F&M BANK CORP
Form 10-Q
August 14, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549
FORM 10-Q

þ **Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended June 30, 2009.

o **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
Commission File Number: 000-13273
F & M BANK CORP.

Virginia	54-1280811
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

P. O. Box 1111
Timberville, Virginia 22853
(Address of Principal Executive Offices) (Zip Code)
(540) 896-8941

(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 þ No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting Company þ

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

State the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date.

Class	Outstanding at August 5, 2009
Common Stock, par value - $5	2,294,140 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008
Interest Income		
Interest and fees on loans held for investment	$ 6,417	$ 5,635
Interest and fees on loans held for sale	324	99
Interest on federal funds sold	1	13
Interest on interest bearing deposits	12	22
Dividends on equity securities	58	133
Interest on debt securities	207	226
Total Interest Income	7,019	6,128
Interest Expense		
Interest on demand deposits	281	162
Interest on savings accounts	45	72
Interest on time deposits over $100,000	544	550
Interest on time deposits	1,099	1,109
Total interest on deposits	1,969	1,893
Interest on short-term debt	28	109
Interest on long-term debt	551	451
Total Interest Expense	2,548	2,453
Net Interest Income	4,471	3,675
Provision for Loan Losses	310	175
Net Interest Income after Provision for Loan Losses	4,161	3,500
Noninterest Income		
Service charges	315	336
Insurance and other commissions	113	114
Other	432	400
Income on bank owned life insurance	90	75
Security gains (losses) on investments sold	(5)	178
Other than temporarily impaired (losses)	(496)	(207)
Total Noninterest Income	449	896

Noninterest Expense				
Salaries		1,251		1,246
Employee benefits		453		374
Occupancy expense		144		136
Equipment expense		136		133
Intangible amortization		69		69
Other		1,035		803
Total Noninterest Expense		3,088		2,761
Income before Income Taxes		1,522		1,635
Income Taxes		402		491
Minority interest in consolidated subsidiary (earnings) losses		(29)		
Net Income	$	1,091	$	1,144
Per Share Data				
Net Income	$	.48	$	.49
Cash Dividends	$	.23	$	.22
Weighted Average Shares Outstanding		2,289,675		2,331,027

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Interest Income		
Interest and fees on loans held for investment	$ 12,603	$ 11,190
Interest and fees on loans held for sale	551	120
Interest on federal funds sold	2	29
Interest on interest bearing deposits	26	75
Dividends on equity securities	104	260
Interest on debt securities	434	488
Total Interest Income	13,720	12,162
Interest Expense		
Interest on demand deposits	515	380
Interest on savings accounts	108	145
Interest on time deposits over $100,000	1,103	1,064
Interest on time deposits	2,312	2,427
Total interest on deposits	4,038	4,016
Interest on short-term debt	56	186
Interest on long-term debt	1,155	855
Total Interest Expense	5,249	5,057
Net Interest Income	8,471	7,105
Provision for Loan Losses	520	265
Net Interest Income after Provision for Loan Losses	7,951	6,840
Noninterest Income		
Service charges	601	640
Insurance and other commissions	215	169
Other	621	651
Income on bank owned life insurance	180	148
Security gains (losses) on investments sold	(5)	176
Other than temporarily impaired (losses)	(826)	(207)
Total Noninterest Income	786	1,577

Noninterest Expense		
Salaries	2,487	2,494
Employee benefits	881	726
Occupancy expense	283	277
Equipment expense	268	266
Intangible amortization	138	138
Other	1,825	1,513
Total Noninterest Expense	5,882	5,414
Income before Income Taxes	2,855	3,003
Income Taxes	834	855
Minority interest in consolidated subsidiary (earnings) losses	(46)	
Net Income	$ 1,975	$ 2,148
Per Share Data		
Net Income	$ .86	$ .92
Cash Dividends	$ .46	$ .44
Weighted Average Shares Outstanding	2,289,122	2,335,897

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
CONSOLIDATED BALANCE SHEETS
(In Thousands of Dollars)

	June 30, 2009 (Unaudited)	December 31, 2008 (Audited)
Assets		
Cash and due from banks	$ 5,407	$ 5,687
Federal funds sold	4,106	8,979
Cash and cash equivalents	9,513	14,666
Interest bearing deposits in banks	857	1,162
Securities:		
Held to maturity fair value of $110,000 in 2009 and 2008, respectively (note 2)	110	110
Available for sale (note 2)	16,762	22,237
Other investments	9,127	8,439
Loans held for sale	20,364	3,780
Loans held for investment (note 3)	416,316	399,233
Less allowance for loan losses (note 4)	(2,556)	(2,189)
Net loans held for investment	413,760	397,044
Bank premises and equipment	7,343	7,457
Interest receivable	2,021	2,056
Core deposit intangible	460	598
Goodwill	2,670	2,670
Bank owned life insurance	6,447	6,304
Other assets	5,039	5,535
Total assets	$ 494,473	$ 472,058
Liabilities		
Deposits:		
Noninterest bearing	$ 51,620	$ 49,786
Interest bearing:		
Demand	55,211	39,773
Money market accounts	21,870	22,779
Savings	33,531	29,367
Time deposits over $100,000	76,578	63,855
All other time deposits	137,624	136,665
Total deposits	376,434	342,225
Short-term debt	7,143	20,510

Accrued liabilities	7,791	7,687
Long-term debt	65,176	65,331
Total liabilities	456,544	435,753
Minority interest in consolidated subsidiary	93	47
Stockholders Equity		
Common stock, $5 par value, 6,000,000 shares authorized, 2,294,140 and 2,289,497 shares issued and outstanding in 2009 and 2008, respectively	11,471	11,447
Retained earnings	28,683	27,687
Accumulated other comprehensive income (loss)	(2,318)	(2,876)
Total stockholders equity	37,836	36,258
Total liabilities and stockholders equity	$ 494,473	$ 472,058

