Southern National Bancorp of Virginia Inc
Form 10-Q
May 10, 2016

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, 2016

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 ¨

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 ¨

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 ¨ Accelerated filer x Smaller reporting company ¨

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

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

As of May 2, 2016, there were 12,248,943 shares of common stock outstanding.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

FORM 10-Q

March 31, 2016

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Certifications

ITEM I - FINANCIAL INFORMATION

PART I - FINANCIAL STATEMENTS

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED BALANCE SHEETS

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

	March 31, 2016	December 31, 2015
ASSETS		
Cash and cash equivalents:		
Cash and due from financial institutions	$ 3,998	$ 3,972
Interest-bearing deposits in other financial institutions	30,126	26,364
Total cash and cash equivalents	34,124	30,336
Securities available for sale, at fair value	3,871	4,209
Securities held to maturity, at amortized cost (fair value of $99,583 and $96,464, respectively)	98,727	96,780
Covered loans	33,159	34,373
Non-covered loans	837,480	795,052
Total loans	870,639	829,425
Less allowance for loan losses	(8,690)	(8,421)
Net loans	861,949	821,004
Stock in Federal Reserve Bank and Federal Home Loan Bank	7,589	6,929
Equity investment in mortgage affiliate	4,539	4,459
Preferred investment in mortgage affiliate	2,555	2,555
Bank premises and equipment, net	8,744	8,882
Goodwill	10,514	10,514
Core deposit intangibles, net	1,031	1,093
FDIC indemnification asset	2,705	2,922
Bank-owned life insurance	23,300	23,126
Other real estate owned	10,106	10,439
Deferred tax assets, net	6,801	6,716
Other assets	7,715	6,143
Total assets	$ 1,084,270	$ 1,036,107

LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest-bearing demand deposits	$85,217	$ 83,769
Interest-bearing deposits:		
NOW accounts	27,623	28,080
Money market accounts	126,578	131,731
Savings accounts	51,244	49,939
Time deposits	566,876	531,775
Total interest-bearing deposits	772,321	741,525
Total deposits	857,538	825,294
Securities sold under agreements to repurchase	11,045	10,381
Federal Home Loan Bank (FHLB) advances - short term	72,000	59,000
Federal Home Loan Bank (FHLB) advances - long term	15,000	15,000
Other liabilities	7,531	6,796
Total liabilities	963,114	916,471
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, 12,244,943 shares at March 31, 2016 and 12,234,443 at December 31, 2015	122	122
Additional paid in capital	104,543	104,389
Retained earnings	17,321	15,735
Accumulated other comprehensive loss	(830)	(610)
Total stockholders' equity	121,156	119,636
Total liabilities and stockholders' equity	$1,084,270	$ 1,036,107

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,	
	2016	2015
Interest and dividend income :		
Interest and fees on loans	$ 10,757	$ 9,551
Interest and dividends on taxable securities	681	654
Interest and dividends on tax exempt securities	84	101
Interest and dividends on other earning assets	151	129
Total interest and dividend income	11,673	10,435
Interest expense:		
Interest on deposits	1,812	1,339
Interest on borrowings	150	169
Total interest expense	1,962	1,508
Net interest income	9,711	8,927
Provision for loan losses	625	525
Net interest income after provision for loan losses	9,086	8,402
Noninterest income:		
Account maintenance and deposit service fees	223	222
Income from bank-owned life insurance	174	150
Equity income (loss) from mortgage affiliate	80	(16)
Other	24	49
Total noninterest income	501	405
Noninterest expenses:		
Salaries and benefits	3,128	2,803
Occupancy expenses	809	871
Furniture and equipment expenses	189	210
Amortization of core deposit intangible	62	65
Virginia franchise tax expense	97	88
FDIC assessment	146	172
Data processing expense	172	164
Telephone and communication expense	187	206

Amortization of FDIC indemnification asset	216	129
Net loss on other real estate owned	120	320
Other operating expenses	907	793
Total noninterest expenses	6,033	5,821
Income before income taxes	3,554	2,986
Income tax expense	989	982
Net income	$ 2,565	$ 2,004
Other comprehensive income:		
Unrealized gain (loss) on available for sale securities	$ (337)	$ 23
Non-credit component of other-than-temporary impairment on held-to-maturity securities	-	-
Accretion of amounts previously recorded upon transfer to held-to-maturity from available-for-sale	3	22
Net unrealized gain (loss)	(334)	45
Tax effect	114	(16)
Other comprehensive income (loss)	(220)	29
Comprehensive income	$ 2,345	$ 2,033
Earnings per share, basic and diluted	$ 0.21	$ 0.16

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE THREE MONTHS ENDED MARCH 31, 2016

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

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - December 31, 2015	$ 122	$ 104,389	$ 15,735	$ (610)	$ 119,636
Comprehensive income:					
Net income			2,565		2,565
Change in unrealized loss on securities available for sale (net of tax benefit, $115)				(222)	(222)
Change in unrecognized loss on securities held to maturity for which a portion of OTTI has been recognized (net of tax, $1 and accretion, $2 and amounts recorded into other comprehensive income at transfer)				2	2
Dividends on common stock ($.08 per share)			(979)		(979)
Issuance of common stock under Stock Incentive Plan (10,500 shares)		75			75
Stock-based compensation expense		79			79
Balance - March 31, 2016	$ 122	$ 104,543	$ 17,321	$ (830)	$ 121,156

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE THREE MONTHS ENDED MARCH 31, 2016 AND 2015

(dollars in thousands) (Unaudited)

	2016	2015
Operating activities:		
Net income	$2,565	$2,004
Adjustments to reconcile net income to net cash and cash equivalents provided by operating activities:		
Depreciation	208	227
Amortization of core deposit intangible	62	65
Other amortization, net	-	(9)
Accretion of loan discount	(502)	(712)
Amortization of FDIC indemnification asset	216	129
Provision for loan losses	625	525
Earnings on bank-owned life insurance	(174)	(150)
Equity (income) loss on mortgage affiliate	(80)	16
Stock based compensation expense	79	85
Net loss on other real estate owned	120	320
Net (increase) decrease in other assets	(1,549)	255
Net increase in other liabilities	734	573
Net cash and cash equivalents provided by operating activities	2,304	3,328
Investing activities:		
Purchases of held to maturity securities	(10,994)	-
Proceeds from paydowns, maturities and calls of held to maturity securities	9,059	2,054
Loan originations and payments, net	(41,212)	(25,238)
Net (increase) decrease in stock in Federal Reserve Bank and Federal Home Loan Bank	(660)	14
Payments received on FDIC indemnification asset	-	3
Proceeds from sale of other real estate owned	357	148
Purchases of bank premises and equipment	(70)	(129)
Net cash and cash equivalents used in investing activities	(43,520)	(23,148)
Financing activities:		
Net increase in deposits	32,244	18,070
Cash dividends paid - common stock	(979)	(977)
Issuance of common stock under Stock Incentive Plan	75	10
Net increase in securities sold under agreement to repurchase and other short-term borrowings	13,664	814
Net cash and cash equivalents provided by financing activities	45,004	17,917
Increase (decrease) in cash and cash equivalents	3,788	(1,903)
Cash and cash equivalents at beginning of period	30,336	38,320
Cash and cash equivalents at end of period	$34,124	$36 ,417

Supplemental disclosure of cash flow information		
Cash payments for:		
Interest	$1,903	$1,486
Income taxes	700	610
Supplemental schedule of noncash investing and financing activities		
Transfer from covered loans to other real estate owned	144	-

See accompanying notes to consolidated financial statements.

