Southern National Bancorp of Virginia Inc
Form 10-Q
May 11, 2015

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

FORM 10-Q

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

For the Quarterly Period Ended March 31, 2015

Commission File No. 001-33037

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

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

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

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

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

YES x NO o

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

YES x NO o

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

Large accelerated filer o Accelerated filer x Smaller reporting company o

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

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

As of May 1, 2015, there were 12,263,420 shares of common stock outstanding.

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PART I - FINANCIAL STATEMENTS

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

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$4,630	$5,702
Interest-bearing deposits in other financial institutions	31,787	32,618
Total cash and cash equivalents	36,417	38,320
Securities available for sale, at fair value	2,306	2,285
Securities held to maturity, at amortized cost (fair value of $97,198 and $94,093, respectively)	92,065	94,058
Covered loans	37,437	38,496
Non-covered loans	691,787	664,976
Total loans	729,224	703,472
Less allowance for loan losses	(7,741)	(7,414)
Net loans	721,483	696,058
Stock in Federal Reserve Bank and Federal Home Loan Bank	5,667	5,681
Equity investment in mortgage affiliate	3,615	3,631
Preferred investment in mortgage affiliate	1,805	1,805
Bank premises and equipment, net	9,355	9,453
Goodwill	10,514	10,514
Core deposit intangibles, net	1,289	1,354
FDIC indemnification asset	3,439	3,571
Bank-owned life insurance	21,140	20,990
Other real estate owned	12,583	13,051
Deferred tax assets, net	10,068	10,083
Other assets	5,507	5,791
Total assets	$937,253	$916,645
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$71,394	$69,560
Interest-bearing deposits:		
NOW accounts	24,002	25,018
Money market accounts	138,777	137,297

Savings accounts	43,590	44,155
Time deposits	482,732	466,395
Total interest-bearing deposits	689,101	672,865
Total deposits	760,495	742,425
Securities sold under agreements to repurchase and other short-term borrowings	29,858	29,044
Federal Home Loan Bank (FHLB) advances	25,000	25,000
Other liabilities	6,770	6,197
Total liabilities	822,123	802,666
Commitments and contingencies (See Note 5)	-	-
Stockholders' equity:		
Preferred stock, $.01 par value. Authorized 5,000,000 shares; no shares issued and outstanding	-	-
Common stock, $.01 par value. Authorized 45,000,000 shares; issued and outstanding, 12,217,770 shares at March 31, 2015 and 12,216,669 at December 31, 2014	122	122
Additional paid in capital	104,167	104,072
Retained earnings	13,832	12,805
Accumulated other comprehensive loss	(2,991)	(3,020)
Total stockholders' equity	115,130	113,979
Total liabilities and stockholders' equity	$937,253	$916,645

See accompanying notes to consolidated financial statements.

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

	For the Three Months Ended March 31,	
	2015	2014
Interest and dividend income :		
Interest and fees on loans	$9,551	$7,756
Interest and dividends on taxable securities	654	513
Interest and dividends on tax exempt securities	101	92
Interest and dividends on other earning assets	129	280
Total interest and dividend income	10,435	8,641
Interest expense:		
Interest on deposits	1,339	896
Interest on borrowings	169	158
Total interest expense	1,508	1,054
Net interest income	8,927	7,587
Provision for loan losses	525	1,175
Net interest income after provision for loan losses	8,402	6,412
Noninterest income:		
Account maintenance and deposit service fees	222	178
Income from bank-owned life insurance	150	140
Equity income (loss) from mortgage affiliate	(16)	-
Gain on other assets	-	202
Total other-than-temporary impairment losses (OTTI)	-	(16)
Portion of OTTI recognized in other comprehensive income (before taxes)	-	-
Net credit related OTTI recognized in earnings	-	(16)
Other	49	37
Total noninterest income	405	541
Noninterest expenses:		
Salaries and benefits	2,803	2,389
Occupancy expenses	871	772
Furniture and equipment expenses	210	187
Amortization of core deposit intangible	65	45
Virginia franchise tax expense	88	116
Merger expenses	-	213
FDIC assessment	172	125

Data processing expense	164	126
Telephone and communication expense	206	178
Change in FDIC indemnification asset	129	124
Net (gain) loss on other real estate owned	320	(419)
Other operating expenses	793	663
Total noninterest expenses	5,821	4,519
Income before income taxes	2,986	2,434
Income tax expense	982	792
Net income	$2,004	$1,642
Other comprehensive income:		
Unrealized gain on available for sale securities	$23	$143
Non-credit component of other-than-temporary impairment on held-to-maturity securities	-	21
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	22	(20)
Net unrealized gain	45	144
Tax effect	(16)	(49)
Other comprehensive income	29	95
Comprehensive income	$2,033	$1,737
Earnings per share, basic and diluted	$0.16	$0.14

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2015
(dollars in thousands, except per share amounts) (Unaudited)

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2014	$122	$104,072	$12,805	$ (3,020)	$113,979
Comprehensive income:					
Net income			2,004		2,004
Change in unrealized loss on securities available for sale (net of tax benefit, $8)				15	15
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $7 and accretion, $22 and amounts recorded into other comprehensive income at transfer)				14	14
Dividends on common stock ($.08 per share)			(977)		(977)
Issuance of common stock under Stock Incentive Plan (1,100 shares)		10			10
Stock-based compensation expense		85			85
Balance - March 31, 2015	$122	$104,167	$13,832	$ (2,991)	$115,130

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2015 AND 2014
(dollars in thousands) (Unaudited)

