It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of strength to its banking subsidiaries.

Under FRB policy, a bank holding company has historically been required to act as a source of financial strength to each of its banking subsidiaries. As described above in the discussion of "Safety and Soundness" requirements, the Dodd-Frank Act codifies this policy as a statutory requirement. Under this requirement, Southern National is expected to commit resources to support Sonabank, including at times when we may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to deposits and to certain other indebtedness of such subsidiary banks. As discussed below, a bank holding company, in certain circumstances, could be required to guarantee the capital plan of an undercapitalized banking subsidiary.

Capital adequacy requirements serve to limit the amount of dividends that may be paid by Sonabank. Under federal law, the Bank cannot pay a dividend if, after paying the dividend, the bank will be "undercapitalized." The bank regulatory agencies may declare a dividend payment to be unsafe and unsound even though the Bank would continue to meet its capital requirements after the dividend.

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

In the event of a bank holding company's bankruptcy under Chapter 11 of the U.S. Bankruptcy Code, the trustee will be deemed to have assumed and to cure immediately any deficit under any commitment by the debtor holding company to any of the federal banking agencies to maintain the capital of an insured depository institution. Any claim for breach of such obligation will generally have priority over most other unsecured claims.

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

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

Audit Reports. Insured institutions with total assets of $500 million or more must submit annual audit reports prepared by independent auditors to federal and state regulators. In some instances, the audit report of the institution's holding company can be used to satisfy this requirement. Auditors must receive examination reports, supervisory agreements and reports of enforcement actions. For institutions with total assets of $1 billion or more, financial statements prepared in accordance with generally accepted accounting principles, management's certifications concerning responsibility for the financial statements, internal controls and compliance with legal requirements designated by the FDIC, and an attestation by the auditor regarding the statements of management relating to the internal controls must be submitted. For institutions with total assets of more than $3 billion, independent auditors may be required to review quarterly financial statements. The FDICIA requires that independent audit committees be formed, consisting of outside directors only. The committees of such institutions must include members with experience in banking or financial management, must have access to outside counsel, and must not include representatives of large customers.

Anti-Terrorism and Anti-Money Laundering Legislation. A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA PATRIOT Act of 2001 (the "USA Patriot Act") substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The Financial Crimes Enforcement Network ("FinCEN"), a bureau of the U.S. Department of the Treasury, has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Certain of those regulations impose specific due diligence requirements on financial institutions that maintain correspondent or private banking relationships with non-U.S. financial institutions or persons. In addition, FinCEN issued a Notice of Proposed Rulemaking in August 2014 that would require financial institutions to obtain beneficial ownership information for certain accounts, however, it has yet to issue a final rule on this topic. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the institution. Bank regulators routinely examine institutions for compliance with these anti-money laundering obligations and recently have been active in imposing "cease and desist" and other regulatory orders and money penalty sanctions against institutions found to be in violation of these requirements.

Office of Foreign Assets Control Regulation. The United States has imposed economic sanctions that affect transactions with designated foreign countries, nationals and others. These are typically known as the “OFAC” rules based on their administration by the U.S. Department of the Treasury’s Office of Foreign Assets Control (“OFAC”). The OFAC-administered sanctions targeting countries take many different forms. Generally, however, they contain one or more of the following elements: (i) restrictions on trade with or investment in a sanctioned country, including prohibitions against direct or indirect imports from and exports to a sanctioned country and prohibitions on “U.S. persons” engaging in financial transactions relating to making investments in, or providing investment-related advice or assistance to, a sanctioned country; and (ii) a blocking of assets in which the government or specially designated nationals of the sanctioned country have an interest, by prohibiting transfers of property subject to U.S. jurisdiction (including property in the possession or control of U.S. persons). Blocked assets (e.g., property and bank deposits) cannot be paid out, withdrawn, set off or transferred in any manner without a license from OFAC. Failure to comply with these sanctions could have serious legal and reputational consequences.

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

Virginia Code Sections 13.1-725 – 727.1 govern “Affiliated Transactions.” These provisions, with several exceptions discussed below, require approval by the holders of at least two-thirds of the remaining voting shares of material acquisition transactions between a Virginia corporation and any holder of more than 10% of any class of its outstanding voting shares. Affiliated Transactions include mergers, share exchanges, material dispositions of corporate assets not in the ordinary course of business, any dissolution of the corporation proposed by or on behalf of an interested shareholder, or any reclassification, including a reverse stock split, recapitalization, or merger of the corporation with its subsidiaries which increases the percentage of voting shares owned beneficially by any 10% shareholder by more than 5%.

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

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

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

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

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

Federal Reserve Monetary Policy. The Bank will be directly affected by government monetary and fiscal policy and by regulatory measures affecting the banking industry and the economy in general. The actions of the FRB as the nation's central bank can directly affect the money supply and, in general, affect the lending activities of banks by increasing or decreasing the cost and availability of funds. An important function of the FRB is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the FRB to implement this objective are open market operations in United States government securities, changes in the discount rate on member bank borrowings and changes in reserve requirements against bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits, and interest rates charged on loans or paid on deposits. The monetary policies of the FRB have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future; however, the effects of the various FRB policies on our future business and earnings cannot be predicted.

Reserve Requirements. In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any nonpersonal time deposits at an institution. For net transaction accounts in 2015, the first $14.5 million will be exempt from reserve requirements. A 3.0% reserve ratio will be assessed on net transaction accounts over $14.5 million to and including $103.6 million. A 10.0% reserve ratio will be applied to net transaction accounts in excess of $103.6 million. These percentages are subject to adjustment by the FRB.

Restrictions on Transactions with Affiliates and Insiders. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act ("FRA"). An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. In general, Section 23A imposes limits on the amount of such transactions to 10% of Sonabank's capital stock and surplus and requires that such transactions be secured by designated amounts of specified collateral. It also limits the amount of advances to third parties which are collateralized by the securities or obligations of Southern National or its subsidiaries. As of July 21, 2011, the Dodd-Frank Act eliminated the exclusion of transactions by a depository institution with its financial subsidiary from the 10% of capital limit under Section 23A for all covered transactions entered into on or after July 21, 2010. "Covered transactions" are defined by statute to include a loan or extension of credit, as well as a purchase of securities issued by an affiliate, a purchase of assets (unless otherwise exempted by the FRB) from the affiliate, the acceptance of securities issued by the affiliate as collateral for a loan, and the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate.

Affiliate transactions are also subject to Section 23B of the FRA, which generally requires that certain transactions between Sonabank and its affiliates be on terms substantially the same, or at least as favorable to Sonabank, as those prevailing at the time for comparable transactions with or involving other nonaffiliated persons. The FRB has also issued Regulation W, which codifies prior regulations under Sections 23A and 23B of the FRA and interpretive guidance with respect to affiliate transactions.

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The restrictions on loans to directors, executive officers, principal shareholders and their related interests (collectively referred to herein as “insiders”) contained in the FRA and Regulation O apply to all insured institutions and their subsidiaries and holding companies. These restrictions include limits on loans to one borrower and conditions that must be met before such a loan can be made. There is also an aggregate limitation on all loans to insiders and their related interests. These loans cannot exceed the institution’s total unimpaired capital and surplus, and the FRB may determine that a lesser amount is appropriate. Insiders are subject to enforcement actions for knowingly accepting loans in violation of applicable restrictions.

Concentrated Commercial Real Estate Lending Regulations. In 2006, the federal banking agencies, including the FRB, promulgated guidance governing financial institutions with concentrations in commercial real estate lending. The guidance sets forth parameters for risk management practices that are consistent with the level and nature of a financial institution’s commercial real estate lending portfolio. The guidance provides that a bank has a concentration in commercial real estate lending if (i) total reported loans for construction, land development, and other land represent 100% or more of total capital or (ii) total reported loans secured by multifamily and non-farm non-residential properties and loans for construction, land development, and other land represent 300% or more of total capital and the bank’s commercial real estate loan portfolio has increased 50% or more during the prior 36 months. Owner occupied loans are excluded from this second category. If a concentration is present, management must employ heightened risk management practices that address the following key elements: including board and management oversight and strategic planning, portfolio management, development of underwriting standards, risk assessment, review and monitoring through market analysis and stress testing, and maintenance of increased capital levels as needed to support the level of commercial real estate lending.

In October 2009, the federal banking agencies issued additional guidance on commercial real estate lending that emphasizes these considerations and also supports prudent loan workouts for financial institutions working with commercial real estate borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties.

In addition, the Dodd-Frank Act contains provisions that may impact the Bank’s business by reducing the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act requires, among other things, that a loan originator or a securitizer of asset-backed securities retain a percentage of the credit risk of securitized assets. The banking agencies have jointly issued a final rule to implement these requirements, which will become effective on December 24, 2016 for classes of asset-backed securities other than residential mortgage-backed securitizations.

Cross-Guarantee Provisions. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 contains a “cross-guarantee” provision which generally makes commonly controlled insured depository institutions liable to the FDIC for any losses incurred in connection with the failure of a commonly controlled depository institution.

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

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The GLBA and federal bank regulators have made various changes to the CRA. Among other changes, CRA agreements with private parties must be disclosed and annual reports must be made to a bank's primary federal regulatory. A bank holding company will not be permitted to become a financial holding company and no new activities authorized under the GLBA may be commenced by a holding company or by a financial subsidiary if any of its bank subsidiaries received less than a "satisfactory" rating in its latest CRA examination. The Bank received a "satisfactory" rating in the most recent examination for CRA compliance in August 2012.

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

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

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

Many of the foregoing laws and regulations are subject to change resulting from the provisions in the Dodd-Frank Act, which in many cases calls for revisions to implementing regulations. In addition, oversight responsibility for these and other consumer protection laws and regulations has, in large measure, transferred to the Bureau. The Bureau has republished the transferred regulations in a new section of the Code of Federal Regulations and has begun to issue rules to implement provisions of the Dodd-Frank Act. For example, the Bureau recently issued rules that are likely to impact our residential mortgage lending practices, and the residential mortgage market generally, including rules that implement the "ability-to-repay" requirement and provide protection from liability for "qualified mortgages," as required by the Dodd-Frank Act. The ability-to-repay rule, which took effect on January 10, 2014, requires lenders to consider, among other things, income, employment status, assets, employment, payment amounts, and credit history before approving a mortgage, and provides a compliance "safe harbor" for lenders that issue certain "qualified mortgages." In addition, it is anticipated that the Bureau will engage in numerous other rulemakings in the near term that may impact our business, as the Bureau has indicated that, in addition to specific statutory mandates, it is working on a wide range of initiatives to address issues in markets for consumer financial products and services. The Bureau also has broad authority to prohibit unfair, deceptive and abusive acts and practices ("UDAAP") and to investigate and penalize financial institutions that violate this prohibition. While the statutory language of the Dodd-Frank Act sets forth the standards for acts and practices that violate this prohibition, certain aspects of these standards are untested, which has created some uncertainty regarding how the Bureau will exercise this authority.

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

Legislative Initiatives. In light of current conditions and the possibility of continuing weak economic conditions, regulators have increased their focus on the regulation of financial institutions. From time to time, various legislative and regulatory initiatives are introduced in Congress and State Legislatures. Such initiatives may change banking statutes and the operating environment for us and Sonabank in substantial and unpredictable ways. We cannot determine the ultimate effect that any potential legislation, if enacted, or implementing regulations with respect thereto, would have, upon the financial condition or results of our operations or the operations of Sonabank. A change in statutes, regulations or regulatory policies applicable to us or Sonabank could have a material effect on the financial condition, results of operations or business of our company and Sonabank.

Incentive Compensation. In June 2010, the FRB, the Office of the Comptroller of the Currency, and the FDIC issued comprehensive final guidance on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. The guidance, which covers all employees that have the ability to materially affect the risk profile of an organization, either individually or as part of a group, is based upon the key principles that a banking organization's incentive compensation arrangements should (i) provide incentives that do not encourage risk-taking beyond the organization's ability to effectively identify and manage risks, (ii) be compatible with effective internal controls and risk management, and (iii) be supported by strong corporate governance, including active and effective oversight by the organization's board of directors. Also, on February 7, 2011, the FDIC proposed an interagency rule to implement certain incentive-based compensation requirements of the Dodd-Frank Act. Under the proposed rule, financial institutions with $1 billion or more in assets would be prohibited from offering incentive-based compensation arrangements that encourage inappropriate risk taking by providing excessive compensation or that may lead to material financial loss. Regulators have yet to issue final rules on the topic.

The FRB will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as us, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions. Enforcement actions may be taken against a banking organization if its incentive compensation arrangements, or related risk-management control or governance processes, pose a risk to the organization's safety and soundness and the organization is not taking prompt and effective measures to correct the deficiencies.

Enforcement Powers of Federal and State Banking Agencies. The federal banking agencies have broad enforcement powers, including the power to terminate deposit insurance, impose substantial fines and other civil and criminal penalties, and appoint a conservator or receiver. Failure to comply with applicable laws, regulations, and supervisory agreements could subject Southern National or the Bank and their subsidiaries, as well as officers, directors, and other institution-affiliated parties of these organizations, to administrative sanctions and potentially substantial civil money penalties. In addition to the grounds discussed above, the appropriate federal banking agency may appoint the FDIC as conservator or receiver for a banking institution (or the FDIC may appoint itself, under certain circumstances) if any one or more of a number of circumstances exist, including, without limitation, the fact that the banking institution is undercapitalized and has no reasonable prospect of becoming adequately capitalized; fails to become adequately capitalized when required to do so; fails to submit a timely and acceptable capital restoration plan; or materially fails to implement an accepted capital restoration plan. The VBFI also has broad enforcement powers over the Bank, including the power to impose orders, remove officers and directors and impose fines.

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

Item 1A. Risk Factors

An investment in our common stock involves risks. The following is a description of the material risks and uncertainties that Southern National believes affect its business and should be considered before making an investment in our common stock. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us and our business. If any of the risks described in this Annual Report on Form 10-K were to actually occur, our financial condition, results of operations and cash flows could be materially and adversely affected. If this were to happen, the value of the common stock could decline significantly and you could lose all or part of your investment.

General market conditions and economic trends could have a material adverse effect on our business, financial condition and results of operations.

Although economic conditions have generally improved nationally and locally in our markets, financial institutions continue to be affected by real estate market conditions that have negatively impacted the credit performance of mortgage, construction and commercial real estate loans and have resulted in significant write-downs of assets by many financial institutions. Concerns over the stability of the economy recovery have resulted in more conservative lending by financial institutions to their customers and to each other. We retain direct exposure to the residential and commercial real estate markets, and we are affected by these events. Our ability to assess the creditworthiness of customers and to estimate the losses inherent in our credit portfolio is made more complex by these uncertain market and economic conditions.

If the U.S. economy is unable to steadily and continuously emerge from the recession that began in 2007, our losses could exceed that which is provided for in our allowance for loan losses and result in the following consequences:

- increases in loan delinquencies;
- increases in nonperforming assets and foreclosures;
- decreases in demand for our products and services, which could adversely affect our liquidity position; and
- decreases in the value of the collateral securing our loans, especially real estate, which could reduce customers' borrowing power.

While economic conditions in the Commonwealth of Virginia and the U.S. continue to show signs of recovery, there can be no assurance that the economy will continue to improve. Although there are signs that the real estate market is recovering, residential and commercial sales pace, inventories and prices have not returned to pre-recession levels in many of our markets.

Liquidity risk could impair our ability to fund operations and jeopardize our financial condition, results of operations and cash flows.

Liquidity is essential to our business. Our ability to implement our business strategy will depend on our ability to obtain funding for loan originations, working capital, possible acquisitions and other general corporate purposes. An inability to raise funds through deposits, borrowings, securities sold under repurchase agreements, the sale of loans and other sources could have a substantial negative effect on our liquidity. We do not anticipate that our retail and commercial deposits will be sufficient to meet our funding needs in the foreseeable future. We therefore rely on deposits obtained through intermediaries, FHLB advances, securities sold under agreements to repurchase and other wholesale funding sources to obtain the funds necessary to implement our growth strategy.

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Our access to funding sources in amounts adequate to finance our activities or on terms which are acceptable to us could be impaired by factors that affect us specifically or the financial services industry or economy in general, including a decrease in the level of our business activity as a result of a downturn in the markets in which our loans are concentrated or adverse regulatory action against us. Our ability to borrow could also be impaired by factors that are not specific to us, such as a disruption in the financial markets or negative views and expectations about the prospects for the financial services industry. To the extent we are not successful in obtaining such funding, we will be unable to implement our strategy as planned which could have a material adverse effect on our financial condition, results of operations and cash flows.

Declines in asset values may result in impairment charges and adversely affect the value of our investments, financial performance and capital.

We maintain an investment portfolio that includes, but is not limited to, collateralized mortgage obligations, agency mortgage-backed securities and pooled trust preferred securities. The market value of investments may be affected by factors other than the underlying performance of the issuer or composition of the bonds themselves, such as ratings downgrades, adverse changes in the business climate and a lack of liquidity for resales of certain investment securities. At each reporting period, we evaluate investments and other assets for impairment indicators. We may be required to record additional impairment charges if our investments suffer a decline in value that is considered other-than-temporary. During the year ended December 31, 2014, we incurred other-than-temporary impairment charges of $41 thousand pre-tax on one of our trust preferred securities holdings. During the year ended December 31, 2013, we incurred other-than-temporary impairment charges of $3 thousand pre-tax on one of our trust preferred securities holdings. During the year ended December 31, 2012, we incurred other-than-temporary impairment charges of $717 thousand pre-tax on three of our trust preferred securities holdings. If in future periods we determine that a significant impairment has occurred, we would be required to charge against earnings the credit-related portion of the other-than-temporary impairment, which could have a material adverse effect on our results of operations in the periods in which the write-offs occur.

Our pooled trust preferred securities are particularly vulnerable to the performance of the issuer of the subordinated debentures that are collateral for the trust preferred securities. Deterioration of these trust preferred securities can occur because of defaults by the issuer of the collateral or because of deferrals of dividend payments on the securities. Numerous financial institutions have failed and their parent bank holding companies have filed for bankruptcy, which has led to defaults in the subordinated debentures that collateralize the trust preferred securities. Further, increased regulatory pressure has been placed on financial institutions to maintain capital ratios above the required minimum to be well-capitalized, which often results in restrictions on dividends, and leads to deferrals of dividend payments on the trust preferred securities. More specifically, the Federal Reserve has stated that a bank holding company should eliminate, defer or significantly reduce dividends if (i) its net income available to shareholders for the past four quarters, net of dividends paid, is not sufficient to fully fund the dividends, (ii) its prospective rate of earnings retention is not consistent with its capital needs or (iii) it is in danger of not meeting its minimum regulatory capital adequacy ratios. In addition, although interest deferrals are permitted under the terms of the instruments governing the trust preferred securities, such deferrals are typically limited to 20 consecutive quarterly periods. As a result, many financial institutions that commenced deferral periods in 2009 will no longer be permitted to defer interest payments, which could result in increased defaults on trust preferred securities. Additional defaults in the underlying collateral or deferrals of dividend payments for these securities could lead to additional charges on these securities and/or other-than-temporary impairment charges on other trust preferred securities we own. Finally, proposed or future changes in the regulatory treatment of both issuers and holders of trust preferred securities could have a negative impact on the value of the pooled trust preferred securities held in our portfolio.

The failure of other financial institutions could adversely affect us.

In addition to the risk to our pooled trust preferred securities discussed above, our ability to engage in routine funding transactions could be adversely affected by the actions and potential failures of other financial institutions. Financial institutions are interrelated as a result of trading, clearing, counterparty and other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with a variety of counterparties in the financial services industry. As a result, defaults by, or even rumors or concerns about, the viability of one or more financial institutions with whom we do business, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated if the collateral we hold cannot be sold at prices that are sufficient for us to recover the full amount of our exposure. Any such losses could materially and adversely affect our financial condition and results of operations.

If the goodwill that we record in connection with business acquisitions becomes impaired, it could have a negative impact on our profitability.

Goodwill represents the amount of acquisition cost over the fair value of net assets we acquire in the purchase of another entity. We review goodwill for impairment at least annually, or more frequently if events or changes in circumstances indicate the carrying value of the asset might be impaired. Examples of those events or circumstances include the following:

- significant adverse changes in business climate;
- significant changes in credit quality;
- significant unanticipated loss of customers;
- significant loss of deposits or loans; or
- significant reductions in profitability.

As of December 31, 2014, our goodwill totaled $10.5 million. While we have recorded no such impairment charges since we initially recorded the goodwill, there can be no assurance that our future evaluations of goodwill will not result in findings of impairment and related write-downs, which may have a material adverse effect on our financial condition and results of operations.

If our nonperforming assets increase, our earnings will suffer.

At December 31, 2014, our non-covered nonperforming assets (which consist of nonaccrual loans, loans past due 90 days and accruing and other real estate owned (“OREO”)) totaled $18.7 million, or 2.76% of total non-covered loans and OREO, which is an increase of $1.3 million or 7.5% compared with non-covered nonperforming assets of $17.4 million, or 3.45%, of total non-covered loans and OREO at December 31, 2013. At December 31, 2012, our non-covered non-performing assets were $20.8 million, or 4.41% of non-covered loans and OREO.

Although economic and market conditions remain stable, we may incur losses if there is an increase in nonperforming assets in the future. Our nonperforming assets adversely affect our net income in various ways. We do not record interest income on nonaccrual loans or OREO, thereby adversely affecting our net interest income, and increasing loan administration costs. When we take collateral in foreclosures and similar proceedings, we are required to mark the related loan to the then fair value of the collateral, which may ultimately result in a loss. We must reserve for probable losses, which is established through a current period charge to the provision for loan losses as well as from time to time, as appropriate, write down the value of properties in our OREO portfolio to reflect changing market values. Additionally, there are legal fees associated the resolution of problem assets as well as carrying costs such as taxes, insurance and maintenance related to our OREO. Further, the resolution of nonperforming assets requires the active involvement of management, which can distract them from more profitable activity. Finally, an increase in the level of nonperforming assets increases our regulatory risk profile. There can be no assurance that we will not experience future increases in nonperforming assets.

A significant amount of our loans are secured by real estate and any declines in real estate values in our primary markets could be detrimental to our financial condition and results of operations.

Real estate lending (including commercial, construction, land development, and residential loans) is a large portion of our loan portfolio, constituting $589.0 million, or approximately 83.7% of our total loan portfolio, as of December 31, 2014. Total real estate loans covered under the FDIC loss sharing agreement amount to $38.5 million. The residential and commercial real estate sectors of the U.S. economy experienced an economic slowdown that continued into 2010. Specifically, the values of residential and commercial real estate located in our market areas declined significantly in recent years and have not returned to pre-recession levels. Although such real estate values have shown improvement recently, such improved values may not continue. If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the full value of the collateral that we anticipated at the time of originating the loan, which could require us to increase our provision for loan losses and adversely affect our financial condition and results of operations.

Sales pace, inventories and prices of land, lots, and finished homes have not returned to pre-recession levels in many markets, including those where we do business. As of December 31, 2014, $171.5 million, or approximately 24.4% of our total loans, were secured by single-family residential real estate. This includes $138.0 million in residential 1-4 family loans and $33.4 million in home equity lines of credit. Total single-family residential real estate loans covered under the FDIC loss sharing agreement amount to $38.5 million. If housing markets in our market areas do not continue to steadily improve or deteriorate, we may experience an increase in nonperforming loans, provisions for loan losses and charge-offs.

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

As of December 31, 2014, a significant portion of our loan portfolio was comprised of loans secured by commercial real estate. In the majority of these loans, real estate was the primary collateral component. In some cases, and out of an abundance of caution, we take real estate as security for a loan even when it is not the primary component of collateral. The real estate collateral that provides the primary or an alternate source of repayment in the event of default may deteriorate in value during the term of the loan as a result of changes in economic conditions, fluctuations in interest rates and the availability of loans to potential purchasers, changes in tax and other laws and acts of nature. If we are required to liquidate the collateral securing a loan to satisfy the debt during a period of reduced real estate values, as in recent years, our earnings and capital could be adversely affected. We are subject to increased lending risks in the form of loan defaults as a result of the high concentration of real estate lending in our loan portfolio in the event the real estate market in Virginia and our market area does not exhibit sustained improvement. A weak real estate market in our primary market areas could have an adverse effect on the demand for new loans, the ability of borrowers to repay outstanding loans, the value of real estate and other collateral securing the loans and the value of real estate owned by us. If real estate values do not continue to improve or decline, it is also more likely that we would be required to increase our allowance for loan losses, which could adversely affect our financial condition and results of operations.

We are subject to risks related to our concentration of construction and land development and commercial real estate loans.

As of December 31, 2014, we had $57.9 million of construction loans. Construction loans are subject to risks during the construction phase that are not present in standard residential real estate and commercial real estate loans. These risks include:

- the viability of the contractor;
- the value of the project being subject to successful completion;
- the contractor's ability to complete the project, to meet deadlines and time schedules and to stay within cost estimates; and
- concentrations of such loans with a single contractor and its affiliates.