SOUTHERN NATIONAL BANCORP OF VIRGINIA, INC.

Notes to Consolidated Financial Statements (Unaudited)

March 31, 2016

1. <u>ACCOUNTING POLICIES</u>

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, 2015.

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 September 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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. This ASU will not significantly impact SNBV.

In April 2015, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs.* Under the ASU, an entity presents debt issuance costs in the balance sheet as a direct deduction from the related debt liability rather than as an asset. Amortization of the costs is reported as interest expense. For public entities, the amendments in ASU 2015-03 were effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. SNBV has adopted the provisions of these amendments, and they have no impact on its financial reporting.

In February 2015, the FASB issued ASU No. 2015-02, *Consolidation (Topic 810): Amendments to the Consolidation Analysis*. The amendments modify the evaluation reporting organizations must perform to determine if certain legal entities should be consolidated as VIEs. Specifically, the amendments: (1) modify the evaluation of whether limited partnerships and similar legal entities are variable interest entities ("VIEs") or voting interest entities; (2) eliminate the presumption that a general partner should consolidate a limited partnership; (3) affect the consolidation analysis of reporting entities that are involved with VIEs, particularly those that have fee arrangements and related party relationships; and (4) provide a scope exception from consolidation guidance for reporting entities with interests in legal entities that are required to comply with or operate in accordance with requirements that are similar to those in Rule 2a-7 of the Investment Company Act of 1940 for registered money market funds. ASU No. 2015-02 became effective for interim and annual reporting periods beginning after December 15, 2015. SNBV has adopted the provisions of these amendments, and they have no impact on its financial reporting.

In September 2015, the FASB issued ASU 2015-16, *Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments*. The amendments in ASU 2015-16 require that an acquirer recognize adjustments to estimated amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments require that the acquirer record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the estimated amounts, calculated as if the accounting had been completed at the acquisition date. The amendments also require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in current-period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the estimated amounts had been recognized as of the acquisition date. The amendments in this ASU are effective for public business entities for fiscal years beginning after December 15, 2015, including interim periods within those fiscal years. The amendments should be applied prospectively to adjustments to provisional amounts that occur after the effective date with earlier application permitted for financial statements that have not been issued. Adoption of these amendments had no impact on SNBV's consolidated financial statements.

In January 2016, the FASB issued ASU 2016-1, *Financial Instruments Overall (Topic 825): Recognition and Measurement of Financial Assets and Financial Liabilities*. The amendments in ASU 2016-1: (a) require equity investments (except for those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income; (b) simplify the impairment assessment of equity securities without readily determinable fair values by requiring a qualitative assessment to identify impairment; (c) eliminate the requirement for public business entities to disclose the method and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (d) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (e) require an entity to present separately in other comprehensive income, the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (f) require separate presentation of financial assets and financial liabilities by measurement category and form of financial assets on the balance sheet or the notes to the financial statements; and (g) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. SNBV is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The FASB issued this ASU to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet by lessees for those leases classified as operating leases under current U.S. GAAP and disclosing key information about leasing arrangements. The amendments in this ASU are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2018. Early application of this ASU is permitted for all entities. SNBV is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-07, *Investments – Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting*. The amendments eliminate the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The amendments require that an entity that has an available-for-sale equity security that becomes qualified for the equity method of accounting recognize through earnings the unrealized holding gain or loss in accumulated other comprehensive income at the date the investment becomes qualified for use of the equity method. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016. The amendments should be applied prospectively upon their effective date to increase the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. SNBV is currently evaluating the impact of adopting the amendments on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-08*, Revenue from Contracts with Customers (Topic 606), Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08"), which clarifies the implementation guidance on principal versus agent considerations in the new revenue recognition standard. ASU 2016-08 clarifies how an entity should identify the unit of accounting (i.e. the specified good or service) for the principal versus agent evaluation and how it should apply the control principle to certain types of arrangements. The amendments in ASU 2016-08 affect the guidance in ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and have similar effective dates and transition requirements (i.e., effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods therein). SNBV is currently evaluating the impact of adopting the new revenue recognition guidance on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, *Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting* (“ASU 2016-09”), which is intended to simplify several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early application is permitted. SNBV is currently evaluating the impact of adopting the new guidance on its consolidated financial statements.

2. STOCK- BASED COMPENSATION

In 2004, the Board of Directors adopted a stock option plan that authorized the reservation of up to 302,500 shares of common stock and provided for the granting of stock options to certain directors, officers and employees. 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 2016.

For the three months ended March 31, 2016 and 2015, stock-based compensation expense was $79 thousand and $85 thousand, respectively. As of March 31, 2016, unrecognized compensation expense associated with the stock options was $550 thousand, which is expected to be recognized over a weighted average period of 2.3 years.

A summary of the activity in the stock option plan during the three months ended March 31, 2016 follows (dollars in thousands):

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding, beginning of period	664,400	$ 9.00		

Granted	-			
Forfeited	-			
Exercised	(10,500)	7.15		
Options outstanding, end of period	653,900	$ 9.03	6.8	$ 1,899
Vested or expected to vest	653,900	$ 9.03	6.8	$ 1,899
Exercisable at end of period	343,880	$ 7.91	5.3	$ 1,388

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3. <u>SECURITIES</u>

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, 2016	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,286	$ 38	$ -	$ 2,324
Trust preferred securities	2,590	-	(1,043)	1,547
	$ 4,876	$ 38	$ (1,043)	$ 3,871

December 31, 2015	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 2,287	$ 25	$ -	$ 2,312
Trust preferred securities	2,590	-	(693)	1,897
	$ 4,877	$ 25	$ (693)	$ 4,209

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

March 31, 2016	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 19,784	$ 640	$ (16)	20,408
Residential government-sponsored collateralized mortgage obligations	2,821	2	(16)	2,807
Government-sponsored agency securities	59,081	478	-	59,559
Obligations of states and political subdivisions	12,772	245	(40)	12,977
Trust preferred securities	4,269	-	(437)	3,832
	$ 98,727	$ 1,365	$ (509)	$ 99,583

December 31, 2015	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Residential government-sponsored mortgage-backed securities	$ 20,751	$ 459	$ (22)	$ 21,188
Residential government-sponsored collateralized mortgage obligations	2,946	-	(66)	2,880
Government-sponsored agency securities	55,937	222	(618)	55,541
Obligations of states and political subdivisions	12,794	157	(67)	12,884
Trust preferred securities	4,352	-	(381)	3,971
	$ 96,780	$ 838	$ (1,154)	$ 96,464

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

The fair value and carrying amount, if different, of debt securities as of March 31, 2016, by contractual maturity were as follows (in thousands). Securities not due at a single maturity date, primarily mortgage-backed securities and collateralized mortgage obligations, are shown separately.