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)
(Unaudited)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash Flows from Operating Activities		
Net income	$ 1,975	$ 2,148
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	315	307
Amortization (accretion) of security premiums (discounts)	16	(21)
Net (increase) decrease in loans held for sale	(16,584)	(20,867)
Provision for loan losses	520	265
Intangible amortization	138	138
(Increase) decrease in interest receivable	35	114
(Increase) decrease in other assets	527	802
Increase in accrued expenses	(133)	(989)
(Gain) loss on security transactions	831	31
Amortization of limited partnership investments	182	250
Income from life insurance investment	(143)	(148)
Net Adjustments	(14,296)	(20,118)
Net Cash Provided by (Used in) Operating Activities	(12,321)	(17,970)
Cash Flows from Investing Activities		
Purchase of investments available for sale	(924)	(17,837)
Proceeds from sales of investments available for sale	16	971
Proceeds from maturity of investments available for sale	5,481	18,930
Net increase in loans held for investment	(17,237)	(37,508)
Purchase of property and equipment	(200)	(618)
Change in federal funds sold	4,873	
Net (increase) decrease in interest bearing bank deposits	305	906
Net Cash Used in Investing Activities	(7,686)	(35,156)
Cash Flows from Financing Activities		
Net change in demand and savings deposits	20,528	5,026
Net change in time deposits	13,681	(4,626)
Net change in short-term debt	(13,367)	32,428
Cash dividends paid	(1,057)	(1,041)
Repurchase of common stock	(54)	(713)
Change in federal funds purchased		2,435
Proceeds of long-term debt	7,400	27,500
Proceeds from issuance of common stock	152	118

Repayment of long-term debt	(7,556)	(6,786)
Net Cash Provided (Used) by Financing Activities	19,727	54,341
Net Decrease (Increase) in Cash and Cash Equivalents	(280)	1,215
Cash and Cash Equivalents, Beginning of Period	5,687	8,705
Cash and Cash Equivalents, End of Period	$ 5,407	$ 9,920
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 5,420	$ 5,169
Income taxes	520	400

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY
(In Thousands of Dollars)
(Unaudited)

	Six Months Ended June 30,	
	2009	**2008**
Balance, beginning of period	$ 36,258	$ 39,165
Comprehensive Income		
Net income	1,975	2,148
Net change in unrealized appreciation on securities available for sale, net of taxes (note 1)	558	(1,010)
Total comprehensive income	2,533	1,138
Repurchase of common stock	(54)	(713)
Common stock sold	152	117
Dividends declared	(1,053)	(1,027)
Balance, end of period	$ 37,836	$ 38,680

The accompanying notes are an integral part of these statements.

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING PRINCIPLES:

The consolidated financial statements include the accounts of F & M Bank Corp. and its subsidiaries (the Company). Significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements conform to accounting principles generally accepted in the United States and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2009 and the results of operations for the six month periods ended June 30, 2009 and June 30, 2008. The notes included herein should be read in conjunction with the notes to financial statements included in the 2008 annual report to stockholders of the F & M Bank Corp.

The Company does not expect the anticipated adoption of any newly issued accounting standards to have a material impact on future operations or financial position.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities and gains or losses on certain derivative contracts, are reported as a separate component of the equity section of the balance sheet. Such items, along with operating net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	June 30, 2009	**December 31, 2008**
Changes in:		
Adjustment for initial adoption of SFAS 158	$	$
Funded Status Adjustment		(1,835,082)
Tax effect		623,928
Pension plan adjustment, net of tax		(1,211,154)
Unrealized holding gains (losses) on available-for-sale securities:	1,666,714	(2,742,769)
Other than temporary impairment losses	825,707	1,758,730
Reclassification adjustment for (gains) losses realized in income	4,899	(78,173)
Net unrealized gains (losses)	845,906	(1,062,212)
Tax effect	287,608	361,152
Unrealized holding gain (losses), net of tax	558,298	(701,060)
Net change in other comprehensive income	$ 558,298	$ (1,912,214)

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through August, 13, 2009, the date the financial statements were issued.

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 2 INVESTMENT SECURITIES:

The amounts at which investment securities are carried in the consolidated balance sheets and their approximate market values at June 30, 2009 and December 31, 2008 are as follows:

	2009		2008	
	Cost	Market Value	Cost	Market Value
Securities Held to Maturity				
U. S. Treasury and agency obligations	$ 110	$ 110	$ 110	$ 110
Total	$ 110	$ 110	$ 110	$ 110

	2009		2008	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
Government sponsored enterprises	$ 6,059	$ 5,997	$ 10,194	$ 10,013
Equity securities	3,067	4,639	3,064	5,430
Mortgage-backed securities	7,236	7,034	8,573	8,391
Corporate Bonds	400	281	281	281
Municipals			125	125
Total	$ 16,762	$ 17,951	$ 22,237	$ 24,240

The amortized cost and fair value of securities at June 30, 2009, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 110	$ 110	$ 1,999	$ 2,000
Due after one year through five years			3,998	4,059
Due after five years			7,315	7,636
	110	110	13,312	13,695
Marketable equities			4,639	3,067
Total	$ 110	$ 110	$ 17,951	$ 16,762

There were no sales of debt securities during the first half of 2009 or in all of 2008. Following is a table reflecting gains and losses on sales of equity securities:

	2009	2008
Gains	$	$ 244,181

Losses	(4,899)	(166,008)
Net Gains (Losses)	$ (4,899)	$ 78,173

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 2 INVESTMENT SECURITIES (CONTINUED):

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the Company through readily saleable financial instruments. The portfolio includes fixed rate bonds, whose prices move inversely with rates, variable rate bonds and equity securities. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The Company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. Bonds deteriorate in value due to credit quality of the individual issuer and changes in market conditions. These losses relate to market conditions and the timing of purchases.