Real estate construction loans may involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan and also present risks of default in the event of declines in property values or volatility in the real estate market during the construction phase. Our practice, in the majority of instances, is to secure the personal guaranty of individuals in support of our real estate construction loans which provides us with an additional source of repayment. As of December 31, 2014, we had non-covered nonperforming construction and development loans in the amount of $467 thousand and $6.8 million of non-covered assets that have been foreclosed. If one or more of our larger borrowers were to default on their construction and development loans, and we did not have alternative sources of repayment through personal guarantees or other sources, or if any of the aforementioned risks were to occur, we could incur significant losses.

As of December 31, 2014, we had $359.6 million of commercial real estate loans, including multi-family residential loans and loans secured by farmland, none of which is covered by the FDIC loss sharing agreement. Commercial real estate lending typically involves higher loan principal amounts and the repayment is dependent, in large part, on sufficient income from the properties securing the loan to cover operating expenses and debt service.

In October 2009, the federal banking agencies issued additional guidance on commercial real estate lending that emphasizes these considerations and also supports prudent loan workouts for financial institutions working with commercial real estate borrowers who are experiencing diminished operating cash flows, depreciated collateral values, or prolonged delays in selling or renting commercial properties. In addition, the Dodd-Frank Act contains provisions that may impact the Bank's business by reducing the amount of our commercial real estate lending and increasing the cost of borrowing, including rules relating to risk retention of securitized assets. Section 941 of the Dodd-Frank Act requires, among other things, that a loan originator or a securitizer of asset-backed securities retain a percentage of the credit risk of securitized assets. The banking agencies have jointly issued a final rule to implement these requirements, which will become effective on December 24, 2015 for residential mortgage-backed securitizations and on December 24, 2016 for classes of asset-backed securities other than residential mortgage-backed securitizations. Banks with higher levels of commercial real estate loans are expected to implement improved underwriting, internal controls, risk management policies and portfolio stress testing, as well as higher levels of allowances for loan losses and capital levels as a result of commercial real estate lending growth and exposures. Sonabank's commercial real estate loans are below the thresholds identified as significant by the regulatory guidance. If there is deterioration in our commercial real estate portfolio or if regulatory authorities conclude that we have not implemented appropriate risk management policies and practices, it could adversely affect our business and result in a requirement of increased capital levels, and such capital may not be available at that time.

The benefits of our FDIC loss-sharing agreements may be reduced or eliminated.

In connection with Sonabank's assumption of the banking operations of Greater Atlantic Bank, the Bank entered into the Agreement, which contains loss-sharing provisions. Our decisions regarding the fair value of assets acquired, including the FDIC loss-sharing assets (referred to herein as the "covered assets"), could be inaccurate which could materially and adversely affect our business, financial condition, results of operations, and future prospects. Management makes various assumptions and judgments about the collectability of the acquired loans, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of secured loans. In the Greater Atlantic Bank acquisition, we recorded a loss-sharing asset that reflects our estimate of the timing and amount of future losses we anticipate occurring in the acquired loan portfolio. In determining the size of the loss-sharing asset, we analyzed the loan portfolio based on historical loss experience, volume and classification of loans, volume and trends in delinquencies and nonaccruals, local economic conditions, and other pertinent information.

If our assumptions related to the timing or amount of expected losses are incorrect, there could be a negative impact on our operating results. Increases in the amount of future losses in response to different economic conditions or adverse developments in the acquired loan portfolio may result in increased credit loss provisions. Changes in our estimate of the timing of those losses, specifically if those losses are to occur beyond the applicable loss-sharing periods, may result in impairments of the FDIC indemnification asset.

Our ability to obtain reimbursement under the loss-sharing agreements on covered assets depends on our compliance with the terms of the loss-sharing agreements.

Management must certify to the FDIC on a quarterly basis our compliance with the terms of the FDIC loss-sharing agreements as a prerequisite to obtaining reimbursement from the FDIC for realized losses on covered assets. The agreements contain specific, detailed and cumbersome compliance, servicing, notification and reporting requirements, and failure to comply with any of the requirements and guidelines could result in a specific asset or group of assets permanently losing their loss-sharing coverage. Additionally, management may decide to forgo loss-share coverage on certain assets to allow greater flexibility over the management of such assets. As of December 31, 2014, $38.5 million, or 4.20%, of our assets were covered by the FDIC loss-sharing agreements.

Under the terms of the FDIC loss-sharing agreements, the assignment or transfer of a loss-sharing agreement to another entity generally requires the written consent of the FDIC. In addition, the Bank may not assign or otherwise transfer a loss-sharing agreement during its term without the prior written consent of the FDIC. Our failure to comply with the terms of the loss-sharing agreements or to manage the covered assets in such a way as to maintain loss-share coverage on all such assets may cause individual loans or large pools of loans to lose eligibility for loss share payments from the FDIC. This could result in material losses.

Changes to government guaranteed loan programs could affect our SBA business.

Sonabank relies on originating government guaranteed loans, in particular those guaranteed by the SBA. As of December 31, 2014, Sonabank had $56.0 million of SBA loans, $41.8 million of which is guaranteed and $14.2 million is non-guaranteed. Sonabank originated $17.1 million, $25.4 million and $21.1 million in SBA loans in the years ended December 31, 2014, 2013 and 2012, respectively. Sonabank sold the guaranteed portions of some of its SBA loans in the secondary market in 2012 and 2011 and intends to continue such sales, which are a source of non-interest income for Sonabank, when market conditions are favorable. We can provide no assurance that Sonabank will be able to continue originating these loans, that it will be able to sell the loans in the secondary market or that it will continue to realize premiums upon any sale of SBA loans.

SBA lending is a federal government created and administered program. As such, legislative and regulatory developments can affect the availability and funding of the program. This dependence on legislative funding and regulatory restrictions from time to time causes limitations and uncertainties with regard to the continued funding of such loans, with a resulting potential adverse financial impact on our business. Currently, the maximum limit on individual 7(a) loans which the SBA will permit is $5.0 million. Any reduction in this level could adversely affect the volume of our business. As of December 31, 2014, our SBA business constitutes 8.0% of our total loans. The periodic uncertainty of the SBA program relative to availability, amounts of funding and the waiver of associated fees creates greater risk for our business than do more stable aspects of our business.

The federal government presently guarantees up to75% of the principal amount of loans above $150,000 and up to 90% of the principal amount for certain programs under the 7(a) program. SBAExpress loans can be guaranteed by the federal government up to 50%. We can provide no assurance that the federal government will maintain the SBA program, or if it does, that such guaranteed portion will remain at its current funding level. Furthermore, it is possible that Sonabank could lose its preferred lender status which, subject to certain limitations, allows it to approve and fund SBA loans without the necessity of having the loan approved in advance by the SBA. It is also possible the federal government could reduce the amount of loans which it guarantees. In addition, we are dependent on the expertise of our personnel who make SBA loans in order to continue to originate and service SBA loans. If we are unable to retain qualified employees in the future, our income from the origination of SBA loans could be substantially reduced.

We are subject to credit quality risks and our credit policies may not be sufficient to avoid losses.

We are subject to the risk of losses resulting from the failure of borrowers, guarantors and related parties to pay interest and principal amounts on their loans. Although we maintain credit policies and credit underwriting and monitoring and collection procedures, these policies and procedures may not prevent losses, particularly during periods in which the local, regional or national economy suffers a general decline. If borrowers fail to repay their loans, our financial condition and results of operations would be adversely affected.

We depend on the accuracy and completeness of information from customers and counterparties.

In deciding whether to extend credit or enter into other transactions, we may rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We may also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

Failure to maintain an effective system of disclosure controls and procedures could have a material adverse effect on our business, results of operations and financial condition and could impact the price of our common stock.

Failure to maintain an effective internal control environment could result in us not being able to accurately report our financial results, prevent or detect fraud, or provide timely and reliable financial information pursuant to our reporting obligations, which could have a material adverse effect on our business, financial condition, and results of operations. Further, it could cause our investors to lose confidence in the financial information we report, which could affect the trading price of our common stock.

Management regularly reviews and updates our disclosure controls and procedures, including our internal control over financial reporting. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of our controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on our business, results of operations and financial condition.

If our allowance for loan losses is not adequate to cover actual loan losses, our earnings will decrease.

As a lender, we are exposed to the risk that our borrowers may not repay their loans according to the terms of these loans, and the collateral securing the payment of these loans may be insufficient to ensure repayment. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of the borrowers and the value of the real estate and other assets serving as collateral for the repayment of many of our loans. We maintain an allowance for loan losses to cover any probable inherent loan losses in the loan portfolio. In determining the size of the allowance, we rely on a periodic analysis of our loan portfolio, our historical loss experience and our evaluation of general economic conditions. If our assumptions prove to be incorrect or if we experience significant loan losses, our current allowance may not be sufficient to cover actual loan losses and adjustments may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. A material addition to the allowance for loan losses could cause our earnings to decrease. Due to the relatively unseasoned nature of our loan portfolio, we cannot assure you that we will not experience an increase in delinquencies and losses as these loans continue to mature.

In addition, federal regulators periodically review our allowance for loan losses and may require us to increase our provision for loan losses or recognize further charge-offs, based on judgments different than those of our management. Any significant increase in our allowance for loan losses or charge-offs required by these regulatory agencies could have a material adverse effect on our results of operations and financial condition.

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

We completed the acquisition of Prince George’s Federal Savings Bank on August 1, 2014, the acquisition of the HarVest Bank of Maryland on April 27, 2012, the Midlothian Branch in Richmond, Virginia on October 1, 2011, the acquisition and assumption of certain assets and liabilities of Greater Atlantic Bank from the FDIC on December 4, 2009, the acquisition of a branch of Millennium Bank in Warrenton, Virginia on September 28, 2009, the acquisition of the Leesburg branch location from Founders Corporation which opened on February 11, 2008, the acquisition of 1st Service Bank in December of 2006 and the acquisition of the Clifton Forge branch of First Community Bancorp, Inc. in December of 2005.

We intend to continue pursuing a growth strategy for our business. Our prospects must be considered in light of the risks, expenses and difficulties frequently encountered by growing companies such as the continuing need for infrastructure and personnel, the time and costs inherent in integrating a series of different operations and the ongoing expense of acquiring and staffing new banks or branches. We may not be able to expand our presence in our existing markets or successfully enter new markets and any expansion could adversely affect our results of operations. Failure to manage our growth effectively could have a material adverse effect on our business, future prospects, financial condition or results of operations, and could adversely affect our ability to successfully implement our business strategy. Our ability to grow successfully will depend on a variety of factors, including the continued availability of desirable business opportunities, the competitive responses from other financial institutions in our market areas and our ability to manage our growth. There can be no assurance of success or the availability of branch or bank acquisitions in the future.

Future growth or operating results may require us to raise additional capital, but that capital may not be available, be available on unfavorable terms or may be dilutive.

We and Sonabank are each required by the Federal Reserve to maintain adequate levels of capital to support our operations. In the event that our future operating results erode capital, if Sonabank is required to maintain capital in excess of well-capitalized standards, or if we elect to expand through loan growth or acquisitions, we may be required to raise additional capital. Our ability to raise capital will depend on conditions in the capital markets, which are outside our control, and on our financial performance. Accordingly, we cannot be assured of our ability to raise capital on favorable terms when needed, or at all. If we cannot raise additional capital when needed, we will be subject to increased regulatory supervision and the imposition of restrictions on our growth and business. These outcomes could negatively impact our ability to operate or further expand our operations through acquisitions or the establishment of additional branches and may result in increases in operating expenses and reductions in revenues that could have a material adverse effect on our financial condition and results of operations. In addition, in order to raise additional capital, we may need to issue shares of our common stock that would dilute the book value of our common stock and reduce our current shareholders' percentage ownership interest to the extent they do not participate in future offerings.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this "Risk Factors" section and elsewhere in this report and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

Our stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- actual or anticipated variations in quarterly results of operations;

recommendations by securities analysts;

operating and stock price performance of other companies that investors deem comparable to us;

news reports relating to trends, concerns and other issues in the financial services industry;

perceptions in the marketplace regarding us and/or our competitors;

new technology used, or services offered, by competitors;

significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving us or our competitors;

failure to integrate acquisitions or realize anticipated benefits from acquisitions;

changes in government regulations; and

geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause our stock price to decrease regardless of operating results.

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

The majority of our assets and liabilities are monetary in nature and subject us to significant risk from changes in interest rates. Fluctuations in interest rates are not predictable or controllable. Like most financial institutions, changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities, which is the difference between interest earned from interest-earning assets, such as loans and investment securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings. We expect that we will periodically experience “gaps” in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this “gap” will negatively impact our earnings. Many factors impact interest rates, including governmental monetary policies, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets.

Based on our analysis of the interest rate sensitivity of our assets, an increase in the general level of interest rates may negatively affect the market value of the portfolio equity, but will positively affect our net interest income since most of our assets have floating rates of interest that adjust fairly quickly to changes in market rates of interest. Additionally, an increase in interest rates may, among other things, reduce the demand for loans and our ability to originate loans. A decrease in the general level of interest rates may affect us through, among other things, increased prepayments on our loan and mortgage-backed securities portfolios and increased competition for deposits. Accordingly, changes in the level of market interest rates affect our net yield on interest-earning assets, loan origination volume, loan and mortgage-backed securities portfolios, and our overall results. Although our asset liability management strategy is designed to control our risk from changes in market interest rates, it may not be able to prevent changes in interest rates from having a material adverse effect on our results of operations and financial condition.

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

Many community banks attract customers based on the personal relationships that the banks' officers and customers establish with each other and the confidence that the customers have in the officers. We depend on the performance of Ms. Georgia S. Derrico, Chairman and Chief Executive Officer, and R. Roderick Porter, President, of our company and Sonabank. Ms. Derrico is a well-known banker in our market areas, having operated a successful financial institution there for more than 18 years prior to founding our company and Sonabank. We do not have an employment agreement with either individual. The loss of the services of either of these officers or their failure to perform management functions in the manner anticipated by our Board of Directors could have a material adverse effect on our business. Our success will be dependent upon the Board's ability to attract and retain quality personnel, including these officers.

Our profitability depends significantly on local economic conditions in the areas where our operations and loans are concentrated.

Our profitability depends on the general economic conditions in our market areas of Northern Virginia, Maryland, Washington D.C., Charlottesville and Clifton Forge (Alleghany County), Front Royal, New Market, Richmond and the surrounding areas. Unlike larger banks that are more geographically diversified, we provide banking and financial services to clients primarily in these market areas. As of December 31, 2014, substantially all of our commercial real estate, real estate construction and residential real estate loans were made to borrowers in our market area. The local economic conditions in this area have a significant impact on our commercial, real estate and construction and consumer loans, the ability of the borrowers to repay these loans and the value of the collateral securing these loans. In addition, if the population or income growth in this region slows, stops or declines, income levels, deposits and housing starts could be adversely affected and could result in the curtailment of our expansion, growth and profitability.

Additionally, political conditions could impact our earnings. For example, political debate over the budget, taxes and the potential for reduced government spending through national sequestration may adversely impact the economy, and more specifically local economic conditions given the concentration of Federal workers and government contractors in our market. Acts or threats of war, terrorism, an outbreak of hostilities or other international or domestic calamities, or other factors beyond our control could impact these local economic conditions and could negatively affect the financial results of our banking operations.

The properties that we own and our foreclosed real estate assets could subject us to environmental risks and associated costs.

There is a risk that hazardous substances or wastes, contaminants, pollutants or other environmentally restricted substances could be discovered on our properties or our foreclosed assets (particularly in the case of real estate loans). In this event, we might be required to remove the substances from the affected properties or to engage in abatement procedures at our sole cost and expense. Besides being liable under applicable federal and state statutes for our own conduct, we may also be held liable under certain circumstances for actions of borrowers or other third parties on property that collateralizes one or more of our loans or on property that we own. Potential environmental liability could include the cost of remediation and also damages for any injuries caused to third-parties. We cannot assure you that the cost of removal or abatement would not substantially exceed the value of the affected properties or the loans secured by those properties, that we would have adequate remedies against prior owners or other responsible parties or that we would be able to resell the affected properties either prior to or following completion of any such removal or abatement procedures. Any environmental damages on a property would substantially reduce the value of such property as collateral and, as a result, we may suffer a loss upon collection of the loan.

The small to medium-sized businesses we lend to may have fewer resources to weather a downturn in the economy, which may impair a borrower’s ability to repay a loan to us that could materially harm our operating results.

We make loans to professional firms and privately owned businesses that are considered to be small to medium-sized businesses. Small to medium-sized businesses frequently have smaller market shares than their competition, may be more vulnerable to economic downturns, often need substantial additional capital to expand or compete and may experience substantial volatility in operating results, any of which may impair a borrower’s ability to repay a loan. In addition, the success of a small and medium-sized business often depends on the management talents and efforts of one or two persons or a small group of persons, and the death, disability or resignation of one or more of these persons could have a material adverse impact on the business and its ability to repay our loan. Economic downturns in our target markets could cause us to incur substantial loan losses that could materially harm our operating results.

We are heavily regulated by federal and state agencies; changes in laws and regulations or failures to comply with such laws and regulations may adversely affect our operations and our financial results.

We and Sonabank are subject to extensive regulation, supervision and examination by federal and state banking authorities. Any change in applicable regulations or federal or state legislation could have a substantial impact on us and Sonabank, and our respective operations. Additional legislation and regulations may be enacted or adopted in the future that could significantly affect our powers, authority and operations or the powers, authority and operations of Sonabank, which could have a material adverse effect on our financial condition and results of operations.

Further, bank regulatory authorities have the authority to bring enforcement actions against banks and their holding companies for unsafe or unsound practices in the conduct of their businesses or for violations of any law, rule or regulation, any condition imposed in writing by the appropriate bank regulatory agency or any written agreement with the agency. Possible enforcement actions against us could include the issuance of a cease-and-desist order that could be judicially enforced, the imposition of civil monetary penalties, the issuance of directives to increase capital or enter into a strategic transaction, whether by merger or otherwise, with a third party, the appointment of a conservator or receiver, the termination of insurance of deposits, the issuance of removal and prohibition orders against institution-affiliated parties, and the enforcement of such actions through injunctions or restraining orders. The exercise of this regulatory discretion and power may have a negative impact on us.

As a regulated entity, Sonabank must maintain certain required levels of regulatory capital that may limit our operations and potential growth.

We and Sonabank are subject to various regulatory capital requirements administered by the Federal Reserve. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on Sonabank’s and our company’s consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Sonabank must meet specific capital guidelines that involve quantitative measures of Sonabank’s assets, liabilities and certain off-balance sheet commitments as calculated under these regulations.

Quantitative measures established by regulation to ensure capital adequacy, which applied prior to January 1, 2015, required Sonabank to maintain minimum amounts and defined ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to adjusted total assets, also known as the leverage ratio. For Sonabank, Tier 1 capital consists of shareholders' equity excluding unrealized gains and losses on certain securities, less a portion of its mortgage servicing asset and deferred tax asset that is disallowed for capital. For Sonabank, total capital consists of Tier 1 capital plus the allowance for loan and lease loss less a deduction for low level recourse obligations.

As of December 31, 2014, Sonabank exceeded the amounts required to be well capitalized with respect to all three required capital ratios. To be well capitalized, under the rules that applied prior to January 1, 2015, a bank was generally required to maintain a leverage ratio of at least 5%, a Tier 1 risk-based capital ratio of at least 6% and a total risk-based capital ratio of at least 10%. However, the Federal Reserve could require Sonabank to increase its capital levels. For example, regulators have recently required certain banking companies to maintain a leverage ratio of at least 8% and a total risk-based capital ratio of at least 12%. As of December 31, 2014, Sonabank's leverage, Tier 1 risk-based capital and total risk-based capital ratios were 11.53%, 14.86% and 15.93%, respectively. As of January 1, 2015, we were required to begin complying with the Revised Capital Rules.

Many factors affect the calculation of Sonabank's risk-based assets and its ability to maintain the level of capital required to achieve acceptable capital ratios. For example, changes in risk weightings of assets relative to capital and other factors may combine to increase the amount of risk-weighted assets in the Tier 1 risk-based capital ratio and the total risk-based capital ratio. Any increases in its risk-weighted assets will require a corresponding increase in its capital to maintain the applicable ratios. In addition, recognized loan losses in excess of amounts reserved for such losses, loan impairments, impairment losses on securities and other factors will decrease Sonabank's capital, thereby reducing the level of the applicable ratios.

Sonabank's failure to remain well capitalized for bank regulatory purposes could affect customer confidence, our ability to grow, our costs of funds and FDIC insurance costs, our ability to pay dividends on our capital stock, our ability to make acquisitions, and on our business, results of operations and financial condition. Under FDIC rules, if Sonabank ceases to be a well capitalized institution for bank regulatory purposes, the interest rates that it pays on deposits and its ability to accept, renew or rollover brokered deposits may be restricted. As of December 31, 2014, we had $87.2 million of brokered deposits, which represented 11.7% of our total deposits.

We are required to comply with increased regulatory capital requirements.

The capital requirements applicable to Southern National and the Bank changed as a result of the Dodd-Frank Act and the international regulatory capital initiative known as Basel III, and could be subject to further change as a result of additional government actions or regulatory interpretations. Regulators recently issued rules implementing these requirements ("Revised Capital Rules"). We were required to begin complying with the Revised Capital Rules on January 1, 2015. Among other things, the Revised Capital Rules raise the minimum thresholds for required capital and revise certain aspects of the definitions and elements of the capital that can be used to satisfy these required minimum thresholds. The Revised Capital Rules also introduce a minimum "capital conservation buffer" equal to 2.5% of an organization's total risk-weighted assets, which exists in addition to the required minimum CET1, Tier 1, and Total Capital ratios that are discussed above in Capital Requirements -- Revisions to Capital Adequacy Requirements. Complying with these capital requirements may affect our operations, including our asset portfolios and financial performance.

We may not be able to successfully compete with others for business.

The metropolitan statistical area in which we operate is considered highly attractive from an economic and demographic viewpoint, and is a highly competitive banking market. We compete for loans, deposits and investment dollars with numerous regional and national banks, online divisions of out-of-market banks and other community banking institutions, as well as other kinds of financial institutions and enterprises, such as securities firms, insurance companies, savings associations, credit unions, mortgage brokers and private lenders. Many competitors have substantially greater resources than us, and operate under less stringent regulatory environments. The differences in resources and regulations may make it harder for us to compete profitably, reduce the rates that we can earn on loans and investments, increase the rates we must offer on deposits and other funds and adversely affect our overall financial condition and earnings.

Provisions of our articles of incorporation and bylaws, as well as state and federal banking regulations, could delay or prevent a takeover of us by a third party.

Our articles of incorporation and bylaws could delay, defer or prevent a third party from acquiring us, despite the possible benefit to our shareholders, or otherwise adversely affect the price of our common stock.

Any individual, acting alone or with other individuals, who are seeking to acquire, directly or indirectly, 10.0% or more of our outstanding common stock must comply with the Change in Bank Control Act, which requires prior notice to the Federal Reserve for any acquisition. Additionally, any entity that wants to acquire 5.0% or more of our outstanding common stock, or otherwise control us, may need to obtain the prior approval of the Federal Reserve under the BHCA of 1956, as amended. As a result, prospective investors in our common stock need to be aware of and comply with those requirements, to the extent applicable.

We are subject to transaction risk, which could adversely affect our business, financial condition and results of operation.

We, like all businesses, are subject to transaction risk, which is the risk of loss resulting from human error, fraud or unauthorized transactions due to inadequate or failed internal processes and systems, and external events that are wholly or partially beyond our control (including, for example, computer viruses or electrical or telecommunications outages). Transaction risk also encompasses compliance risk, which is the risk of loss from violations of, or noncompliance with, laws, rules, regulations, prescribed practices or ethical standards. Although we seek to mitigate transaction risk through a system of internal controls, there can be no assurance that we will not suffer losses from transaction risks in the future that may be material in amount. Any losses resulting from transaction risk could take the form of explicit charges, increased operational costs, litigation costs, harm to reputation or forgone opportunities, any and all of which could have a material adverse effect on business, financial condition and results of operations.

We must respond to rapid technological changes and these changes may be more difficult or expensive than anticipated.

If competitors introduce new products and services embodying new technologies, or if new industry standards and practices emerge, our existing product and service offerings, technology and systems may become obsolete. Further, if we fail to adopt or develop new technologies or to adapt our products and services to emerging industry standards, we may lose current and future customers, which could have a material adverse effect on our business, financial condition and results of operations. The financial services industry is changing rapidly and in order to remain competitive, we must continue to enhance and improve the functionality and features of our products, services and technologies. These changes may be more difficult or expensive than we anticipate.

The impact of financial reform legislation is uncertain.