	Held to Maturity		Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in five to ten years	$12,196	$ 12,324	$ -	$ -
Due after ten years	63,926	64,044	4,876	3,871
Residential government-sponsored mortgage-backed securities	19,784	20,408	-	-
Residential government-sponsored collateralized mortgage obligations	2,821	2,807	-	-
Total	$98,727	$ 99,583	$ 4,876	$ 3,871

Securities with a carrying amount of approximately $94.8 million and $89.7 million at March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, certain securities' fair values were below cost. As outlined in the table below, there were securities with fair values totaling approximately $10.3 million in the portfolio with the carrying value exceeding the estimated fair value that are considered temporarily impaired at March 31, 2016. 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, 2016. The following tables present information regarding securities in a continuous unrealized loss position as of March 31, 2016 and December 31, 2015 (in thousands) by duration of time in a loss position:

March 31, 2016

Available for Sale	Less than 12 months		12 Months or More		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Trust preferred securities	$ -	$ -	$ 1,547	$ (1,043)	$ 1,547	$ (1,043)

Held to Maturity	Less than 12 months		12 Months or More		Total	
	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$ -	$ -	$ 529	$ (16)	$ 529	$ (16)
Residential government-sponsored collateralized mortgage obligations	-	-	2,318	(16)	2,318	(16)
Obligations of states and political subdivisions	-	-	2,032	(40)	2,032	(40)
Trust preferred securities	-	-	3,832	(437)	3,832	(437)
	$ -	$ -	$ 8,711	$ (509)	$ 8,711	$ (509)

December 31, 2015

Available for Sale	Less than 12 months		12 Months or More		Total	
	Fair value	Unrealized Losses	Fair value	Unrealized Losses	Fair value	Unrealized Losses
Trust preferred securities	$ -	$ -	$ 1,897	$ (693)	$ 1,897	$ (693)

Held to Maturity	Less than 12 months	12 Months or More	Total

	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses	Fair value	Unrecognized Losses
Residential government-sponsored mortgage-backed securities	$ 5,459	$ (14)	$ 640	$ (8)	$ 6,099	$ (22)
Residential government-sponsored collateralized mortgage obligations	512	(5)	2,368	(61)	2,880	(66)
Government-sponsored agency securities	35,453	(507)	9,878	(111)	45,331	(618)
Obligations of states and political subdivisions	-	-	2,513	(67)	2,513	(67)
Trust preferred securities	-	-	3,971	(381)	3,971	(381)
	$ 41,424	$ (526)	$ 19,370	$ (628)	$ 60,794	$ (1,154)

As of March 31, 2016, we owned pooled trust preferred securities as follows:

		Ratings								
Security	Tranche Level	When Purchased Moody's	Fitch	Current Ratings Moody's	Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehen Loss (1)
Held to Maturity						(in thousands)				
ALESCO VII A1B	Senior	Aaa	AAA	A1	A	$4,367	$3,998	$3,604	13%	$248
MMCF III B	Senior Sub	A3	A-	Ba1	BB	276	271	228	32%	5
						4,643	4,269	3,832		$253
										Cumulativ Related to Credit Los
Available for Sale										
Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	1,100	510	37%	400
ALESCO V C1	Mezzanine	A2	A	Caa3	C	2,150	1,490	1,037	14%	660
						3,650	2,590	1,547		$1,060
Total						$8,293	$6,859	$5,379		

(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 12% 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.
- 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 three months ended March 31, 2016 and the three months ended March 31, 2015.

The following table presents a roll forward of the credit losses on our securities previously classified as held to maturity and now classified as available for sale recognized in earnings for the three months ended March 31, 2016 and 2015 (in thousands):

	2016	2015
Amount of cumulative other-than-temporary impairment related to credit loss prior to January 1	$1,060	$8,949
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	-	-
Reductions due to realized losses	-	-
Amount of cumulative other-than-temporary impairment related to credit loss as of March 31	$1,060	$8,949

Changes in accumulated other comprehensive income by component for the three months ended March 31, 2016 and 2015 are shown in the table below. All amounts are net of tax (in thousands).

For the three months ended March 31, 2016	Unrealized Holding Gains (Losses) on Available for Sale Securities	Held to Maturity Securities	Total

Beginning balance	$ (440)	$ (170)	$(610)
Other comprehensive income/(loss) before reclassifications	(222)	2	(220)
Amounts reclassified from accumulated other comprehensive income/(loss)	-	-	-
Net current-period other comprehensive income/(loss)	(222)	2	(220)
Ending balance	$ (662)	$ (168)	$(830)

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)

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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, 2016 and December 31, 2015:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	March 31, 2016			December 31, 2015		
Loans secured by real estate:						
Commercial real estate - owner-occupied	$-	$ 138,773	$138,773	$-	$ 141,521	$141,521
Commercial real estate - non-owner-occupied	-	282,464	282,464	-	256,513	256,513
Secured by farmland	-	566	566	-	578	578
Construction and land loans	-	69,574	69,574	-	67,832	67,832
Residential 1-4 family	12,689	180,038	192,727	12,994	165,077	178,071
Multi- family residential	-	31,373	31,373	-	25,501	25,501
Home equity lines of credit	20,470	12,781	33,251	21,379	13,798	35,177
Total real estate loans	33,159	715,569	748,728	34,373	670,820	705,193
Commercial loans	-	122,939	122,939	-	124,985	124,985
Consumer loans	-	1,118	1,118	-	1,366	1,366
Gross loans	33,159	839,626	872,785	34,373	797,171	831,544
Less deferred fees on loans	-	(2,146)	(2,146)	-	(2,119)	(2,119)
Loans, net of deferred fees	$33,159	$ 837,480	$870,639	$34,373	$ 795,052	$829,425

(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, 2016, non-covered loans included $27.2 million of loans acquired in the HarVest acquisition and $48.9 million acquired in the PGFSB acquisition.