A summary of these losses (in thousands) is as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2009						
Government sponsored enterprises	$	$	$	$	$	$
Mortgage backed obligations			344	(3)	344	(3)
Marketable equities	1,091	(383)	1,421	(1,266)	2,512	(1,649)
Total	$ 1,091	$ (383)	$ 1,765	$ (1,269)	$ (2,856)	$ (1,652)

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at June 30, 2009 and December 31, 2008 are summarized as follows:

	2009	2008
Real Estate		
Construction	$ 82,752	$ 71,259
Residential	178,218	169,122
Commercial and agricultural	133,137	134,008
Installment loans to individuals	20,124	22,792
Credit cards	1,956	1,940
Other	129	112
Total	$ 416,316	$ 399,233

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

A summary of transactions in the allowance for loan losses follows:

	Six Months Ended June 30,		Three Months Ended June 30,	
	2009	**2008**	**2009**	**2008**
Balance, beginning of period	$ 2,189	$ 1,703	$ 2,381	$ 1,531
Provisions charged to operating expenses	520	265	310	175
Net (charge-offs) recoveries:				
Loan recoveries	29	41	18	20
Loan charge-offs	(182)	(302)	(153)	(19)
Total Net Charge-Offs *	(153)	(261)	(135)	1
Balance, End of Period	$ 2,556	$ 1,707	$ 2,556	$ 1,707
* Components of Net Charge-Offs				
Real Estate	(87)	1	(87)	1
Commercial	(44)	(260)	(44)	(2)
Installment	(22)	(2)	(4)	2
Total	$ (153)	$ (261)	$ (135)	$ 1

NOTE 5 EMPLOYEE BENEFIT PLAN

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The following is a summary of net periodic pension costs for the six-month periods ended June 30, 2009 and 2008.

	2009	**2008**
Service cost	$ 179,400	$ 161,190
Interest cost	136,666	128,108
Expected return on plan assets	(156,856)	(188,356)
Amortization of net obligation at transition		
Amortization of prior service cost	(2,650)	(2,650)
Amortization of net (gain) or loss	62,102	5,894
Net periodic benefit cost	$ 218,662	$ 104,186

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 FAIR VALUE

FASB Statement No. 157, Fair Value Measurements (SFAS No. 157), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide 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: 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 agency 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 the Company s securities are considered to be Level 2 securities.

Impaired Loans: SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral. Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis.

June 30, 2009	**Total**	**Level 1**	**Level 2**	**Level 3**
Investment securities available-for-sale	$ 16,762	$ 3,607	$ 13,155	
Loans held for sale	20,364		20,364	
Impaired loans	1,644		1,644	
Total assets at fair value	38,770	3,607	35,163	
Total liabilities at fair value				

There were no assets or liabilities recorded at fair value on a non-recurring basis.

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 7 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

Statement of Financial Accounting Standards No. 107 (SFAS 107) Disclosures about the Fair Value of Financial Statements defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank s financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. Estimated fair value and the carrying value of financial instruments at December 31, 2008 and 2007 are as follows (in thousands):

	June 30, 2009		December 31, 2008	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial Assets				
Cash	$ 5,407	$ 5,407	$ 5,687	$ 5,687
Interest bearing deposits	857	857	1,164	1,162
Federal funds sold	4,106	4,106	8,979	8,979
Securities available for sale	16,762	16,762	22,237	22,237
Securities held to maturity	110	110	110	110
Other investments	9,127	9,127	8,439	8,439
Loans	447,205	416,316	418,630	399,233
Loan held for sale	20,364	20,364	3,780	3,780
Bank owned life insurance	6,447	6,447	6,304	6,304
Accrued interest receivable	2,021	2,021	2,056	2,056
Financial Liabilities				
Demand Deposits:				
Non-interest bearing	51,620	51,620	49,786	49,786
Interest bearing	77,081	77,081	62,552	62,552
Savings deposits	33,531	33,531	29,367	29,367
Time deposits	217,067	214,202	202,082	200,521
Accrued liabilities	7,791	7,791	7,687	7,687
Short-term debt	7,143	7,143	20,569	20,510
Long-term debt	65,138	65,176	68,846	65,331

The carrying value of cash and cash equivalents, other investments, deposits with no stated maturities, short-term borrowings, and accrued interest approximate fair value. The fair value of securities was calculated using the most recent transaction price or a pricing model, which takes into consideration maturity, yields and quality. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments entered into during the month of December of each year.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

F & M Bank Corp. (Company) incorporated in Virginia in 1983, is a one-bank holding company pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, which provides financial services through its wholly-owned subsidiary Farmers & Merchants Bank (Bank). TEB Life Insurance Company (TEB) and Farmers & Merchants Financial Services (FMFS) are wholly-owned subsidiaries of the Bank. Ownership of TEB was transferred from the Company to the Bank during the first quarter of 2009. The Bank also holds a majority ownership in VBS Mortgage LLC (VBS).

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank. VBS provides a variety of mortgage products including FHA, VA and VHDA loans. VBS was founded in Harrisonburg, VA in 1999. VBS has three offices, located in Harrisonburg, Broadway and Roanoke, Virginia.

The Company s primary trade area services customers in Rockingham County, Shenandoah County, Page County and the northern part of Augusta County.