	2015	2014
Operating activities:		
Net income	$2,004	$1,642
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	227	172
Amortization of core deposit intangible	65	45
Other amortization, net	(9)	47
Accretion of loan discount	(712)	(706)
Amortization of FDIC indemnification asset	129	124
Provision for loan losses	525	1,175
Earnings on bank-owned life insurance	(150)	(140)
Equity (income) loss on mortgage affiliate	16	-
Stock based compensation expense	85	77
Impairment on securities	-	16
Net (gain) loss on other real estate owned	320	(419)
Net decrease in other assets	255	121
Net increase in other liabilities	573	146
Net cash and cash equivalents provided by operating activities	3,328	2,300
Investing activities:		
Purchases of held to maturity securities	-	(5,000)
Proceeds from paydowns, maturities and calls of held to maturity securities	2,054	1,320
Loan originations and payments, net	(25,238)	2,397
Purchase of bank-owned life insurance	-	(2,000)
Net decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	14	1,122
Payments received on FDIC indemnification asset	3	638
Proceeds from sale of other real estate owned	148	2,778
Purchases of bank premises and equipment	(129)	(112)
Net cash and cash equivalents provided by (used in) investing activities	(23,148)	1,143
Financing activities:		
Net increase in deposits	18,070	15,932
Cash dividends paid - common stock	(977)	(811)
Issuance of common stock under Stock Incentive Plan	10	30
Net increase (decrease) in securities sold under agreement to repurchase and other short-term borrowings	814	(20,068)
Net cash and cash equivalents provided by (used in) financing activities	17,917	(4,917)
Decrease in cash and cash equivalents	(1,903)	(1,474)
Cash and cash equivalents at beginning of period	38,320	20,856
Cash and cash equivalents at end of period	$36,417	$19,382
Supplemental disclosure of cash flow information		
Cash payments for:		

Interest	$1,486	$1,035
Income taxes	610	918
Supplemental schedule of noncash investing and financing activities		
Transfer from non-covered loans to other real estate owned	-	4,409

See accompanying notes to consolidated financial statements.

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SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.
Notes to Consolidated Financial Statements (Unaudited)
March 31, 2015

1. ACCOUNTING POLICIES

Southern National Bancorp of Virginia, Inc. (“Southern National” or “SNBV”) is a corporation formed on July 28, 2004 under the laws of the Commonwealth of Virginia and is the holding company for Sonabank (“Sonabank”) a Virginia state chartered bank which commenced operations on April 14, 2005. 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 eight branches in Maryland, in Rockville, Shady Grove, Frederick, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown.

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

The unaudited consolidated financial statements have been prepared in accordance with U. S. generally accepted accounting principles (“U. S. GAAP”) for interim financial information and instructions for Form 10-Q and follow general practice within the banking industry. Accordingly, the unaudited consolidated financial statements do not include all of the information and footnotes required by U. S. GAAP for complete financial statements. However, in the opinion of management, all adjustments (consisting only of normal recurring accruals) necessary for a fair presentation of the results of the interim periods presented have been made. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in Southern National’s Form 10-K for the year ended December 31, 2014.

Use of Estimates

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

Recent Accounting Pronouncements

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

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, 2017, 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.

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

2. STOCK- BASED COMPENSATION

In 2004, the Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. The 2010 Stock Awards and Incentive Plan was approved by the Board of Directors in January 2010 and approved by the stockholders at the Annual Meeting in April 2010. The 2010 plan authorized the reservation of an additional 700,000 shares of common stock for the granting of stock awards. The options granted to officers and employees are incentive stock options and the options granted to non-employee directors are non-qualified stock options. The purpose of the plan is to afford key employees an incentive to remain in the employ of Southern National and to assist in the attracting and retaining of non-employee directors by affording them an opportunity to share in Southern National's future success. Under the plan, the option's price cannot be less than the fair market value of the stock on the grant date. The maximum term of the options is ten years and options granted may be subject to a graded vesting schedule.

Southern National granted no options during the first three months of 2015.

For the three months ended March 31, 2015 and 2014, stock-based compensation expense was $85 thousand and $77 thousand, respectively. As of March 31, 2015, unrecognized compensation expense associated with the stock options was $815 thousand, which is expected to be recognized over a weighted average period of 3.1 years.

A summary of the activity in the stock option plan during the three months ended March 31, 2015 follows (dollars in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding, beginning of period	621,050	$8.49		
Granted	-	-		
Forfeited	-	-		
Exercised	(1,100)	9.09		
Options outstanding, end of period	619,950	$8.49	6.1	$1,952
Vested or expected to vest	619,950	$8.49	6.1	$1,952

Exercisable at end of period	344,820	$7.94	4.4	$1,279

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3. SECURITIES

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

March 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,293	$ 22	$ (9)	$ 2,306

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

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

March 31, 2015	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$21,883	$761	$(7)	$22,637
Residential government-sponsored collateralized mortgage obligations	3,403	1	(23)	3,381
Government-sponsored agency securities	44,950	350	(373)	44,927
Obligations of states and political subdivisions	15,502	136	(148)	15,490
Other residential collateralized mortgage obligations	583	-	(1)	582
Trust preferred securities	5,744	4,690	(253)	10,181
	$92,065	$5,938	$(805)	$97,198

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

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

Prior to the quarter ended March 31, 2015, due to market conditions as well as the limited trading activity of the trust preferred securities, the market value of these securities was highly sensitive to assumption changes and market volatility. We had determined that our trust preferred securities were classified within Level 3 of the fair value hierarchy. Market conditions and trading activity has improved significantly for trust preferred securities, and the fair value as of March 31, 2015 was estimated within Level 2 of the 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.

The fair value and carrying amount, if different, of debt securities as of March 31, 2015, 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	$13,379	$13,418	$-	$-
Due after ten years	52,817	57,180	2,293	2,306
Residential government-sponsored mortgage-backed securities	21,883	22,637	-	-
Residential government-sponsored collateralized mortgage obligations	3,403	3,381	-	-
Other residential collateralized mortgage obligations	583	582	-	-
Total	$92,065	$97,198	$2,293	$2,306

Securities with a carrying amount of approximately $70.6 million and $71.8 million at March 31, 2015 and December 31, 2014, respectively, were pledged to secure public deposits, repurchase agreements and a line of credit for advances from the Federal Home Loan Bank of Atlanta ("FHLB").