Accretable discount on the acquired Greater Atlantic loans, the PGFSB loans and the HarVest loans was $7.4 million and $7.9 million at March 31, 2016 and December 31, 2015 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, 2016	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	$-	$-	$ -	$5,027	$5,027	$ -	$5,027	$5,027	$ -
Commercial real estate - non-owner occupied (2)	-	-	-	135	228	-	135	228	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	2,272	2,925	-	2,272	2,925	-
Residential 1-4 family (4)	1,049	1,221	-	-	-	-	1,049	1,221	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$1,049	$1,221	$ -	$7,434	$8,180	$ -	$8,483	$9,401	$ -
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$ -	$1,355	$1,469	$ 427	$1,355	$1,469	$ 427
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	3,458	3,458	400	3,458	3,458	400
Residential 1-4 family (4)	-	-	-				-	-	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$ -	$4,813	$4,927	$ 827	$4,813	$4,927	$ 827
Grand total	$1,049	$1,221	$ -	$12,247	$13,107	$ 827	$13,296	$14,328	$ 827

(1) Recorded investment is after cumulative prior charge offs of $753 thousand. These loans also have aggregate SBA guarantees of $2.3 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, 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	$-	$-	$ -	$6,492	$6,986	$ -	$6,492	$6,986	$ -
Commercial real estate - non-owner occupied (2)	-	-	-	136	230	-	136	230	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	2,102	2,698	-	2,102	2,698	-
Residential 1-4 family (4)	1,066	1,243	-	-	-	-	1,066	1,243	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$1,066	$1,243	$ -	$8,730	$9,914	$ -	$9,796	$11,157	$ -
With an allowance recorded									
Commercial real estate - owner occupied	$-	$-	$ -	$1,370	$1,484	$ 439	$1,370	$1,484	$ 439
Commercial real estate - non-owner occupied (2)	-	-	-	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-	-	-	-
Commercial loans	-	-	-	3,382	3,382	400	3,382	3,382	400
Residential 1-4 family (4)	-	-	-	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-	-	-	-
Total	$-	$-	$ -	$4,752	$4,866	$ 839	$4,752	$4,866	$ 839
Grand total	$1,066	$1,243	$ -	$13,482	$14,780	$ 839	$14,548	$16,023	$ 839

(1) Recorded investment is after cumulative prior charge offs of $1.2 million. These loans also have aggregate SBA guarantees of $3.5 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.

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The following tables present the average recorded investment and interest income for impaired loans recognized by class of loans for the three months ended March 31, 2016 and 2015 (in thousands):

Three months ended March 31, 2016	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	$ -	$ -	$ 5,041	$ 73	$ 5,041	$ 73
Commercial real estate - non-owner occupied (1)	-	-	135	3	135	3
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	2,020	-	2,020	-
Residential 1-4 family (2)	986	8	-	-	986	8
Other consumer loans	-	-	-	-	-	-
Total	$ 986	$ 8	$ 7,196	$ 76	$ 8,182	$ 84
With an allowance recorded						
Commercial real estate - owner occupied	$ -	$ -	$ 1,364	$ 10	$ 1,364	$ 10
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	-
Construction and land development	-	-	-	-	-	-
Commercial loans	-	-	3,413	53	3,413	53
Residential 1-4 family (2)	-	-	-	-	-	-
Other consumer loans	-	-	-	-	-	-
Total	$ -	$ -	$ 4,777	$ 63	$ 4,777	$ 63
Grand total	$ 986	$ 8	$ 11,973	$ 139	$ 12,959	$ 147

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

(2) Includes home equity lines of credit.

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.

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The following tables present the aging of the recorded investment in past due loans by class of loans as of March 31, 2016 and December 31, 2015 (in thousands):

March 31, 2016	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)	43	-	-	43	640	32,476	33,159
Other consumer loans	-	-	-	-	-	-	-
Total	$ 43	$ -	$ -	$ 43	$ 640	$ 32,476	$ 33,159
Non-covered loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 632	$ 138,141	$ 138,773
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	314,403	314,403
Construction and land development	-	-	-	-	-	69,574	69,574
Commercial loans	321	-	-	321	2,272	120,346	122,939
Residential 1-4 family (2)	62	-	-	62	-	192,757	192,819
Other consumer loans	-	-	-	-	-	1,118	1,118
Total	$ 383	$ -	$ -	$ 383	$ 2,904	$ 836,339	$ 839,626
Total loans:							
Commercial real estate - owner occupied	$ -	$ -	$ -	$ -	$ 632	$ 138,141	$ 138,773
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	314,403	314,403
Construction and land development	-	-	-	-	-	69,574	69,574
Commercial loans	321	-	-	321	2,272	120,346	122,939
Residential 1-4 family (2)	105	-	-	105	640	225,233	225,978
Other consumer loans	-	-	-	-	-	1,118	1,118
Total	$ 426	$ -	$ -	$ 426	$ 3,544	$ 868,815	$ 872,785

December 31, 2015	30 - 59 Days	60 - 89 Days	90 Days	Total	Nonaccrual	Loans Not	Total

	Past Due	Past Due	or More	Past Due	Loans	Past Due	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)	119	43	-	162	698	33,513	34,373
Other consumer loans	-	-	-	-	-	-	-
Total	$ 119	$ 43	$ -	$ 162	$ 698	$ 33,513	$ 34,373
Non-covered loans:							
Commercial real estate - owner occupied	$ 561	$ -	$ -	$ 561	$ 2,071	$ 138,889	$ 141,521
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	282,592	282,592
Construction and land development	-	-	-	-	-	67,832	67,832
Commercial loans	267	-	-	267	2,102	122,616	124,985
Residential 1-4 family (2)	85	-	-	85	-	178,790	178,875
Other consumer loans	1	-	-	1	-	1,365	1,366
Total	$ 914	$ -	$ -	$ 914	$ 4,173	$ 792,084	$ 797,171
Total loans:							
Commercial real estate - owner occupied	$ 561	$ -	$ -	$ 561	$ 2,071	$ 138,889	$ 141,521
Commercial real estate - non-owner occupied (1)	-	-	-	-	-	282,592	282,592
Construction and land development	-	-	-	-	-	67,832	67,832
Commercial loans	267	-	-	267	2,102	122,616	124,985
Residential 1-4 family (2)	204	43	-	247	698	212,303	213,248
Other consumer loans	1	-	-	1	-	1,365	1,366
Total	$ 1,033	$ 43	$ -	$ 1,076	$ 4,871	$ 825,597	$ 831,544

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

Non-covered nonaccrual loans include SBA guaranteed amounts totaling $2.3 million and $3.5 million at March 31, 2016 and December 31, 2015, respectively.

Activity in the allowance for non-covered loan and lease losses for the three months ended March 31, 2016 and 2015 is summarized below (in thousands):

Non-covered loans: Three months ended March 31, 2016	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
Allowance for loan losses:								
Beginning balance	$ 1,185	$ 1,222	$ 865	$ 3,041	$ 1,408	$ 48	$ 652	$ 8,421
Charge offs	-	-	-	(114)	-	(253)	-	(367)
Recoveries	-	-	-	8	2	1	-	11
Provision	66	331	(149)	(43)	146	286	(12)	625
Ending balance	$ 1,251	$ 1,553	$ 716	$ 2,892	$ 1,556	$ 82	$ 640	$ 8,690
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

(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, 2016 and 2015 is summarized below (in thousands):

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

Three months ended March 31, 2016	Occupied	Occupied (1)	Development	Loans	Residential (3)	Loans	Unallocated	Total
Allowance for loan losses:								
Beginning balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Charge offs	-	-	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-	-	-
Adjustments (2)	-	-	-	-	-	-	-	-
Provision	-	-	-	-	-	-	-	-
Ending balance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
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