Management s discussion and analysis is presented to assist the reader in understanding and evaluating the financial condition and results of operations of the Company. The analysis focuses on the consolidated financial statements, footnotes, and other financial data presented. The discussion highlights material changes from prior reporting periods and any identifiable trends which may affect the Company. Amounts have been rounded for presentation purposes. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented in Item 1, Part 1 or this Form 10Q.

Forward-Looking Statements

Certain statements in this report may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as expect, believe, estimate, plan, project, or other statements concerning opinions or judgment of the Company and its management about future events.

Although the Company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits.

We do not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Critical Accounting Policies

General

The Company s financial statements are prepared in accordance with accounting principles generally accepted in the United States (GAAP). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that are used. The fair value of the investment portfolio is based on period end valuations but changes daily with the market. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) Statement of Financial Accounting Standard (SFAS) No. 5, Accounting for Contingencies*,* which requires that losses be accrued when they are probable of occurring and estimable and (ii) SFAS No. 114, Accounting by Creditors for Impairment of a Loan*,* which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

Goodwill and Intangibles

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard (SFAS) No. 141, *Business Combinations* and SFAS No. 142, *Goodwill and Other Intangible Assets*. SFAS No. 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. SFAS No. 142 is effective for fiscal years beginning after December 15, 2001 and prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of SFAS No. 142 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets will be subject to at least an annual impairment review and more frequently if certain impairment indicators are in evidence. SFAS No. 142 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Core deposit intangibles are amortized on a straight-line basis over ten years. The Company adopted SFAS 147 on January 1, 2002 and determined that the core deposit intangible will continue to be amortized over the estimated useful life.

Securities Impairment

The Company evaluates each of its investments in securities, debt and equity, under guidelines contained in SFAS 115 and FSP 115-1, *Accounting for Certain Investments in Debt and Equity Securities.* These guidelines require the Company to determine whether a decline in value below adjusted cost is other than temporary. In making its determination, management considers current market conditions, historical trends in the individual securities, length and severity of impairment and historical trends in the total market. Expectations are developed regarding potential returns from dividend reinvestment and price appreciation over a reasonable holding period (five years).

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Overview

Net income for the second quarter of 2009 was $1,091,000 or $.48 per share, compared to $1,144,000 or $.49 per share in the second quarter of 2008, a decrease of 4.63%. Noninterest income, exclusive of securities transactions, increased 2.70% and noninterest expense increased 11.84% during the same period.

Earnings from Bank Operations are reflected in table below, these represent the core earnings from banking operations for the first six months of 2009 and 2008, respectively. These amounts are exclusive of gains or losses on the Parent s equity portfolio and historic rehabilitation credits related to the investment in low income housing projects.

	2009	**2008**
Net Income from Bank Operations	$ 2,391	$ 2,131
Income or loss from Parent Company Activities	(416)	17
Net Income for the year	1,975	2,148

Results of Operations

The 2009 year to date tax equivalent net interest margin increased $1,331,000 or 18.42% compared to the same period in 2008. The yield on earning assets decreased .71%, while the cost of funds decreased .66% compared to the same period in 2008. In response to the economic slowdown, the Federal Reserve s Federal Open Market Committee (FOMC) began lowering short-term interest rates in September 2007. In December 2008, the FOMC lowered the Federal Funds Rate to an historic low of 0 to 25 BP. The Prime Rate, which typically tracks at 3.00% above the Federal Funds Rate, currently stands at 3.25%

The Interest Sensitivity Analysis on page 23 indicates the Company is in a slightly asset sensitive position in the one year time horizon (.76%), the recent decrease in rates and asset growth has resulted in a .23% decrease in the net interest margin compared to the same period in 2008. This has resulted due to the fact that a large portion of rate sensitive liabilities (primarily interest bearing demand deposits and savings) have reached a virtual rate floor (due to the current level of market rates), while rate sensitive assets continue to reprice at lower rates.

A schedule of the net interest margin for 2009 and 2008 can be found in Table I on page 22.

Noninterest income, exclusive of securities transactions, increased $9,000 or .56% through June 30, 2009. Items contributing to the increase include a $63,000 increase in debt card, ATM surcharge and merchant credit card income and a $66,000 increase in revenue from FMFS (title, property and casualty insurance commissions and brokerage commissions), TEB Life Insurance Co. and VBS Mortgage. These increases were offset by a $99,000 decrease in secondary market fee income (became part of VBS with merger) and a $39,000 decrease in service charges.

Noninterest expense increased $468,000 (8.64%) in 2009. The increase is the result of a $148,000 increase in salaries and benefits expense (4.60%). The increase in salaries and benefits includes is due primarily to increase in pension expense. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 14.59% in 2009 compared to 2008. Areas that increased include a $74,000 increase in data processing expense and a $248,000 increase in FDIC assessment fees.

Data processing expense increased due primarily to the support of our rewards checking products, which have generated approximately $30 million in new deposits in the last year. The FDIC assessment increased due to an increase in our insured deposits and the accrual for the FDIC special assessment due in the third quarter. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available Bank Holding Company Performance Report, the Company s and peer group noninterest expenses averaged 2.29% and 3.42% of average assets, respectively. The Company s operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Financial Condition

Federal Funds Sold and Interest Bearing Bank Deposits

The Company s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end was benchmarked at 0% to .25% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits. Combined balances in fed funds sold and interest bearing bank deposits have decreased due to growth in the loan portfolio.

Securities

The Company s securities portfolio serves several purposes. Portions of the portfolio are held to assist the Company with liquidity, asset liability management, as security for certain public funds and repurchase agreements and for long-term growth potential.