The Dodd-Frank Wall Street Reform and Consumer Protection Act, enacted in 2010, instituted a wide range of regulatory, supervisory, and compliance reforms that will have had and will continue to have an impact on all financial institutions, including the creation of the Consumer Financial Protection Bureau with centralized authority, including examination and enforcement authority, for consumer protection in the banking industry. The Act also included, among other things, changes to the deposit insurance and financial regulatory systems, enhanced bank capital requirements and requirements designed to protect consumers in financial transactions. Many of these provisions are subject to rule making procedures and studies, some of which have already occurred and some that will be conducted in the future, and the full effects of the legislation on Southern National cannot yet be determined. For example, in January 2014, the Bureau issued rules that impact our residential mortgage lending practices, and the residential mortgage market generally, including rules that implement the “ability-to-repay” requirement and provide protection from liability for “qualified mortgages,” as required by the Dodd-Frank Act. Regulations implementing the Dodd-Frank Act, or any other aspects of current proposed regulatory or legislative changes to laws applicable to the financial industry, if enacted or adopted, may impact the profitability of our business activities or change certain of our business practices, including our ability to offer new products, obtain financing, attract deposits, make loans, and achieve satisfactory interest spreads, and could expose us to additional costs, including increased compliance costs. Other changes to statutes, regulations, or regulatory policies or supervisory guidance, including changes in their interpretation or implementation, may affect us in substantial ways that we cannot predict. These changes also may require Southern National to invest significant management attention and resources to make any necessary changes to our operations in order to comply, and could therefore also materially adversely affect our business, financial condition, and results of operations.

The Bureau recently issued “ability-to-repay” and “qualified mortgage” rules that may have a negative impact on our loan origination process and foreclosure proceedings, which could adversely affect our business, operating results and financial condition.

Pursuant to its new authority, in January 2013, the Bureau adopted a rule that implements the ability-to-repay and qualified mortgage provisions of the Dodd-Frank Act (the “ATR/QM rule”). In May, July and October 2013 the CFPB issued rules amending certain provisions of the ATR/QM rule. The final ATR/QM rule, which took effect on January 10, 2014, will likely impact our residential mortgage lending practices, and the residential mortgage market generally.

The ATR/QM rule requires lenders to consider, among other things, income, employment status, assets, payment amounts, and credit history before approving a mortgage, and provides a compliance “safe harbor” for lenders that issue certain “qualified mortgages.” The ATR/QM rule defines a “qualified mortgage” to have certain specified characteristics, and generally prohibit loans with negative amortization, interest-only payments, balloon payments, or terms exceeding 30 years from being qualified mortgages. The rule also establishes general underwriting criteria for qualified mortgages, including that monthly payments be calculated based on the highest payment that will apply in the first five years of the loan and that the borrower have a total debt- to-income ratio that is less than or equal to 43 percent. While “qualified mortgages” will generally be afforded safe harbor status, a rebuttable presumption of compliance with the ability-to-repay requirements will attach to “qualified mortgages” that are “higher priced mortgages” (which are generally subprime loans). As the definition of “qualified mortgage” provides either a safe harbor or a rebuttable presumption of compliance with the ability-to-repay requirements, the definition is expected to establish the parameters for the majority of consumer mortgage lending in the U.S.

Reflecting the Bureau’s focus on the residential mortgage lending market, the Bureau has also issued rules to implement requirements of the Dodd-Frank Act pertaining to mortgage loan origination (including with respect to loan originator compensation and loan originator qualifications) and has proposed, but not finalized, integrated mortgage disclosure rules that will replace and combine certain existing requirements under the Truth in Lending Act and the Real Estate Settlement Procedures Act. The Bureau has indicated that it expects to issue additional mortgage-related rules in the future.

The new “qualified mortgage” rules may increase our compliance burden and reduce our lending flexibility and discretion, which could negatively impact our ability to originate new loans and the cost of originating new loans. Any loans that we make outside of the “qualified mortgage” criteria could expose us to an increased risk of liability and reduce or delay our ability to foreclose on the underlying property. Additionally, qualified “higher priced mortgages” only provide a rebuttable presumption of compliance and thus may be more susceptible to challenges from borrowers. It is difficult to predict how the Bureau’s “qualified mortgage” rules will impact us when they take effect, but any decreases in loan origination volume or increases in compliance and foreclosure costs could negatively affect our business, operating results and financial condition.]

We currently intend to pay dividends on our common stock; however, our future ability to pay dividends is subject to restrictions.

We declared the first cash dividend on our common stock in February 2012, and each quarter thereafter through 2014. We also declared a special dividend in the fourth quarters of 2012 and 2014. There are a number of restrictions on our ability to pay dividends. It is the policy of the Federal Reserve that bank holding companies should pay cash dividends on common stock only out of income available over the past year and only if prospective earnings retention is consistent with the organization’s expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company’s ability to serve as a source of strength to its banking subsidiaries.

Our principal source of funds to pay dividends on our common stock is cash dividends that we receive from Sonabank. The payment of dividends by Sonabank to us is subject to certain restrictions imposed by federal banking laws, regulations and authorities. The federal banking statutes prohibit federally insured banks from making any capital distributions (including a dividend payment) if, after making the distribution, the institution would be ”under capitalized” as defined by statute. In addition, the relevant federal regulatory agencies have authority to prohibit an insured bank from engaging in an unsafe or unsound practice, as determined by the agency, in conducting an activity. The payment of dividends could be deemed to constitute such an unsafe or unsound practice, depending on the financial condition of Sonabank. Regulatory authorities could impose administratively stricter limitations on the ability of Sonabank to pay dividends to us if such limits were deemed appropriate to preserve certain capital adequacy requirements.

The trading volume in our common stock is less than that of other larger financial services companies.

Although our common stock is listed for trading on the NASDAQ Global Market, the trading volume is low, and you are not assured liquidity with respect to transactions in our common stock. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of our common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. Given the lower trading volume of our common stock, significant sales of our common stock, or the expectation of these sales, could cause our stock price to fall.

Severe weather, natural disasters, climate change, acts of war or terrorism and other external events could significantly impact our business.

Severe weather, natural disasters, climate change, acts of war or terrorism and other adverse external events could have a significant impact on our ability to conduct business. Such events could affect the stability of our deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause us to incur additional expenses. Although management has established disaster recovery policies and procedures, there can be no assurance of the effectiveness of such policies and procedures, and the occurrence of any such event could have a material adverse effect on our business, financial condition and results of operations.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions that historically have involved banks through alternative methods. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts or mutual funds. Consumers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. The process of eliminating banks as intermediaries could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these revenue streams and the lower cost deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Our information systems may experience an interruption or breach in security.

We rely heavily on communications and information systems provided both internally and externally to conduct our business. Any failure, interruption or breach in security of these systems (such as a spike in transaction volume, a cyber-attack or other unforeseen events) could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan and other systems. While we have policies and procedures and service level agreements designed to prevent or limit the effect of the failure, interruption or security breach of our information systems, there can be no assurance that any such failures, interruptions or security breaches will not occur or, if they do occur, that they will be adequately addressed. While we maintain an insurance policy which we believe provides sufficient coverage at a manageable expense for an institution of our size and scope with similar technological systems, we cannot assure shareholders that this policy would be sufficient to cover all related financial losses and damages should we experience any one or more of our or a third party’s systems failing or experiencing a cyber-attack. The occurrence of any failures, interruptions or security breaches of our information systems could damage our reputation, result in a loss of customer business, subject us to additional regulatory scrutiny, or expose us to civil litigation and possible financial liability, including remediation costs and increased protection costs, any of which could have a material adverse effect on our financial condition and results of operations.

We face significant cyber and data security risk that could result in the disclosure of confidential information, adversely affect our business or reputation and expose us to significant liabilities.

As a financial institution, we are under threat of loss due to hacking and cyber-attacks. This risk has increased in recent years, and continues to increase, as we continue to expand customer capabilities to utilize internet and other remote channels to transact business. Two of the most significant cyber-attack risks that we face are e-fraud and loss of sensitive customer data. Loss from e-fraud occurs when cybercriminals breach and extract funds directly from customer or our accounts. The attempts to breach sensitive customer data, such as account numbers and social security numbers, are less frequent but would present significant reputational, legal and/or regulatory costs to us if successful. Our risk and exposure to these matters remains heightened because of the evolving nature and complexity of these threats from cybercriminals and hackers, [our plans to continue to provide internet banking and mobile banking channels, and our plans to develop additional remote connectivity solutions to serve our customers.] [While we have not experienced any material losses relating to cyber-attacks or other information security breaches to date, we have been the subject of attempted hacking and cyber-attacks and there can be no assurance that we will not suffer such losses in the future.]

The occurrence of any cyber-attack or information security breach could result in material adverse consequences to us including damage to our reputation and the loss of customers. We also could face litigation or additional regulatory scrutiny. Litigation or regulatory actions in turn could lead to significant liability or other sanctions, including fines and penalties or reimbursement of customers adversely affected by a security breach. Even if we do not suffer any material adverse consequences as a result of events affecting us directly, successful attacks or systems failures at other large financial institutions could lead to a general loss of customer confidence in financial institutions including Sonbank.

Our ability to mitigate the adverse consequences of such occurrences is in part dependent on the quality of our information security procedures and contracts and our ability to anticipate the timing and nature of any such event that occurs. [In recent years, we have incurred significant expense towards improving the reliability of our systems and their security from attack.] Nonetheless, there remains the risk that we may be materially harmed by a cyber-attack or information security breach. Methods used to attack information systems change frequently (with generally increasing sophistication), often are not recognized until launched against a target, may be supported by foreign governments or other well-financed entities, and may originate from less regulated and remote areas around the world. As a result, we may be unable to address these methods in advance of attacks, including by implementing adequate preventive measures. If such an attack or breach does occur, we might not be able to fix it timely or adequately. To the extent that such an attack or breach relates to products or services provided by others, we seek to engage in due diligence and monitoring to limit the risk, but here too we cannot eliminate it.]

Item 1B. Unresolved Staff Comments

Southern National does not have any unresolved staff comments from the SEC to report for the year ended December 31, 2014.

Item 2. – Properties

The following table sets forth the date opened or acquired, ownership status and the total deposits, not including brokered deposits, for each of our banking locations, as of December 31, 2014:

Location	Date Opened or Acquired	Owned or Leased	Deposits (in thousands)
Home Office and Branch: 6830 Old Dominion Drive McLean, Virginia 22101	December 2006	Leased	$ 45,931
Branch Offices: 511 Main Street Clifton Forge, Virginia 24442	December 2005	Owned	$ 43,763
1770 Timberwood Boulevard Charlottesville, Virginia 22911	April 2005	Leased	$ 38,795
11527 Sunrise Valley Drive Reston, Virginia 20191	December 2006	Leased	$ 29,371
10855 Fairfax Boulevard Fairfax, Virginia 22030	December 2006	Leased	$ 18,559
550 Broadview Avenue Warrenton, Virginia 20186	April 2007	Leased	$ 34,222
1 East Market Street Leesburg, Virginia 20176	April 2008	Leased	$ 17,341
11 Main Street Warrenton, Virginia 20186	September 2009	Leased	$ 25,532
11200 Rockville Pike Rockville, Maryland 20852	December 2009	Leased	$ 50,779

1 South Front Royal Avenue Front Royal, Virginia 22630	December 2009	Owned	$ 41,196
9484 Congress Street New Market, Virginia 22844	December 2009	Owned	$ 37,782

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Location	Date Opened or Acquired	Owned or Leased	Deposits (in thousands)
43086 Peacock Market Plaza South Riding, Virginia 20152	December 2009	Leased	$24,777
10 West Washington Street Middleburg, Virginia 20117	May 2011	Leased	$15,642
13804 Hull Street Road Midlothian, Virginia 23112	October 2011	Owned	$28,614
9707 Medical Center Drive, Suite 150 Rockville, Maryland 20850	April 2012	Leased	$33,794
12800 Middlebrook Road Germantown, Maryland 20874	April 2012	Leased	$25,810
37 North Market Street Frederick, Maryland 21701	April 2012	Leased	$24,465
6719 Leaberry Way Haymarket, Virginia 20169	August 2012	Leased	$7,144
7700 Wisconsin Avenue Bethesda, Maryland 22101	October 2012	Leased	$30,295
4009 Old Town Road Huntingtown, Maryland 20639	August 2014	Leased	$9,411
137 E. Chesapeake Beach Road Owings, Maryland 20736	August 2014	Owned	$7,955
14804 Pratt Street	August 2014	Owned	$58,732

Upper Marlboro, Maryland 200772			
14118 Brandywine Road Brandywine, Maryland 20613	August 2014	Owned	$5,354

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Location	Date Opened or Acquired	Owned or Leased	Deposits (in thousands)
Loan Production Offices:			
230 Court Square Charlottesville, Virginia 22902	March 2005	Leased	NA
2217 Princess Anne Street Fredericksburg, Virginia 22401	April 2005	Leased	NA
550 Broadview Avenue Warrenton, Virginia 20186	September 2005	Leased	NA
Accounting Office:			
70 Main Street, Suite 34 Warrenton, Virginia 20186	December 2014	Leased	NA
Executive Offices:			
1002 Wisconsin Avenue, N.W. Washington, D.C. 20007	April 2005	Leased	NA

Item 3. - 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 other proceedings pending, or to management's knowledge, threatened, against Southern National or Sonabank as of December 31, 2014.

Item 4. Mine Safety Disclosures.

Not applicable.

PART II

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

Common Stock Market Prices

On November 6, 2006, Southern National closed on the initial public offering of its common stock, $0.01 par value. The shares of common stock sold in the offering were registered under the Securities Act of 1933, as amended, on a Registration Statement (Registration No. 333-136285) that was declared effective by the Securities and Exchange

Commission on October 31, 2006. The shares of common stock were sold at a price to the public of $14.00 per share (equivalent to $12.73 after the stock dividend declared in May 2007).

Southern National completed a follow-on public offering of its common stock in an underwritten public offering on November 4, 2009, selling 4,791,665 shares of common stock, including 624,999 shares sold pursuant to an over-allotment option granted to the underwriter, at a price of $6.00 per share. The gross proceeds from the shares sold were $28.7 million. The net proceeds to Southern National from the offering were approximately $26.9 million after deducting $1.3 million in underwriting commission and an estimated $486 thousand in other expenses incurred in connection with the offering.

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

There were 12,217,770 shares of our common stock outstanding at the close of business on March 5, 2015, which were held by 238 shareholders of record.

The following table presents the high and low intra-day sales prices and dividends declared for quarterly periods during 2014 and 2013:

	Market Values				Dividends Declared	
	2014		2013		2014 (1)	2013
	High	Low	High	Low		
First Quarter	$10.24	$9.81	$12.00	$7.80	$0.07	$0.05
Second Quarter	11.70	10.05	10.43	8.71	$0.07	$0.06
Third Quarter	11.70	10.37	10.24	9.15	$0.08	$0.07
Fourth Quarter	13.13	10.98	10.25	9.30	$0.38	$0.07

(1) The dividend declared in the fourth quarter of 2014 included a special dividend of $0.30.

Dividend Policy

Dividends are paid at the discretion of our board of directors. While we paid a nonrecurring 10% stock dividend to our holders of common stock in 2007, we declared the first cash dividend on our common stock in February 2012 and each quarter thereafter through 2014. The amount and frequency of dividends, if any, will be determined by our board of directors after consideration of our earnings, capital requirements, our financial condition and our ability to service any equity or debt obligations senior to our common stock, and will depend on cash dividends paid to us by our subsidiary bank. As a result, our ability to pay future dividends will depend on the earnings of Sonabank, its financial condition and its need for funds.

There are a number of restrictions on our ability to pay cash dividends. It is the policy of the FRB that bank holding companies should pay cash dividends on common stock only out of net income available over the past year and only if prospective earnings retention is consistent with the organization's expected future needs and financial condition. The policy provides that bank holding companies should not maintain a level of cash dividends that undermines the bank holding company's ability to serve as a source of financial strength to its banking subsidiary. For a foreseeable period of time, our principal source of cash will be dividends paid by our subsidiary bank with respect to its capital stock. There are certain restrictions on the payment of these dividends imposed by federal and state banking laws, regulations and authorities.

Regulatory authorities could administratively impose limitations on the ability of our subsidiary bank to pay dividends to us if such limits were deemed appropriate to preserve certain capital adequacy requirements or in the interests of "safety and soundness."

Recent Sales of Unregistered Securities

None

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Securities Authorized for Issuance under Equity Compensation Plans

As of December 31, 2014, Southern National had outstanding stock options granted under its Stock Option Plan, which is approved by its shareholders. The following table provides information as of December 31, 2014 regarding Southern National's equity compensation plans under which our equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights A	Weighted average exercise price of outstanding options, warrants and rights B	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column A) C
Equity compensation plans approved by security holders	621,050	$ 8.49	280,850
Equity compensation plans not approved by security holders	-	-	-
Total	621,050	$ 8.49	280,850

Issuer Purchases of Equity Securities

None

Performance Graph

The following chart compares the cumulative total shareholder return on Southern National common stock during the five years ended December 31, 2014, with the cumulative total return of the Russell 2000 Index and the SNL Bank and Thrift Index for the same period. Dividend reinvestment has been assumed. This comparison assumes $100 invested on December 31, 2009 in Southern National common stock, the Russell 2000 Index and the SNL Bank and Thrift Index. The historical stock price performance for Southern National common stock shown on the graph below is not necessarily indicative of future stock performance.

	2009	2010	2011	2012	2013	2014
Southern National Bancorp of Virginia	100.0	105.6	84.7	116.6	147.1	175.8
Russell 2000	100.0	126.9	121.6	141.4	196.3	206.0
SNL Bank and Thrift Index	100.0	111.6	86.8	116.6	159.6	178.2

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Item 6. - Selected Financial Data

The following table sets forth selected financial data for Southern National as of December 31, 2014, 2013, 2012, 2011 and 2010, and for the years ended December 31, 2014, 2013, 2012, 2011 and 2010:

	2014		2013		2012		2011		2010 (As Restated)	
	(in thousands, except per share amounts)									
Results of Operations:										
Interest income	$ 38,091		$ 35,116		$ 37,561		$ 33,423		$ 36,290	
Interest expense	4,673		4,668		5,828		6,087		8,513	
Net interest income	33,418		30,448		31,733		27,336		27,777	
Provision for loan losses	3,444		3,615		6,195		8,492		9,025	
Net interest income after provision for loan losses	29,974		26,833		25,538		18,844		18,752	
Noninterest income	2,364		1,753		5,595		2,442		1,649	
Noninterest expenses	21,101		19,292		21,449		15,193		14,471	
Income before income taxes	11,237		9,294		9,684		6,093		5,930	
Income tax expense	3,754		3,036		3,115		1,692		1,876	
Net income	$ 7,483		$ 6,258		$ 6,569		$ 4,401		$ 4,054	
Per Share Data:										
Earnings per share - Basic	$ 0.63		$ 0.54		$ 0.57		$ 0.38		$ 0.35	
Earnings per share - Diluted	$ 0.63		$ 0.54		$ 0.57		$ 0.38		$ 0.35	
Cash dividends paid per share	$ 0.60		$ 0.25		$ 0.25		$ -		$ -	
Book value per share	$ 9.33		$ 9.20		$ 8.90		$ 8.55		$ 8.14	
Tangible book value per share (1)	$ 8.36		$ 8.34		$ 8.00		$ 7.58		$ 7.13	
Weighted average shares outstanding - Basic	11,846,126		11,590,333		11,590,212		11,590,212		11,590,212	
Weighted average shares outstanding - Diluted	11,927,083		11,627,445		11,596,176		11,591,156		11,592,865	
Shares outstanding at end of period	12,216,669		11,590,612		11,590,212		11,590,212		11,590,212	
	.		.		.		.		.	
Selected Performance Ratios and Other Data:										
Return on average assets	0.94	%	0.89	%	0.97	%	0.74	%	0.67	%
Return on average equity	6.76	%	5.95	%	6.40	%	4.51	%	4.31	%
Yield on earning assets	5.24	%	5.48	%	6.15	%	6.20	%	6.57	%
Cost of funds	0.75	%	0.85	%	1.11	%	1.31	%	1.79	%
Cost of funds including non-interest bearing deposits	0.69	%	0.79	%	1.03	%	1.22	%	1.68	%

Net interest margin	4.60	%	4.75	%	5.19	%	5.06	%	5.03	%
Efficiency ratio (2)	60.45	%	60.78	%	56.25	%	50.13	%	48.01	%
Net charge-offs to average loans	0.51	%	0.69	%	1.04	%	1.63	%	1.86	%
Allowance for loan losses to total non-covered loans	1.11	%	1.42	%	1.54	%	1.54	%	1.52	%
Stockholders' equity to total assets	12.43	%	14.89	%	14.25	%	16.20	%	16.08	%
Financial Condition:										
Total assets	$ 916,645		$ 716,185		$ 723,812		$ 611,373		$ 586,654	
Total loans, net of deferred fees	703,472		546,058		530,151		491,768		463,054	
Total deposits	742,425		540,359		550,977		461,095		430,974	
Stockholders' equity	113,979		106,614		103,176		99,051		94,331	

(1) Tangible book value per share is calculated by dividing stockholders' equity less intangible assets by the number of outstanding shares of common stock.
(2) Efficiency ratio is calculated by dividing noninterest expense by the sum of net interest income plus noninterest income, excluding any gains/losses on sales of securities, gains/write-downs on OREO, gains on acquisitions and gains on sale of loans.

Item 7. – Management’s Discussion and Analysis of Financial Condition and Results of Operations

Management’s discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of Southern National. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report.

CRITICAL ACCOUNTING POLICIES

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

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collection of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management’s determination of the adequacy of the allowance is based on a three year historical average net loss experience for each portfolio segment adjusted for current industry and economic conditions (referred to as “current factors”) and estimates of their effect on loan collectability. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component provides for estimated losses in unimpaired loans and is based on historical loss experience adjusted for current factors.

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

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual net loss history experienced by Southern National over the most recent three years. This actual loss experience is adjusted for current factors based on the risks present for each portfolio segment. These current factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: owner occupied commercial real estate, non-owner occupied commercial real estate, construction and land development, commercial loans, residential 1-4 family, multi-family residential, loans secured by farmland, home equity lines of credit (HELOC) and consumer. While underwriting practices in this environment are more stringent, the bank estimates the effect of internal factors on future net loss experience to be negligible. Management’s estimate of the effect of current external economic environmental conditions on future net loss experience is significant in all loan segments and particularly on loans secured by real estate including single family 1-4, non-owner occupied commercial real estate and construction and land development loans. These factors include excess inventory, generally less demand driven in part by fewer qualified borrowers and buyers. These considerations have played a significant role in management’s estimate of the adequacy of the allowance for loan and lease losses.

Accounting for the FDIC Indemnification Asset and Acquired Loans

Southern National acquired loan portfolios through its acquisitions of Greater Atlantic Bank in 2009, its acquisition of HarVest Bank of Maryland in 2012, and its acquisition of Prince George’s Federal Savings Bank in 2014. The single family residential loans acquired in the Greater Atlantic Bank transaction are referred to as covered loans because of loss protection provided by the FDIC pursuant to a loss sharing agreement. The loss sharing agreement related to non-single family residential loans expired in December 2014. The loans acquired in the HarVest and Prince George’s transactions are not covered by an FDIC loss sharing agreement.

The accounting for the covered loans requires Southern Financial to estimate the timing and amount of cash flows to be collected from these loans at acquisition, and to periodically update our estimates of the cash flows expected to be collected over the life of the covered loans. Similarly, the accounting for the FDIC indemnification asset requires us to estimate the timing and amount of cash flows to be received from the FDIC in reimbursement for losses and expenses related to the covered loans; these estimates are directly related to estimates of cash flows to be received from the covered loans. The estimated cash flows from the FDIC indemnification asset are sensitive to changes in the same assumptions that impact expected cash flows on covered loans. If the amount of expected cash flows to be recovered from the FDIC changes, the difference between the carrying amount of the FDIC indemnification asset and the revised recoverable amount is accreted or amortized over the remaining term of the FDIC agreement. These estimates are considered to be critical accounting estimates because they involve significant judgment and assumptions as to the amount and timing of cash flows to be collected.

Acquired loans are placed into homogenous pools at acquisition. At acquisition, the fair value of the pools of credit impaired loans was measured based on the expected cash flows to be derived from each pool. The difference between total contractual payments due and the cash flows expected to be received at acquisition was recognized as non-accretable difference. The excess of expected cash flows over the recorded fair value of each pool at the acquisition is referred to as the accretable yield and is being recognized as interest income over the life of each pool. Acquired loans with no discount attributable, at least in part, to credit quality, performing loans, are accounted for on a contractual basis.

We monitor loan pool activity and performance and as conditions or expectations change we update our expected cash flows from the pools to determine whether any material changes have occurred in expected cash flows that would be indicative of impairment or necessitate reclassification between non-accretable difference and accretable yield. Initial and ongoing cash flow expectations incorporate significant assumptions regarding prepayment rates, the timing of resolution of loans, frequency of default, delinquency and loss severity, which is dependent on estimates of underlying collateral values.