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

The following tables present the balance in the allowance for loan losses and the recorded investment in non-covered loans by portfolio segment and based on impairment method as of March 31, 2016 and December 31, 2015 (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, 2016								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 427	$ -	$ -	$ 400	$ -	$ -	$ -	$ 827
Collectively evaluated for impairment	824	1,553	716	2,492	1,556	82	640	7,863
Total ending allowance	$ 1,251	$ 1,553	$ 716	$ 2,892	$ 1,556	$ 82	$ 640	$ 8,690
Loans:								
Individually evaluated for impairment	$ 6,382	$ 135	$ -	$ 5,730	$ -	$ -	$ -	$ 12,247
Collectively evaluated for impairment	132,391	314,268	69,574	117,209	192,819	1,118	-	827,379
Total ending loan balances	$ 138,773	$ 314,403	$ 69,574	$ 122,939	$ 192,819	$ 1,118	$ -	$ 839,626
December 31, 2015								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ 439	$ -	$ -	$ 400	$ -	$ -	$ -	$ 839
Collectively evaluated for impairment	746	1,222	865	2,641	1,408	48	652	7,582
Total ending allowance	$ 1,185	$ 1,222	$ 865	$ 3,041	$ 1,408	$ 48	$ 652	$ 8,421
Loans:								
Individually evaluated for impairment	$ 7,862	$ 136	$ -	$ 5,484	$ -	$ -	$ -	$ 13,482
Collectively evaluated for impairment	133,659	282,456	67,832	119,501	178,875	1,366	-	783,689
Total ending loan balances	$ 141,521	$ 282,592	$ 67,832	$ 124,985	$ 178,875	$ 1,366	$ -	$ 797,171

(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, 2016 and December 31, 2015 (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, 2016								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	-	-	-	-	-	-	-
Total ending allowance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ 1,049	$ -	$ -	$ 1,049
Collectively evaluated for impairment	-	-	-	-	32,110	-	-	32,110
Total ending loan balances	$ -	$ -	$ -	$ -	$ 33,159	$ -	$ -	$ 33,159
December 31, 2015								
Ending allowance balance attributable to loans:								
Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Collectively evaluated for impairment	-	-	-	-	-	-	-	-
Total ending allowance	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Loans:								
Individually evaluated for impairment	$ -		$ -	$ -	$ 1,066	$ -		$ 1,066
Collectively evaluated for impairment	-	-	-	-	33,307	-	-	33,307
Total ending loan balances	$ -	$ -	$ -	$ -	$ 34,373	$ -	$ -	$ 34,373

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

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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 three months ending March 31, 2016, there were no loans modified in troubled debt restructurings. One TDR which had been modified in 2013 defaulted during the second quarter of 2015. This loan, in the amount of $696 thousand, was current as of March 31, 2016.

During the three months ending March 31, 2015, there were no loans modified in troubled debt restructurings. No TDRs defaulted during the three months ending March 31, 2015, 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, 2016 or December 31, 2015.

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, 2016 and December 31, 2015, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows (in thousands):

March 31, 2016	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	$-	$-	$-	$3,629	$6,382	$128,762	$138,773	$10,011	$128,762	$138,773
Commercial real estate - non-owner occupied (2)	-	-	-	-	135	314,268	314,403	135	314,268	314,403
Construction and land development	-	-	-	-	-	69,574	69,574	-	69,574	69,574
Commercial loans	-	-	-	3,993	5,730	113,216	122,939	9,723	113,216	122,939
Residential 1-4 family (4)	1,049	32,110	33,159	-	-	192,819	192,819	1,049	224,929	225,978
Other consumer loans	-	-	-	-	-	1,118	1,118	-	1,118	1,118
Total	$1,049	$32,110	$33,159	$7,622	$12,247	$819,757	$839,626	$20,918	$851,867	$872,785

December 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	$-	$-	$-	$$3,666	$7,862	$129,993	$141,521	$11,528	$129,993	$141,521
Commercial real estate - non-owner occupied (2)	-	-	-	-	136	282,456	282,592	136	282,456	282,592
Construction and land development	-	-	-	552	-	67,280	67,832	552	67,280	67,832
Commercial loans	-	-	-	4,014	5,484	115,487	124,985	9,498	115,487	124,985
Residential 1-4 family (4)	1,066	33,307	34,373	-	-	178,875	178,875	1,066	212,182	213,248
Other consumer loans	-	-	-	-	-	1,366	1,366	-	1,366	1,366
Total	$1,066	$33,307	$34,373	$8,232	$13,482	$775,457	$797,171	$22,780	$808,764	$831,544

(1) Credit quality is enhanced by a loss sharing agreement with the FDIC in the covered portfolio. The same credit quality indicators used in the non-covered portfolio are combined.

(2) Includes loans secured by farmland and multi-family residential loans.
(3) Includes SBA guarantees of $2.3 million and $3.5 million as of March 31, 2016 and December 31, 2015.
(4) Includes home equity lines of credit.

The amount of foreclosed residential real estate property held at March 31, 2016 was $4.0 million. The recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure was $544 thousand at March 31, 2016.

5. FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

Southern National is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve elements of credit and funding risk in excess of the amount recognized in the consolidated balance sheet. Letters of credit are written conditional commitments issued by Southern National to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. We had letters of credit outstanding totaling $7.5 million and $6.7 million as of March 31, 2016 and December 31, 2015, 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, 2016 and December 31, 2015, we had unfunded lines of credit and undisbursed construction loan funds totaling $122.5 million and $132.3 million, respectively. We had approved loan commitments of $2.0 million and $2.7 million at March 31, 2016, and December 31, 2015, respectively. Virtually all of our unfunded lines of credit, undisbursed construction loan funds and approved loan commitments are variable rate.

6. Earnings Per Share

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

	Income (Numerator)	Weighted Average Shares (Denominator)	Per Share Amount
For the three months ended March 31, 2016			
Basic EPS	$ 2,565	12,237	$ 0.21
Effect of dilutive stock options and warrants	-	165	-
Diluted EPS	$ 2,565	12,402	$ 0.21
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

There were 571,159 and 578,348 anti-dilutive options and warrants for the three months ended March 31, 2016, and March 31, 2015, 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, 2016	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	$ 2,324	$ -	$ 2,324	$ -
Trust preferred securities	1,547	-	1,547	-
	$ 3,871	$ -	$ 3,871	$ -

(dollars in thousands)	Total at December 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	$ 2,312	$ -	$ 2,312	$ -
Trust preferred securities	1,897	-	1,897	-
	$ 4,209	$ -	$ 4,209	$ -

<u>Assets and Liabilities Measured on a Non-recurring Basis:</u>

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, 2016 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.

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, 2016 and December 31, 2015. Fair value is classified as Level 3 in the fair value hierarchy. Non-covered loans identified as impaired totaled $12.2 million (including SBA guarantees of $2.3 million) as of March 31, 2016 with an allocated allowance for loan losses totaling $827 thousand compared to a carrying amount of $13.5 million (including SBA guarantees of $3.5 million) with an allocated allowance for loan losses totaling $839 thousand at December 31, 2015.