The securities portfolio consists of investment securities (commonly referred to as securities held to maturity) and securities available for sale. Securities are classified as investment securities when management has the intent and ability to hold the securities to maturity. Investment securities are carried at amortized cost. Securities available for sale include securities that may be sold in response to general market fluctuations, liquidity needs and other similar factors. Securities available for sale are recorded at market value. Unrealized holding gains and losses on available for sale securities are excluded from earnings and reported (net of deferred income taxes) as a separate component of shareholders equity.

As of June 30, 2009, the cost of securities available for sale exceeded their market value by $1,189,000. This includes decreases in value in the equity securities portfolio held by the Company and a decrease in the value of government obligations held by the Bank. Management has traditionally held debt securities (regardless of classification) until maturity and thus it does not expect the fluctuations in value of these securities to have a direct impact on earnings. Investments in debt securities have decreased approximately $5.5 million in 2009. The portfolio is made up of primarily government sponsored enterprises and mortgage-backed securities with an average portfolio life of approximately two years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. Given the historically low interest rates proceeds from bond maturities and mortgage-backed securities pay downs have been used to support the growth of the loan portfolio. Scheduled maturities for the remainder of 2009 total $3,881,000 and these bonds have an average yield of approximately 5.18%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are significantly lower.

The Company s equity securities portfolio was $1,236,000 below cost at June 30, 2009. The decrease in the value of the equities portfolio is spread over a number of asset sectors including holdings in the financial sector. To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions and a variety of other predominantly blue-chip securities. Management continues to believe that these investments offer adequate current returns (dividends) and have the potential for future increases in value.

A review of these investments as of June 30, 2009, revealed several securities that appeared to be impaired as of quarter end. The write down for the second quarter totaled $496,000, or $327 net of deferred tax. This results in a year to date write down on equity securities for book purposes of $825,000, or $545,000 net of deferred tax. Management continues to re-evaluate the portfolio for impairment on a quarterly basis. The Company also sustained losses of $6,000 year to date from the sale of securities.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Loan Portfolio

The Company operates in a predominately rural area that includes the counties of Rockingham, Page and Shenandoah in the western portion of Virginia. The local economy benefits from a variety of businesses including agri-business, manufacturing, service businesses and several universities and colleges. The Bank is an active residential mortgage and residential construction lender and generally makes commercial loans to small and mid size businesses and farms within its primary service area.

The allowance for loan losses (see subsequent section) provides for the risk that borrowers will be unable to repay their obligations and is reviewed quarterly for adequacy. The risk associated with real estate and installment notes to individuals is based upon employment, the local and national economies and consumer confidence. All of these affect the ability of borrowers to repay indebtedness. The risk associated with commercial lending is substantially based on the strength of the local and national economies.

While lending is geographically diversified within the service area, the Company does have loan concentrations in agricultural (primarily poultry farming), construction, hotels, churches, assisted living facilities and multi-family residential properties. Management and the Board of Directors review these concentrations quarterly. The first six months of 2009 resulted in an increase of $17,083,000 in the Bank s core loan portfolio.

Nonperforming loans include nonaccrual loans, loans 90 days or more past due and restructured loans. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Restructured loans are loans which have had the original interest rate or repayment terms changed due to financial hardship. Nonperforming loans totaled $6,461,000 at June 30, 2009 compared to $4,766,000 at December 31, 2008. Approximately 91% of these non-performing loans are secured by real estate. Although management expects that there will be some loan losses, the bank is generally well secured and continues to actively work with its customers to effect payment. As of June 30, 2009, the Company does not hold any real estate which was acquired through foreclosure.

The following is a summary of information pertaining to risk elements and impaired loans:

	June 30, 2009	December 31, 2008
Nonaccrual loans	$ 1,949	$ 1,374
Loans past due 90 days or more and still accruing interest	4,512	3,392
	$ 6,461	$ 4,766
As a percentage of loans held for investment	1.55%	1.19%

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)
Allowance for Loan Losses

Management evaluates the allowance for loan losses on a quarterly basis in light of national and local economic trends, changes in the nature and volume of the loan portfolio and the trend of past due and criticized loans. Specific factors evaluated include internally generated loan review reports, past due reports, historical loan loss experience and changes in the financial strength of individual borrowers that have been included on the Banks watch list or schedule of classified loans.

In evaluating the portfolio, loans are segregated into loans with identified potential losses and pools of loans by type (commercial, residential, consumer, credit cards). Loans with identified potential losses include examiner and bank classified loans. Classified relationships in excess of $100,000 are reviewed individually for impairment under FAS 114. A variety of factors are taken into account when reviewing these credits including borrower cash flow, payment history, fair value of collateral, company management, the industry in which the borrower is involved and economic factors. Loan relationships that are determined to have no impairment are placed back into the appropriate loan pool and reviewed under FAS 5.

Loan pools are further segmented into watch list, past due over 90 days and all other loans by type. Watch list loans include loans that are 60 days past due, and may include restructured loans, borrowers that are highly leveraged, loans that have been upgraded from classified or loans that contain policy exceptions (term, collateral coverage, etc.). Loss estimates on these loans reflect the increased risk associated with these assets due to any of the above factors. The past due pools contain loans that are currently 90 days or more past due. Loss rates assigned reflect the fact that these loans bear a significantly higher risk of charge-off. Loss rates vary by loan type to reflect the likelihood that collateral values will offset a portion of the anticipated losses.

The remainder of the portfolio falls into pools by type of homogenous loans that do not exhibit any of the above described weaknesses. Loss rates are assigned based on historical loss rates over the prior five years. A multiplier has been applied to these loss rates to reflect the time for loans to season within the portfolio and the inherent imprecision of these estimates.

