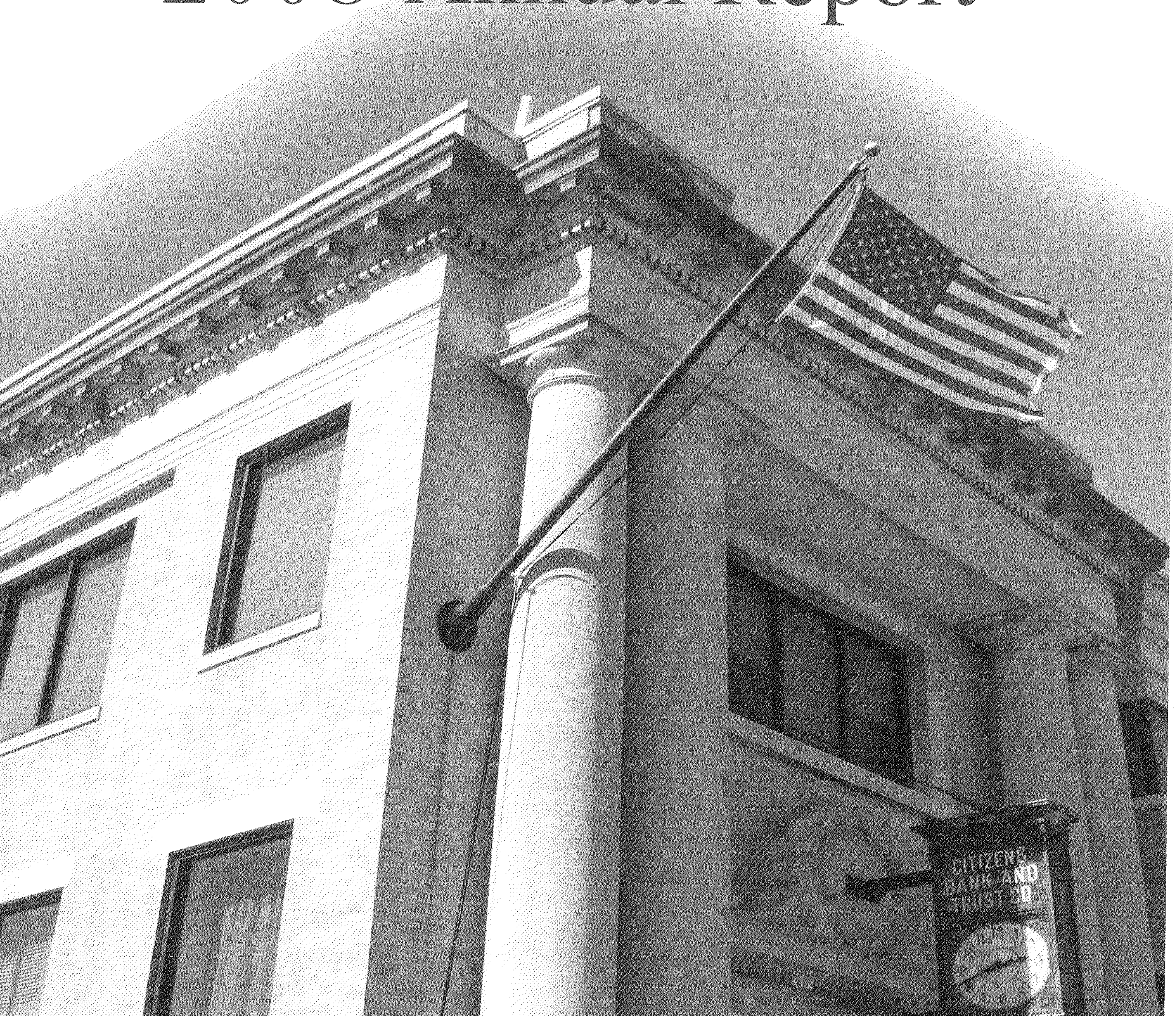
Citizens Bancorp of Virginia, Inc.

2008 Annual Report



Serving Our Communities Since 1873

Citizens Bank and Trust Company
A Short History

Citizens Bank and Trust Company is the second oldest independent community bank in the State of Virginia. With that said the following is a short history of this great institution.

On the 4th day of August, 1873, the Circuit Court of Nottoway granted a charter of incorporation for Citizens Bank and the Bank modestly took its place among the financial institutions of the State. The first and most important act of the new institution was the adoption of its policy, which was and has been, that it would not prosper on the misfortunes of its customers or of the community in which it was located, but would use its resources and whatever ability was possessed by its officers and directors for the benefit of the community and share the prosperity to which it contributed.

William Hodges Mann was selected as the first president of Citizens Bank and served as such until he was elected governor of the State of Virginia in 1910.

In 1921 Citizens Bank and Trust Company moved into the building where the Main Office and Corporate Headquarters still operate today. Located on the corner of South Main and Elm Streets the building was a two story, grey-brick, stone-trimmed facility with the landmark clock over the entrance way.

In 1973 Citizens Bank and Trust Company opened the second office in Nottoway County in the town of Crewe, Virginia. The third office was opened in Burkeville, Virginia in 1985. With three offices in Nottoway County, Citizens Bank expanded into Amelia County in 1988. The fourth office was opened in 1991 when Citizens purchased the office of First Colonial Savings and Loan, located in the Blackstone Shopping Center on Route 40. The success of Citizens Bank and Trust in Nottoway and Amelia County prompted interest in the Prince Edward market and the first office located in Farmville was opened in 1993. The second office in Prince Edward was opened in 1996.

The Chesterfield office was opened in May 2004 and Colonial Heights was opened in April 2005. In November 2006, Citizens Bank and Trust Company expanded into Mecklenburg County with an office in South Hill. A Commercial Lending Office in Midlothian is now the newest addition to the banks growing number of offices. With twelve locations in Southside Virginia, Citizens Bank and Trust Company is still committed to serve the communities with the same policy as when the doors were opened in 1873. The Directors, Officers and Staff of Citizens Bank and Trust Company are dedicated to our customers and delivering great customer service.