Prepayment, delinquency and default curves used to forecast pool cash flows are derived from the historical performance of the loan pools. Changes in the assumptions that impact forecasted cash flows could result in a potentially material change to the amount of the allowance for loan losses or the rate of accretion on these loans.

Other than Temporary Impairment ("OTTI") of Investment Securities

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, Southern National compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Goodwill Impairment Assessment

Goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances warrant. Goodwill is primarily related to the 2006 acquisition of 1st Service Bank. The acquisition of PGFSB in 2014 increased goodwill by $1.4 million. Our annual assessment timing is during the third calendar quarter. For the 2014 assessment, we performed a qualitative assessment to determine if it was more likely than not that the fair value of our single reporting unit is less than its carrying amount. We concluded that the fair value of our single reporting unit exceeded its carrying amount. Our qualitative assessment considered many factors including, but not limited to, our actual and projected operating performance and profitability, as well as consideration of recent bank merger and acquisition transaction metrics. No impairment was indicated in 2014 or 2013.

Other Real Estate Owned (OREO)

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the collateral at the date of foreclosure based on estimates, including some obtained from third parties, less estimated costs to sell, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management, and the assets are carried at the lower of cost or fair value, less estimated costs to sell. Significant property improvements that enhance the salability of the property are capitalized to the extent that the carrying value does not exceed estimated realizable value. Legal fees, maintenance and other direct costs of foreclosed properties are expensed as incurred.

Due to the judgment involved in estimating fair value of the properties, accounting for OREO is regarded as a critical accounting policy. Estimates of value of OREO properties at the date of foreclosure are typically based on real estate appraisals performed by independent appraisers. These values are generally updated as appraisals become available.

Valuation of Deferred Tax Asset

The provision for income taxes reflects the tax effects of the transactions reported in the financial statements, including taxes currently due as well as changes in deferred taxes. Deferred tax assets and liabilities represent estimates of the future tax return consequences of temporary differences between carrying amounts and tax bases of assets and liabilities. Deferred tax assets and liabilities are computed by using currently enacted income tax rates and applying those rates to the periods in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. As of December 31, 2014 and 2013, management concluded that it is more likely than not that Southern National will generate sufficient taxable income to fully utilize our deferred tax assets.

OVERVIEW

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. Sonabank provides a range of financial services to individuals and small and medium sized businesses. Sonabank has fifteen branches in Virginia, located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Middleburg, Leesburg (2), South Riding, Front Royal, New Market, Haymarket, Richmond and Clifton Forge, and nine branches in Maryland, in Rockville, Shady Grove, Germantown, Frederick, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

While we offer a wide range of commercial banking services, we focus on making loans secured primarily by commercial real estate and other types of secured and unsecured commercial loans to small and medium-sized businesses in a number of industries, as well as loans to individuals for a variety of purposes. We are a leading Small Business Administration (SBA) lender among Virginia community banks. We also invest in real estate-related securities, including collateralized mortgage obligations and agency mortgage backed securities. Our principal sources of funds for loans and investing in securities are deposits and, to a lesser extent, borrowings. We offer a broad range of deposit products, including checking (NOW), savings, money market accounts and certificates of deposit. We actively pursue business relationships by utilizing the business contacts of our senior management, other bank officers and our directors, thereby capitalizing on our knowledge of our local market areas.

We completed the acquisition of the HarVest Bank of Maryland on April 27, 2012, the Midlothian Branch in Richmond, Virginia on October 1, 2011 and the acquisition and assumption of certain assets and liabilities of Greater Atlantic Bank from the FDIC on December 4, 2009. As part of the Greater Atlantic acquisition, the Bank and the FDIC entered into a loss sharing agreement (the "loss sharing agreement") on approximately $143.4 million (cost 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

The merger with Prince George's Federal Savings Bank (PGFSB) was completed on August 1, 2014. Southern National acquired PGFSB in a cash and stock transaction. PGFSB 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. Prince George's FSB has an excellent core deposit base reflecting its tenure in the communities it serves, and its lending activities have historically been focused on residential mortgages.

RESULTS OF OPERATIONS

Net Income

Net income for the year ended December 31, 2014 was $7.5 million, compared to $6.3 million for the year ended December 31, 2013. An increase in net interest income and an increase in noninterest income in 2014 as compared to 2013 were partially offset by an increase in noninterest expense.

Net income for the year ended December 31, 2013 was $6.3 million, down from $6.6 million for the year ended December 31, 2012, due primarily to the bargain purchase gain on the acquisition of HarVest Bank in 2012. Improvement in noninterest expense and a reduction in the provision for loan losses in 2013 as compared to 2012 were partially offset by a decrease in net interest income.

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.

The brutal competition we had seen for loans, particularly at the beginning of 2013, diminished in 2014. Average loans during 2014 were $608.6 million compared to $516.9 million in the prior year. The growth resulted from the factors noted above. The net interest margin was 4.60% in 2014, down from 4.75% in 2013. The decline in the net interest margin was partially attributable to an increase in the residential loan portfolio resulting from the PGFSB acquisition and the portfolio purchases from STM during the year. Net interest income was $33.4 million during the year ended December 31, 2014, compared to $30.4 million during the prior year.

The Greater Atlantic Bank (GAB) loan discount accretion contributed $2.0 million to net interest income during 2014, compared to $1.7 million during 2013. The loan discount accretion on the HarVest Bank portfolio contributed $920 thousand during 2014, compared to $1.9 million during 2013. The discount accretion on the PGFSB portfolio was $229 thousand in 2014. Before taking the discount accretion related to the three acquisitions into account, the net interest margin would have been 4.17% in 2014 and 4.20% in 2013.

Net interest income was $30.4 million during the year ended December 31, 2013, compared to $31.7 million during the prior year. Average loans during 2013 were $516.9 million compared to $526.4 million last year. The net interest margin was 4.75% in 2013, down from 5.19% in 2012. The primary driver was a reduction in the average yield on loans from 6.70% in 2012 to 6.24% in 2013 as we had to respond to ferocious competition in our marketplace. The GAB loan discount accretion contributed $1.7 million to net interest income during 2013, compared to $3.4 million during 2012. The loan discount accretion on the HarVest Bank portfolio contributed $1.9 million during 2013, compared to $717 thousand during 2012. Before taking the discount accretion related to the GAB and HarVest acquisitions into account, the net interest margin would have been 4.20% in 2013 and 4.52% in 2012. The yield on securities decreased 28 basis points, and the cost of interest bearing deposits declined by 27 basis points year on year.

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

Average Balance Sheets and Net Interest Analysis For the Years Ended December 31, 2014, 2013 and 2012

	2014			2013			2012		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate
	(Dollar amounts in thousands)								
Assets									
Interest-earning assets:									
Loans, net of deferred fees (1) (2)	$ 608,604	$ 34,611	5.69 %	$ 516,927	$ 32,269	6.24 %	$ 526,371	$ 35,246	6.70 %
Investment securities	90,133	2,628	2.92 %	83,920	2,272	2.71 %	65,339	1,956	2.99 %
Other earning assets	28,484	852	2.99 %	39,938	575	1.44 %	19,504	359	1.84 %
Total earning assets	727,221	38,091	5.24 %	640,785	35,116	5.48 %	611,214	37,561	6.15 %
Allowance for loan losses	(7,422)			(7,621)			(7,179)		
Intangible assets	11,452			10,212			10,834		
Other non-earning assets	66,157			61,397			60,604		
Total assets	$ 797,408			$ 704,773			$ 675,473		
Liabilities and stockholders' equity									
Interest-bearing liabilities:									
NOW accounts	$ 23,574	26	0.11 %	$ 23,723	58	0.24 %	$ 19,437	60	0.31 %
Money market accounts	130,473	369	0.28 %	147,319	505	0.34 %	161,048	1,202	0.75 %
Savings accounts	29,034	179	0.62 %	12,323	72	0.59 %	8,143	48	0.59 %
Time deposits	376,395	3,402	0.90 %	319,495	3,412	1.07 %	283,507	3,726	1.31 %
Total interest-bearing deposits	559,476	3,976	0.71 %	502,860	4,047	0.80 %	472,135	5,036	1.07 %
Borrowings	62,810	697	1.11 %	46,323	621	1.34 %	52,423	792	1.51 %
Total interest-bearing liabilities	622,286	4,673	0.75 %	549,183	4,668	0.85 %	524,558	5,828	1.11 %

Noninterest-bearing liabilities:									
Demand deposits	59,205			44,989			42,244		
Other liabilities	5,158			5,352			6,051		
Total liabilites	686,649			599,524			572,853		
Stockholders’ equity	110,759			105,249			102,620		
Total liabilities and stockholders’ equity	$ 797,408			$ 704,773			$ 675,473		
Net interest income		$ 33,418			$ 30,448			$ 31,733	
Interest rate spread			4.49 %			4.63 %			5.03 %
Net interest margin			4.60 %			4.75 %			5.19 %

(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.

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

	Year Ended December 31, 2014 vs. 2013 Increase (Decrease) Due to Change in:			Year Ended December 31, 2013 vs. 2012 Increase (Decrease) Due to Change in:		
	Volume	Rate	Net Change	Volume	Rate	Net Change
	(in thousands)					
Interest-earning assets:						
Loans, net of deferred fees	$ 4,701	$ (2,359)	$ 2,342	$ (623)	$ (2,354)	$ (2,977)
Investment securities	175	181	356	476	(160)	316
Other earning assets	(100)	377	277	273	(57)	216
Total interest-earning assets	4,776	(1,801)	2,975	126	(2,571)	(2,445)
Interest-bearing liabilities:						
NOW accounts	(1)	(31)	(32)	(88)	86	(2)
Money market accounts	(54)	(82)	(136)	(95)	(602)	(697)
Savings accounts	103	4	107	25	-	25
Time deposits	(73)	63	(10)	659	(973)	(314)
Total interest-bearing deposits	(25)	(46)	(71)	501	(1,489)	(988)
Borrowings	147	(71)	76	(87)	(85)	(172)
Total interest-bearing liabilities	122	(117)	5	414	(1,574)	(1,160)
Change in net interest income	$ 4,654	$ (1,684)	$ 2,970	$ (288)	$ (997)	$ (1,285)

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

The provision for loan losses charged to operations for the years ended December 31, 2014, 2013 and 2012 was $3.4 million, $3.6 million, and $6.2 million, respectively. We had charge-offs totaling $3.3 million during 2014, $4.1 million during 2013, and $6.2 million during 2012. There were recoveries totaling $174 thousand during 2014, $503 thousand during 2013 and $702 thousand during 2012. In addition to a decline in net charge-offs, we have also witnessed a significant decline in non-accrual loans.

The Financial Condition Section of Management's Discussion and Analysis provides information on our loan portfolio, past due loans, nonperforming assets and the allowance for loan losses.

Noninterest Income

The following table presents the major categories of noninterest income for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	Change
Account maintenance and deposit service fees	$826	$793	$33
Income from bank-owned life insurance	617	592	25
Equity income from mortgage affiliate	558	-	558
Net impairment losses recognized in earnings	(41)	(3)	(38)
Gain on sale of securities available for sale	-	142	(142)
Gain on other assets	202	13	189
Other	202	216	(14)
Total noninterest income	$2,364	$1,753	$611

	2013	2012	Change
Account maintenance and deposit service fees	$793	$832	$(39)
Income from bank-owned life insurance	592	797	(205)
Gain on sale of SBA loans	-	657	(657)
Bargain purchase gain on acquisition	-	3,484	(3,484)
Net impairment losses recognized in earnings	(3)	(717)	714
Gain on sale of securities available for sale	142	274	(132)
Gain on other assets	13	14	(1)
Other	216	254	(38)
Total noninterest income	$1,753	$5,595	$(3,842)

Noninterest income increased to $2.4 million in 2014 from $1.8 million in 2013. In addition to income from the STM investment in the amount of $558 thousand, we sold part of our investment in CapitalSouth Partners Fund III, a Small Business Investment Company, for a gain of $202 thousand.

During 2013 noninterest income declined to $1.8 million from $5.6 million in 2012. The decrease resulted from the bargain purchase gain in 2012 of $3.5 million from the HarVest transaction. In addition, there were other than temporary impairment (OTTI) charges of $717 thousand in trust preferred securities during 2012 compared to $3 thousand in OTTI charges during 2013. Also, during 2012 the bank sold the guaranteed portions of SBA loans and realized a $657 thousand gain. Income from bank owned life insurance (“BOLI”) contributed $592 thousand during 2013, compared to $797 thousand during 2012 which included a death benefit.

Noninterest Expense

The following table presents the major categories of noninterest expense for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	Change
Salaries and benefits	$10,225	$9,063	$1,162
Occupancy expenses	3,165	3,063	102
Furniture and equipment expenses	787	724	63
Amortization of core deposit intangible	220	467	(247)
Virginia franchise tax expense	455	471	(16)
FDIC assessment	569	823	(254)
Data processing expense	569	562	7
Telephone and communication expense	751	684	67
Change in FDIC indemnification asset	1,230	483	747
Net gain on other real estate owned	(433)	(188)	(245)
Merger expense	487	35	452
Other operating expenses	3,076	3,105	(29)
Total noninterest expense	$21,101	$19,292	$1,809

	2013	2012	Change
Salaries and benefits	$9,063	$7,993	$1,070
Occupancy expenses	3,063	2,778	285
Furniture and equipment expenses	724	621	103
Amortization of core deposit intangible	467	893	(426)
Virginia franchise tax expense	471	582	(111)
FDIC assessment	823	565	258
Data processing expense	562	634	(72)
Telephone and communication expense	684	603	81
Change in FDIC indemnification asset	483	651	(168)
Net (gain) loss on other real estate owned	(188)	2,632	(2,820)
Merger expense	35	360	(325)
Other operating expenses	3,105	3,137	(32)
Total noninterest expense	$19,292	$21,449	$(2,157)

Noninterest expense was $21.1 million in 2014 compared to $19.3 million in 2013. Merger expenses were $487 thousand during 2014, compared to $35 thousand in 2013.

The net gain on other real estate owned (OREO) in 2014 was $433 thousand compared to a gain on OREO of $188 thousand in 2013. The gain in 2014 resulted primarily from the sale of eight OREO properties at a gain of $1.1 million, the sale of three properties at a loss of $226 thousand, and impairment of $400 thousand on two properties. During 2013, we sold five properties from OREO resulting in gains of $1.3 million. We sold four other properties resulting in losses of $588 thousand. We also recognized impairment in the value of four properties in the amount of $550 thousand.

As a result of the cash flow analysis of the acquired GAB loans and the related FDIC indemnification asset in the second quarter of 2014, the amortization expense of the indemnification asset increased from $483 thousand in 2013, to $1.2 million in 2014.

Noninterest expense was $19.3 million in 2013 compared to $21.4 million in 2012. During 2013, we sold five properties from other real estate owned (OREO) resulting in gains of $1.3 million. We sold four other properties resulting in losses of $588 thousand. We also recognized impairment in the value of four properties in the amount of $550 thousand. During 2012, we recognized net losses in OREO totaling $2.6 million.

Occupancy and furniture and equipment expenses were $3.8 million during 2013, compared to $3.4 million during 2012. Of this increase, $413 thousand resulted from operating five additional branches, four from the HarVest acquisition and one denovo. In addition, salaries and benefits expense has increased $1.1 million during 2013, compared to 2012 due to the HarVest acquisition and other additional personnel. Audit and accounting fees have decreased from $822 thousand during 2012 to $441 thousand during 2013. These fees were abnormally high in 2012 because of the restatement of 2010 and 2009 financial statements. This decrease was partially offset by increases in foreclosure related expenses.

FINANCIAL CONDITION

Total assets were $916.6 million as of December 31, 2014, compared to $716.2 million as of December 31, 2013. Total loans increased from $546.1 million at the end of December 2013 to $703.5 million at December 31, 2014. At December 31, 2014, the loan portfolio included $59.5 million of loans acquired from PGFSB.

Non-covered Loans

Loans that are not covered by the FDIC loss sharing agreement are referred to as “non-covered loans.” Total non-covered loans, net of deferred fees, grew from $494.4 million at the end of 2013 to $665.0 million at the end of 2014. Non-covered commercial real estate loans, owner-occupied and non-owner-occupied increased from $256.2 million at the end of 2013 to $337.1 million, partially as a result of the transfer of the covered GAB balances into the non-covered balances but more importantly from very strong originations during the year.

Non-covered residential 1-4 family loans nearly doubled increasing from $66.5 million at December 31, 2013 to $123.2 million at the end of 2014 as a result of the PGFSB acquisition and loans purchased from STM.

Our commercial real estate lending program includes both loans closed under the Small Business Administration (“SBA”) 7(a) and 504 loan programs and loans closed outside of the SBA programs that serve both the investor and owner-occupied facility market. The 504 loan program is used to finance long-term fixed assets, primarily real estate and heavy equipment and gives borrowers access to up to 90% financing for a project. SBA 7(a) loans may be used for the purchase of real estate, construction, renovation or leasehold improvements, as well as machinery, equipment, furniture, fixtures, inventory and in some instances, working capital and debt refinancing. The SBA guarantees up to

85% of the loan balance in the 7(a) program, and start-up businesses are eligible to participate in the program. During 2014 we closed loans totaling $8.9 million through the SBA's 7(a) program and $8.2 million under the SBA's 504 program. During 2013 we closed loans totaling $24.3 million through the SBA's 7(a) program and $1.1 million under the SBA's 504 program.

Covered Loans

We refer to the loans acquired in the Greater Atlantic acquisition as “covered loans” as we will be reimbursed by the FDIC for a substantial portion of any future losses on them under the terms of the loss sharing agreement. The indemnification against losses in the commercial portfolio on the GAB portfolio ended in December 2014. The FDIC indemnification on the GAB residential mortgages and the GAB HELOCS continues for another five years.

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

	2014 Covered	Non-covered	Total 2014 Amount	Percent	2013 Covered	Non-covered	Total 2013 Amount	Percent	2012 Covered	Non-co
Mortgage loans on real estate:										
Commercial real estate - owner-occupied	$-	$136,597	$136,597	19.4 %	$1,603	$106,225	$107,828	15.3 %	$4,143	$93,2
Commercial real estate - non-owner-occupied	-	200,517	200,517	28.4 %	5,829	150,008	155,837	22.1 %	10,246	130,
Secured by farmland	-	612	612	0.1 %	100	508	608	0.1 %	-	1,47
Construction and land development	-	57,938	57,938	8.2 %	1	39,068	39,069	5.5 %	1,261	44,9
Residential 1-4 family	14,837	123,233	138,070	19.6 %	16,631	66,482	83,113	11.8 %	21,005	61,3
Multi- family residential	-	21,832	21,832	3.1 %	585	21,496	22,081	3.1 %	614	18,7
Home equity lines of credit	23,658	9,751	33,409	4.7 %	25,769	6,431	32,200	4.6 %	31,292	9,17
Total real estate loans	38,495	550,480	588,975	83.5 %	50,518	390,218	440,736	62.5 %	68,561	359,
Commercial loans	-	114,714	114,714	16.3 %	1,097	104,284	105,381	14.9 %	2,672	99,0
Consumer loans	-	1,564	1,564	0.2 %	81	1,308	1,389	0.2 %	88	1,62
Gross loans	38,495	666,758	705,253	100.0%	51,696	495,810	547,506	100.0%	71,321	459,
Less deferred fees	1	(1,782)	(1,781)		5	(1,453)	(1,448)		7	(1,0
Loans, net of deferred fees	$38,496	$664,976	$703,472		$51,701	$494,357	$546,058		$71,328	$458,

	2011 Covered	Non-covered	Total 2011 Amount	Percent	2010 Covered	Non-covered	Total 2010 Amount	Percent
					(in thousands)			

					(As Restated)			
Mortgage loans on real estate:								
Commercial real estate - owner-occupied	$4,854	$82,450	$87,304	16.4 %	$5,427	$81,487	$86,914	17.6 %
Commercial real estate - non-owner-occupied	11,243	117,059	128,302	24.2 %	14,502	76,068	90,570	18.4 %
Secured by farmland	-	1,506	1,506	0.3 %	-	3,522	3,522	0.7 %
Construction and land development	2,883	39,565	42,448	8.0 %	3,249	39,480	42,729	8.7 %
Residential 1-4 family	25,307	49,288	74,595	14.0 %	28,733	58,900	87,633	17.8 %
Multi- family residential	629	19,553	20,182	3.8 %	629	19,177	19,806	4.0 %
Home equity lines of credit	35,442	9,040	44,482	8.4 %	40,662	10,532	51,194	10.4 %
Total real estate loans	80,358	318,461	398,819	75.1 %	93,202	289,166	382,368	77.6 %
Commercial loans	2,122	89,939	92,061	17.3 %	2,443	76,644	79,087	16.0 %
Consumer loans	108	1,868	1,976	0.4 %	143	2,010	2,153	0.4 %
Gross loans	82,588	410,268	492,856	100.0%	95,788	367,820	463,608	100.0%
Less deferred fees	-	(1,088)	(1,088.00)		-	(554)	(554)	
Loans, net of deferred fees	$82,588	$409,180	$491,768		$95,788	$367,266	$463,054	

Covered loan losses are reimbursed in accordance with the FDIC loss sharing agreements. There are two agreements with the FDIC, one for single family assets which is a 10 year agreement expiring in December 2019, and one for non-single family (commercial) assets which was a 5 year agreement that expired in December 2014. As shown in the table above, approximately 82% of the remaining assets relate to single family assets which are covered under the 10 year agreement. Our FDIC indemnification asset, the estimate of the expected loss amounts to be reimbursed by the FDIC has a current carrying value of $3.6 million and an estimated fair value of $2.3 million reflecting an overstated FDIC indemnification asset. This current overstatement, which is due to improvements in the loss estimates in the single family covered loans, is being amortized down in accordance with accounting rules over the life of the contract (10 years for single family covered assets) or the life of the loans, whichever is shorter.

As of December 31, 2013, substantially all non-covered and covered 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 our operations.

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At December 31, 2014 we had $136.6 million in non-covered owner-occupied commercial real estate loans, and we had $223.0 million in non-covered non-owner occupied commercial real estate loans including multi-family residential loans and loans secured by farmland.

The following table sets forth the contractual maturity ranges of the non-covered commercial and construction and land development loan portfolio and the amount of those loans with fixed and floating interest rates in each maturity range as of December 31, 2014 (in thousands):

		After 1 Year Through 5 Years		After 5 Years		
	One Year or Less	Fixed Rate	Floating Rate	Fixed Rate	Floating Rate	Total
Construction and land development	$17,841	$7,892	$6,323	$22,811	$3,071	$57,938
Commercial	41,346	32,023	12,343	4,817	24,185	114,714
Total	$59,187	$39,915	$18,666	$27,628	$27,256	$172,652

Past Due Loans and Nonperforming Assets

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

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

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

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

	2014	2013	2012	2011	2010 (As Restated)
Nonaccrual loans	$5,652	$7,814	$7,628	$4,541	$9,585
Loans past due 90 days and accruing interest	-	-	-	32	-
Total nonperforming loans	5,652	7,814	7,628	4,573	9,585
Other real estate owned	13,051	9,579	13,200	13,620	3,901
Total nonperforming assets	$18,703	$17,393	$20,828	$18,193	$13,486
SBA guaranteed amounts included in nonaccrual loans	$4,664	$1,852	$2,607	$2,462	$1,410
Allowance for non-covered loan losses to nonperforming loans	130.80 %	90.08 %	91.33 %	137.66 %	58.41 %
Allowance for non-covered loan losses to total non-covered loans	1.11 %	1.42 %	1.52 %	1.54 %	1.52 %
Nonperforming assets to total non-covered assets	2.13 %	2.63 %	3.20 %	3.44 %	2.75 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	1.60 %	2.35 %	2.80 %	2.98 %	2.46 %
Nonperforming assets to total non-covered loans and OREO	2.76 %	3.45 %	4.41 %	4.30 %	3.63 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered loans and OREO	2.07 %	3.08 %	3.86 %	3.72 %	3.25 %

Covered nonperforming assets are not included in the table above because the carrying value includes a component for credit losses (the nonaccretable yield).

During the year ending December 31, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the year ending December 31, 2014, which had been modified in the previous 12 months.

During 2013, we refinanced 15 loans to one borrower totaling $5.9 million secured by single family 1-4 residential properties with a loan in the amount of $5.2 million secured by a first deed of trust on the properties and a loan in the amount of $663 thousand secured by a second deed of trust on the properties which was charged off as of December 31, 2013. There is no commitment to lend additional funds to this borrower. During 2013, we modified one commercial real estate owner-occupied loan in a troubled debt restructuring with an unpaid principal balance of $708 thousand which was restructured by reducing the principal portion of the contractual principal and interest payment without modifying the interest rate. There is no additional commitment to lend to this borrower.

It is Sonabank’s practice to concurrently charge off collateral dependent loans at the time loan impairment is recognized. Charge offs on loans individually evaluated for impairment totaled approximately $1.2 million during

2013.