Southern National monitors the portfolio for indicators of other than temporary impairment. At March 31, 2015 and December 31, 2014, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $44.1 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at March 31, 2015. Because the decline in fair value is attributable to changes in interest rates and market illiquidity, and not credit quality, and because we do not have the intent to sell these securities and it is likely that we will not be required to sell the securities before their anticipated recovery, management does not consider these securities to be other-than-temporarily impaired as of March 31, 2015. The following tables present information regarding securities in a continuous unrealized loss position as of March 31, 2015 and December 31, 2014 (in thousands) by duration of time in a loss position:

March 31, 2015

	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	$1,732	$ (9)	$-	$ -	$1,732	$ (9)

	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	$818	$ (7)	$-	$ -	$818	$ (7)
Residential government-sponsored	-	-	2,733	(23)	2,733	(23)

collateralized mortgage obligations						
Government-sponsored agency securities	19,715	(274)	9,887	(99)	29,602	(373)
Obligations of states and political subdivisions	2,362	(41)	1,974	(107)	4,336	(148)
Other residential collateralized mortgage obligations	582	(1)	-	-	582	(1)
Trust preferred securities	-	-	4,273	(253)	4,273	(253)
	$23,477	$ (323)	$18,867	$ (482)	$42,344	$ (805)

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)

As of March 31, 2015, we owned pooled trust preferred securities as follows:

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)	
						(in thousands)					
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$4,612	$4,203	$3,997	12%	$262	
MMCF III B	Senior Sub	A3	A-	Ba1	CC	328	323	276	34%	5	
						4,940	4,526	4,273		$267	
										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	705	39%	591	$400
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,185	57	1,058	22%	835	1,293
TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	949	16%	7	2,032
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	570	20%	377	691
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	1,292	15%	1,014	661
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,291	31	245	27%	701	2,559
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,145	119	1,089	10%	846	1,180
						14,405	1,218	5,908		$4,371	$8,816
Total						$19,345	$5,744	$10,181			

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

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

.5% of the remaining performing collateral will default or defer per annum.
Recoveries of 10% 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 no OTTI charges during the first quarter of 2015 compared to OTTI charges related to credit on the trust preferred securities totaling $16 thousand during the first quarter of 2014.

The following table presents a roll forward of the credit losses on our securities held to maturity recognized in earnings for the three months ended March 31, 2015 and 2014 (in thousands):

	2015	2014
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$8,949	$8,911
Amounts related to credit loss for which an other-than-temporary impairment was not previously recognized	-	-
Amounts related to credit loss for which an other-than-temporary impairment was previously recognized	-	16
Reductions due to realized losses	-	(2)
Amount of cumulative other-than-temporary impairment related to credit loss as of March 31	$8,949	$8,925

Changes in accumulated other comprehensive income by component for the three months ended March 31, 2015 and 2014 are shown in the table below. All amounts are net of tax (in thousands).

For the three months ended March 31, 2015	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total
Beginning balance	$ (6)	$ (3,014)	$(3,020)
Other comprehensive income/(loss) before reclassifications	15	14	29
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	15	14	29
Ending balance	$ 9	$ (3,000)	$(2,991)

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

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4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The following table summarizes the composition of our loan portfolio as of March 31, 2015 and December 31, 2014:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	March 31, 2015			December 31, 2014		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$-	$ 142,202	$142,202	$-	$ 136,597	$136,597
Commercial real estate - non-owner-occupied	-	212,748	212,748	-	200,517	200,517
Secured by farmland	-	606	606	-	612	612
Construction and land loans	-	53,014	53,014	-	57,938	57,938
Residential 1-4 family	14,537	129,915	144,452	14,837	123,233	138,070
Multi- family residential	-	21,753	21,753	-	21,832	21,832
Home equity lines of credit	22,900	10,425	33,325	23,658	9,751	33,409
Total real estate loans	37,437	570,663	608,100	38,495	550,480	588,975
Commercial loans	-	121,465	121,465	-	114,714	114,714
Consumer loans	-	1,452	1,452	-	1,564	1,564
Gross loans	37,437	693,580	731,017	38,495	666,758	705,253
Less deferred fees on loans	-	(1,793)	(1,793)	1	(1,782)	(1,781)
Loans, net of deferred fees	$37,437	$ 691,787	$729,224	$38,496	$ 664,976	$703,472

(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 March 31, 2015, non-covered loans included $31.9 million of loans acquired in the HarVest acquisition and $57.8 million acquired in the PGFSB acquisition.

Accretable discount on the acquired covered loans, the PGFSB loans and the HarVest loans was $8.6 million and $9.3 million at March 31, 2015 and December 31, 2014 respectively.

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

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

March 31, 2015	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	$-	$-	$-	$5,116	$5,116	$-	$5,116	$5,116	$-
Commercial real estate - non-owner occupied (2)	-	-	-	1,841	2,099	-	1,841	2,099	-
Construction and land development	-	-	-	447	576	-	447	576	-
Commercial loans	-	-	-	3,569	3,569	-	3,569	3,569	-
Residential 1-4 family (4)	1,656	1,951	-	-	-	-	1,656	1,951	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$1,656	$1,951	$-	$10,973	$11,360	$-	$12,629	$13,311	$-
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$-	$6,801	$7,422	$695	$6,801	$7,422	$695
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	3,723	4,807	232	3,723	4,807	232
Residential 1-4 family (4)	-	-	-	734	796	150	734	796	150
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$-	$11,258	$13,025	$1,077	$11,258	$13,025	$1,077
Grand total	$1,656	$1,951	$-	$22,231	$24,385	$1,077	$23,887	$26,336	$1,077

(1) Recorded investment is after cumulative prior charge offs of $1.4 million. These loans also have aggregate SBA guarantees of $4.5 million.
(2) Includes loans secured by farmland and multi-family residential loans.
(3) The Bank recognizes loan impairment and may concurrently record a charge off to the allowance for loan losses.
(4) Includes home equity lines of credit.

December 31, 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.

The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three months ended March 31, 2015 and 2014 (in thousands):

Three months ended March 31, 2015	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	$ -	$ -	$ 5,122	$ 74	$ 5,122	$ 74
Commercial real estate - non-owner occupied (1)	-	-	1,851	29	1,851	29
Construction and land development	-	-	450	9	450	9
Commercial loans	-	-	3,655	53	3,655	53
Residential 1-4 family (2)	1,658	11	-	-	1,658	11
Other consumer loans	-	-	-	-	-	-
Total	$ 1,658	$ 11	$ 11,078	$ 165	$ 12,736	$ 176
With an allowance recorded						
Commercial real estate - owner occupied	$ -	$ -	$ 6,837	$ 90	$ 6,837	$ 90
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	4,050	21	4,050	21
Residential 1-4 family (2)	-	-	734	-	734	-
Other consumer loans	-	-	-	-	-	-
Total	$ -	$ -	$ 11,621	$ 111	$ 11,621	$ 111
Grand total	$ 1,658	$ 11	$ 22,699	$ 276	$ 24,357	$ 287

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

Three months ended March 31, 2014	Covered Loans		Non-covered Loans		Total Loans	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized

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

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

The following tables present the aging of the recorded investment in past due loans by class of loans as of March 31, 2015 and December 31, 2014 (in thousands):

March 31, 2015	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)	124	231	-	355	745	36,337	37,437
Other consumer loans	-	-	-	-	-	-	-
Total	$ 124	$ 231	$ -	$ 355	$ 745	$ 36,337	$ 37,437
Non-covered loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 1,522	$ 140,680	$ 142,202
Commercial real estate - non-owner occupied (1)	140	-	-	140	-	234,967	235,107
Construction and land development	-	-	-	-	-	53,014	53,014
Commercial loans	-	-	-	-	3,723	117,742	121,465
Residential 1-4 family (2)	68	-	-	68	734	139,538	140,340
Other consumer loans	14	-	-	14	-	1,438	1,452
Total	$ 222	$ -	$ -	$ 222	$ 5,979	$ 687,379	$ 693,580
Total loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 1,522	$ 140,680	$ 142,202
Commercial real estate - non-owner occupied (1)	140	-	-	140	-	234,967	235,107
Construction and land development	-	-	-	-	-	53,014	53,014
Commercial loans	-	-	-	-	3,723	117,742	121,465
Residential 1-4 family (2)	192	231	-	423	1,479	175,875	177,777
Other consumer loans	14	-	-	14	-	1,438	1,452
Total	$ 346	$ 231	$ -	$ 577	$ 6,724	$ 723,716	$ 731,017

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

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

Non-covered nonaccrual loans include SBA guaranteed amounts totaling $4.5 million and $4.7 million at March 31, 2015 and December 31, 2014, respectively.

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Activity in the allowance for non-covered loan and lease losses for the three months ended March 31, 2015 and 2014 is summarized below (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
Three months ended March 31, 2015								
Allowance for loan losses:								
Beginning balance	$ 855	$ 1,123	$ 1,644	$ 2,063	$ 1,322	$ 49	$ 337	$ 7,393
Charge offs	-	-	-	(353)	-	(2)	-	(355)
Recoveries	1	6	139	9	2	-	-	157
Provision	568	59	(432)	330	(109)	(4)	113	525
Ending balance	$ 1,424	$ 1,188	$ 1,351	$ 2,049	$ 1,215	$ 43	$ 450	$ 7,720
Three months ended March 31, 2014								
Allowance for loan losses:								
Beginning balance	$ 814	$ 985	$ 1,068	$ 2,797	$ 1,302	$ 54	$ 19	$ 7,039
Charge offs	(71)	-	-	(588)	(300)	-	-	(959)
Recoveries	4	6	-	35	-	5	-	50
Provision	(131)	(181)	84	404	100	(9)	908	1,175
Ending balance	$ 616	$ 810	$ 1,152	$ 2,648	$ 1,102	$ 50	$ 927	$ 7,305

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

Activity in the allowance for covered loan and lease losses by class of loan for the three months ended March 31, 2015 and 2014 is summarized below (in thousands).

Covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (3)	Other Consumer Loans	Unallocated	Total
Three months ended March 31, 2015								
Allowance for loan losses:								
Beginning balance	$ -	$ -	$ -	$ -	$ 17	$ 4	$ -	$ 21
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-	-
Ending balance	$ -	$ -	$ -	$ -	$ 17	$ 4	$ -	$ 21
Three months ended March 31, 2014								

Allowance for loan losses:								
Beginning balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-	-
Ending balance	$ -	$ 45	$ -	$ -	$ -	$ 6	$ -	$ 51

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

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The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of March 31, 2015 and December 31, 2014 (in thousands):

Non-covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
March 31, 2015								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 695	$ -	$ -	$ 232	$ 150	$ -	$ -	$ 1,077
Collectively evaluated for impairment	729	1,188	1,351	1,817	1,065	43	450	6,643
Total ending allowance	$ 1,424	$ 1,188	$ 1,351	$ 2,049	$ 1,215	$ 43	$ 450	$ 7,720
Loans:								
Individually evaluated for impairment	$ 11,917	$ 1,841	$ 447	$ 7,292	$ 734	$ -	$ -	$ 22,231
Collectively evaluated for impairment	130,285	233,266	52,567	114,173	139,606	1,452	-	671,349
Total ending loan balances	$ 142,202	$ 235,107	$ 53,014	$ 121,465	$ 140,340	$ 1,452	$ -	$ 693,580
December 31, 2014								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 151	$ -	$ 120	$ 134	$ 300	$ -	$ -	$ 705
	704	1,123	1,524	1,929	1,022	49	337	6,688

Collectively evaluated for impairment								
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

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

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

Covered loans:	Commercial Real Estate Owner Occupied	Commercial Real Estate Non-owner Occupied (1)	Construction and Land Development	Commercial Loans	1-4 Family Residential (2)	Other Consumer Loans	Unallocated	Total
March 31, 2015								
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	$ -	$ -	$ -	$ -	$ 1,656	$ -	$ -	$ 1,656
Collectively evaluated for impairment	-	-	-	-	35,781	-	-	35,781
Total ending loan balances	$ -	$ -	$ -	$ -	$ 37,437	$ -	$ -	$ 37,437

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
Total ending loan balances	$ -	$ -	$ -	$ -	$ 38,495	$ -	$ -	$ 38,495

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

Troubled Debt Restructurings

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

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

During the periods ending March 31, 2015 and March 31, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the quarters ending March 31, 2015 and March 31, 2014, which had been modified in the previous 12 months.

Credit Quality Indicators

Through its system of internal controls Southern National evaluates and segments loan portfolio credit quality on a quarterly basis using regulatory definitions for Special Mention, Substandard and Doubtful. Special Mention loans are considered to be criticized. Substandard and Doubtful loans are considered to be classified. Southern National had no loans classified Doubtful at March 31, 2015 or December 31, 2014.

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

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

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

As of March 31, 2015 and December 31, 2014, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

March 31, 2015	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	$-	$-	$-	$906	$11,917	$129,379	$142,202	$12,823	$129,379	$142,202
Commercial real estate - non-owner occupied (2)	-	-	-	229	1,841	233,037	235,107	2,070	233,037	235,107
Construction and land development	-	-	-	572	447	51,995	53,014	1,019	51,995	53,014
Commercial loans	-	-	-	30	7,292	114,143	121,465	7,322	114,143	121,465
Residential 1-4 family (4)	1,656	35,781	37,437	574	734	139,032	140,340	2,964	174,813	177,777
Other consumer loans	-	-	-	-	-	1,452	1,452	-	1,452	1,452
Total	$1,656	$35,781	$37,437	$2,311	$22,231	$669,038	$693,580	$26,198	$704,819	$731,017

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
	-	-	-	30	8,139	106,545	114,714	8,169	106,545	114,714

Commercial loans										
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

(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 $4.5 million and $4.7 million as of March 31, 2015 and December 31, 2014.
(4) Includes home equity lines of credit.