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, 2016 and December 31, 2015. Fair value is classified as Level 3 in the fair value hierarchy. OREO is further evaluated quarterly for any additional impairment. At March 31, 2016, the total amount of non-covered OREO was $9.8 million and covered OREO was $343 thousand. As of December 31, 2015, the total amount of OREO was $10.1 million, and covered OREO was $343 thousand.

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

		Fair Value Measurements Using		
(dollars in thousands)	Total at March 31, 2016	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	$ 5,955			$ 5,955
Commercial real estate - non-owner occupied (1)	135			135
Commercial loans	5,330			5,330
Impaired covered loans:				
Residential 1-4 family	1,049			1,049
Non-covered other real estate owned:				
Commercial real estate - owner occupied	1,110			1,110
Commercial real estate - non-owner occupied (1)	237			237
Construction and land development	4,749			4,749
Residential 1-4 family	3,666			3,666
Covered other real estate owned:				
Residential 1-4 family	343			343

		Fair Value Measurements Using		
(dollars in thousands)	Total at December 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	$ 7,423			$ 7,423
Commercial real estate - non-owner occupied (1)	136			136
Commercial loans	5,084			5,084

Impaired covered loans:		
Residential 1-4 family	1,066	1,066
Non-covered other real estate owned:		
Commercial real estate - owner occupied	1,110	1,110
Commercial real estate - non-owner occupied (1)	237	237
Construction and land development	5,007	5,007
Residential 1-4 family	3,741	3,741
Covered other real estate owned:		
Residential 1-4 family	343	343

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

Fair Value of Financial Instruments

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

		March 31, 2016		December 31, 2015	
	Fair Value Hierarchy Level	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:					
Cash and cash equivalents	Level 1	$34,124	$34,124	$30,336	$30,336
Securities available for sale	See previous table	3,871	3,871	4,209	4,209
Securities held to maturity	Level 2	98,727	99,583	96,780	96,464
Stock in Federal Reserve Bank and Federal Home Loan Bank	n/a	7,589	n/a	6,929	n/a
Equity investment in mortgage affiliate	Level 3	4,539	4,539	4,459	4,459
Preferred investment in mortgage affiliate	Level 3	2,555	2,555	2,555	2,555
Net non-covered loans	Level 3	828,790	836,564	786,631	793,541
Net covered loans	Level 3	33,159	37,413	34,373	38,077
Accrued interest receivable	Level 2 & Level 3	2,873	2,873	2,914	2,914
FDIC indemnification asset	Level 3	2,705	745	2,922	745
Financial liabilities:					
Demand deposits	Level 1	112,840	112,840	111,849	111,849
Money market and savings accounts	Level 1	177,822	177,822	181,670	181,670
Certificates of deposit	Level 3	566,876	569,155	531,775	531,456
Securities sold under agreements to repurchase and other short-term borrowings	Level 1	83,045	83,045	69,381	69,381
FHLB advances	Level 3	15,000	15,065	15,000	15,041
Accrued interest payable	Level 1 & Level 3	905	905	846	846

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. Carrying amount is the estimated fair value for the equity investment and the preferred investment in the mortgage affiliate. Fair value of long-term debt is based on current rates for similar financing. The fair value of the FDIC indemnification asset was determined by discounting estimated future cash flows using the long-term risk free rate plus a premium and represents the present value of our current expectation for recoveries from the FDIC on covered loans. The fair value of off-balance-sheet items is not considered material. The fair value of loans is not presented on an exit price basis.

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

Other short-term borrowings can consist of Federal Home Loan Bank (FHLB) overnight advances, other FHLB advances maturing within one year, federal funds purchased and securities sold under agreements to repurchase that mature within one year, which are secured transactions with customers. To support the $11.0 million in repurchase agreements at March 31, 2016, we have provided collateral in the form of investment securities. At March 31, 2016, we have pledged callable agency securities, residential government-sponsored mortgage-backed securities and collateralized mortgage obligations with a fair value of $25.6 million to customers who require collateral for overnight repurchase agreements and other deposits.

For our repurchase agreements with customers, we hold the collateral in a segregated custodial account. We are required to maintain adequate collateral levels. In the event the collateral fair value falls below stipulated levels, we will pledge additional securities. We closely monitor collateral levels to ensure adequate levels are maintained, while mitigating the potential risk of over-collateralization.

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, 2015. Results of operations for the three month period ended March 31, 2016 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, 2015, 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;

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- 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.

RESULTS OF OPERATIONS

Net Income

Net income for the quarter ended March 31, 2016 was $2.6 million compared to $2.0 million during the quarter ended March 31, 2015.

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 2016, net interest income before the provision for loan losses was $9.7 million, up from $8.9 million during the first quarter of 2015. Average loans during the first quarter of 2016 were $843.2 million compared to $713.6 million during the same period last year. The net interest margin was 4.06% in the first quarter of 2016, down from 4.30% in the first quarter of 2015 and down slightly from 4.07% in the fourth quarter of 2015.The loan discount accretions on our three acquisitions were $551 thousand in the first quarter of 2016 compared to $728 thousand in the same quarter last year.

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

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

	3/31/2016			3/31/2015		
	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)	$843,166	$10,757	5.13 %	$713,587	$9,551	5.43 %
Investment securities	100,907	765	3.03 %	95,766	755	3.15 %
Other earning assets	18,661	151	3.23 %	32,666	129	1.60 %
Total earning assets	962,734	11,673	4.88 %	842,019	10,435	5.03 %
Allowance for loan losses	(8,612)			(7,675)		
Total non-earning assets	81,353			85,205		
Total assets	$1,035,475			$919,549		
Liabilities and stockholders' equity						
Interest-bearing liabilities:						
NOW accounts	$27,566	7	0.10 %	$24,505	6	0.10 %
Money market accounts	127,776	108	0.34 %	138,559	116	0.34 %
Savings accounts	50,676	86	0.68 %	44,435	66	0.60 %
Time deposits	539,288	1,611	1.20 %	466,169	1,151	1.00 %
Total interest-bearing deposits	745,306	1,812	0.98 %	673,668	1,339	0.81 %
Borrowings	82,161	150	0.73 %	53,614	169	1.28 %
Total interest-bearing liabilities	827,467	1,962	0.95 %	727,282	1,508	0.84 %
Noninterest-bearing liabilities:						
Demand deposits	80,285			71,269		
Other liabilities	7,234			6,278		
Total liabilites	914,986			804,829		
Stockholders' equity	120,489			114,720		
Total liabilities and stockholders' equity	$1,035,475			$919,549		
Net interest income		$9,711			$8,927	
Interest rate spread			3.93 %			4.19 %
Net interest margin			4.06 %			4.30 %

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

The loan loss provision for the quarter ended March 31, 2016 was $625 thousand, compared to $525 thousand for the same period last year. Net charge offs for the three months ended March 31, 2016 were $356 thousand, compared to $198 thousand for the same period in 2015.