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

	2014	2013	2012	2011	2010
Nonaccrual loans	$859	$1,622	$3,569	$3,340	$2,048
Loans past due 90 days and accruing interest	-	-	-	136	234
Total nonperforming loans	859	1,622	3,569	3,476	2,282
Other real estate owned	-	2,213	636	636	676
Total nonperforming assets	$859	$3,835	$4,205	$4,112	$2,958

Allowance for Loan Losses

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

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

The allowance for loan losses represents management's estimate of an amount appropriate to provide for probable incurred losses in the loan portfolio in the normal course of business. This estimate is based on average historical losses within the various loan types that compose our portfolio as well as an estimate of the effect that other known factors such as the economic environment within our market area will have on net losses. Due to the uncertainty of risks in the loan portfolio, we have established an unallocated portion of the allowance which management believes is prudent and consistent with regulatory requirements. The allowance is also subject to regulatory examinations and determination by the regulatory agencies as to the appropriate level of the allowance.

Our loan review program is conducted by the Chief Risk Officer and a third party consultant who report directly to the Audit Committee of the Board of Directors. In 2014, loans with outstanding balances totaling more than 50% of the non-consumer and non-residential loan portfolio outstanding as of December 31, 2013 were reviewed by the third party consultant, and another 30% was done by internal loan review. In 2015 we plan to have the third party consultant review loans with outstanding balances totaling at least 50% of the non-consumer and non-residential loan portfolio outstanding as of December 31, 2014, and another 30% will be done by internal loan review. The purpose of loan review is to validate management's assessment of risk of the individual loans in the portfolio and to determine whether the loan was approved, underwritten and is being monitored in accordance with the bank's credit policy and regulatory guidance. Management's risk assessment of individual loans takes into consideration among other factors, the estimated value of the underlying collateral, the borrower's ability to repay, the borrower's payment history and current payment status.

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

	For the Year Ended December 31, 2014	For the Year Ended December 31, 2013	For the Year Ended December 31, 2012	For the Year Ended December 31, 2011	For the Year Ended December 31, 2010 (As Restated)
Balance, beginning of period	$ 7,090	$ 7,066	$ 6,295	$ 5,599	$ 5,172
Provision charged to operations	3,444	3,615	6,195	8,492	9,025
Recoveries credited to allowance	150	464	782	199	167
Total	10,684	11,145	13,272	14,290	14,364
Loans charged off:					
Real estate - commercial	573	199	1,331	1,163	1,650
Real estate - construction, land and other	250	650	2,119	460	3,718
Real estate - residential 1-4 family	449	776	1,071	2,341	2,038
Commercial	1,998	2,286	1,676	3,975	1,278
Consumer	-	144	9	56	81
Total loans charged off	3,270	4,055	6,206	7,995	8,765
Balance, end of period	$ 7,414	$ 7,090	$ 7,066	$ 6,295	$ 5,599
Net charge-offs to average loans, net of unearned income	0.51 %	0.69 %	1.03 %	1.63 %	1.86 %

Please refer to “Item 8 –. Financial Statements and Supplementary Data”, Footnote 3, for information regarding the allocation of the allowance for loan losses among various categories of loans.

We believe that the allowance for loan losses at December 31, 2014 is sufficient to absorb probable incurred credit losses in our loan portfolio based on our assessment of all known factors affecting the collectability of our loan portfolio. Our assessment involves uncertainty and judgment; therefore, the adequacy of the allowance for loan losses cannot be determined with precision and may be subject to change in future periods. In addition, bank regulatory authorities, as part of their periodic examination, may require additional charges to the provision for loan losses in future periods if the results of their reviews warrant additions to the allowance for loan losses.

Investment Securities

Our securities portfolio provides us with required liquidity and securities to pledge as collateral for certain governmental deposits and borrowed funds.

Our securities portfolio is managed by our president and our treasurer, both of whom have significant experience in this area, with the concurrence of our Asset/Liability Committee. In addition to our president (who is chairman of the Asset/Liability Committee) and our treasurer, this committee is comprised of two outside directors our chief executive officer, our chief financial officer, our chief risk officer and our controller. Investment management is performed in accordance with our investment policy, which is approved annually by the Asset/Liability Committee and the Board of Directors. Our investment policy addresses our investment strategies, approval process, approved securities dealers and authorized investments. Our investment policy authorizes us to invest in:

Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and the Federal Home Loan Mortgage Corporation (FHLMC) mortgage-backed securities (MBS)
Collateralized mortgage obligations
Treasury securities
SBA guaranteed loan pools
Agency securities

Obligations of states and political subdivisions
Pooled trust preferred securities comprised of a minimum of 80% bank collateral with an investment grade rating or a minimum of 60% bank collateral with a AAA rating at purchase
Other corporate debt securities rated Aa3/AA- or better at purchase

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

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

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

Obligations of states and political subdivisions (municipal securities) are purchased with consideration of the current tax position of the Bank. In-state (Virginia) municipal bonds will be favored when they present better relative value than comparable out-of-state municipal bonds. Both taxable and tax-exempt municipal bonds may be purchased, but only after careful assessment of the market risk of the security. Appropriate credit evaluation must be performed prior to purchasing municipal bonds.

Southern National's corporate bonds consist of pooled trust preferred securities issued by banks, thrifts and insurance companies. The collateral pools of these trust preferred securities must be at least 80% banks or thrifts, if the rating at the time of purchase is A3/A- or better. If the rating is Aaa/AAA, the collateral pool must be at least 60% banks or thrifts. These securities generally have a long term (25 years or more), allow early redemption by the issuers, make periodic variable interest payments and mature at face value. Trust preferred securities allow the deferral of interest payments for up to five years.

We classify our securities as either: "held-to-maturity" or "available-for-sale." Debt securities that Southern National has the positive intent and ability to hold to maturity are classified as held to maturity and carried at amortized cost. Securities classified as available for sale are those debt and equity securities that may be sold in response to changes in interest rates, liquidity needs or other similar factors.

Securities available for sale are carried at fair value, with unrealized gains or losses net of deferred taxes, included in accumulated other comprehensive income (loss) in stockholders' equity. Securities totaling $94.1 million were in the held to maturity portfolio at December 31, 2014, compared to $82.4 million at December 31, 2013. Securities totaling $2.3 million were in the available for sale portfolio at December 31, 2014, compared to $2.0 million at December 31, 2013.

As of December 31, 2014, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$5,466	$ 4,975	$ 3,553	16 %	$ 266	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	328	323	192	34 %	5	
						5,794	5,298	3,745		$ 271	
										Cumulative Other Comprehensive Loss (2)	**Cumulative OTTI Related to Credit Loss (2)**
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	509	488	39 %	591	$ 400
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,178	57	395	26 %	828	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	324	17 %	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	295	21 %	377	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	575	15 %	1,014	661
	Mezzanine	A3	A-	C	C	3,279	31	86	33 %	689	2,559

ALESCO XV C1											
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,179	121	563	15 %	878	1,180
						14,420	1,220	2,726		$ 4,384	$ 8,816
Total						$20,214	$ 6,518	$ 6,471			

(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 and continues to have investment grade ratings from Fitch and Moody's, but not Standard & Poor's. It is a floating rate security priced quarterly at 40 basis points over LIBOR. We own it at a dollar price of 90. As of December 31, 2014, the yield was 0.95% which is attractive for an investment grade floating rate security. It is a very positive contributor to our asset sensitivity which will stand us in good stead if rates rise.

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 $41 thousand during 2014 compared to OTTI charges related to credit on the trust preferred securities totaling $3 thousand and $717 thousand for the years ended December 31, 2013 and 2012, respectively.

Other securities in our investment portfolio are as follows:

SARM 2005-22 1A2 in the amount of $599 thousand, a residential collateralized mortgage obligation that is not government-sponsored.

residential government-sponsored mortgage-backed securities in the amount of $22.9 million and residential government-sponsored collateralized mortgage obligations totaling $3.6 million.

callable agency securities in the amount of $45.0 million.

municipal bonds in the amount of $17.8 million with a taxable equivalent yield of 3.18% and ratings as follows:

Rating Service	Rating	Amount (in thousands)
Moody's	Aaa	$ 505
Moody's	Aa2	3,629
Moody's	Aa3	717
Moody's	A1	1,173
Standard & Poor's	AAA	3,127
Standard & Poor's	AA+	580
Standard & Poor's	AA	7,483
Standard & Poor's	AA-	602
		$ 17,816

For additional information regarding investment securities refer to "Item 8 –. Financial Statements and Supplementary Data", Footnote 2.

The following table sets forth the amortized cost and estimated fair value of our investment securities by contractual maturity at December 31, 2014. Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands).

	Securities Available for Sale		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Obligations of states and political subdivisions			
Due after ten years	$2,295	$2,285	2.63 %

	Securities Held to Maturity		
	Amortized Cost	Estimated Fair Value	Weighted Average Yield
Residential government-sponsored mortgage-backed securities			
Due after five years through ten years	$1,115	$1,215	5.44 %
Due after ten years	21,782	22,382	2.67 %
Total residential government-sponsored mortgage-backed securities	22,897	23,597	2.80 %
Residential government-sponsored collateralized mortgage obligations			
Due after ten years	3,564	3,511	1.76 %
Other residential collateralized mortgage obligations			
Due after ten years	599	599	2.42 %
Total collateralized mortgage obligations	4,163	4,110	1.85 %
Government-sponsored agency securities			
Due after five years through ten years	4,996	4,856	2.63 %
Due after ten years	39,953	39,565	3.17 %
	44,949	44,421	3.11 %
Obligations of states and political subdivisions			
Due after five years through ten years	7,678	7,699	2.01 %
Due after ten years	7,853	7,795	2.44 %
	15,531	15,494	2.23 %
Trust preferred securities			
Due after ten years	6,518	6,471	0.96 %
	$94,058	$94,093	2.69 %

Deposits and Other Borrowings

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

Total deposits increased to $742.4 million at December 31, 2014 from $540.4 million as of December 31, 2013 largely as a result of the Prince George's FSB acquisition. Notably, non-interest bearing demand deposits increased from a year-end 2013 level of $44.6 million to $69.6 million as of December 31, 2014. Similarly, savings account balances increased from $17.0 million to $44.2 million, and money market account balances increased from $130.9

million to $137.3 million over the same period. As of December 31, 2014, we had brokered certificates of deposit in the amount of $77.0 million and brokered money market deposits of $10.2 million. At December 31, 2013, we had brokered certificates of deposit in the amount of $30.0 million, and we had brokered money market deposits of $10.2 million.

The following table sets forth the average balance and average rate paid on each of the deposit categories for the years ended December 31, 2014, 2013 and 2012:

	2014		2013		2012	
	Average Balance	Average Rate	Average Balance	Average Rate	Average Balance	Average Rate
	(in thousands)					
Noninterest-bearing deposits	$ 59,205		$ 44,989		$ 42,244	
Interest-bearing deposits:						
Savings accounts	29,034	0.62 %	12,323	0.59 %	8,143	0.59 %
Money market accounts	130,473	0.28 %	147,319	0.34 %	161,048	0.75 %
NOW accounts	23,574	0.11 %	23,723	0.24 %	19,437	0.31 %
Time deposits	376,395	0.90 %	319,495	1.07 %	283,507	1.31 %
Total interest-bearing deposits	559,476	0.71 %	502,860	0.80 %	472,135	1.07 %
Total deposits	$ 618,681		$ 547,849		$ 514,379	

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

We use borrowed funds to support our liquidity needs and to temporarily satisfy our funding needs from increased loan demand and for other shorter term purposes. One source of these borrowed funds is securities sold under agreements to repurchase, which are reflected at the amount of cash received in connection with the transactions, and may require additional collateral based on the fair value of the underlying securities pledged. We engage in these transactions with retail customers and with established third parties, primarily large securities brokerage firms. We also are a member of the FHLB and are authorized to obtain advances from the FHLB from time to time to as needed. The FHLB has a credit program for members with different maturities and interest rates, which may be fixed or variable. We are required to collateralize our borrowings from the FHLB with our FHLB stock and other collateral acceptable to the FHLB. At December 31, 2014 and 2013, total FHLB borrowings were $40.3 million and $50.3 million, respectively. At December 31, 2014, we had $143.0 million of unused and available FHLB lines of credit. For additional detail regarding borrowed funds, refer to “Item 8 –. Financial Statements and Supplementary Data”, Footnotes 9 and 10.

Interest Rate Sensitivity and Market Risk

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

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We use a duration gap of equity approach to manage our interest rate risk, and we review quarterly interest sensitivity reports prepared for us by FTN Financial using the Sendero ALM Analysis System. This approach uses a model which generates estimates of the change in our 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 standard industry 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 December 31, 2014 and as of December 31, 2013, and all changes are within our ALM Policy guidelines. The effect of the PGFSB merger was less negative than anticipated. The impact from the fixed rate mortgage loans acquired was offset by the lengthening of certificate of deposit maturities. Overall the duration of deposits increased and the duration of loans decreased.

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

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Economic Value of Equity as a % of Equity Book Value
		(Dollar amounts in thousands)			
Up 400	$ 114,756	$ (22,806)	-16.58 %	12.52 %	100.68 %
Up 300	118,938	(18,624)	-13.54 %	12.98 %	104.35 %
Up 200	123,724	(13,838)	-10.06 %	13.50 %	108.55 %
Up 100	129,926	(7,636)	-5.55 %	14.17 %	113.99 %
Base	137,562	-	0.00 %	15.01 %	120.69 %
Down 100	129,927	(7,635)	-5.55 %	14.17 %	113.99 %
Down 200	123,019	(14,543)	-10.57 %	13.42 %	107.93 %

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

Change in Interest Rates in Basis Points	Economic Value of Equity			Economic Value of Equity as a % of	
(Rate Shock)	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 December 31, 2014 and December 31, 2013 remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. All changes are within our ALM Policy guidelines. The effect of the PGFSB merger was less negative than anticipated as previously mentioned in the discussion of EVE.

Sensitivity of Net Interest Income
As of December 31, 2014

Change in Interest Rates in Basis Points (Rate Shock)	Adjusted Net Interest Income		Net Interest Margin	
	Amount	$ Change From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 400	$ 38,720	$ 7,117	4.46 %	0.81 %
Up 300	36,659	5,056	4.23 %	0.58 %
Up 200	34,656	3,053	4.00 %	0.35 %
Up 100	32,915	1,312	3.80 %	0.15 %
Base	31,603	-	3.65 %	0.00 %
Down 100	31,501	(102)	3.64 %	-0.01 %
Down 200	31,228	(375)	3.61 %	-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 From Base	Percent	% Change From Base
	(Dollar amounts in thousands)			
Up 400	$ 32,376	$ 5,627	4.87 %	0.83 %
Up 300	30,565	$ 3,816	4.60 %	0.56 %
Up 200	28,856	$ 2,107	4.35 %	0.31 %
Up 100	27,547	$ 798	4.16 %	0.12 %
Base	26,749	$ -	4.04 %	0.00 %
Down 100	27,206	$ 457	4.11 %	0.07 %
Down 200	26,319	$ (430)	3.97 %	-0.07 %

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

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. For additional information about borrowings and anticipated principal repayments refer to the discussion about Contractual Obligations below and "Item 8 –. Financial Statements" and Supplementary Data, Footnotes 9 and 10.

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 utilize estimated cash flows produced by the ALM analysis for loans, deposits and investment securities.

During the year ended December 31, 2014, we funded our financial obligations with deposits, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank of Atlanta. At December 31, 2014, we had $113.3 million of unfunded lines of credit and undisbursed construction loan funds. We had no approved loan commitments at December 31, 2014. The amount of certificate of deposit accounts maturing in 2015 is $225.0 million as of December 31, 2014. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

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

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

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

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

The following table provides a comparison of our leverage and risk-weighted capital ratios and the leverage and risk-weighted capital ratios of Southern National and the Bank at the periods indicated to the minimum and well-capitalized regulatory standards:

	Minimum Required for Capital Adequacy Purposes	To Be Categorized as Well Capitalized	Actual Ratio at December 31, 2014	Actual Ratio at December 31, 2013
Southern National				
Tier 1 risk-based capital ratio	4.00 %	6.00 %	15.19 %	18.56 %
Total risk-based capital ratio	8.00 %	10.00 %	16.27 %	19.81 %
Leverage ratio	4.00 %	5.00 %	11.80 %	14.22 %
Sonabank				
Tier 1 risk-based capital ratio	4.00 %	6.00 %	15.04 %	18.43 %
Total risk-based capital ratio	8.00 %	10.00 %	16.11 %	19.68 %
Leverage ratio	4.00 %	5.00 %	11.68 %	14.12 %

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

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

Impact of Inflation and Changing Prices

The financial statements and related financial data presented in this Annual Report on Form 10-K concerning Southern National have been prepared in accordance with U. S. generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars, without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, substantially all of the assets and liabilities of a financial institution are monetary in nature. As a result, changes in interest rates have a more significant impact on our performance than do the effects of changes in the general rate of inflation and changes in prices. Interest rates do not necessarily move in the same direction or in the same magnitude as the prices of goods and services. Many factors impact interest rates, including the Federal Reserve, inflation, recession, changes in unemployment, the money supply, and international disorder and instability in domestic and foreign financial markets. Like most financial institutions, changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities, which is the difference between interest earned from interest-earning assets, such as loans and investment securities, and interest paid on interest-bearing liabilities, such as deposits and borrowings.

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

Seasonality and Cycles

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

Contractual Obligations

The following table reflects the contractual maturities of our term liabilities as of December 31, 2014. The amounts shown do not reflect contractual interest, early withdrawal or prepayment assumptions.

	Contractual Obligations				
	Less Than One Year	One to Three Years	Three to Five Years	More Than Five Years	Total
			(in thousands)		
Certificates of deposit (1)	$225,002	$ 189,388	$51,805	$200	$466,395
	13,794	-	-	-	13,794

Securities sold under agreements to repurchase					
FHLB short-term advances	15,250	-	-	-	15,250
FHLB long-term advances	-	25,000	-	-	25,000
Operating leases	1,723	2,003	1,172	742	5,640
Total	$255,769	$ 216,391	$52,977	$942	$526,079

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

Off-Balance Sheet Arrangements

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 written are 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 $8.4 million and $6.9 million as of December 31, 2014 and 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 generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements. We evaluate each customer's creditworthiness on a case-by-case basis. At December 31, 2014 and 2013, we had unfunded loan commitments approximating $113.3 million and $105.8 million, respectively.

Item 7A. - Quantitative and Qualitative Disclosures about Market Risk

This information is incorporated herein by reference from "Item 7-. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this Annual Report on Form 10-K.

Item 8. – Financial Statements and Supplementary Data

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Southern National Bancorp of Virginia Inc.

We have audited the accompanying consolidated balance sheets of Southern National Bancorp of Virginia, Inc. and subsidiary (the Company) as of December 31, 2014 and 2013, and the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern National Bancorp of Virginia, Inc. and subsidiary as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Southern National Bancorp of Virginia, Inc.'s internal controls over financial reporting as of December 31, 2014, based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 13, 2015, expressed an unqualified opinion thereon.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
March 13, 2015

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Southern National Bancorp of Virginia, Inc.:

We have audited the accompanying consolidated balance sheets of Southern National Bancorp of Virginia, Inc. and subsidiaries (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of comprehensive income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

The consolidated financial statements of the Company as of December 31, 2010 were audited by other auditors whose report dated March 15, 2011, expressed an unqualified opinion on those statements, before the restatement described in note 2 to the consolidated financial statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2012 and 2011, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 5, 2013 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ KPMG LLP

McLean, Virginia
March 5, 2013

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Southern National Bancorp of Virginia, Inc.

We have audited Southern National Bancorp of Virginia, Inc. and subsidiary’s (the Company) internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Southern National Bancorp of Virginia, Inc. and subsidiary maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on criteria established in *Internal Control—Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Southern National Bancorp of Virginia, Inc. and subsidiary as of and for the year ended December 31, 2014, and our report dated March 13, 2015, expressed an unqualified opinion on those consolidated financial statements.

/s/ Dixon Hughes Goodman LLP

Atlanta, Georgia
March 13, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 5,702	$ 2,679
Interest-bearing deposits in other financial institutions	32,618	18,177
Total cash and cash equivalents	38,320	20,856
Securities available for sale, at fair value	2,285	1,993
Securities held to maturity, at amortized cost		
(fair value of $94,093 and $76,193, respectively)	94,058	82,443
Covered loans	38,496	51,701
Non-covered loans	664,976	494,357
Total loans	703,472	546,058
Less allowance for loan losses	(7,414)	(7,090)
Net loans	696,058	538,968
Stock in Federal Reserve Bank and Federal Home Loan Bank	5,681	5,915
Equity investment in mortgage affiliate	3,631	-
Preferred investment in mortgage affiliate	1,805	-
Bank premises and equipment, net	9,453	6,324
Goodwill	10,514	9,160
Core deposit intangibles, net	1,354	813
FDIC indemnification asset	3,571	5,804
Bank-owned life insurance	20,990	18,374
Other real estate owned	13,051	11,792
Deferred tax assets, net	10,083	8,281
Other assets	5,791	5,462
Total assets	$ 916,645	$ 716,185
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$ 69,560	$ 44,643
Interest-bearing deposits:		
NOW accounts	25,018	24,297
Money market accounts	137,297	130,855
Savings accounts	44,155	16,999
Time deposits	466,395	323,565
Total interest-bearing deposits	672,865	495,716

Total deposits	742,425	540,359
Securities sold under agreements to repurchase and other short-term borrowings	29,044	39,795
Federal Home Loan Bank (FHLB) advances	25,000	25,000
Other liabilities	6,197	4,417
Total liabilities	802,666	609,571
Commitments and contingencies (see note 14)	-	-
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, 12,216,669 and 11,590,612 shares at December 31, 2014 and December 31, 2013, respectively	122	116
Additional paid in capital	104,072	97,127
Retained earnings	12,805	12,561
Accumulated other comprehensive loss	(3,020)	(3,190)
Total stockholders' equity	113,979	106,614
Total liabilities and stockholders' equity	$ 916,645	$ 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)

	For the Years Ended December 31, 2014	2013	2012
Interest and dividend income:			
Interest and fees on loans	$ 34,611	$ 32,269	$ 35,246
Interest and dividends on taxable securities	2,239	2,035	1,940
Interest and dividends on tax exempt securities	389	237	16
Interest and dividends on other earning assets	852	575	359
Total interest and dividend income	38,091	35,116	37,561
Interest expense:			
Interest on deposits	3,976	4,047	5,036
Interest on borrowings	697	621	792
Total interest expense	4,673	4,668	5,828
Net interest income	33,418	30,448	31,733
Provision for loan losses	3,444	3,615	6,195
Net interest income after provision for loan losses	29,974	26,833	25,538
Noninterest income:			
Account maintenance and deposit service fees	826	793	832
Income from bank-owned life insurance	617	592	797
Equity income from mortgage affiliate	558	-	-
Gain on sale of SBA loans	-	-	657
Bargain purchase gain on acquisitions	-	-	3,484
Net gain on other assets	202	13	14
Gain on sales of available for sale securities	-	142	274
Total other-than-temporary impairment losses (OTTI)	(41)	(3)	(721)
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-	4
Net credit related OTTI recognized in earnings	(41)	(3)	(717)
Other	202	216	254
Total noninterest income	2,364	1,753	5,595
Noninterest expenses:			
Salaries and benefits	10,225	9,063	7,993
Occupancy expenses	3,165	3,063	2,778
Furniture and equipment expenses	787	724	621
Amortization of core deposit intangible	220	467	893
Virginia franchise tax expense	455	471	582

FDIC assessment	569	823	565
Data processing expense	569	562	634
Telephone and communication expense	751	684	603
Change in FDIC indemnification asset	1,230	483	651
Net (gain) loss on other real estate owned	(433)	(188)	2,632
Merger expenses	487	35	360
Other operating expenses	3,076	3,105	3,137
Total noninterest expenses	21,101	19,292	21,449
Income before income taxes	11,237	9,294	9,684
Income tax expense	3,754	3,036	3,115
Net income	$ 7,483	$ 6,258	$ 6,569
Other comprehensive income (loss):			
Unrealized gain (loss) on available for sale securities	$ 299	$ (232)	$ 8
Realized amount on available for sale securities sold, net	-	(142)	(274)
Non-credit component of other-than-temporary impairment on held-to-maturity securities	35	97	676
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for sale	(77)	(39)	(105)
Net unrealized gain (loss)	257	(316)	305
Tax effect	87	(107)	104
Other comprehensive income (loss)	170	(209)	201
Comprehensive income	$ 7,653	$ 6,049	$ 6,770
Earnings per share, basic and diluted	$ 0.63	$ 0.54	$ 0.57