The amount of foreclosed residential real estate property held at March 31, 2015 was $3.8 million. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $862 thousand at March 31, 2015.

5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Southern National is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by Southern National to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $8.6 million and $8.4 million as of March 31, 2015 and December 31, 2014, respectively.

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

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

At March 31, 2015 and December 31, 2014, we had unfunded lines of credit and undisbursed construction loan funds totaling $105.0 million and $113.3 million, respectively. We had approved loan commitments of $24.1 million at March 31, 2015, and we had no approved loan commitments as of December 31, 2014. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

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6. EARNINGS PER SHARE

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

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2015			
Basic EPS	$ 2,004	12,217	$0.16
Effect of dilutive stock options and warrants	-	124	-
Diluted EPS	$ 2,004	12,341	$0.16
For the three months ended March 31, 2014			
Basic EPS	$ 1,642	11,591	$0.14
Effect of dilutive stock options and warrants	-	66	-
Diluted EPS	$ 1,642	11,657	$0.14

There were 578,348 and 643,199 anti-dilutive options and warrants for the three months ended March 31, 2015 and 2014, respectively.

7. FAIR VALUE

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

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

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

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

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

Securities Available for Sale

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

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

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

(dollars in thousands)	Total at March 31, 2015	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:				
Available for sale securities				
Obligations of states and political subdivisions	$ 2,306	$ -	$ 2,306	$ -

(dollars in thousands)	Total at December 31, 2014	Fair Value Measurements Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant 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	$ -

Assets and Liabilities Measured on a Non-recurring Basis:

Trust Preferred Securities Classified as Held-to-Maturity

Prior to the quarter ended March 31, 2015, due to market conditions as well as the limited trading activity of these securities, the market value of the securities was highly sensitive to assumption changes and market volatility. We had determined that our trust preferred securities were classified within Level 3 of the fair value hierarchy. Market conditions and trading activity has improved significantly for trust preferred securities, and the fair value as of March 31, 2015 was estimated within Level 2 of the 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.

Other Residential Collateralized Mortgage Obligation Classified as Held-to Maturity

The fair value was estimated within Level 2 fair value hierarchy, as the fair value is based on either pricing models, quoted market prices of securities with similar characteristics, or discounted cash flows. We have evaluated this security for potential impairment and, based on our review of the trustee report, shock analysis and current information regarding delinquencies, nonperforming loans and credit support, it has been determined that no OTTI charge for credit exists for the three months ended March 31, 2015. The assumptions used in the analysis included a 3.4% prepayment speed, .4% default rate, a 61% loss severity and an accounting yield of 2.46% at March 31, 2015.

Impaired Loans

Generally, we measure the impairment for impaired loans considering the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral is determined by an independent appraisal or evaluation less estimated costs related to selling the collateral. In some cases appraised value is net of costs to sell. Estimated selling costs range from 6% to 10% of collateral valuation at March 31, 2015 and December 31, 2014. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $22.2 million (including SBA guarantees of $4.5 million and HarVest loans of $521 thousand) as of March 31, 2015 with an allocated allowance for loan losses totaling $1.1 million compared to a carrying amount of $23.8 million (including SBA guarantees of $4.7 million) with an allocated allowance for loan losses totaling $705 thousand at December 31, 2014.

Other Real Estate Owned (OREO)

OREO is evaluated at the time of acquisition and recorded at fair value as determined by independent appraisal or evaluation less cost to sell. In some cases appraised value is net of costs to sell. Selling costs have been in the range from 6% to 7.6% of collateral valuation at March 31, 2015 and December 31, 2014. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At March 31, 2015 and December 31, 2014, the total amount of OREO was $12.6 million and $13.1 million, respectively, all of which was non-covered.

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

		Fair Value Measurements Using		
(dollars in thousands)	Total at March 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:				
Commercial real estate - owner occupied	$ 11,222			$ 11,222
Commercial real estate - non-owner occupied (1)	1,841			1,841
Construction and land development	447			447
Commercial loans	7,060			7,060
Residential 1-4 family	584			584
Impaired covered loans:				
Residential 1-4 family	1,656			1,656
Non-covered other real estate owned:				
Commercial real estate - owner occupied	341			341
Commercial real estate - non-owner occupied (1)	1,781			1,781
Construction and land development	6,682			6,682
Residential 1-4 family	3,779			3,779

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired non-covered loans:				
Commercial real estate - owner occupied	$ 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
	1,792			1,792

Commercial real estate - non-owner occupied (1)		
Construction and land development	6,818	6,818
Residential 1-4 family	3,980	3,980

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Fair Value of Financial Instruments

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

		March 31, 2015		December 31, 2014	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$36,417	$36,417	$38,320	$38,320
Securities available for sale	See previous table	2,306	2,306	2,285	2,285
Securities held to maturity	Level 2	92,065	97,198	94,058	94,093
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	5,667	n/a	5,681	n/a
Equity investment in mortgage affiliate	Level 3	3,615	3,615	3,631	3,631
Preferred investment in mortgage affiliate	Level 3	1,805	1,805	1,805	1,805
Net non-covered loans	Level 3	684,067	697,357	657,583	666,621
Net covered loans	Level 3	37,416	44,632	38,475	43,663
Accrued interest receivable	Level 2 & Level 3	2,636	2,636	2,904	2,904
FDIC indemnification asset	Level 3	3,439	2,258	3,571	2,261
Financial liabilities:					
Demand deposits	Level 1	95,396	95,396	94,578	94,578
Money market and savings accounts	Level 1	182,367	182,367	181,452	181,452
Certificates of deposit	Level 3	482,732	483,811	466,395	466,391
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	29,858	29,858	29,044	29,044
FHLB advances	Level 3	25,000	25,493	25,000	25,526
Accrued interest payable	Level 1 & Level 3	583	583	560	560

Carrying amount is the estimated fair value for cash and cash equivalents, equity investment in mortgage affiliate, preferred investment in mortgage affiliate, 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.