History as of November 2007

Citizens Bancorp of Virginia, Inc.

President's Letter

Dear Shareholder,

I am very pleased to report the Bank surpassed two important milestones in 2008. Earnings exceeded $3 million for the third consecutive year and the Bank surpassed $300 million in assets for the first time in its 135 year history. I am extremely proud of the effort of our employees to achieve such results in the most challenging economic environment in recent history. It is also important to note that our company's dividend yield of 5.9% as of year-end 2008 remains one of the highest among community banks in Virginia.

The Company continues to show strong income performance with net income of $3.087 million for 2008. The Bank's return on average assets for 2008 of 1.05% is well above the average for community banks in Virginia. There are many factors that contributed to the Company's success in 2008. Two areas that have shown superior results due to the concentrated efforts of the staff and Management are non-interest income and non-interest expense. Non-interest income (exclusive of net gains on OREO and investment securities gains) grew by $321 thousand or 13.4% over 2007. This improvement was primarily due to enhancement and expansion of the bank's ATM network, continued growth in the bank's non-deposit investment sales, and deposit account fee growth. Another key priority for the Bank in 2008 was to carefully manage expenses. Non–interest expense for 2008 was only $201 thousand or 2.3% greater than the same period in 2007. It is important to note that a portion of this increase was due to a data processing network conversion which was a one time expense.

It is certainly understandable in this environment that many customers and shareholders are asking, "How strong is my bank?" I am proud to report that Citizens Bank and Trust Company is faring very well in the midst of this turbulent economy. The Bank's long history of profitability and the resulting growth in capital through retained earnings are a testament to its conservative philosophy. Citizens Bank and Trust Company is one of the highest capitalized banks in Virginia with total risk based capital of 17.3%. The FDIC considers any bank with a total risk based capital level of 10% as a "well capitalized bank." We derive peace of mind from the knowledge that our bank's capital level will allow us to absorb unforeseen asset deterioration which may result from a prolonged economic downturn.

It is important to note that the Chairman and Vice Chairman of the Board of Directors have 40 years of combined experience on the Board and Senior Management has 112 years of combined experience in the banking industry. This high level of experience has been very important in the Bank's performance and navigation through this challenging economic environment.

As many economists have predicted, this recession seems to be deeper and most likely will be longer than any in recent history. Management has taken steps to carefully examine our investment and loan portfolios, loan concentrations, and reserve for loan losses. Based on our review, the Board of Directors and Management recognize that 2009 will be a challenging year; however, we feel our bank is well positioned as we look ahead.

It is easy for many in the banking industry to become pessimistic with the ongoing deluge of negative news. Citizens Bank and Trust Company views the current economy as an opportunity to increase shareholder value. The press continues to report that many banks are unable or unwilling to lend. Citizens Bank will continue lending to the many communities it serves. Our Company's strong capital position will enable the Bank to proceed with our loan and deposit growth initiatives.

Irving J. Arnold will retire from the Company's Board of Directors as of the 2009 Annual Shareholders' meeting. We will miss Mr. Arnold's experience, integrity, and thoughtful approach to the many challenges the Board has faced during his long tenure. Mr. Arnold has not only been a selfless supporter of the Bank, but of our community as well. He has had an equally long tenure as a Ruritan, Mason, Shriner, and Commissioner of the Revenue. I know I speak for Management and the Board of Directors in thanking Irving for his dedication and service to the Bank for the past 32 years.

In closing, I would like to thank our employees, Management, and the Board of Directors for their hard work and dedication for another successful year. I would also like to thank our customers and shareholders whose confidence in our bank has been key to our ongoing success.

Sincerely,

Joseph D. Borgerding
President and Chief Executive Officer

Board of Directors

Left to Right
Front Row: Roy C. Jenkins, Jr., Joseph D. Borgerding, Samuel H. West
Second Row: Irving J. Arnold, Jo Anne S. Webb, Joseph F. Morrissette
Third Row: Jerome A. Wilson, III, E. Walter Newman, Frank P. Beale, William D. Coleburn

Irving J. Arnold, Director
Commissioner of the Revenue
Nottoway County, Virginia

Frank P. Beale, Director
President of Invincia Corporation

Joseph D. Borgerding, President & CEO

William "Billy" D. Coleburn, Director
Mayor of Blackstone, Virginia
Editor of the Courier-Record

Roy C. Jenkins, Jr., Chairman
President of Roy C. Jenkins, Inc.

Joseph F. Morrissette, Director
Mayor of Burkeville, Virginia

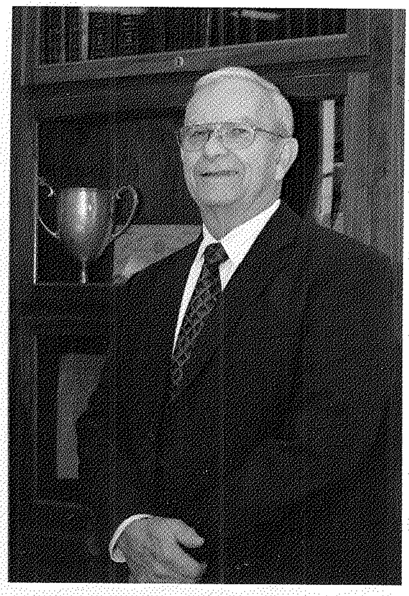
E. Walter Newman, Director
General Manager of Newman Tire Company

Jo Anne Scott Webb, Director
President of Scott Pallets, Inc. and Scott Transport, Inc.

Samuel H. West, Vice Chairman
Retired Partner/Certified Public Accountant
West, Crawley & Winn, P.C.

Jerome A. Wilson, III, Director
Retired Executive Vice President
Citizens Bank and Trust Company

Irving J. Arnold
Retiring from the Board of Directors



The 2009 Annual Shareholders' Meeting will mark the retirement of Irving J. Arnold from the Board of Directors of Citizens Bancorp of Virginia, Inc. and its subsidiary, Citizens Bank and Trust Company.