All potential losses are evaluated within a range of low to high. A general reserve has been established to reflect other unidentified losses within the portfolio. This helps to offset the increased risk of loss associated with fluctuations in past due trends, changes in the local and national economies, and other unusual events. The Board approves the loan loss provision for the following quarter based on this evaluation and an effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $2,556,000 at June 30, 2009 is equal to .61% of loans held for investment. This compares to an allowance of $2,189,000, or .55%, at December 31, 2008. Management has funded the allowance a total of $520,000 through June 30, 2009. Total charge-offs exceed recoveries by $153,000 year to date, annualized this equates to a loss rate of slightly less than .07%. In recent years, the company has had an average loss rate of .08% which is significantly less than the rate of its peer group. The most recently available public information (as of March 31, 2009) lists an average loss rate for the Company s peer group at almost 1%

The overall level of the allowance is well below its peer group average. Management feels this is appropriate based on its loan loss history and the composition of its loan portfolio; the current allowance for loan losses is equal to approximately eight years of average loan losses. Based on historical losses, delinquency rates, collateral values of delinquent loans and a thorough review of the loan portfolio, management is of the opinion that the allowance for loan losses fairly states the estimated losses in the current portfolio.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Deposits and Other Borrowings

The Company s main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company s service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits have increased $34,209,000 since December 31, 2008. Time deposits increased $13,682,000 during this period while demand deposits and savings deposits increased $20,527,000. Certificates of deposit increased as a result of the Bank s membership in the CDARS program. CDARS (Certificate of Deposit Account Registry Service) is a program that allows the bank to accept customer deposits in excess of FDIC limits and through reciprocal agreements with other network participating banks offer FDIC insurance up to as much as $50 million in deposits. The CDARS program also allows the Bank to purchase funds through its One-Way Buy program. At June 30 the Bank had obtained a total of $24,570,000 in CDARS funding.

Short-term debt

Short-term debt consists of federal funds purchased, commercial repurchase agreements (repos.) and daily rate credit from the Federal Home Loan Bank (FHLB). Commercial customers deposit operating funds into their checking account and by mutual agreement with the bank their excess funds are swept daily into the repurchase accounts. These accounts are not considered deposits and are not insured by the FDIC. The Bank pledges securities held in its investment portfolio as collateral for these short-term loans. Federal funds purchased are overnight borrowings obtained from the Bank s primary correspondent bank to manage short-term liquidity needs. Daily rate credit from the FHLB has been used to finance loans held for sale and also to finance the increase in short-term residential and commercial construction loans.

Long-term debt

Borrowings from the Federal Home Loan Bank of Atlanta (FHLB) continue to be an important source of funding real estate loan growth. The Company s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund loan growth. By borrowing from the FHLB at various fixed rate terms, the program allows the Bank to match the maturity of its rate real estate portfolio with the maturity of its debt. This reduces the Company s exposure to interest rate changes. Scheduled repayments totaled $7,408,000 through June 30, 2009. Additional borrowings of $7,250,000 were obtained to support loan growth and to refinance maturing debt at more favorable longer term rates.

In March 2008, the Company entered into an agreement with a correspondent bank (Silverton Bank) to provide a $5 million line of credit to be used for general corporate purposes, including capital contributions to the Bank and for the current stock repurchase program. The loan is unsecured and bears a rate of prime minus 1.25%. At June, 30, 2009, $5 million was owed on this line of credit. In September 2008 the Company entered into an agreement with Page Valley Bank to provide a $1 million term loan to be used for a capital contribution to the Bank. The loan is unsecured and bears a rate of prime. Repayment terms include quarterly payments of $250,000 plus interest beginning in December 2008, at June 30, 2009 the balance on this loan was $250,000.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of June 30, 2009, the Company s total risk based capital and total capital to total assets ratios were 10.01% and 9.35%, respectively. Both ratios are in excess of regulatory minimum. Bank only total risked based capital and total capital to total assets ratios were 10.67% and 10.00% , respectively.

Liquidity

Liquidity is the ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments and loans maturing within one year. The Company s ability to obtain deposits and purchase funds at favorable rates determines its liquidity exposure. As a result of the Company s management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors requirements and meet its customers credit needs.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Additional sources of liquidity available to the Company include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates, the purchase of federal funds and funds raised the the CDARS One-Way Buy Program. To further meet its liquidity needs, the Company also maintains lines of credit with correspondent financial institutions. The Company s subsidiary bank also has a line of credit with the Federal Home Loan Bank of Atlanta that allows for secured borrowings.

Interest Rate Sensitivity

In conjunction with maintaining a satisfactory level of liquidity, management must also control the degree of interest rate risk assumed on the balance sheet. Managing this risk involves regular monitoring of interest sensitive assets relative to interest sensitive liabilities over specific time intervals. The Company monitors its interest rate sensitivity periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

As of June 30, 2009, the Company had a cumulative Gap Rate Sensitivity Ratio of .76% for the one year repricing period. This generally indicates that earnings would increase in an increasing interest rate environment as assets reprice more quickly than liabilities. However, in actual practice, this may not be the case as loans tied to the prime rate of interest will reprice immediately with an increase in short term market rates, while deposit rates will remain stable until competitive market conditions dictate the necessity for an increase in rates. Management constantly monitors the Company s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, on page 20.

Stock Repurchase

On September 18, 2008, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 150,000 to 200,000 shares. Shares repurchased through June 30, 2009 total 164,132; of this amount, 2,122 shares were repurchased in 2009, at an average cost of $25.58 per share.