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

Management's discussion and analysis is presented to aid the reader in understanding and evaluating the financial condition and results of operations of SNBV. This discussion and analysis should be read with the consolidated financial statements, the footnotes thereto, and the other financial data included in this report and in our annual report on Form 10-K for the year ended December 31, 2014. Results of operations for the three month period ended March 31, 2015 are not necessarily indicative of results that may be attained for any other period.

FORWARD-LOOKING STATEMENTS

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

Many possible events or factors could affect our future financial results and performance and could cause our actual results to differ materially from the expectations of future results we express or imply in any forward-looking statements. In addition to the Risk Factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2014, factors that could contribute to those differences include, but are not limited to:

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

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

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

OVERVIEW

Southern National Bancorp of Virginia, Inc. (“Southern National” 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 eight branches in Maryland, in Rockville, Shady Grove, Frederick, Bethesda, Upper Marlboro, Brandywine, Owings and Huntingtown. We have administrative offices in Warrenton and an executive office in Georgetown, Washington, D.C where senior management is located.

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RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended March 31, 2015 was $2.0 million compared to $1.6 million during the first quarter of 2014.

Net Interest Income

Our operating results depend primarily on our net interest income, which is the difference between interest and dividend income on interest-earning assets such as loans and investments, and interest expense on interest-bearing liabilities such as deposits and borrowings.

During the first quarter of 2015, net interest income before the provision for loan losses was $8.9 million, up significantly from $7.6 million during the first quarter of 2014. Average loans during the first quarter of 2015 were $713.6 million compared to $544.1 million during the same period last year. The net interest margin was 4.30% in the first quarter of 2015, down from 4.72% in the first quarter of 2014. The loan discount accretions on our three acquisitions, Greater Atlantic Bank (GAB), HarVest and Prince George’s Federal Savings Bank (PGFSB) were as follows (in thousands):

	Q1 2015	Q1 2014
GAB	$450	$412
HarVest	152	278
PGFSB	126	-
Total	$728	$690

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

	Average Balance Sheets and Net Interest Analysis For the Three Months Ended					
	3/31/2015			3/31/2014		
	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)	$ 713,587	$ 9,551	5.43 %	$ 544,110	$ 7,756	5.78 %
Investment securities	95,766	755	3.15 %	84,609	605	2.86 %
Other earning assets	32,666	129	1.60 %	23,501	280	4.83 %
Total earning assets	842,019	10,435	5.03 %	652,220	8,641	5.37 %
Allowance for loan losses	(7,675)			(7,426)		
Total non-earning assets	85,205			69,332		
Total assets	$ 919,549			$ 714,126		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW accounts	$ 24,505	6	0.10 %	$ 23,002	6	0.11 %
Money market accounts	138,559	116	0.34 %	129,554	90	0.28 %
Savings accounts	44,435	66	0.60 %	17,333	27	0.64 %
Time deposits	466,169	1,151	1.00 %	332,057	773	0.94 %
Total interest-bearing deposits	673,668	1,339	0.81 %	501,946	896	0.72 %
Borrowings	53,614	169	1.28 %	54,021	158	1.19 %
Total interest-bearing liabilities	727,282	1,508	0.84 %	555,967	1,054	0.77 %
Noninterest-bearing liabilities:						
Demand deposits	71,269			46,290		
Other liabilities	6,278			4,614		
Total liabilites	804,829			606,871		
Stockholders' equity	114,720			107,255		

Total liabilities and stockholders’ equity	$ 919,549			$ 714,126		
Net interest income		$ 8,927			$ 7,587	
Interest rate spread			4.19 %			4.60 %
Net interest margin			4.30 %			4.72 %

(1) Includes loan fees in both interest income and the calculation of the yield on loans.
(2) Calculations include non-accruing loans in average loan amounts outstanding.

Provision for Loan Losses

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

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The provision for loan losses in the first quarter of 2015 was $525 thousand, compared to $1.2 million in the first quarter of 2014. Net charge offs during the quarter ended March 31, 2015 were $198 thousand compared to $909 thousand during the first quarter of 2014.

Noninterest Income

The following table presents the major categories of noninterest income for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,		
	2015	2014	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$222	$178	$44
Income from bank-owned life insurance	150	140	10
Equity income (loss) from mortgage affiliate	(16)	-	(16)
Gain on other assets	-	202	(202)
Net impairment losses recognized in earnings	-	(16)	16
Other	49	37	12
Total noninterest income	$405	$541	$(136)

Noninterest income was $405 thousand during the first quarter of 2015, compared to $541 thousand during the same quarter of 2014. The first quarter of 2014 was positively impacted by a gain in the amount of $202 thousand on the sale of a part interest in our investment in an SBIC.

We report the earnings attributable to our 44% ownership of Southern Trust Mortgage (STM) every quarter. We hadn’t made the investment in the first quarter of 2014. In the fourth quarter we showed earnings of $51 thousand. In the first quarter of 2015 we showed a loss of $16 thousand attributable to the inherent seasonality of the business and to high on-boarding costs of hiring new loan officers last year. Those on-boarding costs aren’t expected to be repeated in the second quarter. It is also worth noting that our return on our preferred stock was 7.5% (annualized) during the quarter.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three months ended March 31, 2015 and 2014:

	For the Three Months Ended March 31,		
	2015	2014	Change
	(dollars in thousands)		
Salaries and benefits	$2,803	$2,389	$414
Occupancy expenses	871	772	99
Furniture and equipment expenses	210	187	23
Amortization of core deposit intangible	65	45	20
Virginia franchise tax expense	88	116	(28)
Merger expenses	-	213	(213)
FDIC assessment	172	125	47
Data processing expense	164	126	38
Telephone and communication expense	206	178	28
Change in FDIC indemnification asset	129	124	5
Net (gain) loss on other real estate owned	320	(419)	739
Other operating expenses	793	663	130
Total noninterest expense	$5,821	$4,519	$1,302

Noninterest expense was $5.8 million for the first quarter of 2015 compared to $4.5 million for the first quarter of 2014. During the first quarter of 2014, we sold two properties in Other Real Estate Owned (OREO) resulting in gains of $637 thousand. We also sold two other OREO properties resulting in losses of $218 thousand, and the net gain for the quarter ended March 31, 2014 was $419 thousand. This compared to a loss on OREO of $320 thousand for the first quarter of 2015 as a result of recognizing impairment on two OREO properties. Employee compensation increased by $414 thousand compared to the first quarter of 2014. Total full time equivalent employees increased from 141 as of March 31, 2014 to 180 as of March 31, 2015.