Irving was elected to the Board in 1977. He has been a great source of reason and wisdom during his tenure on the Board of Directors and has been instrumental in helping steer the Bank through some of its greatest challenges. The Board of Directors, Management, and employees acknowledge with sincere gratitude Irving's 32 years of service and dedication to the Bank, shareholders and the community.

Senior Management Team

Left to Right

Ronald E. Baron*, *Senior Vice President and Chief Financial Officer*
Rhonda W. Kincer, *Vice President/Operations/Security Officer*
Lynn K. Shekleton*, *Senior Vice President/Human Resources/Branch Administration*
Joseph D. Borgerding*, *President and Chief Executive Officer*

** Denotes Officer of Citizens Bancorp of Virginia, Inc. and Citizens Bank and Trust Company.*

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

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2008

OR

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

Commission file number 0-50576

CITIZENS BANCORP OF VIRGINIA, INC.

(Exact name of registrant as specified in its charter)

Virginia	**20-0469337**
(State of incorporation or organization)	*(I.R.S. Employer Identification No.)*

126 South Main Street
Blackstone, VA 23824
(434) 292-7221
(Address and telephone number of principal executive offices)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act: Common Stock, $.50 Par Value

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for past 90 days. Yes ☒ No ☐

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

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

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☒

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

The aggregate market value of voting stock held by non-affiliates was $34,381,146 on June 30, 2008.

The number of outstanding shares of Common Stock as of the latest practicable date was 2,383,380 as of March 20, 2009.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Proxy Statement to be distributed to shareholders for the 2009 Annual Meeting of Shareholders are incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

General

Citizens Bancorp of Virginia, Inc. (Company) is a one-bank holding company formed on December 18, 2003 headquartered in Blackstone, Virginia. The Company is the sole shareholder of its only subsidiary, Citizens Bank and Trust Company (Bank). The Bank conducts and transacts the general business of a commercial bank as authorized by the banking laws of the Commonwealth of Virginia and the rules and regulations of the Federal Reserve System. The Bank was incorporated in 1873 under the laws of Virginia. Deposits are insured by the Federal Deposit Insurance Corporation. In September 1995, the Bank became a member of the Federal Home Loan Bank of Atlanta.

The Company's primary activity is retail and commercial banking through its sole subsidiary - the Bank. Financial services include commercial and consumer demand and time deposit accounts, real estate, commercial and consumer loans, online internet banking, 24-hour ATM network, brokerage services, safe deposit boxes, wire transfer services and other miscellaneous services incidental to the operation of a commercial bank. The Bank also acts as agent for Visa. The Bank is authorized to have a trust department, but does not offer trust services. The Bank's primary trade areas are served by its 11 banking offices located in the counties of Nottoway, Amelia, Prince Edward, Chesterfield, the City of Colonial Heights, and the Town of South Hill, Virginia and a loan production office in Midlothian, Virginia.

The Company's primary revenue comes from retail banking in the form of interest income received on loans and investments. This income is partially offset by the Company's interest expense on deposits and borrowed funds, resulting in net interest income. The Company's earnings also come from noninterest income in the form of deposit fees, gains on the sale of loans and investments, ATM fees, Bank-owned Life Insurance, and other financial services. The Company's combined noninterest income and net interest income are offset by the Company's noninterest expense which includes employee compensation and benefits, occupancy, equipment and other operating expenses.

The Bank holds a 0.352% ownership in Infinex Investments, Inc., which delivers investment services to customers through the use of a dual-employee broker. The Bank also holds an 8.75% ownership interest in Bankers Title, LLC, which is a provider of title insurance. The Company has an ownership interest of 1.66% in CBB Financial Corp. whose sole subsidiary is Community Bankers' Bank, a provider of correspondent banking services exclusively to financial institutions. The financial position and operating results of these investments are not significant to the Company as a whole and are not considered principal activities of the Company.

The Company maintains an internet website at www.cbtva.com which contains information relating to the business. The Company makes available free of charge through its website its Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K as soon as possible after such forms have been filed with the Securities and Exchange Commission. Copies of the Company's Audit Committee Charter, Nominating Committee Charter and Code of Conduct are available upon written request to: Corporate Secretary, Citizens Bancorp of Virginia, Inc., 126 South Main Street, Blackstone, Virginia, 23824.

Employees

As of December 31, 2008, the Company and the Bank employed 113 full-time equivalent employees. The Company's success is highly dependent on its ability to attract and retain qualified employees. Competition in the industry is intense for employees; however, the Company believes it has been successful in recruiting qualified employees and believes relations with its employees are excellent.

Competition

The Bank competes for business with numerous other financial institutions including large national and regional banks, credit unions, other community banks, mutual funds, brokerage firms and insurance companies offering deposit products. Some of these firms do not have a physical presence in our markets, but offer their products via the Internet. Factors such as interest rates offered for loan and deposit products, the number and location of branches, the reputation of the Bank affect the competition for deposits and loans. The Bank's marketing and business development efforts are concentrated on developing long-term customer relationships, and building customer loyalty by providing loan and deposit products and financial services that meet our customers' needs. The Bank targets individual retail and small-to-medium size commercial customers.

The Bank's trade areas include the counties of Nottoway, Amelia, Prince Edward, Chesterfield, the City of Colonial Heights, and the Town of South Hill, Virginia. The Bank also serves a significant number of residents in the counties of Cumberland and Lunenburg, Virginia as well as the western part of Dinwiddie County, Virginia. The following data reflects the Bank's market share in its primary market places at June 30, 2008, according to information obtained from the FDIC website. In Amelia County, the Bank held 25.78% of the market share, in Nottoway County, 58.52%, in Prince Edward County, 12.07%, in Chesterfield County, 0.09%, in Mecklenburg County, 0.31% and in the City of Colonial Heights, 1.24%.

Credit Policies and Loan Activities

The Bank offers a full range of short to medium term commercial and consumer loans. Commercial loans include both secured and unsecured loans for working capital (including inventory and receivables), business expansion (including acquisition of real estate and improvements) and purchase of equipment and machinery. Consumer loans may include secured and unsecured loans for financing automobiles, home improvements, education and personal investments.