Noninterest Income

The following table presents the major categories of noninterest income for the three months ended March 31, 2016 and 2015:

	For the Three Months Ended March 31,		
	2016	2015	Change
	(dollars in thousands)		
Account maintenance and deposit service fees	$ 223	$ 222	$ 1
Income from bank-owned life insurance	174	150	24
Equity income (loss) from mortgage affiliate	80	(16)	96
Other	24	49	(25)
Total noninterest income	$ 501	$ 405	$ 96

Noninterest income was $501 thousand during the first quarter of 2016, compared to $405 thousand during the same quarter of 2015. Non-interest income during the first quarter of 2016 included income attributable to our 44% ownership of STM of $80 thousand, compared to a loss of $16 thousand in the same quarter last year.

Noninterest Expense

The following table presents the major categories of noninterest expense for the three months ended March 31, 2016 and 2015:

	For the Three Months Ended March 31,		
	2016	2015	Change
	(dollars in thousands)		
Salaries and benefits	$ 3,128	$ 2,803	$ 325
Occupancy expenses	809	871	(62)
Furniture and equipment expenses	189	210	(21)
Amortization of core deposit intangible	62	65	(3)
Virginia franchise tax expense	97	88	9
FDIC assessment	146	172	(26)
Data processing expense	172	164	8
Telephone and communication expense	187	206	(19)

Amortization of FDIC indemnification asset	216	129	87
Net loss on other real estate owned	120	320	(200)
Other operating expenses	907	793	114
Total noninterest expense	$ 6,033	$ 5,821	$ 212

Noninterest expense was $6.0 million for the first quarter of 2016 compared to $5.8 million for the first quarter of 2015. During the first quarter of 2016 we sold two real estate owned (OREO) properties recognizing gains of $155 thousand, and we recognized impairment in the amount of $275 thousand on three OREO properties resulting in a net loss of $120 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 $325 thousand compared to the first quarter of 2015, due to increases in the normal course of business.

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The efficiency ratio improved from 58.95% during the quarter ended March 31, 2015 to 57.94% during the first quarter of 2016.

FINANCIAL CONDITION

Balance Sheet Overview

Total assets were $1.1 billion as of March 31, 2016 compared to $1.0 billion as of December 31, 2015. Net loans receivable increased from $821.0 million at the end of 2015 to $861.9 million at March 31, 2016.

Total deposits were $857.5 million at March 31, 2016 compared to $825.3 million at December 31, 2015. Certificates of deposit increased $35.1 million during the three months. Noninterest-bearing deposits were $85.2 million at March 31, 2016 and $83.8 million at December 31, 2015.

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, 2016, non-covered loans included $27.2 million of loans acquired in the HarVest acquisition and $48.9 million acquired in the PGFSB acquisition.

The following table summarizes the composition of our loan portfolio as of March 31, 2016 and December 31, 2015:

	Covered Loans (1)	Non-covered Loans	Total Loans	Covered Loans (1)	Non-covered Loans	Total Loans
	March 31, 2016			December 31, 2015		

Loans secured by real estate:						
Commercial real estate - owner-occupied	$-	$ 138,773	$138,773	$-	$ 141,521	$141,521
Commercial real estate - non-owner-occupied	-	282,464	282,464	-	256,513	256,513
Secured by farmland	-	566	566	-	578	578
Construction and land loans	-	69,574	69,574	-	67,832	67,832
Residential 1-4 family	12,689	180,038	192,727	12,994	165,077	178,071
Multi- family residential	-	31,373	31,373	-	25,501	25,501
Home equity lines of credit	20,470	12,781	33,251	21,379	13,798	35,177
Total real estate loans	33,159	715,569	748,728	34,373	670,820	705,193
Commercial loans	-	122,939	122,939	-	124,985	124,985
Consumer loans	-	1,118	1,118	-	1,366	1,366
Gross loans	33,159	839,626	872,785	34,373	797,171	831,544
Less deferred fees on loans	-	(2,146)	(2,146)	-	(2,119)	(2,119)
Loans, net of deferred fees	$33,159	$ 837,480	$870,639	$34,373	$ 795,052	$829,425

(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, 2016 and December 31, 2015, 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 2016 was a robust $41.2 million. $11.9 million of that amount were residential mortgages purchased for our portfolio from Southern Trust Mortgage. Non-owner occupied commercial real estate loans increased from $256.5 million as of December 31, 2015, to $282.5 million as of March 31, 2016. Multi-family residential loans increased from $25.5 million as of the end of 2015 to $31.4 million as of March 31, 2016.

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, 2016 was $9.8 million compared to $10.1 million as of the end of the previous year. During the first quarter of 2016 we sold two real estate owned (OREO) properties recognizing gains of $155 thousand, and we recognized impairment in the amount of $275 thousand on three OREO properties resulting in a net loss of $120 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.

Non-covered nonaccrual loans were $2.9 million ($2.3 million of which were fully covered by SBA guarantees) at March 31, 2016, compared to $4.2 million ($3.5 million of which were 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 improved from 1.07% at the end of 2015 to 0.99% at March 31, 2016. 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, 2016 was 1.04%, compared to 1.06% at the end of 2015. 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, 2016 and December 31, 2015 (in thousands):

	March 31, 2016		December 31, 2015	
Nonaccrual loans	$ 2,904		$ 4,173	
Loans past due 90 days and accruing interest	-		-	
Total nonperforming loans	2,904		4,173	
Other real estate owned	9,762		10,096	
Total nonperforming assets	$ 12,666		$ 14,269	
SBA guaranteed amounts included in nonaccrual loans	$ 2,272		$ 3,541	
Allowance for loan losses to nonperforming loans	299.24	%	201.80	%
Allowance for loan losses to total non-covered loans	1.04	%	1.06	%
Nonperforming assets excluding SBA guaranteed loans to total non-covered assets	0.99	%	1.07	%

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 three months ending March 31, 2016, there were no loans modified in troubled debt restructurings. One TDR which had been modified in 2013 defaulted during the second quarter of 2015. This loan, in the amount of $696 thousand, was current as of March 31, 2016.

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

Covered Loans and Assets

Covered loans identified as impaired totaled $1.0 million as of March 31, 2016 and $1.2 million as of December 31, 2015. Nonaccrual loans were $640 thousand and $698 thousand at March 31, 2016 and December 31, 2015, respectively. At March 31, 2016 and December 31, 2015, there were no loans past due 90 days or more and accruing interest.

Securities

Investment securities, available for sale and held to maturity, were $102.6 million at March 31, 2016 up from $101.0 million at December 31, 2015.

Securities in our investment portfolio as of March 31, 2016 were as follows:

- residential government-sponsored mortgage-backed securities in the amount of $19.8 million and residential government-sponsored collateralized mortgage obligations totaling $2.8 million

- callable agency securities in the amount of $59.1 million

- municipal bonds in the amount of $15.1 million with a taxable equivalent yield of 3.32% and ratings as follows:

Rating Service	Rating	Amount (in thousands)
Moody's	Aaa	$ 505
Moody's	Aa2	3,621
Moody's	Aa3	710
Standard & Poor's	AAA	3,087
Standard & Poor's	AA+	591
Standard & Poor's	AA	5,984
Standard & Poor's	AA-	598
		$ 15,096

- trust preferred securities in the amount of $5.8 million, $4.0 million of which is Alesco VII A1B which is rated A1 (Moody’s), BBB+ (Standard and Poor’s) and A (Fitch)

During the first quarter of 2016, we purchased $11.0 million of callable agency securities. Three callable agency securities in the amount of $7.9 million were called.