The efficiency ratio was 58.95% during the quarter ended March 31, 2015 compared to 62.18% during the first quarter of 2014.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $937.3 million as of March 31, 2015 compared to $916.6 million as of December 31, 2014. Net loans receivable increased from $696.1 million at the end of 2014 to $721.5 million at March 31, 2015.

Total deposits were $760.5 million at March 31, 2015 compared to $742.4 million at December 31, 2014. Certificates of deposit increased $16.3 million during the quarter. Noninterest-bearing deposits were $71.4 million at March 31, 2015 and $69.6 million at December 31, 2014.

Loan Portfolio

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 March 31, 2015, non-covered loans included $31.9 million of loans acquired in the HarVest acquisition and $57.8 million acquired in the PGFSB acquisition.

The following table summarizes the composition of our loan portfolio as of March 31, 2015 and December 31, 2014:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
		March 31, 2015			December 31, 2014	
Loans secured by real estate:						
Commercial real estate - owner-occupied	$ -	$ 142,202	$ 142,202	$ -	$ 136,597	$ 136,597
Commercial real estate - non-owner-occupied	-	212,748	212,748	-	200,517	200,517
Secured by farmland	-	606	606	-	612	612
Construction and land loans	-	53,014	53,014	-	57,938	57,938
Residential 1-4 family	14,537	129,915	144,452	14,837	123,233	138,070
Multi- family residential	-	21,753	21,753	-	21,832	21,832
Home equity lines of credit	22,900	10,425	33,325	23,658	9,751	33,409
Total real estate loans	37,437	570,663	608,100	38,495	550,480	588,975
Commercial loans	-	121,465	121,465	-	114,714	114,714
Consumer loans	-	1,452	1,452	-	1,564	1,564
Gross loans	37,437	693,580	731,017	38,495	666,758	705,253
Less deferred fees on loans	-	(1,793)	(1,793)	1	(1,782)	(1,781)
Loans, net of deferred fees	$ 37,437	$ 691,787	$ 729,224	$ 38,496	$ 664,976	$ 703,472

(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.

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

Net loan growth in the first quarter of 2015 was $25.4 million, less than the robust growth of $37.3 million of the fourth quarter of 2014. The decline in growth during the first quarter of 2015 was primarily due to less organic growth and the fact that we purchased residential mortgage loans from STM in the amount of $9.6 million during the first quarter compared to $12.9 million during the fourth quarter of 2014. The growth in Residential 1-4 family loans was entirely attributable to portfolio loans originated to our standards by STM and purchased by us.

Asset Quality

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

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

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

Non-covered Loans and Assets

Non-covered OREO as of March 31, 2015 was $12.6 million compared to $13.1 million as of the end of the previous year. Non-covered nonaccrual loans were $1.5 million (excluding $4.5 million of loans fully covered by SBA guarantees) at March 31, 2015 compared to $988 thousand (excluding $4.7 million of loans fully covered by SBA guarantees) at the end of last year. The ratio of non-covered non-performing assets (excluding the SBA guaranteed loans) to non-covered assets decreased from 1.60% at the end of 2014 to 1.57% at March 31, 2015. The portions of these SBA loans that were unguaranteed were charged off.

We have an internal loan review and a loan committee, both of which provide on-going monitoring to identify and address issues with problem loans. The loan loss provision is determined after consideration of all known relevant internal and external factors affecting loan collectability to maintain the allowance for loan and lease losses at a level necessary to absorb estimated credit losses. Our allowance for loan losses as a percentage of non-covered total loans at March 31, 2015 was 1.12%, compared to 1.11% at the end of 2014. Management believes the allowance is adequate at this time but continues to monitor trends in environmental factors which may potentially affect future losses.

The following table presents a comparison of non-covered nonperforming assets as of March 31, 2015 and December 31, 2014 (in thousands):

	March 31, 2015	December 31, 2014
Nonaccrual loans	$5,979	$ 5,652
Loans past due 90 days and accruing interest	-	-
Total nonperforming loans	5,979	5,652
Other real estate owned	12,583	13,051
Total nonperforming assets	$18,562	$ 18,703
SBA guaranteed amounts included in nonaccrual loans	$4,465	$ 4,664
Allowance for loan losses to nonperforming loans	129.12 %	130.80 %
Allowance for loan losses to total non-covered loans	1.12 %	1.11 %
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	1.57 %	1.60 %

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

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

During the periods ending March 31, 2015 and March 31, 2014, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the quarters ending March 31, 2015 and March 31, 2014, which had been modified in the previous 12 months.

Covered Loans and Assets

Covered loans identified as impaired totaled $1.7 million as of March 31, 2015 and December 31, 2014. Nonaccrual loans were $745 thousand and $859 thousand at March 31, 2015 and December 31, 2014, respectively. At March 31, 2015 and December 31, 2014, there were no loans past due 90 days or more and accruing interest.

Securities

Investment securities, available for sale and held to maturity, were $94.4 million at March 31, 2015 down slightly from $96.3 million at December 31, 2014.

At March 31, 2015, we owned pooled trust preferred securities as follows (in thousands):

		Ratings When Purchased		Current Ratings					% of Current Defaults and Deferrals to	Previousl Recognize Cumulati Other Comprehen Loss (1)
Security	Tranche Level	Moody's	Fitch	Moody's	Fitch	Par Value	Book Value	Estimated Fair Value	Total Collateral	
						(in thousands)				
ALESCO VII A1B	Senior	Aaa	AAA	A3	BBB	$4,612	$4,203	$3,997	12%	$262
MMCF III B	Senior Sub	A3	A-	Ba1	CC	328	323	276	34%	5
						4,940	4,526	4,273		$267
										Cumulati Other C Comprehen Loss (2)
Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	509	705	39%	591
TRAP 2007-XII C1	Mezzanine	A3	A	C	C	2,185	57	1,058	22%	835

TRAP 2007-XIII D	Mezzanine	NR	A-	NR	C	2,039	-	949	16%	7
MMC FUNDING XVIII	Mezzanine	A3	A-	Ca	C	1,095	27	570	20%	377
ALESCO V C1	Mezzanine	A2	A	C	C	2,150	475	1,292	15%	1,014
ALESCO XV C1	Mezzanine	A3	A-	C	C	3,291	31	245	27%	701
ALESCO XVI C	Mezzanine	A3	A-	C	C	2,145	119	1,089	10%	846
						14,405	1,218	5,908		$4,371
Total						$19,345	$5,744	$10,181		

(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, and on which a principal repayment of $854 thousand was received in the first quarter of 2015. 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 March 31, 2015, 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.