Lending activities are subject to a variety of lending limits imposed by state law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the Bank), in general the Bank is subject to a loan-to-one borrower limit of an amount equal to 15% of its capital and surplus. The Bank voluntarily may choose to impose a policy limit on loans to a single borrower that is less than the legal lending limit.

The Bank obtains commercial and personal loans through direct solicitation of business owners and customers. Completed commercial loan applications are reviewed by loan officers. As part of the application process, information is obtained concerning the income, financial condition, employment and credit history of the applicant. If commercial real estate is involved, information is also obtained concerning cash flow after debt service. Loan quality is analyzed based on the Bank's experience and its credit underwriting guidelines which consider appraised value, market conditions, borrower strength, collateral value, and borrower's ability to service the debt.

Commercial Loans. The Bank makes commercial loans to qualified businesses in its market area. Commercial lending consists primarily of commercial and industrial loans to finance accounts receivable, inventory, property, plant and equipment. Commercial business loans generally have a higher degree of risk than residential mortgage loans, but have commensurately higher yields. Commercial business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as commercial real estate, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial business loans may be substantially dependent on the success of the business itself.

Further, the collateral for commercial business loans may depreciate over time and cannot be appraised with as much precision as residential real estate. To manage these risks, underwriting guidelines are required to secure commercial loans with both the assets of the borrowing business and other additional collateral and guarantees that may be available. In addition, certain measures of the borrower are actively monitored, including advance rate, cash flow, collateral value and other appropriate credit factors.

Residential Mortgage Loans. The Bank's residential mortgage loan portfolio consists of residential first and second mortgage loans, residential construction loans and home equity lines of credit and term loans secured by first and second mortgages on the residences of borrowers for home improvements, education and other personal expenditures. Loans are made with a variety of terms, including fixed and floating or variable rates and a variety of maturities.

Under current underwriting guidelines, residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from his/her employment and other income and are secured by real estate whose value tends to be readily ascertainable. These loans are made consistent with the Bank's appraisal policies and real estate lending policies, which detail maximum loan-to-value ratios and maturities. Loans for owner-occupied property are generally made with a loan-to-value ratio of up to 85% for first liens. Higher loan-to-value ratios are allowed based on the borrower's unusually strong general liquidity, net worth and cash flow. Combined loan-to-value ratios for home equity lines of credit generally do not exceed 90%. The Bank will originate and sell most fixed-rate, first mortgage loans to secondary market correspondent lenders. First mortgage loans are also originated for borrowers who meet the qualifications of the following lending programs: FHA, VA, USDA and the Virginia Housing and Development Authority.

Construction Loans. Construction lending entails significant additional risks, compared to residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Construction loans also involve additional risks attributable to the fact that loan funds are advanced upon the security of property under construction, which is of uncertain value prior to the completion of construction. Maturities for construction loans generally range from 4 to 12 months for residential property and from 6 to 18 months for non-residential and multi-family properties. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and related loan-to-value ratios. To minimize the risks associated with construction lending, underwriting guidelines limit loan-to-value ratios for residential property to 85% and for non-residential property and multi-family properties to 80%, in addition to its usual credit analysis of its borrowers. Loan-to-value ratios described above are sufficient to compensate for fluctuations in the real estate market in order to minimize the risk of loss.

Consumer Loans. The Bank's consumer loans consist primarily of installment loans to individuals for personal, family and household purposes. The specific types of consumer loans that the Bank makes include home improvement loans, debt consolidation loans and general consumer lending. Consumer loans entail greater risk than residential mortgage loans do, particularly in the case of consumer loans that are unsecured, such as lines of credit, or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. The remaining deficiency often does not warrant further substantial collection efforts against the borrower. In addition, consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans. Such loans may also give rise to claims and defenses by a consumer loan borrower against an assignee of such loan such as the bank, and a borrower may be able to assert against such assignee claims and defenses that it has against the seller of the underlying collateral.

The Bank's underwriting policy for consumer loans is to accept moderate risk while minimizing losses, primarily through a careful analysis of the borrower. In evaluating consumer loans, lending officers are required to review the borrower's level and stability of income, past credit history and the impact of these factors on the ability of the borrower to repay the loan in a timely manner. In addition, an appropriate margin between the loan amount and collateral value is maintained.

Supervision and Regulation

General

Bank holding companies and banks are extensively regulated under both federal and state law. The following summary briefly describes the more significant provisions of applicable federal and state laws and certain regulations and the potential impact of such provisions on the Company and the Bank. This summary is not complete, and we refer you to the particular statutory or regulatory provisions or proposals for more information. Neither the Company nor the Bank participated in the U.S. Department of the Treasury's Capital Purchase Plan (CPP) that is part of the Emergency Economic Stabilization Act of 2008 (EESA), enacted October 3, 2008. If an institution's primary federal regulator approves a request to participate in the CPP, the Treasury acquires preferred stock and stock warrants in the institution in exchange for the capital infusion. The Board of Directors and Management carefully considered all programs that have resulted from the ESSA and the guarantee programs sponsored by the FDIC. The Bank is a participant in the Transaction Account Guarantee Program, which provides full coverage for non-interest bearing transaction deposit accounts at FDIC-insured institutions until December 31, 2009. It is not clear at this time what impact the EESA, the American Recovery and Reinvestment Act of 2009, or other initiatives of the U.S. Department of the Treasury and other bank regulatory agencies that have been announced, or any additional program that may be initiated in the future, will have on the financial markets, the financial services industry, the Company or the Bank. With continuing legislative and governmental efforts in Washington, DC to address the current economic crisis, we cannot forecast how federal regulation of financial institutions may change in the future and what its resulting impact will be on the Company and the Bank.