At March 31, 2016, we owned pooled trust preferred securities as follows (in thousands):

Security	Tranche Level	Ratings When Purchased Moody's	Ratings When Purchased Fitch	Current Ratings Moody's	Current Ratings Fitch	Par Value	Book Value	Estimated Fair Value	% of Current Defaults and Deferrals to Total Collateral	Previously Recognized Cumulative Other Comprehensive Loss (1)
						(in thousands)				
Held to Maturity										
ALESCO VII A1B	Senior	Aaa	AAA	A1	A	$4,367	$ 3,998	$ 3,604	13%	$ 248
MMCF III B	Senior Sub	A3	A-	Ba1	BB	276	271	228	32%	5
						4,643	4,269	3,832		$ 253
										Cumulative OTTI Related to Credit Loss (2)
Available for Sale										
Other Than Temporarily Impaired:										
TPREF FUNDING II	Mezzanine	A1	A-	Caa3	C	1,500	1,100	510	37%	400
ALESCO V C1	Mezzanine	A2	A	Caa3	C	2,150	1,490	1,037	14%	660
						3,650	2,590	1,547		$ 1,060
Total						$8,293	$ 6,859	$ 5,379		

(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 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 three months ended March 31, 2016 and the three months ended March 31, 2015.

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, 2016, 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, 2016, we had $122.5 million of unfunded lines of credit and undisbursed construction loan funds. Our approved loan commitments were $2.0 million at March 31, 2016. 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, 2016						
Southern National						
Common equity tier 1 capital ratio	$111,043	12.79%	$ 39,077	4.50 %	$ 56,445	6.50%
Tier 1 risk-based capital ratio	111,043	12.79%	52,103	6.00 %	69,470	8.00%
Total risk-based capital ratio	119,734	13.79%	69,470	8.00 %	86,838	10.00%
Leverage ratio	111,043	10.83%	41,025	4.00 %	51,281	5.00%
Sonabank						
Common equity tier 1 capital ratio	$109,779	12.65%	$ 39,057	4.50 %	$ 56,416	6.50%
Tier 1 risk-based capital ratio	109,779	12.65%	52,076	6.00 %	69,435	8.00%
Total risk-based capital ratio	118,469	13.65%	69,435	8.00 %	86,794	10.00%
Leverage ratio	109,779	10.71%	41,008	4.00 %	51,260	5.00%
December 31, 2015						
Southern National						
Common equity tier 1 capital ratio	$109,276	13.13%	$ 37,254	4.50 %	$ 54,101	6.50%
Tier 1 risk-based capital ratio	109,276	13.13%	49,939	6.00 %	66,585	8.00%
Total risk-based capital ratio	117,697	14.14%	66,585	8.00 %	83,232	10.00%
Leverage ratio	109,276	11.06%	39,509	4.00 %	49,386	5.00%
Sonabank						
Common equity tier 1 capital ratio	$108,054	12.99%	$ 37,436	4.50 %	$ 54,075	6.50%
Tier 1 risk-based capital ratio	108,054	12.99%	49,915	6.00 %	66,553	8.00%
Total risk-based capital ratio	116,475	14.00%	66,553	8.00 %	83,192	10.00%
Leverage ratio	108,054	10.94%	39,493	4.00 %	49,366	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.

Beginning on January 1, 2016, SNBV and Sonabank must maintain a capital conservation buffer to avoid restrictions on capital distributions or discretionary bonus payments. This buffer must consist solely of Common Equity Tier 1 Capital, but the buffer applies to all three measurements (Common Equity Tier 1, Tier 1 capital and total capital) in addition to the minimum risk-based capital requirements. The capital conservation buffer required for 2016 is common equity equal to .625% of risk-weighted assets and will increase by .625% per year until reaching 2.5% beginning January 1, 2019.

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.

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, 2016 and as of December 31, 2015, and all changes are within our ALM Policy guidelines except for the changes resulting from the 400 basis point increase in interest rates at March 31, 2016. We have determined that the main factor contributing to the greater EVE sensitivity is growth in shorter term funding. However, the solution would cause a large decrease in net interest income in the short term.

Sensitivity of Economic Value of Equity
As of March 31, 2016

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	$103,899	$(36,564)	-26.03%	9.58%	85.76%
Up 300	112,573	(27,890)	-19.86%	10.38%	92.92%
Up 200	121,900	(18,563)	-13.22%	11.24%	100.61%
Up 100	131,990	(8,473)	-6.03%	12.17%	108.94%
Base	140,463	-	0.00%	12.95%	115.94%

Down 100	126,676	(13,787)	-9.82 %	11.68 %	104.56 %
Down 200	121,581	(18,882)	-13.44 %	11.21 %	100.35 %

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

Change in Interest Rates in Basis Points (Rate Shock)	Economic Value of Equity			Economic Value of Equity as a % of	
	Amount	$ Change From Base	% Change From Base	Total Assets	Equity Book Value
	(Dollar amounts in thousands)				
Up 400	$108,441	$(34,579)	-24.18 %	10.47 %	90.64 %
Up 300	115,906	(27,114)	-18.96 %	11.19 %	96.88 %
Up 200	124,098	(18,922)	-13.23 %	11.98 %	103.73 %
Up 100	133,386	(9,634)	-6.74 %	12.87 %	111.49 %
Base	143,020	-	0.00 %	13.80 %	119.55 %
Down 100	130,510	(12,510)	-8.75 %	12.60 %	109.09 %
Down 200	122,637	(20,383)	-14.25 %	11.84 %	102.51 %

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, 2016 and December 31, 2015 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, 2016

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	$39,556	$ 3,762	3.81 %	0.35 %
Up 300	38,604	2,810	3.72 %	0.26 %
Up 200	37,678	1,884	3.64 %	0.18 %
Up 100	36,854	1,060	3.56 %	0.10 %
Base	35,794	-	3.46 %	0.00 %
Down 100	36,494	700	3.53 %	0.07 %
Down 200	36,599	805	3.54 %	0.08 %

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Sensitivity of Net Interest Income
As of December 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	$39,018	$ 3,252	3.94 %	0.32 %
Up 300	38,030	2,264	3.84 %	0.22 %
Up 200	37,064	1,298	3.75 %	0.13 %
Up 100	36,220	454	3.66 %	0.04 %
Base	35,766	-	3.62 %	0.00 %
Down 100	35,646	(120)	3.60 %	-0.02 %
Down 200	35,504	(262)	3.59 %	-0.03 %

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, 2016.

ITEM 1A – RISK FACTORS

As of March 31, 2016 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, 2015.

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 10, 2016	/s/ Georgia S. Derrico
(Date)	**Georgia S. Derrico, Chairman of the Board and Chief Executive Officer**
May 10, 2016	/s/ William H. Lagos
(Date)	**William H. Lagos, Senior Vice President and Chief Financial Officer**