Effect of Newly Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, The *FASB Accounting Standards Codification*™ and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162, (SFAS 168). SFAS 168 establishes the *FASB Accounting Standards Codification* ™ (Codification) as the source of authoritative generally accepted accounting principles (GAAP) for nongovernmental entities. The Codification does not change GAAP. Instead, it takes the thousands of individual pronouncements that currently comprise GAAP and reorganizes them into approximately 90 accounting Topics, and displays all Topics using a consistent structure. Contents in each Topic are further organized first by Subtopic, then Section and finally Paragraph. The Paragraph level is the only level that contains substantive content. Citing particular content in the Codification involves specifying the unique numeric path to the content through the Topic, Subtopic, Section and Paragraph structure. FASB suggests that all citations begin with FASB ASC, where ASC stands for *Accounting Standards Codification*. SFAS 168, (FASB ASC 105-10-05, 10, 15, 65, 70) is effective for interim and annual periods ending after September 15, 2009 and will not have an impact on the Company s financial position but will change the referencing system for accounting standards. The following pronouncements provide citations to the applicable Codification by Topic, Subtopic and Section in addition to the original standard type and number.

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations (Continued)

FSP EITF 99-20-1, Amendments to the Impairment Guidance of EITF Issue No. 99-20, (FASB ASC 325-40-65) (FSP EITF 99-20-1) was issued in January 2009. Prior to the FSP, other-than-temporary impairment was determined by using either Emerging Issues Task Force (EITF) Issue No. 99-20, Recognition of Interest Income and Impairment on Purchased Beneficial Interests and Beneficial Interests that Continue to be Held by a Transferor in Securitized Financial Assets, (EITF 99-20) or SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, (SFAS 115) depending on the type of security. EITF 99-20 required the use of market participant assumptions regarding future cash flows regarding the probability of collecting all cash flows previously projected. SFAS 115 determined impairment to be other than temporary if it was probable that the holder would be unable to collect all amounts due according to the contractual terms. To achieve a more consistent determination of other-than-temporary impairment, the FSP amends EITF 99-20 to determine any other-than-temporary impairment based on the guidance in SFAS 115, allowing management to use more judgment in determining any other-than-temporary impairment. The FSP was effective for reporting periods ending after December 15, 2008. Management has reviewed the Company s security portfolio and evaluated the portfolio for any other-than-temporary impairments.

The Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin (SAB) No. 111 (FASB ASC 320-10-S99-1) on April 9, 2009 to amend Topic 5.M., Other Than Temporary Impairment of Certain Investments in Debt and Equity Securities and to supplement FSP SFAS 115-2 and SFAS 124-2. SAB 111 maintains the staff s previous views related to equity securities; however debt securities are excluded from its scope. The SAB provides that other-than-temporary impairment is not necessarily the same as permanent impairment and unless evidence exists to support a value equal to or greater than the carrying value of the equity security investment, a write-down to fair value should be recorded and accounted for as a realized loss. The SAB was effective upon issuance and the Company recognized pretax losses in the amount of $826,000 as of June 30, 2009.

SFAS 165 (FASB ASC 855-10-05, 15, 25, 45, 50, 55), Subsequent Events, (SFAS 165) was issued in May 2009 and provides guidance on when a subsequent event should be recognized in the financial statements. Subsequent events that provide additional evidence about conditions that existed at the date of the balance sheet should be recognized at the balance sheet date. Subsequent events that provide evidence about conditions that arose after the balance sheet date but before financial statements are issued, or are available to be issued, are not required to be recognized. The date through which subsequent events have been evaluated must be disclosed as well as whether it is the date the financial statements were issued or the date the financial statements were available to be issued. For nonrecognized subsequent events which should be disclosed to keep the financial statements from being misleading, the nature of the event and an estimate of its financial effect, or a statement that such an estimate cannot be made, should be disclosed. The standard is effective for interim or annual periods ending after June 15, 2009. See Note 1 for Management s evaluation of subsequent events.

<u>Existence of Securities and Exchange Commission Web Site</u>

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including F & M Bank Corp. and the address is (http: //www.sec.gov).

TABLE 1

F & M BANK CORP.
NET INTEREST MARGIN ANALYSIS
(ON A FULLY TAXABLE EQUIVALENT BASIS)
(Dollar Amounts in Thousands)

	Six Months Ended June 30, 2009			Six Months Ended June 30, 2008			Three Months Ended June 30, 2009			Three Months Ended June 30, 2008		
	Average Balance	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**	**Average Balance**	**Income/ Expense**	**Rates**
Rate related income												
Loans held for investment[1,2,3]	$ 409,421	$ 12,670	6.19%	$ 330,486	$ 11,253	6.81%	$ 418,967	$ 6,451	6.16%	$ 338,466	$ 5,668	6.70%
Loans held for sale	28,003	551	3.94%	5,838	120	4.11%	32,750	324	3.96%	9,951	99	3.98%
Federal funds sold	2,316	2	.17%	2,513	29	2.31%	2,541	1	.16%	2,607	13	1.99%
Bank deposits	1,181	26	4.40%	3,017	75	4.97%	1,076	13	4.83%	1,746	22	5.04%
Investments												
Taxable	17,888	436	4.87%	20,130	557	5.53%	17,113	211	4.93%	19,085	270	5.66%
Partially taxable [2]	3,406	119	6.99%	5,611	244	8.70%	5,162	60	4.65%	5,252	112	8.53%
Tax exempt [2]	77	3	7.87%	214	5	4.67%	30		.40%	177	2	4.52%
Total earning assets	462,292	13,807	5.97%	367,809	12,283	6.68%	477,639	7,060	5.91%	377,284	6,186	6.56%
Interest Expense												
Demand deposits	68,698	515	1.50%	57,762	380	1.32%	73,223	281	1.54%	59,127	162	1.10%
Savings	31,532	108	.69%	29,114	145	1.00%	32,882	45	.55%	29,538	72	.98%
Time deposits	213,872	3,416	3.19%	163,108	3,490	4.28%	218,360	1,644	3.01%	161,172	1,659	4.12%
Short-term debt	21,816	56	.51%	16,458	186	2.26%	23,616	28	.47%	22,186	109	1.97%
Long-term debt	68,395	1,155	3.38%	43,789	856	3.91%	66,032	551	3.34%	47,131	452	3.84%
Total interest bearing liabilities	404,313	5,250	2.60%	310,231	5,057	3.26%	414,113	2,549	2.46%	319,154	2,454	3.08%
Net interest income [2]		$ 8,557			$ 7,226			$ 4,511			$ 3,732	
			3.70%			3.93%			3.78%			3.96%

Net yield on interest earning assets [2]

[1] Interest income on loans includes loan fees.