Regulation of the Company

The Company must file annual, quarterly and other periodic reports with the Securities and Exchange Commission (SEC). The Company is affected by the corporate responsibility and accounting reform legislation signed into law on July 30, 2002, known as the Sarbanes-Oxley Act of 2002 (SOX Act), and the related rules and regulations. The SOX Act includes provisions that, among other things: (1) require that periodic reports containing financial statements that are filed with the SEC be accompanied by chief executive officer and chief financial officer certifications as to their accuracy and compliance with law; (2) prohibit public companies, with certain limited exceptions, from making personal loans to their directors or executive officers; (3) require chief executive officers and chief financial officers to forfeit bonuses and profits if company financial statements are restated due to misconduct; (4) require audit committees to pre-approve all audit and non-audit services provided by an issuer's outside auditors, except for de minimis non-audit services; (5) protect employees of public companies who assist in investigations relating to violations of the federal securities laws from job discrimination, otherwise known as "whistleblower" policy and provisions; (6) require companies to disclose in plain English on a "rapid and current basis" material changes in their financial condition or operations, as well as certain other specified information; (7) require a public company's Section 16 insiders to make Form 4 filings with the SEC within two business days following the day on which purchases or sales of the company's equity securities were made; and (8) increased penalties for existing crimes and created new criminal offenses. While the Company has incurred additional expenses and we expect to continue to incur additional expenses in complying with the requirements of the SOX Act and related regulations adopted by the SEC and the Public Company Accounting Oversight Board, we anticipate that those expenses will not have a material effect on the Company's results of operations or financial condition.

The Company will not be required to comply with the Section 404(b) reporting requirements for auditor attestation for the year ending December 31, 2008. The Securities and Exchange Commission approved a one-year extension of the Section 404(b) requirement for non-accelerated filers that would require an independent auditor attestation of the Company's internal controls over financial reporting beginning with the year ending December 31, 2009.

The Company is also subject to regulation by the Board of Governors of the Federal Reserve System (Federal Reserve). The Federal Reserve Board has jurisdiction to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. The Bank Holding Company Act of 1956 (BHC Act) generally limits the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is closely related to banking or to managing or controlling banks.

The Bank Holding Company Act

Activities at the bank holding company level are limited to banking, managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities. Some of the activities that the Federal Reserve Board has determined by regulation to be closely related to the business of a bank holding company include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser.

With some limited exceptions, the BHC Act requires every bank holding company to obtain the prior approval from the Federal Reserve before acquiring substantially all the assets of any bank, acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares), or merging or consolidating with another bank holding company.

In addition, and subject to some exceptions, the BHC Act and the Change in Bank Control Act, together with their regulations, require Federal Reserve approval prior to any person or company acquiring "control" of a bank holding company. Control is conclusively presumed to exist if an individual or company acquires 25% or more of any class of voting securities of the bank holding company. Control is reputably presumed to exist if a person acquires 10% or more, but less than 25%, of any class of voting securities and either the institution has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction. The regulations provide a procedure for challenging this rebuttable control presumption.

Since September 1995, the BHC Act has permitted bank holding companies from any state to acquire banks and bank holding companies located in any other state, subject to certain conditions, including nationwide and state imposed concentration limits. Banks also are able to branch across state lines, provided certain conditions are met, including that applicable state laws expressly permit such interstate branching. Virginia permits branching across state lines, provided there is reciprocity with the state in which the out-of-state bank is based.

Federal law and regulatory policy impose a number of obligations and restrictions on bank holding companies and their depository institution subsidiaries to reduce potential loss exposure to the depositors and to the Federal Deposit Insurance Corporation (FDIC) insurance funds. For example, a bank holding company must commit resources to support its subsidiary depository institution(s). In addition, insured depository institutions under common control must reimburse the FDIC for any loss suffered or reasonably anticipated by the Deposit Insurance Fund (DIF) as a result of the default of a commonly controlled insured depository institution. The FDIC may decline to enforce the provisions if it determines that a waiver is in the best interest of the DIF. An FDIC claim for damage is superior to claims of stockholders of an insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and holders of subordinated debt, other than affiliates, of the commonly controlled insured depository institution.

The Federal Deposit Insurance Act (FDI Act) provides that amounts received from the liquidation or other resolution of any insured depository institution must be distributed, after payment of secured claims, to pay the deposit liabilities of the institution before payment of any other general creditor or stockholder. This provision would give depositors a preference over general and subordinated creditors and stockholders if a receiver is appointed to distribute the assets of the Bank.

As a state-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Virginia State Corporation Commission's Bureau of Financial Institutions. Other federal and state laws, including various consumer and compliance laws, govern the activities of the Bank, the investments that it makes and the aggregate amount of loans that it may grant to one borrower.

Capital Requirements

The Federal Reserve Board has issued risk-based and leverage capital guidelines applicable to banking organizations that it supervises. Under the risk-based capital requirements, the Company and the Bank are each generally required to maintain a minimum ratio of total capital to risk-weighted assets (including certain off-balance sheet activities, such as standby letters of credit) of at least 8%. At least half of the total capital must be composed of "Tier 1 Capital", which is defined as common equity, retained earnings, qualifying perpetual preferred stock, and minority interest in common equity accounts of consolidated subsidiaries less certain intangibles. The remainder may consist of "Tier 2 Capital", which is defined as specific subordinated debt, some hybrid capital instruments and other qualifying preferred stock, a limited amount of the loan loss allowance and pretax unrealized holding gains on certain equity securities. In addition, each of the federal banking regulatory agencies has established minimum leverage capital requirements for banking organizations. Under these requirements, banking organizations must maintain a minimum ratio of Tier 1 capital to adjusted average quarterly assets equal to 3% to 5%, subject to federal bank regulatory evaluation of an organization's overall safety and soundness. In sum, the capital measures used by the federal banking regulators are:

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

Under these regulations, a bank will be:

- "well capitalized" if it has a Total Capital ratio of 10% or greater, a Tier 1 Capital ratio of 6% or greater, a Leverage ratio of 5% or greater,

- "adequately capitalized" if it has a Total Capital ratio of 8% or greater, a Tier 1 Capital ratio of 4% or greater, and a Leverage ratio of 4% or greater,

- "undercapitalized" if it has a Total Capital ratio of less than 8% or greater, a Tier 1 Capital ratio of less than 4% - or 3% in certain circumstances, or a Leverage ratio of less than 4%;

- "significantly undercapitalized" if it has a Total Capital ratio of less than 6%, a Tier 1 Capital ratio of less than 3%, or a Leverage ratio of less than 3%; or

- "critically undercapitalized" if its tangible equity is equal to or less than 2% of average quarterly tangible assets.