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(dollars in thousands, except per share amounts)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2012	$116	$96,645	$5,472	$(3,182)	$99,051
Comprehensive income:					
Net income			6,569		6,569
Change in unrealized loss on securities available for sale (net of tax benefit, $90)				(176)	(176)
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $194 and accretion, $105 and amounts recorded into other comprehensive income at transfer)				377	377
Dividends on common stock ($.25 per share)			(2,840)		(2,840)
Stock-based compensation expense		195			195
Balance - December 31, 2012	116	96,840	9,201	(2,981)	103,176
Comprehensive income:					
Net income			6,258		6,258
Change in unrealized loss on securities available for sale (net of tax benefit, $127)				(247)	(247)
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $20 and accretion, $39 and amounts recorded into other comprehensive income at transfer)				38	38
Dividends on common stock ($.25 per share)			(2,898)		(2,898)
Issuance of common stock under Stock Incentive Plan (400 shares)		3			3
Stock-based compensation expense		284			284
Balance - December 31, 2013	116	97,127	12,561	(3,190)	106,614
Comprehensive income:					
Net income			7,483		7,483
Change in unrealized loss on securities available for sale (net of tax, $102)				197	197
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax benefit, $15 and accretion, $77 and amounts recorded into other comprehensive income at transfer)				(27)	(27)
Dividends on common stock ($.60 per share)			(7,239)		(7,239)
Issuance of common stock under Stock Incentive Plan (100,200 shares)	1	885			886

Issuance of common stock in exchange for net assets in acquisition (525,858 shares)	5	5,743			5,748
Stock-based compensation expense		317			317
Balance - December 31, 2014	$122	$104,072	$12,805	$(3,020)	$113,979

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(dollars in thousands)

	For the Years End December 31,	
	2014	2013
Operating activities:		
Net income	$7,483	$6,25
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	764	665
Amortization of core deposit intangible	220	467
Other amortization, net	186	344
Accretion of loan discount	(2,616)	(3,5
Amortization of FDIC indemnification asset	1,230	483
Provision for loan losses	3,444	3,61
Earnings on bank-owned life insurance	(617)	(59
Equity income on mortgage affiliate	(558)	-
Stock based compensation expense	317	284
Bargain purchase gain on acquisition	-	-
Net gain on sale of available for sale securities	-	(14
Gain on sale of loans	-	-
Impairment on securities	41	3
Net (gain) loss on other real estate owned	(433)	(18
Provision for (benefit from) deferred income taxes	(418)	102
Net (increase) decrease in other assets	1,161	(36
Net increase (decrease) in other liabilities	1,281	(1,5
Net cash and cash equivalents provided by operating activities	11,485	5,84
Investing activities:		
Purchases of available for sale securities	-	-
Proceeds from sales of available for sale securities	-	159
Proceeds from paydowns, maturities and calls of available for sale securities	-	-
Purchases of held to maturity securities	(18,284)	(14,
Proceeds from paydowns, maturities and calls of held to maturity securities	6,571	16,2
Loan originations and payments, net	(100,837)	(18,
Proceeds from sale of HarVest loans	-	-
Proceeds from sale of SBA loans	-	-
Net cash received in HarVest acquisition	-	-
Purchase of bank-owned life insurance	(2,000)	-
Proceeds from cash surrender value of bank-owned life insurance	-	-
Net cash received in PGFSB acquisition	22,430	-
Proceeds from sale of PGFSB loans	3,499	-
Investment in mortgage affiliate	(4,877)	-
Net decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	327	297
Payments received on FDIC indemnification asset	1,037	1,01

Proceeds from sale of other real estate owned	3,276	4,18
Purchases of bank premises and equipment	(897)	(43
Net cash and cash equivalents provided by (used in) investing activities	(89,755)	(11,
Financing activities:		
Net increase (decrease) in deposits	112,838	(10,
Cash dividends paid - common stock	(7,239)	(2,8
Issuance of common stock under Stock Incentive Plan (100,200 shares)	886	3
Proceeds from Federal Home Loan Bank advances	-	-
Repayment of Federal Home Loan Bank advances	-	-
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	(10,751)	1,13
Net cash and cash equivalents provided by (used in) financing activities	95,734	(12,
Increase (decrease) in cash and cash equivalents	17,464	(18,
Cash and cash equivalents at beginning of period	20,856	39,2
Cash and cash equivalents at end of period	$38,320	$20,8
Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	$4,454	$4,58
Income taxes	3,283	4,59
Supplemental schedule of noncash investing and financing activities		
Transfer from non-covered loans to other real estate owned	4,409	3,04
Transfer from covered loans to other real estate owned	342	4,15
Transfer from covered loans to non-covered loans	7,344	-
Issuance of common stock in exchange for net assets in acquisition	5,748	-

See accompanying notes to consolidated financial statements.

1. ORGANIZATION AND SIGNIFICANT 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. Sonabank provides a range of financial services to individuals and small and medium sized businesses. Sonabank has fifteen branches in Virginia, located in Fairfax County (Reston, McLean and Fairfax), in Charlottesville, Warrenton (2), Middleburg, Leesburg (2), South Riding, Front Royal, New Market, Haymarket, Richmond and Clifton Forge, and nine branches in Maryland, in Rockville, Shady Grove, Germantown, Frederick, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

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

Principles of Consolidation

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

Use of Estimates

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

Investment Securities

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

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

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

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

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

In order to determine OTTI for purchased beneficial interests that, on the purchase date, were not highly rated, Southern National compares the present value of the remaining cash flows as estimated at the preceding evaluation date to the current expected remaining cash flows. OTTI is deemed to have occurred if there has been an adverse change in the remaining expected future cash flows.

Loans

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

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

As part of the Greater Atlantic acquisition, the Bank and the FDIC entered into a loss sharing agreement on approximately $143.4 million (cost 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." The indemnification against losses in the commercial portfolio on the GAB portfolio ended in December 2014. The FDIC indemnification on the GAB residential mortgages and the GAB HELOCS continues for another five years. Loans that are not covered in the loss sharing agreement are referred to as "non-covered loans."

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

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

Most of Southern National's business activity is with customers located within Virginia and Maryland. Therefore, our exposure to credit risk is significantly affected by changes in the economy in those areas. We are not dependent on any single customer or group of customers whose insolvency would have a material adverse effect on operations.

Southern National has purchased, primarily through acquisitions, individual loans and groups of loans, some of which have shown evidence of credit deterioration since origination. These purchased loans are recorded at fair value such that there is no carryover of the seller's allowance for loan losses. After acquisition, losses are recognized by an increase in the allowance for loan losses. Purchased credit impaired loans are accounted for using the expected cash flow methodology, and purchased performing loans are accounted for using the contractual cash flow methodology.

Such purchased loans are accounted for individually or aggregated into pools of loans based on common risk characteristics such as, credit score, loan type, and date of origination. Southern National estimates the amount and timing of expected cash flows for each purchased credit impaired loan or pool, and the expected cash flows in excess of fair value are recorded as interest income over the remaining life of the loan or pool (accretable yield). The excess of the loans' or pool's contractual principal and interest over expected cash flows is not recorded (nonaccretable difference).

Over the life of the loan or pool, expected cash flows continue to be estimated. If the present value of expected cash flows is less than the carrying amount, a loss is recorded. If the present value of expected cash flows is greater than the carrying amount, it is recognized as part of future interest income.

In accordance with Accounting Standards Codification 310-30, and based on current information and events, if it becomes probable that there is a significant increase in cash flows previously expected to be collected or if actual cash flows are significantly greater than cash flows previously expected, the Bank will recalculate the amount of accretable yield for the acquired loans as the excess of the revised cash flows expected to be collected over the sum of (1) the initial investment in the loans less (2) cash collected less (3) write downs, if any plus (4) the amount of yield accreted to date. The amount of accretable yield will be adjusted by reclassification from non-accretable yield. This adjustment would be accounted for as a change in estimate with the amount of periodic accretion adjusted over the remaining life of the loans.

Allowance for Loan and Lease Losses (ALLL)

The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the collection of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance.

Management's determination of the adequacy of the allowance is based on a three year historical average net loss experience for each portfolio segment adjusted for current industry and economic conditions and estimates of their effect on loan collectability. While management uses available information to estimate losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values.
The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. The general component provides for estimated losses in unimpaired loans and is based on historical loss experience adjusted for current factors.

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

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual net loss history experienced by Southern National over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: owner occupied commercial real estate, non-owner occupied commercial real estate, construction and land development, commercial loans, 1-4 family residential, and other consumer. While underwriting practices in this environment are more stringent, the bank estimates the effect of internal factors on future net loss experience to be negligible. Management's estimate of the effect of current external economic environmental conditions on future net loss experience is significant in all loan segments and particularly on loans secured by real estate including single family 1-4, non-owner occupied commercial real estate and construction and land development loans. These factors include excess inventory, generally less demand driven in part by fewer qualified borrowers and buyers. These considerations have played a significant role in management's estimate of the adequacy of the allowance for loan and lease losses.

Commercial real estate consists of borrowings secured by owner-occupied and non-owner-occupied commercial real estate. Repayment of these loans is dependent upon rental income or the subsequent sale of the property for loans secured by non-owner-occupied commercial real estate and by cash flows from business operations for owner-occupied commercial real estate. Loans for which the source of repayment is rental income are primarily impacted by local economic conditions which dictate occupancy rates and the amount of rent charged. Commercial real estate loans that are dependent on cash flows from operations can also be adversely affected by current market conditions for their product or service.

Construction and land development primarily consist of borrowings to purchase and develop raw land into residential and non-residential properties. Construction loans are extended to individuals as well as corporations for the construction of an individual or multiple properties and are secured by raw land and the subsequent improvements. Repayment of the loans to real estate developers is dependent upon the sale or lease of properties to third parties in a timely fashion upon completion. Should there be delays in construction or a downturn in the market for those properties, there may be significant erosion in value which may be absorbed by Southern National.

Commercial loans consist of borrowings for commercial purposes to individuals, corporations, partnerships, sole proprietorships, and other business enterprises. Commercial loans are generally secured by business assets such as equipment, accounts receivable, inventory, or any other asset excluding real estate and generally made to finance capital expenditures or operations. Southern National's risk exposure is related to deterioration in the value of collateral securing the loan should foreclosure become necessary. Generally, business assets used or produced in operations do not maintain their value upon foreclosure which may require Southern National to write-down the value significantly to sell.

Residential real estate loans consist of loans to individuals for the purchase of primary residences with repayment primarily through wage or other income sources of the individual borrower. Southern National's loss exposure to these loans is dependent on local market conditions for residential properties as loan amounts are determined, in part, by the fair value of the property at origination.

Other consumer loans are comprised of loans to individuals both unsecured and secured and open-end home equity loans secured by real estate, with repayment dependent on individual wages and other income. The risk of loss on consumer loans is elevated as the collateral securing these loans, if any, rapidly depreciate in value or may be worthless and/or difficult to locate if repossession is necessary. Losses in this portfolio are generally relatively low, however, due to the small individual loan size and the balance outstanding as a percentage of Southern National's entire portfolio.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from Southern National, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and Southern National does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Equity Method Investments

Southern National's investment in Southern Trust Mortgage ("STM") is being accounted for under the equity method. Under the equity method, the carrying value of Southern National's investment in STM was originally recorded at cost but is adjusted periodically to record Southern National's proportionate share of STM's earnings or losses through noninterest income and decreased by the amount of cash dividends or similar distributions received from STM.

Bank Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight line method with useful lives of 30 years. Furniture, fixtures and equipment are depreciated using the straight-line method with useful lives ranging from 3 to 10 years. Leasehold improvements are amortized over the shorter of their estimated useful lives or the lease term.

Goodwill and Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. Southern National has selected August 31 as the date to perform the annual goodwill impairment assessment. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on our balance sheet.

Other intangible assets consist of core deposit intangible assets arising from whole bank and branch acquisitions and are amortized over their estimated useful lives, which range from 6 to 15 years.

Stock Based Compensation

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

Bank-owned Life Insurance

Southern National has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Other Real Estate Owned

Assets acquired through or instead of foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, the direct charge-off method is recorded through expense. Operating costs after acquisition are expensed.

Stock in Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB)

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. We are also required to own FRB stock with a par value equal to 6% of capital. FHLB stock and FRB stock are carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Impairment of Long-Lived Assets

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

FDIC Indemnification Asset

The acquisition of Greater Atlantic Bank (GAB) on December 4, 2009 was accounted for under the acquisition method of accounting, and the assets and liabilities were recorded at their estimated fair values. The FDIC indemnification asset was measured separately from each of the covered asset categories as it is not contractually embedded in any of the covered asset categories. The indemnification asset represents the present value of cash flows expected to be received from the FDIC for future losses on covered assets based on the expected credit losses estimated for each covered loan or loan pool and the loss sharing percentages at the acquisition date. Cash flows are discounted at a market-based rate to reflect the uncertainty of the timing of the loss sharing reimbursement from the FDIC. The ultimate collectability of this asset is dependent upon the performance of the underlying covered assets, the passage of time and claims paid by the FDIC. We acquired the Greater Atlantic loans in December 2009 and continuously evaluate our estimates of expected losses on these loans. During 2014, and based on the actual historical losses on the loan pools over the previous 24 month period, expected losses on the acquired Greater Atlantic loans (the covered loans) were lower than previously forecasted which results in a lower expected recovery from the FDIC. As of December 31, 2014, we expect to recover $2.3 million from the FDIC under the indemnification agreement. The difference between the carrying amount of $3.6 million and the estimated recovery is being amortized over the remaining life of the indemnification agreement or the expected life of the loans, whichever is shorter. There were two agreements with the FDIC, one for single family assets which is a 10 year agreement expiring in December 2019, and one for non-single family (commercial) assets which was a 5 year agreement which expired in December 2014. The current overstatement is due to improvements in the loss estimates in the single family covered loans.

Retirement Plans

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

Loss Contingencies

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

Dividend Restriction

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

Estimates and Uncertainties

Estimates including the fair value of financial instruments, other than temporary impairment, the provision for loan losses, expected loan performance and recoveries from the FDIC, and the evaluation of the recoverability of goodwill and intangible assets involve uncertainties and matters of significant judgment regarding interest rates, credit risk, repayments and prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Operating Segments

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

Reclassifications

Certain items in the prior year financial statements were reclassified to conform to the current presentation. Gains and losses on OREO have been reclassified from noninterest income to noninterest expenses in the Consolidated Statements of Income and Comprehensive Income.

Income Taxes

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

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. We have no unrecognized tax benefits and do not anticipate any increase in unrecognized benefits during the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals exist as of December 31, 2014. Southern National and its subsidiary file a consolidated U. S. federal tax return; Sonabank files a Maryland state income tax return and Southern National files a Virginia state income tax return. These returns are subject to examination by taxing authorities for all years after 2010.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements in the amount of $1.5 million and $1.8 million at December 31, 2014 and 2013, respectively.

Consolidated Statements of Cash Flows

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

Earnings Per Share

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

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and the non-credit component of other than temporary impairment of securities held-to-maturity which are also recognized as a separate component of equity.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, Southern National has entered into commitments to extend credit and standby letters of credit. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay.

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. 2014-11, “Transfers and Servicing (Topic 860): Repurchase-to-Maturity Transactions, Repurchase Financings, and Disclosures.” This ASU aligns the accounting for repurchase-to-maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. The new guidance eliminates sale accounting for repurchase-to maturity transactions and supersedes the guidance under which a transfer of a financial asset and a contemporaneous repurchase financing could be accounted for on a combined basis as a forward agreement. The amendments in the ASU also require a new disclosure for transactions economically similar to repurchase agreements in which the transferor retains substantially all of the exposure to the economic return on the transferred financial assets throughout the term of the transaction. Additional disclosures will be required for the nature of collateral pledged in repurchase agreements and similar transactions accounted for as secured borrowings. The amendments in this ASU are effective for the first interim or annual period beginning after December 15, 2014; however, the disclosure for transactions accounted for as secured borrowings is required to be presented for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is not permitted. The adoption of ASU No. 2014-11 is not expected to have a material impact on the Southern National’s Consolidated Financial Statements.

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. 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):

December 31, 2014	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$2,295	$-	$(10)	$2,285

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

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

December 31, 2014	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 22,897	$ 708	$ (8)	$ 23,597
Residential government-sponsored collateralized mortgage obligations	3,564	-	(53)	3,511
Government-sponsored agency securities	44,949	294	(822)	44,421
Obligations of states and political subdivisions	15,531	108	(145)	15,494
Other residential collateralized mortgage obligations	599	-	-	599
Trust preferred securities	6,518	1,527	(1,574)	6,471
	$ 94,058	$ 2,637	$ (2,602)	$ 94,093

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

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

During 2014, we sold no securities. During 2013, we sold 55 thousand shares of available for sale FHLMC preferred stock resulting in a gain of $142 thousand. During 2012, we sold $8.2 million of available for sale SBA pooled securities acquired in the Greater Atlantic Bank transaction resulting in a gain of $287 thousand and $14.4 million available for sale securities acquired in the HarVest acquisition resulting in a loss of $13 thousand.

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

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in five to ten years	$12,674	$12,555	$-	$-
Due after ten years	54,324	53,831	2,295	2,285
Residential government-sponsored mortgage-backed securities	22,897	23,597	-	-
Residential government-sponsored collateralized mortgage obligations	3,564	3,511	-	-
Other residential collateralized mortgage obligations	599	599	-	-
Total	$94,058	$94,093	$2,295	$2,285

Securities with a carrying amount of approximately $71.8 million and $65.3 million at December 31, 2014 and 2013, respectively, were pledged to secure public deposits, repurchase agreements and a line of credit for advances from the Federal Home Loan Bank of Atlanta (“FHLB”).

Southern National monitors the portfolio for indicators of other than temporary impairment. At December 31, 2014 and 2013, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $51.3 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at December 31, 2014. Because the decline in fair value is attributable to changes in interest rates and market illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is likely that we will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired as of December 31, 2014. The following tables present information regarding securities in a continuous unrealized loss position as of December 31, 2014 and 2013 (in thousands) by duration of time in a loss position:

December 31, 2014

	Less than 12 months		12 Months or More		Total	
Available for Sale	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Obligations of states and political subdivisions	$ 485	$ (1)	$ 1,800	$ (9)	$ 2,285	$ (10)

	Less than 12 months		12 Months or More		Total	
Held to Maturity	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$ 3,506	$ (8)	$ -	$ -	$ 3,506	$ (8)
Residential government-sponsored collateralized mortgage obligations	692	(3)	2,819	(50)	3,511	(53)
Government-sponsored agency securities	-	-	29,154	(822)	29,154	(822)
Obligations of states and political subdivisions	485	(20)	8,139	(125)	8,624	(145)
Trust preferred securities	-	-	4,233	(1,574)	4,233	(1,574)
	$ 4,683	$ (31)	$ 44,345	$ (2,571)	$ 49,028	$ (2,602)

December 31, 2013

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

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

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

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As of December 31, 2014, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$5,466	$4,975	$3,553	16%	$266	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	328	323	192	34%	5	
						5,794	5,298	3,745		$271	
										Cumulative Other Comprehensive Loss (2)	Cumu OT Rel t Cr Lo (2
Other Than Temporarily Impaired:											
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	509	488	39%	591	$40
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,178	57	395	26%	828	1,2
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	324	17%	7	2,0
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	295	21%	377	69
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	575	15%	1,014	66
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,279	31	86	33%	689	2,5
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,179	121	563	15%	878	1,1
						14,420	1,220	2,726		$4,384	$8,8
Total						$20,214	$6,518	$6,471			

(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 ("OTTI"). In performing a detailed cash flow analysis of each security, Sonabank works with independent third parties to estimate expected cash flows and assist with the evaluation of other than temporary impairment. The cash flow analyses performed included the following assumptions:

.5% of the remaining performing collateral will default or defer per annum.

Recoveries of 11% 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 $41 thousand during 2014 compared to OTTI charges related to credit on the trust preferred securities totaling $3 thousand and $717 thousand for the years ended December 31, 2013 and 2012, respectively.

The following table presents a roll forward of the credit losses recognized in earnings for the periods ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	201
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$8,911	$8,99
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	(3)	(86
Amount of cumulative other-than-temporary impairment related to credit loss as of December 31	$8,949	$8,91

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

For the year ended December 31, 2014	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (203)	$ (2,987)	$ (3,190)
Other comprehensive income/(loss) before reclassifications	197	(27)	170
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	197	(27)	170
Ending balance	$ (6)	$ (3,014)	$ (3,020)

For the year ended December 31, 2013	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ 44	$ (3,025)	$ (2,981)
Other comprehensive income/(loss) before reclassifications	(153)	38	(115)
Amounts reclassified from accumulated other comprehensive income/(loss)	(94)	-	(94)
Net current-period other comprehensive income/(loss)	(247)	38	(209)
Ending balance	$ (203)	$ (2,987)	$ (3,190)

3. LOANS

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

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
		December 31, 2014			December 31, 2013	
Loans secured by real estate:						
Commercial real estate - owner-occupied	$ -	$ 136,597	$ 136,597	$ 1,603	$ 106,225	$ 107,828
Commercial real estate - non-owner-occupied	-	200,517	200,517	5,829	150,008	155,837
Secured by farmland	-	612	612	100	508	608
Construction and land loans	-	57,938	57,938	1	39,068	39,069
Residential 1-4 family	14,837	123,233	138,070	16,631	66,482	83,113
Multi- family residential	-	21,832	21,832	585	21,496	22,081
Home equity lines of credit	23,658	9,751	33,409	25,769	6,431	32,200
Total real estate loans	38,495	550,480	588,975	50,518	390,218	440,736
Commercial loans	-	114,714	114,714	1,097	104,284	105,381
Consumer loans	-	1,564	1,564	81	1,308	1,389
Gross loans	38,495	666,758	705,253	51,696	495,810	547,506
Less deferred fees on loans	1	(1,782)	(1,781)	5	(1,453)	(1,448)
Loans, net of deferred fees	$ 38,496	$ 664,976	$ 703,472	$ 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. The agreement covering non-single family loans expired in December 2014.

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 were two agreements with the 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 was a 5-year agreement which expired 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 December 31, 2014, non-covered loans included $34.0 million of loans acquired in the HarVest acquisition and $59.5 million acquired in the PGFSB acquisition.

Accretable discount on the acquired covered loans, the PGFSB loans and the HarVest loans was $9.3 million and $8.9 million at December 31, 2014 and December 31, 2013 respectively.

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

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

December 31, 2014	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$ -	$ -	$ -	$ 10,394	$ 10,394	$ -	$ 10,394	$ 10,394	$ -
Commercial real estate - non-owner occupied (2)	-	-	-	1,859	2,118	-	1,859	2,118	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	4,998	4,999	-	4,998	4,999	-
Residential 1-4 family (4)	1,740	2,053	-	-	-	-	1,740	2,053	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$ 1,740	$ 2,053	$ -	$ 17,251	$ 17,511	$ -	$ 18,991	$ 19,564	$ -
With an allowance recorded									
Commercial real estate - owner occupied	$ -	$ -	$ -	$ 1,609	$ 2,231	$ 151	$ 1,609	$ 2,231	$ 151
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	467	740	120	467	740	120
Commercial loans	-	-	-	3,141	3,944	134	3,141	3,944	134
Residential 1-4 family (4)	-	-	-	1,344	1,465	300	1,344	1,465	300
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ 6,561	$ 8,380	$ 705	$ 6,561	$ 8,380	$ 705
Grand total	$ 1,740	$ 2,053	$ -	$ 23,812	$ 25,891	$ 705	$ 25,552	$ 27,944	$ 705

(1) Recorded investment is after cumulative prior charge offs of $1.7 million. These loans also have aggregate SBA guarantees of $4.7 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.
(4) Includes home equity lines of credit.