[2] An incremental tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable loans and investments.

[3] Average balances include non-accrual loans.

TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
June 30, 2009
(In Thousands of Dollars)

The following table presents the Company s interest sensitivity.

	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Not Classified	Total
Uses of Funds						
Loans						
Commercial	$ 103,173	$ 18,169	$ 79,727	$ 6,484	$	$ 207,553
Installment	11,113	915	9,656	3,338		25,022
Real estate for investment	33,002	13,257	111,017	24,509		181,785
Real estate for sale	20,364					20,364
Credit cards	1,956					1,956
Federal funds sold	4,106					4,106
Interest bearing bank deposits	856					856
Investment securities	2,138	316	4,059	6,892	3,467	16,872
Total	176,708	32,657	204,459	41,223	3,467	458,514
Sources of Funds						
Interest bearing demand deposits		21,977	44,062	11,042		77,081
Savings deposits		6,706	20,119	6,706		33,531
Certificates of deposit $100,000 and over	28,074	25,571	22,933			76,578
Other certificates of deposit	21,595	59,977	56,052			137,624
Short-term borrowings	7,143					7,143
Long-term borrowings	15,024	19,795	30,357			65,176
Total	71,836	134,026	173,523	17,748		397,133
Discrete Gap	104,872	(101,369)	30,936	23,475	3,467	61,381
Cumulative Gap	104,872	3,503	34,439	57,914	61,381	
Ratio of Cumulative Gap to Total Earning Assets	22.87%	.76%	7.51%	12.63%	13.39%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of June 30, 2009. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As a result of the enactment of the Sarbanes-Oxley Act of 2002, issuers such as F & M Bank Corp. that file periodic reports under the Securities Exchange Act of 1934 (the Act) are required to include in those reports certain information concerning the issuer s controls and procedures for complying with the disclosure requirements of the federal securities laws. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Act, is communicated to the issuer s management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

We have established our disclosure controls and procedures to ensure that material information related to the Company is made known to our principal executive officers and principal financial officer on a regular basis, in particular during the periods in which our quarterly and annual reports are being prepared. These disclosure controls and procedures consist principally of communications between and among the Chief Executive Officer and the Chief Financial Officer, and the other executive officers of the Company and its subsidiaries to identify any new transactions, events, trends, contingencies or other matters that may be material to the Company s operations. As required, we will evaluate the effectiveness of these disclosure controls and procedures on a quarterly basis, and most recently did so as of the end of the period covered by this report.

The Company s Chief Executive Officer and Chief Financial Officer, based on their evaluation as of the end of the period covered by this quarterly report of the Company s disclosure controls and procedures (as defined in Rule 13(a)-14(e) of the Securities Exchange Act of 1934), have concluded that the Company s disclosure controls and procedures are adequate and effective for purposes of Rule 13(a)-14(e) and timely, alerting them to financial information relating to the Company required to be included in the Company s filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Changes in Internal Controls

Due to the nature of the Company s business as stewards of assets of customers; internal controls are of the utmost importance. The Company has established procedures during the normal course of business to reasonably ensure that fraudulent activity of either a material amount to these results or in any amount is not occurring. In addition to these controls and review by executive officers, the Company retains the services of an internal auditor to complete regular audits, which examine the processes and procedures of the Company and the Bank to ensure that these processes are reasonably effective to prevent internal or external fraud and that the processes comply with relevant regulatory guidelines of all relevant banking authorities. The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company.

Part II Other Information

Item 1. Legal Proceedings Not Applicable

Item 1a. Risk Factors There have been no material changes from the risk factors previously disclosed in Item 1a of the Corporation s Form 10k filed on March 20, 2008.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds Not Applicable

Item 3. Defaults Upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders

On May 9, 2009, the shareholders held their annual meeting. The following items were approved by the shareholders by the required majority:

1) Election of the Board of Directors as proposed in the proxy material without any additions or exceptions.

	Votes For by Proxy	**Votes Withheld by Proxy**
Ellen R. Fitzwater	1,576,450	10,389
Richard S. Myers	1,576,312	10,527
Ronald E. Wampler	1,569,999	16,840

2) Appointment of Elliott Davis, LLC as independent auditors as proposed in the Proxy materials; 1,572,628 votes for , 0 votes against and 14,211 abstained.

Item 5. Other Information Not Applicable

Item 6. Exhibits

(a) **Exhibits**

3 i Restated Articles of Incorporation of F & M Bank Corp. as incorporated by reference to F & M Bank Corp. s 10-Q filed August 13, 2007.

3 ii Amended and Restated Bylaws of F & M Bank Corp. are incorporated by reference to Exhibits to F & M Bank Corp. s Form 10K filed March 1, 2002.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (filed herewith).

Signature

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.

F & M BANK CORP.

/s/ DEAN W. WITHERS
Dean W. Withers
President and Chief Executive Officer

/s/ NEIL W. HAYSLETT
Neil W. Hayslett
Executive Vice President and Chief Financial Officer

August 13, 2009