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

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

At December 31, 2008, the total capital to risk-weighted assets ratio of the consolidated Company was 20.5%, Tier 1 capital to risk-weighted assets ratio was 19.4% and the Leverage ratio was 13.0%. As of December 31, 2008, the Company was considered to be "well capitalized". For the Bank at December 31, 2008, the total capital to risk-weighted assets ratio of the consolidated Company was 17.3%, Tier 1 capital to risk-weighted assets ratio was 16.2% and the Leverage ratio was 11.0%. As of December 31, 2008, the Bank was considered to be "well capitalized".

Payment Limits on Dividends

The Company is a legal entity separate and distinct from its banking subsidiary. The majority of the Company's revenues are from dividends paid to the Company by the Bank. Both the Company and the Bank is subject to laws and regulations that limit the amount of dividends it can pay. In addition, both the Company and the Bank are subject to various regulatory restrictions relating to the payment of dividends, including requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and (2) if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition of the institution. In addition, the Bank is prohibited from making capital distributions, including the payment of dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute.

The Company does not expect that any of these laws, regulations or policies will materially affect the ability of the Bank to pay dividends. Payment of dividends is at the discretion of the Company's Board of Directors and is subject to various federal and state regulatory limitations. The Company's dividend policy limits payments to 60% or less of the trailing 12-month net earnings. For the year ended December 31, 2008, the Company declared $1,637,186 in dividends payable to shareholders or 53% of trailing earnings.

Regulations affecting the Bank

The Bank is subject to supervision, regulation and examination by the Virginia State Corporation Commission's Bureau of Financial Institutions and the FDIC. The various laws and regulations administered by the regulatory agencies affect corporate practices, such as the payment of dividends, the incurrence of debt and the acquisition of financial institutions and other companies, and affect business practices, such as the payment of interest on deposits, the charging of interest on loans, the types of business conducted and the location of offices.

Community Reinvestment Act

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

Fair Lending; Consumer Laws

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

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

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

Insurance of Deposit Accounts, Assessments and Regulation by the FDIC

The deposits of the Bank are insured by the FDIC up to the limits set forth under applicable law. The deposits of the Bank are subject to the deposit insurance assessments of the Deposit Insurance Fund ("DIF") of the FDIC. The DIF is the successor to the Bank Insurance Fund and the Savings Association Insurance Fund, which were merged in 2006. The FDIC amended its risk-based assessment system in 2007 to implement authority granted by the Federal Deposit Insurance Reform Act of 2005 (FDIRA). Under the revised system, insured institutions are assigned to one of four risk categories based on supervisory evaluations, regulatory capital levels and certain other factors. An institution's assessment rate depends upon the category to which it is assigned. Unlike the other categories, Risk Category I, which contains the least risky depository institutions, contains further risk differentiation based on the FDIC's analysis of financial ratios, examination component ratings and other information. Assessment rates are determined by the FDIC and currently range from five to seven basis points for the healthiest institutions (Risk Category I) to 43 basis points of assessable deposits for the riskiest (Risk Category IV). The FDIC may adjust rates uniformly from one quarter to the next, except that no single adjustment can exceed three basis points.

FDIRA also provided a one-time credit for eligible institutions based on their assessment base as of December 31, 1996. Subject to certain limitations with respect to institutions that are exhibiting weaknesses, credits can be used to offset assessments until exhausted. The Bank's one-time credit was $244,492, of which $115,795 and $92,558 was applied to offset assessments in 2008 and 2007, respectively. As of December 31, 2008, the Bank had a remaining credit of $35,612 that is expected to be applied in 2009. FDIRA also provided for the possibility that the FDIC may pay dividends to insured institutions if the DIF reserve ratio equals or exceeds 1.35 percent of estimated insured deposits. The FDIC has authority to impose special assessments from time to time.

The EESA temporarily raised the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The legislation provides that the basic deposit insurance limit will return to $100,000 after December 31, 2009. The legislation did not change coverage for retirement accounts, which continues to be $250,000.

On October 13, 2008, the FDIC adopted the Temporary Liquidity Guarantee Program (TLGP) because of disruptions in the credit market. The goal of the TLGP is to decrease the cost of bank funding so that bank lending to consumers and businesses will normalize. The TLGP is industry funded and does not rely on the DIF to achieve its goals. The final rule implementing the TLGP was approved by the FDIC

Board of Directors on November 21, 2008. The TLGP consists of two components: a temporary guarantee of newly-issued senior unsecured debt (Debt Guarantee Program) and a temporary unlimited guarantee of funds in noninterest-bearing transaction accounts at FDIC-insured institutions (Transaction Account Guarantee Program). The Bank is participating in the Transaction Account Guarantee Program. Institutions participating in one or both of these programs are required to pay assessments associated with the TLGP as follows:

- Under the Debt Guarantee Program, all newly-issued senior unsecured debt (as defined in the regulation) will be charged an annualized assessment of up to 100 basis points (depending on debt term) on the amount of debt issued, and calculated through the maturity date of that debt or June 30, 2012, whichever is earlier. The Company and the Bank has thus far issued no such senior unsecured debt and has incurred no assessments under the Debt Guarantee Program. The Company and the Bank have filed the necessary Opt-Out forms with the FDIC in order to not participate in the Debt Guarantee Program. At this time, neither the Company nor the Bank has any plans to issue senior unsecured debt that would mature prior to, or on June 30, 2012.

- Under the Transaction Account Guarantee Program, amounts exceeding the existing deposit insurance limit of $250,000 in any noninterest-bearing transaction accounts (as defined in the regulation) will be assessed an annualized 10 basis points collected quarterly for coverage through December 31, 2009. The Bank has customer accounts that qualify for this coverage and has been incurring assessment charges since November 13, 2008.