December 31, 2013	Covered Loans			Non-covered Loans			Total Loans		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment (1)	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded									
Commercial real estate - owner occupied	$ 745	$ 844	$ -	$ 7,476	$ 7,476	$ -	$ 8,221	$ 8,320	$ -
Commercial real estate - non-owner occupied (2)	2,145	2,486	-	359	449	-	2,504	2,935	-
Construction and land development	-	-	-	2,107	2,307	-	2,107	2,307	-
Commercial loans	-	-	-	3,155	3,631	-	3,155	3,631	-
Residential 1-4 family (4)	1,220	1,439	-	5,358	5,358	-	6,578	6,797	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$ 4,110	$ 4,769	$ -	$ 18,455	$ 19,221	$ -	$ 22,565	$ 23,990	$ -
With an allowance recorded									
Commercial real estate - owner occupied	$ -	$ -	$ -	$ 400	$ 500	$ 192	$ 400	$ 500	$ 192
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	1,718	2,518	325	1,718	2,518	325
Residential 1-4 family (4)	-	-	-	2,637	2,637	200	2,637	2,637	200
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ -	$ 4,755	$ 5,655	$ 717	$ 4,755	$ 5,655	$ 717
Grand total	$ 4,110	$ 4,769	$ -	$ 23,210	$ 24,876	$ 717	$ 27,320	$ 29,645	$ 717

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

The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the years ended December 31, 2014, 2013 and 2012 (in thousands):

Year ended 12/31/14	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	$ -	$ -	$ 8,154	$ 511	$ 8,154	$ 511
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	3,632	223	3,632	223
Residential 1-4 family (2)	1,251	40	-	-	1,251	40
Other consumer loans	-	-	-	-	-	-
Total	$ 1,251	$ 40	$ 11,786	$ 734	$ 13,037	$ 774
With an allowance recorded						
Commercial real estate - owner occupied	$ -	$ -	$ 326	$ 14	$ 326	$ 14
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	36	-	36	-
Commercial loans	-	-	2,317	-	2,317	-
Residential 1-4 family (2)	-	-	464	-	464	-
Other consumer loans	-	-	-	-	-	-
Total	$ -	$ -	$ 3,143	$ 14	$ 3,143	$ 14
Grand total	$ 1,251	$ 40	$ 14,929	$ 748	$ 16,180	$ 788

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

Year ended 12/31/13	Covered Loans		Non-covered Loans		Total Loans	
	Average	Interest	Average	Interest	Average	Interest

	Recorded Investment	Income Recognized	Recorded Investment	Income Recognized	Recorded Investment	Income Recognized
With no related allowance recorded						
Commercial real estate - owner occupied	$ 770	$ 55	$ 6,456	$ 439	$ 7,226	$ 494
Commercial real estate - non-owner occupied (1)	2,274	134	370	38	2,644	172
Construction and land development	-	-	1,181	-	1,181	-
Commercial loans	-	-	1,811	66	1,811	66
Residential 1-4 family (2)	1,229	47	5,534	347	6,763	394
Other consumer loans	-	-	-	-	-	-
Total	$ 4,273	$ 236	$ 15,352	$ 890	$ 19,625	$ 1,126
With an allowance recorded						
Commercial real estate - owner occupied	$ -	$ -	$ 123	$ 17	$ 123	$ 17
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	1,875	-	1,875	-
Residential 1-4 family (2)	-	-	2,618	127	2,618	127
Other consumer loans	-	-	-	-	-	-
Total	$ -	$ -	$ 4,616	$ 144	$ 4,616	$ 144
Grand total	$ 4,273	$ 236	$ 19,968	$ 1,034	$ 24,241	$ 1,270

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

Year ended 12/31/12	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	$134	$19	$724	$39	$858	$58
Commercial real estate - non-owner occupied (1)	2,101	62	1,942	39	4,043	101
Construction and land development	1,087	101	3,158	95	4,245	196
Commercial loans	210	23	3,836	132	4,046	155
Residential 1-4 family (2)	1,183	29	1,230	49	2,413	78
Other consumer loans	-	-	-	-	-	-
Total	$4,715	$234	$10,890	$354	$15,605	$588
With an allowance recorded						
Commercial real estate - owner occupied	$-	$-	$270	$21	$270	$21
Commercial real estate - non-owner occupied (1)	-	-	1,345	102	1,345	102
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-
Residential 1-4 family (2)	-	-	1,783	90	1,783	90
Other consumer loans	-	-	-	-	-	-
Total	$-	$-	$3,398	$213	$3,398	$213
Grand total	$4,715	$234	$14,288	$567	$19,003	$801

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

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

December 31, 2014	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Covered loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-
Commercial loans	-	-	-	-	-	-	-
Residential 1-4 family (2)	10	148	-	158	859	37,478	38,495
Other consumer loans	-	-	-	-	-	-	-
Total	$ 10	$ 148	$ -	$ 158	$ 859	$ 37,478	$ 38,495
Non-covered loans:							
Commercial real estate - owner occupied	$ -		$ -	$ -	$ 1,524	$ 135,073	$ 136,597
Commercial real estate - non-owner occupied (1)	4,128	-	-	4,128	-	218,833	222,961
Construction and land development	-	-	-	-	467	57,471	57,938
Commercial loans	-	-	-	-	3,140	111,574	114,714
Residential 1-4 family (2)	319	586	-	905	521	131,558	132,984
Other consumer loans	6	-	-	6	-	1,558	1,564
Total	$ 4,453	$ 586	$ -	$ 5,039	$ 5,652	$ 656,067	$ 666,758
Total loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 1,524	$ 135,073	$ 136,597
Commercial real estate - non-owner occupied (1)	4,128	-	-	4,128	-	218,833	222,961
Construction and land development	-	-	-	-	467	57,471	57,938
Commercial loans	-	-	-	-	3,140	111,574	114,714
Residential 1-4 family (2)	329	734	-	1,063	1,380	169,036	171,479
Other consumer loans	6	-	-	6	-	1,558	1,564
Total	$ 4,463	$ 734	$ -	$ 5,197	$ 6,511	$ 693,545	$ 705,253

December 31, 2013	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More	Total Past Due	Nonaccrual Loans	Loans Not Past Due	Total Loans
Covered loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ -	$ 1,603	$ 1,603

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

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

Activity in the allowance for non-covered loan and lease losses by class of loan for the years ended December 31, 2014, 2013 and 2012 is summarized below (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
Year ended December 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 814	$ 985	$ 1,068	$ 2,797	$ 1,302	$ 54	$ 19	$ 7,039
Charge offs	(573)	-	(250)	(1,998)	(449)	-	-	(3,270)
Recoveries	10	23	4	125	7	5	-	174
Provision	604	115	822	1,139	462	(10)	318	3,450
Ending balance	$ 855	$ 1,123	$ 1,644	$ 2,063	$ 1,322	$ 49	$ 337	$ 7,393
Year ended December 31, 2013								
Allowance for loan losses:								
Beginning balance	$ 932	$ 1,474	$ 970	$ 2,110	$ 1,163	$ 33	$ 285	$ 6,967
Charge offs	-	(199)	(650)	(2,286)	(776)	(144)	-	(4,055)
Recoveries	13	146	7	204	129	4	-	503
Provision	(131)	(436)	741	2,769	786	161	(266)	3,624
Ending balance	$ 814	$ 985	$ 1,068	$ 2,797	$ 1,302	$ 54	$ 19	$ 7,039
Year ended December 31, 2012								
Allowance for loan losses:								
Beginning balance	$ 627	$ 1,011	$ 1,367	$ 2,227	$ 1,021	$ 42	$ -	$ 6,295
Charge offs	(250)	(1,081)	(2,119)	(1,676)	(1,071)	(9)	-	(6,206)
Recoveries	-	261	13	334	85	9	-	702
Provision	555	1,283	1,709	1,225	1,128	(9)	285	6,176
Ending balance	$ 932	$ 1,474	$ 970	$ 2,110	$ 1,163	$ 33	$ 285	$ 6,967

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

Activity in the allowance for covered loan and lease losses by class of loan for the years ended December 31, 2014, 2013 and 2012 is summarized below (in thousands).

Commercial Commercial

Covered loans: Year ended December 31, 2014	Real Estate Owner Occupied	Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (3)	Other Consumer Loans	Unallocated	Total
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
Year ended December 31, 2013								
Allowance for loan losses:								
Beginning balance	$ -	$ 45	$ -	$ 43	$ -	$ 11	$ -	$ 99
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	(35)	-	(4)	-	(39)
Provision	-	-	-	(8)	-	(1)	-	(9)
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Year ended December 31, 2012								
Allowance for loan losses:								
Beginning balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	36	-	35	-	9	-	80
Provision	-	9	-	8	-	2	-	19
Ending balance	$ -	$ 45	$ -	$ 43	$ -	$ 11	$ -	$ 99

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

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
December 31, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 151	$ -	$ 120	$ 134	$ 300	$ -	$ -	$ 705
Collectively evaluated for impairment	704	1,123	1,524	1,929	1,022	49	337	6,688
Total ending allowance	$ 855	$ 1,123	$ 1,644	$ 2,063	$ 1,322	$ 49	$ 337	$ 7,393
Loans:								
Individually evaluated for impairment	$ 12,003	$ 1,859	$ 467	$ 8,139	$ 1,344	$ -	$ -	$ 23,812
Collectively evaluated for impairment	124,594	221,102	57,471	106,575	131,640	1,564	-	642,946
Total ending loan balances	$ 136,597	$ 222,961	$ 57,938	$ 114,714	$ 132,984	$ 1,564	$ -	$ 666,758
December 31, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 192	$ -	$ -	$ 325	$ 200	$ -	$ -	$ 717
	622	985	1,068	2,472	1,102	54	19	6,322

Collectively evaluated for impairment								
Total ending allowance	$ 814	$ 985	$ 1,068	$ 2,797	$ 1,302	$ 54	$ 19	$ 7,039
Loans:								
Individually evaluated for impairment	$ 7,876	$ 359	$ 2,107	$ 4,873	$ 7,995	$ -	$ -	$ 23,210
Collectively evaluated for impairment	98,349	171,653	36,961	99,411	64,918	1,308	-	472,600
Total ending loan balances	$ 106,225	$ 172,012	$ 39,068	$ 104,284	$ 72,913	$ 1,308	$ -	$ 495,810

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

The following table presents 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 December 31, 2014 and 2013 (in thousands).

Covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
December 31, 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	$ -	$ -	$ -	$ -	$ 1,740	$ -	$ -	$ 1,740
Collectively evaluated for impairment					36,755		-	36,755
	$ -	$ -	$ -	$ -	$ 38,495	$ -	$ -	$ 38,495

Total ending loan balances								
December 31, 2013								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	45	-	-	-	6	-	51
Total ending allowance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Loans:								
Individually evaluated for impairment	$ 745	$ 2,145	$ -	$ -	$ 1,220	$ -	$ -	$ 4,110
Collectively evaluated for impairment	858	4,369	1	1,097	41,180	81	-	47,586
Total ending loan balances	$ 1,603	$ 6,514	$ 1	$ 1,097	$ 42,400	$ 81	$ -	$ 51,696

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

Troubled Debt Restructurings

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

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

During the year ending December 31, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the year ending December 31, 2014, which had been modified in the previous 12 months.

During 2013, we refinanced 15 loans to one borrower totaling $5.9 million secured by single family 1-4 residential properties with a loan in the amount of $5.2 million secured by a first deed of trust on the properties and a loan in the amount of $663 thousand secured by a second deed of trust on the properties which was charged off as of December 31, 2013. There is no commitment to lend additional funds to this borrower. During 2013, we modified one commercial real estate owner-occupied loan in a troubled debt restructuring with an unpaid principal balance of $708 thousand which was restructured by reducing the principal portion of the contractual principal and interest payment without modifying the interest rate. There is no additional commitment to lend to this borrower.

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 has no loans classified Doubtful.

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

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

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

December 31, 2014	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$-	$-	$-	$917	$12,003	$123,677	$136,597	$12,920	$123,677	$136,597
Commercial real estate - non-owner occupied (2)	-	-	-	234	-	222,727	222,961	234	222,727	222,961
Construction and land development	-	-	-	593	467	56,878	57,938	1,060	56,878	57,938
Commercial loans	-	-	-	30	8,139	106,545	114,714	8,169	106,545	114,714
Residential 1-4 family (4)	1,740	36,755	38,495	584	1,344	131,056	132,984	3,668	167,811	171,479
Other consumer loans	-	-	-	-	-	1,564	1,564	-	1,564	1,564
Total	$1,740	$36,755	$38,495	$2,358	$21,953	$642,447	$666,758	$26,051	$679,202	$705,253

December 31, 2013	Covered Loans			Non-covered Loans				Total Loans		
	Classified/ Criticized (1)	Pass	Total	Special Mention	Substandard (3)	Pass	Total	Classified/ Criticized	Pass	Total
Commercial real estate - owner occupied	$745	$858	$1,603	$802	$7,876	$97,547	$106,225	$9,423	$98,405	$107,828
Commercial real estate - non-owner occupied (2)	2,145	4,369	6,514	-	359	171,653	172,012	2,504	176,022	178,526

Construction and land development	-	1	1	618	2,107	36,343	39,068	2,725	36,344	39,069
Commercial loans	-	1,097	1,097	31	4,873	99,380	104,284	4,904	100,477	105,381
Residential 1-4 family (4)	1,220	41,180	42,400	176	7,995	64,742	72,913	9,391	105,922	115,313
Other consumer loans	-	81	81	-	-	1,308	1,308	-	1,389	1,389
Total	$4,110	$47,586	$51,696	$1,627	$23,210	$470,973	$495,810	$28,947	$518,559	$547,506

(1) Credit quality is enhanced by a loss sharing agreement with the FDIC in the covered portfolio. The same credit quality indicators used in the non-covered portfolio are combined.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) Includes SBA guarantees of $4.7 million and $2.4 million as of December 31, 2014 and 2013, respectively.
(4) Includes home equity lines of credit.

Purchased Loans

The following table presents the carrying amount of purchased impaired and non-impaired loans from the GAB acquisition as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			December 31, 2013		
	Purchased Impaired Loans	Purchased Non-impaired Loans	Total	Purchased Impaired Loans	Purchased Non-impaired Loans	Total
Commercial real estate	$1,280	$ 5,290	$6,570	$1,315	$ 6,802	$8,117
Construction and land development	-	-	-	-	1	1
Commercial loans	200	497	697	207	890	1,097
Residential 1-4 family	-	38,495	38,495	-	42,400	42,400
Other consumer loans	-	72	72	-	81	81
Total	$1,480	$ 44,354	$45,834	$1,522	$ 50,174	$51,696

The indemnification against losses in the non-single family portfolio on the GAB portfolio ended in December 2014. The FDIC indemnification on the GAB residential mortgages and home equity lines of credit continue for another five years.

Changes in the carrying amount and accretable yield for purchased impaired and non-impaired loans from the Greater Atlantic acquisition were as follows for the years ended December 31, 2014 and 2013 (in thousands):

	December 31, 2014				December 31, 2013			
	Purchased Impaired		Purchased Non-impaired		Purchased Impaired		Purchased Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	$ -	$ 1,522	$ 6,854	$ 50,174	$ -	$ 3,297	$ 8,001	$ 68,024
Additions	-	-	-	-	-	-	-	-
Accretion	-	-	(1,928)	1,928	-	-	(1,656)	1,656
Reclassifications from nonaccretable balance	-	-	296	-	-	-	521	-
Adjustment-transfer to OREO	-		(31)	(375)	-	(1,654)	(12)	(2,327)
Payments received	-		-	(5,893)	-	(121)	-	(17,179)
Balance at end of period	$ -	$ 1,522	$ 5,191	$ 45,834	$ -	$ 1,522	$ 6,854	$ 50,174

The following table presents the carrying amount of purchased impaired and non-impaired loans from the HarVest acquisition as of December 31, 2014 and 2013 (in thousands):

	December 31, 2014			December 31, 2013		
	Purchased Impaired Loans	Purchased Non-impaired Loans	Total	Purchased Impaired Loans	Purchased Non-impaired Loans	Total
Commercial real estate	$323	$ 14,224	$14,547	$358	$ 15,285	$15,643
Construction and land development	593	3,234	3,827	629	5,312	5,941
Commercial loans	-	3,492	3,492	-	4,362	4,362
Residential 1-4 family	855	11,277	12,132	870	12,045	12,915
Other consumer loans	-	3	3	-	8	8
Total	$1,771	$ 32,230	$34,001	$1,857	$ 37,012	$38,869

Changes in the carrying amount and accretable yield for purchased impaired and non-impaired loans from the HarVest acquisition were as follows for the years ended December 31, 2014 and 2013 (in thousands):

	December 31, 2014				December 31, 2013			
	Purchased Impaired		Purchased Non-impaired		Purchased Impaired		Purchased Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans

Balance at beginning of period	$-	$1,857	$ 2,087	$ 37,012	$-	$1,912	$ 3,659	$ 50,090
Additions	-	-	-	-	-	-	-	-
Accretion	-	-	(869)	869	-	-	(1,533)	1,533
Reclassifications from nonaccretable balance	-	-	-	-	-	-	-	-
Adjustment-short sale					-	-	(39)	39
Payments received	-	(86)	-	(5,651)	-	(55)	-	(14,650)
Balance at end of period	$-	$1,771	$ 1,218	$ 32,230	$-	$1,857	$ 2,087	$ 37,012

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The following table presents the carrying amount of purchased impaired and non-impaired loans from the Prince George's Federal Savings Bank (PGFSB) acquisition as of December 31, 2014 (in thousands):

	December 31, 2014		
	Purchased Impaired Loans	Purchased Non-impaired Loans	Total
Commercial real estate	$371	$ 3,306	$3,677
Construction and land development	649	1,168	1,817
Commercial loans	-	204	204
Residential 1-4 family	-	53,860	53,860
Other consumer loans	-	225	225
Total	$1,020	$ 58,763	$59,783

Changes in the carrying amount and accretable yield for purchased impaired and non-impaired loans from the PGFSB acquisition were as follows for the year ended December 31, 2014 (in thousands):

	December 31, 2014			
	Purchased Impaired		Purchased Non-impaired	
	Accretable Yield	Carrying Amount of Loans	Accretable Yield	Carrying Amount of Loans
Balance at beginning of period	$-	$-	$-	$-
Additions	-	642	3,121	61,190
Accretion	-	-	(213)	213
Reclassifications from nonaccretable balance	-	-	-	-
Disbursements	-	388	-	-
Adjustment-transfer to OREO	-	-	-	(285)
Payments received	-	(10)	-	(2,355)
Balance at end of period	$-	$1,020	$2,908	$58,763

4. 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

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

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

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

Assets Measured on a Recurring Basis

Securities Available for Sale

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U. S. agency securities, mortgage-backed securities, obligations of states and political subdivisions and certain corporate, asset-backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of Southern National's available-for-sale debt securities are considered to be Level 2 securities.

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

		Fair Value Measurements Using		
			Significant	
(dollars in thousands)	Total at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	$ 2,285	$-	$2,285	$ -

		Fair Value Measurements Using		
			Significant	
		Quoted Prices in Active Markets for	Other Observable	Significant Unobservable

(dollars in thousands)	Total at December 31, 2013	Identical Assets (Level 1)	Inputs (Level 2)	Inputs (Level 3)
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	$ 1,993	$ -	$ 1,993	$ -

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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 8.91% to 13.95% at December 31, 2014. The liquidity premiums we used ranged from 2% to 5%, and the adjusted discount rates ranged from 10.97% to 14.97% at December 31, 2013. Due to current market conditions as well as the limited trading activity of these securities, the market value of the securities is highly sensitive to assumption changes and market volatility. We have determined that our trust preferred securities are classified within Level 3 of the fair value hierarchy.

Other Residential Collateralized Mortgage Obligation Classified as Held-to Maturity

The fair value was estimated within Level 2 fair value hierarchy, as the fair value is based on either pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. We have evaluated this security for potential impairment and, based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support, it has been determined that no OTTI charge for credit exists for the year ended December 31, 2014. The assumptions used in the analysis included a 6.3% prepayment speed, 1.4% default rate, a 72% loss severity and an accounting yield of 2.39%.

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 December 31, 2014 and 2013. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $23.8 million (including SBA guarantees of $4.7 million and HarVest loans of $1.1 million) as of December 31, 2014 with an allocated allowance for loan losses totaling $705 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.

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 December 31, 2014 and December 31, 2013. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At December 31, 2014, the total amount of OREO was $13.1 million, all of which was non-covered.

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At December 31, 2013, the total amount of OREO was $11.8 million, of which $9.6 million was non-covered and $2.2 million was covered.

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

(dollars in thousands)	Total at December 31, 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)
Impaired non-covered loans:				
Commercial real estate - owner occupied	$ 11,852			$ 11,852
Commercial real estate - non-owner occupied (1)	1,859			1,859
Construction and land development	347			347
Commercial loans	8,005			8,005
Residential 1-4 family	1,044			1,044
Impaired covered loans:				
Residential 1-4 family	1,740			1,740
Non-covered other real estate owned:				
Commercial real estate - owner occupied	461			461
Commercial real estate - non-owner occupied (1)	1,792			1,792
Construction and land development	6,818			6,818
Residential 1-4 family	3,980			3,980

(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:				
Commercial real estate - owner occupied	$ 7,684			$ 7,684
Commercial real estate - non-owner occupied (1)	359			359
Construction and land development	2,107			2,107
Commercial loans	4,548			4,548
Residential 1-4 family	7,795			7,795

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

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

Fair Value of Financial Instruments

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

	Fair Value Hierarchy Level	December 31, 2014 Carrying Amount	December 31, 2014 Fair Value	December 31, 2013 Carrying Amount	December 31, 2013 Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$38,320	$38,320	$20,856	$20,856
Securities available for sale	See previous table	2,285	2,285	1,993	1,993
Securities held to maturity	Level 2 & Level 3	94,058	94,093	82,443	76,193
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	5,681	n/a	5,915	n/a
Equity investment in mortgage affiliate	Level 3	3,631	3,631	-	-
Preferred investment in mortgage affiliate	Level 3	1,805	1,805	-	-
Net non-covered loans	Level 3	657,583	666,621	487,318	493,472
Net covered loans	Level 3	38,475	43,663	51,650	57,564
Accrued interest receivable	Level 2 & Level 3	2,904	2,904	2,186	2,186
FDIC indemnification asset	Level 3	3,571	2,261	5,804	4,220
Financial liabilities:					
Demand deposits	Level 1	94,578	94,578	68,940	68,940
Money market and savings accounts	Level 1	181,452	181,452	147,854	147,854
Certificates of deposit	Level 3	466,395	466,391	323,565	324,733
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	29,044	29,044	34,545	34,545
FHLB advances	Level 3	25,000	25,526	30,250	31,168
Accrued interest payable	Level 1 & Level 3	560	560	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.

5. BANK PREMISES AND EQUIPMENT

Bank premises and equipment as of December 31, 2014 and 2013 were as follows (in thousands):

	2014	2013
Land	$ 2,261	$ 1,520
Building and improvements	5,811	3,347
Leasehold improvements	2,394	2,167
Furniture and equipment	3,948	3,536
	14,414	10,570
Less accumulated depreciation and amortization	4,961	4,246
Bank premises and equipment, net	$ 9,453	$ 6,324

Future minimum rental payments required under non-cancelable operating leases for bank premises that have initial or remaining terms in excess of one year as of December 31, 2014 are as follows (in thousands):

2015	$1,723
2016	1,021
2017	982
2018	720
2019	452
Thereafter	742
	$5,640

The leases contain options to extend for periods of 2 to 6 years. Rental expense for 2014, 2013 and 2012 was $2.0 million, $2.0 million and $1.9 million, respectively.

6. GOODWILL AND INTANGIBLE ASSETS

Goodwill

Goodwill is evaluated for impairment on an annual basis or more frequently if events or circumstances warrant. Goodwill is primarily related to the 2006 acquisition of 1st Service Bank. The acquisition of PGFSB in 2014 increased goodwill by $1.4 million. Our annual assessment timing is during the third calendar quarter. For the 2014 assessment, we performed a qualitative assessment to determine if it was more likely than not that the fair value of our single reporting unit is less than its carrying amount. We concluded that the fair value of our single reporting unit exceeded its carrying amount and that it was not necessary to perform the two-step test pursuant to ASC 350-20. Our qualitative assessment considered many factors including, but not limited to, our actual and projected operating performance and profitability, as well as consideration of recent bank merger and acquisition transaction metrics. No impairment was indicated in 2014 or 2013.

The changes in goodwill are presented in the following table (in thousands):

	2014	2013
Balance as of January 1	$ 9,160	$ 9,160
PGFSB acquisition	1,354	-
Balance as of December 31	$ 10,514	$ 9,160

Acquired Intangible Assets

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

	December 31, 2014		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$7,477	$ (6,123)	$ 1,354

	December 31, 2013		
	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Amortizable core deposit intangibles	$6,715	$ (5,902)	$ 813

Estimated amortization expense of intangibles for the years ended December 31 follows (in thousands):

2015	$262
2016	219
2017	194
2018	184
2019	173
Thereafter	322
	$1,354

7. FDIC INDEMNIFICATION ASSET

The indemnification asset represents our estimate of future expected recoveries under the FDIC loss sharing arrangement for covered loans acquired in the Greater Atlantic Bank acquisition in 2009. The estimated fair value of the indemnification asset was $8.8 million at December 4, 2009, the date of acquisition. The following table presents changes in the indemnification asset for the periods indicated (in thousands):

	2014	2013
Balance as of January 1	$ 5,804	$ 6,735
Payments from FDIC	(1,037)	(1,017)
Reforecasting adjustment (1)	34	569
Accretion (amortization)	(1,230)	(483)
Balance as of December 31	$ 3,571	$ 5,804

(1) Represents an increase in the carrying value of the indemnification asset resulting from increased reforecasted losses in individual covered loans and covered loan pools.

During 2014, and based on the actual historical losses on the loan pools over the previous 24 month period, expected losses on the acquired Greater Atlantic loans (the covered loans) were lower than previously forecasted which results in a lower expected recovery from the FDIC. As of December 31, 2014, we expect to recover $2.3 million from the FDIC under the indemnification agreement. The difference between the carrying amount of $3.6 million and the estimated recovery is being amortized over the remaining life of the indemnification agreement or the expected life of the loans, whichever is shorter.