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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 no OTTI charges during the first quarter of 2015 compared to OTTI charges related to credit on the trust preferred securities totaling $16 thousand during the first quarter of 2014.

Other securities in our investment portfolio are as follows:

- residential government-sponsored mortgage-backed securities in the amount of $21.9 million and residential government-sponsored collateralized mortgage obligations totaling $3.4 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	3,628
Moody's	Aa3	715
Moody's	A1	1,165
Standard & Poor's	AAA	3,119
Standard & Poor's	AA+	580
Standard & Poor's	AA	7,495
Standard & Poor's	AA-	601
		$ 17,808

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

- SARM 2005-22 1A2 in the amount of $583 thousand, a residential collateralized mortgage obligation that is not government-sponsored

Liquidity and Funds Management

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

We prepare a cash flow forecast for one year with the first three months prepared on a weekly basis and on a monthly basis thereafter. The projections incorporate expected cash flows on loans, investments securities, and deposits based on data used to prepare our interest rate risk analyses. To estimate loan growth over the one year period, the projection incorporates the scheduled loan closings in the Loan Pipeline Report along with other management estimates.

We recently purchased liquidity risk software with which we can monitor our liquidity risk at a point in time and prepare cash flow and funds availability projections over a two year period. The projections can be run using a base case and several stress levels.

During the three months ended March 31, 2015, we funded our financial obligations with deposits, securities sold under agreements to repurchase and borrowings from the Federal Home Loan Bank of Atlanta. At March 31, 2015, we had $105.0 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $24.1 million at March 31, 2015. Management anticipates that funding requirements for these commitments can be met from the normal sources of funds.

Capital Resources

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

	Actual		Required For Capital Adequacy Purposes		To Be Categorized as Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2015						
Southern National						
Common equity tier 1 capital ratio	$107,068	14.27 %	$33,773	4.50 %	$48,783	6.50%
Tier 1 risk-based capital ratio	107,068	14.27 %	45,030	6.00 %	60,041	8.00%
Total risk-based capital ratio	114,809	15.30 %	60,041	8.00 %	75,051	10.00%
Leverage ratio	107,068	11.78 %	36,354	4.00 %	45,443	5.00%
Sonabank						
Common equity tier 1 capital ratio	$105,877	14.11 %	$33,756	4.50 %	$48,759	6.50%
Tier 1 risk-based capital ratio	105,877	14.11 %	45,008	6.00 %	60,011	8.00%
Total risk-based capital ratio	113,618	15.15 %	60,011	8.00 %	75,014	10.00%
Leverage ratio	105,877	11.65 %	36,340	4.00 %	45,425	5.00%
December 31, 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%

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

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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).

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

The following tables are based on an analysis prepared by FTN Financial setting forth an analysis of our interest rate risk as measured by the estimated change in EVE resulting from instantaneous and sustained parallel shifts in the yield curve (plus 400 basis points or minus 200 basis points, measured in 100 basis point increments) as of March 31, 2015 and as of December 31, 2014, and all changes are within our ALM Policy guidelines:

Sensitivity of Economic Value of Equity
As of March 31, 2015

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity Amount	$ Change From Base	% Change From Base	Economic Value of Equity as a % of Total Assets	Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$122,299	$(20,238)	-14.20%	13.05%	106.23%
Up 300	127,066	(15,471)	-10.85%	13.56%	110.37%
Up 200	131,813	(10,724)	-7.52%	14.06%	114.49%
Up 100	137,421	(5,116)	-3.59%	14.66%	119.36%
Base	142,537	-	0.00%	15.21%	123.81%
Down 100	132,710	(9,827)	-6.89%	14.16%	115.27%
Down 200	126,601	(15,936)	-11.18%	13.51%	109.96%

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	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%

Our interest rate sensitivity is also monitored by management through the use of a model run by FTN Financial that generates estimates of the change in the net interest income over a range of interest rate scenarios. Net interest income depends upon the relative amounts of interest-earning assets and interest-bearing liabilities and the interest rates earned or paid on them. In this regard, the model assumes that the composition of our interest sensitive assets and liabilities existing at March 31, 2015 and December 31, 2014 remains constant over the period being measured and also assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration to maturity or repricing of specific assets and liabilities. All changes are within our ALM Policy guidelines.

Sensitivity of Net Interest Income
As of March 31, 2015

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	$40,256	$8,602	4.51 %	0.95 %
Up 300	37,962	6,308	4.25 %	0.69 %
Up 200	35,670	4,016	4.00 %	0.44 %
Up 100	33,591	1,937	3.77 %	0.21 %
Base	31,654	-	3.56 %	0.00 %
Down 100	31,761	107	3.57 %	0.01 %
Down 200	31,709	55	3.57 %	0.01 %

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 %

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

ITEM 4 – CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

Southern National and Sonabank may, from time to time, be a party to various legal proceedings arising in the ordinary course of business. There are no proceedings pending, or to management's knowledge, threatened, against Southern National or Sonabank as of March 31, 2015.

ITEM 1A – RISK FACTORS

As of March 31, 2015 there were no material changes to the risk factors previously disclosed on our Annual Report on Form 10-K for the year ended December 31, 2014.

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

Not applicable

ITEM 3. – DEFAULTS UPON SENIOR SECURITIES

Not applicable

ITEM 4. – MINE SAFETY DISCLOSURES

Not applicable

ITEM 5. – OTHER INFORMATION

Not applicable

ITEM 6 - EXHIBITS

(a)
Exhibits.

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

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

Signatures

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

	Southern National Bancorp of Virginia, Inc. (Registrant)
May 11, 2015 (Date)	/s/ Georgia S. Derrico Georgia S. Derrico, Chairman of the Board and Chief Executive Officer
May 11, 2015 (Date)	/s/ William H. Lagos William H. Lagos, Senior Vice President and Chief Financial Officer