With higher levels of bank failures, the FDIC's Deposit Insurance Fund has declined significantly. On December 16, 2008, the FDIC Board adopted a final rule increasing risk-based assessment rates uniformly by 7 basis points, on an annual basis, for the first quarter of 2009. The FDIC also proposed changes to take effect beginning in the second quarter of 2009 that would require riskier institutions to pay larger assessments. The comment period for these proposed changes ended on December 17, 2008. The FDIC has not yet announced a final rule with respect to these proposed changes.

The FDIC is authorized to prohibit any DIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the deposit insurance fund. Also, the FDIC may initiate enforcement actions against banks, after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. The Company is not aware of any existing circumstances that could result in termination of any of the Bank's deposit insurance.

Monetary Policy

The commercial banking business is affected not only by general economic conditions but also by the monetary policies of the Federal Reserve Board. The instruments of monetary policy employed by the Federal Reserve Board include open market operations in United States government securities, changes in the discount rate on member bank borrowing and changes in reserve requirements against deposits held by all federally insured banks. The Federal Reserve Board's monetary policies have had a significant effect on the operating results of commercial banks in the past and are expected to continue to do so in the future. In view of changing conditions in the national and international economy and in the money markets, as well as the effect of actions by monetary fiscal authorities, including the Federal Reserve Board, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or the business and earnings of the Bank.

Reserve Requirements

In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any nonpersonal time deposits at an institution.

These percentages are subject to adjustment by the Federal Reserve Board. Because required reserves must be maintained in the form of vault cash or in a non-interest-bearing account at a Federal Reserve Bank, the effect of the reserve requirement reduces the amount of the institution's interest-earning assets.

Transactions with Affiliates

Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B (i) limit the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the association or subsidiary as those provided to a non-affiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions.

Loans to Insiders

The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer or to a principal shareholder of a bank, and some affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the bank's loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total assets equal or exceed $100,000,000, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and principal shareholders of a bank or bank holding company, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500,000). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

USA Patriot Act

The USA Patriot Act, which became effective on October 26, 2001, amends the Bank Secrecy Act and is intended to facilitate information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering. Among other provisions, the USA Patriot Act permits financial institutions, upon providing notice to the Treasury, to share information with one another in order to better identify and report to the federal government activities that may involve money laundering or terrorists' activities. The USA Patriot Act is considered a significant banking law in terms of information disclosure regarding certain customer transactions. Certain provisions of the USA Patriot Act impose the obligation to establish anti-money laundering programs, including the development of a customer identification program, and the screening of all customers against any government lists of known or suspected terrorists. Although it does create a reporting obligation and there is a cost of compliance, the USA Patriot Act does not materially affect the Bank's products, services or other business activities.

Reporting Terrorist Activities

The Federal Bureau of Investigation (FBI) has sent, and will send, banking regulatory agencies lists of the names of persons suspected of involvement in terrorist activities. The Bank has been requested, and will be requested, to search its records for any relationships or transactions with persons on those lists. If the Bank finds any relationships or transactions, it must file a suspicious activity report with the Treasury and contact the FBI.

The Office of Foreign Assets Control (OFAC), which is a division of the Treasury, is responsible for helping to insure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. OFAC sends banking regulatory agencies lists of names of persons and organizations suspected of aiding, harboring or engaging in terrorist acts. If the Bank finds a name on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account, file a suspicious activity report with the Treasury and notify the FBI. The Bank has appointed an OFAC compliance officer to oversee the inspection of its accounts and the filing of any notifications. The Bank actively checks high-risk areas such as new accounts, wire transfers and customer files. The Bank performs these checks utilizing software that is updated each time a modification is made to the lists of Specially Designated Nationals and Blocked Persons provided by OFAC and other agencies.

Consumer Protection

The Fair and Accurate Credit Transactions Act of 2003, which amended the Fair Credit Reporting Act, requires financial institutions to implement policies and procedures that track identity theft incidents; provide identity-theft victims with evidence of fraudulent transactions upon request; block from reporting to consumer reporting agencies credit information resulting from identity theft; notify customers of adverse information concerning the customer in consumer reporting agency reports; and notify customers when reporting negative information concerning the customer to a consumer reporting agency.

Other Safety and Soundness Regulations

Gramm-Leach-Bliley Act of 1999

The Gramm-Leach-Bliley Act of 1999 was signed into law on November 12, 1999. The GLBA covers a broad range of issues, including a repeal of most of the restrictions on affiliations among depository institutions, securities firms and insurance companies. The following description summarizes some of its significant provisions.

The GLBA repeals sections 20 and 32 of the Glass-Steagall Act, thus permitting unrestricted affiliations between banks and securities firms. It also permits bank holding companies to elect to become financial holding companies. A financial holding company may engage in or acquire companies that engage in a broad range of financial services, including securities activities such as underwriting, dealing, investment, merchant banking, insurance underwriting, sales and brokerage activities. In order to become a financial holding company, the bank holding company and all of its affiliated depository institutions must be well-capitalized, well-managed and have at least a satisfactory Community Reinvestment Act rating.

The GLBA provides that the states continue to have the authority to regulate insurance activities, but prohibits the states in most instances from preventing or significantly interfering with the ability of a bank, directly or through an affiliate, to engage in insurance sales, solicitations or cross-marketing activities. Although the states generally must regulate bank insurance activities in a nondiscriminatory manner, the states may continue to adopt and enforce rules that specifically regulate bank insurance activities in specific areas identified under the law. Under the new law, the federal bank regulatory agencies adopted insurance consumer protection regulations that apply to sales practices, solicitations, advertising and disclosures.