There were two agreements with the FDIC, one for single family assets which is a 10 year agreement expiring in December 2019, and one for non-single family (commercial) assets which was a 5 year agreement which expired in December 2014. The current overstatement is due to improvements in the loss estimates in the single family covered loans.

8. DEPOSITS

The aggregate amount of time deposits in denominations of $250 thousand or more at December 31, 2014 and 2013 was $69.4 million and $41.1 million, respectively. At December 31, 2014, the scheduled maturities of time deposits are as follows (in thousands):

2015	$225,002
2016	125,803
2017	63,585
2018	21,834
2019	29,971
Thereafter	200

$466,395

The following table sets forth the maturities of certificates of deposit of $250 thousand and over as of December 31, 2014 (in thousands):

Within 3 Months	3 to 6 Months	6 to 12 Months	Over 12 Months	Total
$ 7,871	$ 4,003	$ 8,813	$ 48,744	$ 69,431

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As of December 31, 2014, we had brokered certificates of deposit in the amount of $77.0 million and brokered money market deposits of $10.2 million. At December 31, 2013, we had brokered certificates of deposit in the amount of $30.0 million, and we had brokered money market deposits of $10.2 million.

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

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

	2014		2013		2012	
FHLB overnight advances	$15,250		$-		$-	
Other short-term FHLB advances maturing 1/14/2013	-		-		20,000	
Other short-term FHLB advances maturing 1/27/2014			20,000		-	
Other short-term FHLB advances maturing 7/25/2014			5,250		-	
Securities sold under agreements to repurchase	13,794		14,545		13,411	
Total	$29,044		$39,795		$33,411	
Weighted average interest rate at year end	0.65	%	0.38	%	0.37	%
For the periods ended December 31, 2014, 2013 and 2012:						
Average outstanding balance	$37,810		$17,259		$20,353	
Average interest rate during the year	0.51	%	0.60	%	0.59	%
Maximum month-end outstanding balance	$66,852		$39,795		$33,411	

Investment securities in the amount of $20.8 million and $23.3 million were pledged as collateral for securities sold under agreements to repurchase at December 31, 2014 and 2013, respectively.

10. FEDERAL HOME LOAN BANK ADVANCES

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

	2014	2013
FHLB fixed rate advance maturing June 2016 with a rate of 1.78%	5,000	5,000
FHLB fixed rate advance maturing June 2016 with a rate of 1.78%	5,000	5,000
FHLB fixed rate advance maturing June 2016 with a rate of 2.08%	5,000	5,000
FHLB fixed rate advance maturing June 2016 with a rate of 2.03%	5,000	5,000
	5,000	5,000

FHLB fixed rate advance maturing June 2017 with a rate of 2.26%				
Total FHLB advances	$	25,000	$	25,000

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Each FHLB advance is payable at its maturity date, with a prepayment penalty for fixed rate advances paid off earlier than maturity. Residential 1-4 family mortgage loans in the amount of approximately $39.0 million and $45.1 million were pledged as collateral for Federal Home Loan Bank of Atlanta ("FHLB") advances as of December 31, 2014 and 2013, respectively. Home equity lines of credit (HELOCs) in the amount of approximately $24.3 million and $27.8 million were pledged as collateral for FHLB advances at December 31, 2014 and 2013, respectively. Commercial mortgage loans in the amount of approximately $134.9 million and $107.2 million were pledged as collateral for FHLB advances as of December 31, 2014 and 2013, respectively. Investment securities in the amount of $50.5 million and $35.8 million were pledged as collateral for FHLB advances at December 31, 2014 and 2013, respectively.

At December 31, 2014, Sonabank had available collateral to borrow an additional $143.0 million from the FHLB.

11. INCOME TAXES

Net deferred tax assets consist of the following components as of December 31, 2014 and 2013 (in thousands):

	2014	2013
Deferred tax assets:		
Allowance for loan losses	$2,570	$2,453
Organization costs	127	154
Unearned loan fees and other	617	501
Net operating loss carryover	-	92
Other real estate owned write-downs	942	1,009
FDIC assisted transactions timing difference	1,721	2,613
Other than temporary impairment charge	2,454	2,435
Net unrealized loss on securities available for sale	1,549	1,636
Purchase accounting	1,340	-
Other	745	630
Total deferred tax assets	12,065	11,523
Deferred tax liabilities:		
FDIC indemnification asset	1,238	2,008
FDIC gain	-	443
Purchase accounting	-	562
Depreciation	744	229
Total deferred tax liabilities	1,982	3,242
Net deferred tax assets	$10,083	$8,281

No valuation allowance was deemed necessary on deferred tax assets in 2014 and 2013. Management believes that the realization of the deferred tax assets is more likely than not based on the expectation that Southern National will generate the necessary taxable income in future periods.

We have no unrecognized tax benefits and do not anticipate any increase in unrecognized benefits during the next twelve months. Should the accrual of any interest or penalties relative to unrecognized tax benefits be necessary, it is our policy to record such accruals in our income tax accounts; no such accruals existed as of December 31, 2014 and 2013. Southern National and its subsidiary file a consolidated U. S. federal tax return, and Southern National files a Virginia state income tax return. Sonabank files a Maryland state income tax return. These returns are subject to examination by taxing authorities for all years after 2010.

The provision for income taxes consists of the following for the years ended December 31, 2014, 2013 and 2012 (in thousands):

	2014	2013	2012
Current tax expense			
Federal	$4,047	$2,852	$5,016
State	125	82	121
Total current tax expense	4,172	2,934	5,137
Deferred tax benefit			
Federal	(394)	102	(1,965)
State	(24)	-	(57)
Total deferred tax expense (benefit)	(418)	102	(2,022)
Total income tax expense	$3,754	$3,036	$3,115

The income tax expense differed from the amount of income tax determined by applying the U.S. Federal income tax rate of 34% to pretax income for the years ended December 31, 2014, 2013 and 2012 due to the following (in thousands):

	2014	2013	2012
Computed expected tax expense at statutory rate	$ 3,821	$3,160	$3,293
Reduction in tax expense resulting from:			
Income from bank-owned life insurance	(210)	(202)	(271)
Other, net	143	78	93
Income tax expense	$ 3,754	$3,036	$3,115

12. EMPLOYEE BENEFITS

Southern National has a 401(k) plan that allows employees to make pre-tax contributions for retirement. The 401(k) plan provides for discretionary matching contributions by Southern National. Expense for 2014, 2013 and 2012 was $102 thousand, $115 thousand and $78 thousand, respectively.

A deferred compensation plan that covers two executive officers was established in 2007. Under the plan, the Bank pays each participant, or their beneficiary, the amount of compensation deferred plus accrued interest over 10 years, beginning with the individual's retirement. A liability is accrued for the obligation under these plans. The expense incurred for the deferred compensation in 2014, 2013 and 2012 was $340 thousand, $225 thousand and $234 thousand, respectively. The deferred compensation liability was $1.6 million and $1.3 million as of December 31, 2014 and 2013, respectively.

13. 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 104,750 options during 2014. The fair value of each option granted is estimated on the date of grant using the Black-Scholes options-pricing model. The following weighted-average assumptions were used to value options granted in the years indicated:

	2014	2013	2012
Expected life	10 years	10 years	10 years
Expected volatility	29.30 %	34.21 %	35.64 %
Risk-free interest rate	2.48 %	2.42 %	1.65 %
Weighted average fair value per option granted	$ 2.88	$ 3.58	$ 3.63
Dividend yield	2.55 %	1.29 %	0.00 %

The risk-free interest rate was developed using the U. S. Treasury yield curve for periods equal to the expected life of the options on the grant date. An increase in the risk-free interest rate will increase stock compensation expense on future option grants. The dividend yield has had a de minimis impact on the fair value of the awards given the recent initiation of the dividend and the amount.

A summary of the activity in the stock option plan for 2014 follows:

	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	104,750	10.47		
Forfeited	(14,575)	8.38		
Exercised	(100,200)	8.84		
Options outstanding, end of period	621,050	$8.49	6.4	$ 1,781
Vested or expected to vest	621,050	$8.49	6.4	$ 1,781
Exercisable at end of period	320,290	$7.98	4.8	$ 1,088

Stock-based compensation expense was $317 thousand, $284 thousand and $195 thousand for the years ended December 31, 2014, 2013 and 2012, respectively.

As of December 31, 2014, unrecognized compensation expense associated with stock options was $900 thousand which is expected to be recognized over a weighted average period of 3.3 years.

14. 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 $8.4 million and $6.9 million as of December 31, 2014 and 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 December 31, 2014 and 2013, we had unfunded lines of credit and undisbursed construction loan funds totaling $113.3 million and $105.8 million, respectively. We had no approved loan commitments as of December 31, 2014 and 2013. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

15. EARNINGS PER SHARE

The following is a reconciliation of the denominators of the basic and diluted EPS computations for 2014, 2013 and 2012 (in thousands, except per share data):

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the year ended December 31, 2014			
Basic EPS	$ 7,483	11,846	$0.63
Effect of dilutive stock options and warrants		81	-
Diluted EPS	$ 7,483	11,927	$0.63
For the year ended December 31, 2013			
Basic EPS	$ 6,258	11,590	$0.54
Effect of dilutive stock options and warrants		37	-
Diluted EPS	$ 6,258	11,627	$0.54
For the year ended December 31, 2012			
Basic EPS	$ 6,569	11,590	$0.57
Effect of dilutive stock options and warrants	-	6	-
Diluted EPS	$ 6,569	11,596	$0.57

There were 622,593 anti-dilutive options and warrants during 2014. There were 676,463 anti-dilutive options and warrants during 2013, and there were 589,361 anti-dilutive options and warrants during 2012.

16. REGULATORY MATTERS

Southern National and its subsidiary bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action (PCA), we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. At December 31, 2014 and 2013, the most recent regulatory notifications categorized the Bank as well capitalized under regulatory framework for prompt corrective action.

Quantitative measures established by regulation to ensure capital adequacy require Southern National to maintain minimum amounts and ratios of Total and Tier I capital (as defined in the regulations) to average assets (as defined). Management believes, as of December 31, 2014, that Southern National meets all capital adequacy requirements to which it is subject.

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

	Actual			Required For Capital Adequacy Purposes			To Be Categorized as Well Capitalized		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
2014									
Southern National									
Tier 1 risk-based capital ratio	$105,107	15.19	%	$27,671	4.00	%	$41,507	6.00	%
Total risk-based capital ratio	112,521	16.27	%	55,343	8.00	%	69,179	10.00	%
Leverage ratio	105,107	11.80	%	35,623	4.00	%	44,529	5.00	%
Sonabank									
Tier 1 risk-based capital ratio	$104,007	15.04	%	$27,658	4.00	%	$41,487	6.00	%
Total risk-based capital ratio	111,421	16.11	%	55,316	8.00	%	69,145	10.00	%
Leverage ratio	104,007	11.68	%	35,609	4.00	%	44,511	5.00	%
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	%

Southern National’s principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. Under these regulations, the amount of dividends that may be paid in any calendar year is limited to the current year’s net profits, combined with the retained net profits of the preceding two years, subject to the capital requirements described above. During 2015, the Bank could, without prior approval, declare dividends of approximately $14.0 million plus any 2015 net profits retained to the date of the dividend declaration.

17. FDIC-ASSISTED ACQUISITION

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

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

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

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

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

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

18. ACQUISTIONS

The merger with Prince George's Federal Savings Bank (PGFSB) was completed on August 1, 2014, and allowed Southern National to expand its presence in Maryland. Southern National acquired PGFSB in a cash and stock transaction. PGFSB 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. Prince George's FSB has an excellent core deposit base reflecting its tenure in the communities it serves, and its lending activities have historically been focused on residential mortgages which make up the vast majority of loans acquired.

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The acquisition was accounted for under the acquisition method of accounting. The assets and liabilities were recorded at their estimated fair values as of the August 1, 2014 acquisition date. Total consideration for the acquisition included cash paid to PGFSB shareholders of $5.749 million and 525,858 shares of Southern National common stock in the amount of $5.748 million. A summary of the net assets acquired is as follows (in thousands):

Total purchase price	$	11,497
Fair value of assets acquired:		
Cash on hand and in banks	$	28,179
Loans		61,832
Loans held for sale		3,499
Land and buildings		3,023
Deferred tax asset		1,877
Other assets		1,022
Core deposit intangible		761
Total assets acquired	$	100,193
Fair value of liabilities assumed:		
Noninterest-bearing deposits	$	19,233
Interest-bearing deposits		69,995
Other liabilities		822
Total liabilities assumed	$	90,050
Net assets acquired	$	10,143
Goodwill		1,354
	$	11,497

A valuation of the acquired loans and core deposit intangible was performed with the assistance of a third-party valuation consultant. The unpaid principal balance and fair value of performing loans was $64.2 million and $61.2 million, respectively. The discount of $3.0 million will be accreted through interest income over the life of the loans in accordance with Accounting Standards Codification (ASC) topic 310-20. The unpaid principal balance and estimated fair value of acquired and retained non-performing loans was $1.5 million and $682 thousand, respectively. The discount of $790 thousand for these credit impaired loans will not be accreted in accordance with ASC 310-30. We also acquired nonperforming loans with an unpaid principal balance of $5.5 million and a fair value of $3.5 million which were sold immediately after acquisition for the fair value amount.

Merger costs related to the PGFSB acquisition were $445 thousand, consisting primarily of legal, investment banking and data processing expenses. We recorded goodwill in the amount of $1.4 million which is the difference between the total purchase price and the net assets acquired and is not deductible for income tax purposes.

Loan related interest income generated from PGFSB was approximately $1.5 million for the year to date period or 5 months since the acquisition.

The PGFSB branches have been integrated into the Sonabank branch system.

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, completed the purchase of the 62 percent of STM previously 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.

Sonabank's equity method investment in STM totaled $3.2 million. Sonabank also acquired 1.8 million shares of preferred stock in the amount of $1.8 million in STM with an annual dividend yield of 7.5%.

19. PARENT COMPANY FINANCIAL INFORMATION

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

CONDENSED BALANCE SHEETS
DECEMBER 31,

	2014	2013
ASSETS		
Cash	$769	$465
Investment in subsidiary	112,879	105,872
Other assets	331	277
Total assets	$113,979	$106,614
LIABILITIES AND STOCKHOLDERS' EQUITY		
Stockholders' equity:		
Common stock	$122	$116
Additional paid in capital	104,072	97,127
Retained earnings	12,805	12,561
Accumulated other comprehensive loss	(3,020)	(3,190)
Total stockholders' equity	113,979	106,614
Total liabilities and stockholders' equity	$113,979	$106,614

CONDENSED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(in thousands)

	2014	2013	2012
Equity in undistributed net income of subsidiary	$7,590	$6,370	$6,680
Other operating expenses	162	170	168
Income before income taxes	7,428	6,200	6,512
Income tax benefit	(55)	(58)	(57)
Net income	$7,483	$6,258	$6,569

CONDENSED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(in thousands)

	2014	2013	2012
Operating activities:			
Net income	$7,483	$6,258	$6,569
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:			
Equity in undistributed net income of subsidiary	(7,590)	(6,370)	(6,680)
Other, net	264	277	142
Net cash and cash equivalents provided by operating activities	157	165	31
Investing activities:			
Dividend from bank subsidiary	6,500	2,680	-
Net cash and cash equivalents provided by investing activities	6,500	2,680	-
Financing activities:			
Issuance of common stock	886	3	-
Dividend payment on common stock	(7,239)	(2,898)	(2,840)
Net cash and cash equivalents used in financing activities	(6,353)	(2,895)	(2,840)
Increase (decrease) in cash and cash equivalents	304	(50)	(2,809)
Cash and cash equivalents at beginning of period	465	515	3,324
Cash and cash equivalents at end of period	$769	$465	$515

20. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following is a summary of the accumulated other comprehensive loss balances, net of tax (in thousands):

	Balance at December 31, 2013	Current Period Change	Balance at December 31, 2014
Unrealized gains (losses) on securities available for sale	$ (203)	$ 197	$ (6)
Unrecognized loss on securities held to maturity for which other than temporary impairment charges have been taken	(2,535)	23	(2,512)
Unrealized loss on securities available for sale transferred to held to maturity	(452)	(50)	(502)
Total	$ (3,190)	$ 170	$ (3,020)

21. QUARTERLY FINANCIAL DATA (UNAUDITED)

	Interest Income	Net Interest Income	Income Before Taxes	Net Income	Earnings Per Share Basic	Earnings Per Share Diluted
	(dollars in thousands)					
2014						
First quarter	$8,641	$7,587	$ 2,434	$1,642	$0.14	$0.14
Second quarter	8,926	7,859	2,733	1,772	0.15	0.15
Third quarter	9,984	8,812	3,157	2,108	0.18	0.17
Fourth quarter	10,541	9,160	2,914	1,961	0.16	0.16
2013						
First quarter	$9,023	$7,770	$ 2,262	$1,526	$0.13	$0.13
Second quarter	8,549	7,374	2,299	1,555	0.13	0.13
Third quarter	8,847	7,724	2,641	1,780	0.15	0.15
Fourth quarter	8,697	7,580	2,092	1,397	0.12	0.12

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

None.

Item 9A. – Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures. As of the end of the period covered by this Annual Report on Form 10-K, 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) utilizing the framework established in “Internal Control – Integrated Framework (1992)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. 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 Annual Report on Form 10-K.

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) Management’s Report on Internal Control Over Financial Reporting. Management of Southern National is responsible for establishing and maintaining adequate internal control over financial reporting for Southern National Bancorp of Virginia, Inc. and its subsidiaries (“we” and “our”), as that term is defined in Exchange Act Rules 13a-15(f). Southern National conducted an evaluation of the effectiveness of our internal control over Southern National’s financial reporting as of December 31, 2014 based on the framework in “Internal Control-Integrated Framework (1992)” issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that evaluation, we concluded that our internal control over financial reporting is effective as of December 31, 2014.

Dixon Hughes Goodman LLP, an independent registered public accounting firm, has audited the consolidated financial statements included in this Annual Report and has issued a report on the effectiveness of our internal control over financial reporting, which report is included in “Part II - Item 8. Financial Statements and Supplementary Data” of this Report.

(c) 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.

Item 9B. – Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information under the captions “Election of Directors,” “Continuing Directors and Executive Officers,” “Section 16(a) Beneficial Ownership Reporting Compliance,” “Corporate Governance — Committees of the Board of Directors— Audit Committee,” “Corporate Governance — Director Nominations Process” and “Corporate Governance — Code of Ethics” in the Company’s definitive Proxy Statement for its 2015 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2014 pursuant to Regulation 14A under the Exchange Act (the “2015 Proxy Statement”), is incorporated herein by reference in response to this item.

Item 11. Executive Compensation

The information under the captions “Executive Compensation and Other Matters,” “Director Compensation” and “Compensation Committee Report on Executive Compensation” in the 2015 Proxy Statement is incorporated herein by reference in response to this item.

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

The information under the caption “Beneficial Ownership of Common Stock by Management of the Company and Principal Stockholders” in the 2015 Proxy Statement is incorporated herein by reference in response to this item.

The information required by this Item concerning securities authorized for issuance under equity compensation plans is incorporated herein by reference to Part II, Item 5 of this Annual Report on Form 10-K.

Item 13. Certain Relationships, Related Transactions and Director Independence

The information under the captions “Corporate Governance — Director Independence” and “Certain Relationships and Related Party Transactions” in the 2015 Proxy Statement is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services

The information under the caption “Fees and Services of Independent Registered Public Accounting Firm” in the 2015 Proxy Statement is incorporated herein by reference in response to this item.

PART IV

Item 15. – Exhibits and Financial Statement Schedules

The following documents are filed as part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent registered public accounting firm are in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - December 31, 2014 and 2013

Consolidated Statements of Income and Comprehensive Income - Years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Changes in Stockholders' Equity - Years ended December 31, 2014, 2013 and 2012

Consolidated Statements of Cash Flows -Years ended December 31, 2014, 2013 and 2012

Notes to Consolidated Financial Statements

(a)(2) Financial Statement Schedules

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

(a)(3) Exhibits
The following are filed or furnished, as noted below, as part of this Annual Report on Form 10-K and this list includes the Exhibit Index.

Exhibit No.	Description
3.1	Articles of Incorporation (incorporated herein by reference to Exhibit 3.1 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
3.2	Certificate of Amendment to the Articles of Incorporation dated January 31, 2005 (incorporated herein by reference to Exhibit 3.2 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
3.3	Certificate of Amendment to the Articles of Incorporation dated April 13, 2006 (incorporated herein by reference to Exhibit 3.3 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
3.4	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.4 to Southern National's Annual Report on Form 10-K for the year ended December 31, 2006)
3.5	Amendment No. 1 to Amended and Restated Bylaws (incorporated herein by reference to Exhibit 3.1 to Southern National's Current Report on Form 8-K filed on October 14, 2009)
4.1	Specimen Stock Certificate of Southern National (incorporated herein by reference to Exhibit 4.1 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
4.2	Form of Warrant Agreement (incorporated herein by reference to Exhibit 4.2to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
4.3	Form of Amendment to Warrant Agreement (incorporated herein by reference to Exhibit 4.3 to Southern National's Registration Statement on Form S-1 (Registration No. 333-136285))
10.1	Agreement and Plan of Merger among Southern National Bancorp of Virginia, Inc., Prince George's Federal Savings Bank, Sonabank and SONA Interim Federal Savings Bank, dated as of January 8, 2014 (incorporated herein by reference to Appendix A to the proxy statement/prospectus contained in Southern National's Registration Statement on Form S-4 filed on March 14, 2014 (Registration No. 333-194564))
10.2	First Amendment to the Agreement and Plan of Merger by and among Prince George's Federal Savings Bank, Southern National Bancorp of Virginia, Inc., Sonabank and SONA Interim Federal Savings Bank , dated as of February 20, 2014 (incorporated herein by reference to Appendix A to the proxy statement/prospectus contained in Southern National's Registration Statement on Form S-4 filed on March 14, 2014 (Registration No. 333-194564))
10.3+	Southern National Bancorp of Virginia, Inc. 2004 Stock Option Plan (incorporated herein by reference to Exhibit 10.1 to Southern National's Registration Statement on Form S-1 (Registration No. 333- 136285))

10.4+	Form of Change in Control Agreement with Georgia S. Derrico and R. Roderick Porter (incorporated herein by reference to Exhibit 10.2 to Southern National's Registration Statement on Form S-1 (Registration No. 333- 136285))
10.5+	Form of Southern National Bancorp of Virginia, Inc. Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 10.3 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.6+	Supplemental Executive Retirement Plan for Georgia Derrico (incorporated herein by reference to Exhibit 10.4 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.7+	Supplemental Executive Retirement Plan for Rod Porter (incorporated herein by reference to Exhibit 10.5 to Southern National's Registration Statement on Form S-1/A filed on October 29, 2009 (Registration No. 333-162467))
10.8+	Southern National Bancorp of Virginia, Inc. 2010 Stock Awards and Incentive Plan (incorporated herein by reference to Exhibit 4.2 to Southern National's Registration Statement on Form S-8 (Registration No. 333- 166511))
10.9+	Form of Southern National Bancorp of Virginia, Inc. Incentive Stock Option Agreement (incorporated herein by reference to Exhibit 4.3 to Southern National's Registration Statement on Form S-8 (Registration No. 333- 166511))
11.0	Statement re: Computation of Per Share Earnings (incorporated by reference to Note 15 of the notes to consolidated financial statements included in this Annual Report on Form 10-K
21.0*	Subsidiaries of the Registrant
23.1*	Consent of KPMG LLP
23.2*	Consent of Dixon Hughes Goodman LLP
31.1*	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2*	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1**	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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

Southern National Bancorp of Virginia, Inc. will furnish, upon written request, a copy of any exhibit listed above upon the payment of a reasonable fee covering the expense of furnishing the copy. Requests should be directed to:

William H. Lagos, Sr. Vice President and Chief Financial Officer
Southern National Bancorp of Virginia, Inc.
70 Main Street, Suite 34
Warrenton, Virginia 20186

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Southern National Bancorp of Virginia, Inc.

By:	/s/ Georgia S. Derrico Georgia S. Derrico Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	Date: March 13, 2015
By:	/s/ William H. Lagos William H. Lagos Sr. Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	Date: March 13, 2015

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

Date: March 13, 2015

Signature	Title
/s/ Georgia S. Derrico Georgia S. Derrico	Chairman of the Board and Chief Executive Officer
/s/ R. Roderick Porter R. Roderick Porter	President and Director
/s/ Neil J. Call Neil J. Call	Director
/s/ Charles A. Kabbash Charles A. Kabbash	Director
/s/ Frederick L. Bollerer Frederick L. Bollerer	Director
/s/ John J. Forch John J. Forch	Director
/s/ W. Bruce Jennings W. Bruce Jennings	Director

/s/ Robert Clagett Robert Clagett	Director

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