The GLBA adopts a system of functional regulation under which the Federal Reserve Board is designated as the umbrella regulator for financial holding companies, but financial holding company affiliates are principally regulated by functional regulators such as the FDIC for state nonmember bank affiliates, the Securities and Exchange Commission for securities affiliates, and state insurance regulators for insurance affiliates. It repeals the broad exemption of banks from the definitions of "broker" and "dealer" for purposes of the Securities Exchange Act of 1934, as amended. It also identifies a set of specific activities, including traditional bank trust and fiduciary activities, in which a bank may engage without being deemed a "broker," and a set of activities in which a bank may engage without being deemed a "dealer." Additionally, the GLBA makes conforming changes in the definitions of "broker" and "dealer" for purposes of the Investment Company Act of 1940, as amended, and the Investment Advisers Act of 1940, as amended. Although the Company has not elected to become a financial holding company in order to exercise the broader activity powers provided by the GLBA, the Company may elect to do so in the future.

The GLBA contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, both at the inception of the customer relationship and on an annual basis, the institution's policies and procedures regarding the handling of customers' nonpublic personal financial information. The law provides that, except for specific limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The GLBA also provides that the states may adopt customer privacy protections that are stricter than those contained in the Act.

Check Clearing for the 21st Century Act (Check 21)

Check 21 gives "substitute checks," such as a digital image of a check and copies made from that image, the same legal standing as the original paper check. The major provisions of Check 21 include: allowing check truncation without making it mandatory; demanding that every financial institution communicate to account holders in writing a description of its substitute check processing program and their rights under the law; legalizing substitutions for and replacements of paper checks without agreement from consumers; retaining in place the previously-mandated electronic collection and return of checks between financial institutions only when individual agreements are in place; requiring that when account holders request verification, financial institutions produce the original check (or a copy that accurately represents the original) and demonstrate that the account debit was accurate and valid; and requiring recrediting of funds to an individual's account on the next business day after a consumer proves that the financial institution has erred. This legislation has not significantly increased our capital spending, but has increased efficiency of the Bank's operations.

Future Regulatory Uncertainty

Because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, the Company cannot forecast how federal regulation of financial institutions may change in the future and the potential impact to its operations. Although Congress in recent years has sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, the Company fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Availability of Information

The Company's SEC filings are filed electronically and are available to the public over the Internet at the SEC's web site at http://www.sec.gov. In addition, any document filed by the Company with the SEC can be read and copied at the SEC's public reference facilities at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Copies of documents can be obtained at prescribed rates by writing to the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. RISK FACTORS

An investment in our common stock involves risks and you should not invest in our common stock unless you can afford to lose some or all of your investment. These risk factors may adversely affect our financial conditions and future earnings. In that event, the trading price of our common stock could decline and you could lose all or a part of your investment. You should read this section together with the other information, including our consolidated financial statements and related notes to the consolidated financial statements.

A continuation or further deterioration of the current economic environment could adversely impact our financial condition and results of operations.

The Company and the Bank are headquartered in the Town of Blackstone, which is part of Nottoway County, in Virginia. Our market includes the counties of Amelia, Nottoway, Prince Edward, Chesterfield, the City of Colonial Heights, the Town of South Hill and adjoining counties, all located in the Commonwealth of Virginia. Because our lending is concentrated in this market, we will be affected by the general economic conditions in this market. Changes in the suburban and rural markets we serve may influence the growth rate of our loans and deposits, the quality of the loan portfolio and the loan and deposit pricing that we may obtain. Significant decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact these local economic conditions and the demand for banking products and services generally, which could negatively affect our financial condition and performance.

A continuation of the recent turbulence in significant portions of the global financial markets, particularly if it worsens, could impact the Company's performance, both directly by affecting our revenues and the value of our assets and liabilities, and indirectly by affecting our counterparties and the economy generally. Dramatic declines in the housing market in the past year have resulted in significant write-downs of asset values by financial institutions. The Company has recognized a higher loan loss provision during 2008 as the level of nonperforming and delinquent loans slowly increased throughout the period. Additionally, the environmental factors used in Management's calculation of the Allowance for Loan Losses (which forecasts the effects of several market factors upon the risk of incurring loan losses) was increased in the last quarter of 2008 to coincide with the worsening economic conditions that are forecasted. Concerns about the stability of the financial markets generally have reduced the availability of funding to certain financial institutions, leading to a tightening of credit, reduction of business activity and increased market volatility. It is not clear at this time what impact the EESA or other liquidity and funding initiatives of the Treasury and other bank regulatory agencies that have been announced, or any additional programs that may be initiated in the future, will have on the financial markets and the financial services industry. The extreme levels of volatility and limited credit availability currently being experienced could continue to affect the U.S. banking industry and the broader U.S. and global economies, which would have an effect on all financial institutions, including the Company.

Our profitability depends on our ability to manage our balance sheet to minimize the effects of interest rate fluctuation on our net interest margin.

Our results of operations depend on the stability of our net interest margin, which is the difference in the yield we earn on our earning assets and our cost of funds, both of which are influenced by interest rate fluctuations. Interest rates, because they are influenced by, among other things, expectations about future events, including the level of economic activity, federal monetary and fiscal policy and geo-political stability, are not predictable or controllable. In addition, the interest rates we can earn on our loan and investment portfolios and the interest rates we pay on our deposits are heavily influenced by competitive factors. Community banks are often at a competitive disadvantage in managing their cost of funds compared to the large regional, super-regional or national banks that have access to the national and international capital markets. These factors influence our ability to maintain a stable net interest margin. We seek to maintain a neutral position in terms of the volume of assets and liabilities that mature or re-price during any period so that we may reasonably predict our net interest margin; however, interest rate fluctuations, loan prepayments, loan production and deposit flows are constantly changing and influence our ability to maintain this neutral position. The greater the amount of maturities or re-pricing that occurs in any given period to either the earning assets or to the interest-bearing deposit liabilities will result in a greater sensitivity to fluctuating interest rates. Customer preferences for certain loan types, fixed-rate versus adjustable-rate, and preferences towards deposit products that may or may not be interest bearing, and savings versus time deposits all contribute to potentially impacting the interest margin; either favorably or unfavorably. Although management is unable to control these preferences, there are processes that assist in monitoring and planning for such changes in customer preferences. At December 31, 2008, the Company's balance sheet was positioned to be liability-sensitive for the next 12 months, which means decreases in interest rates should have a net favorable effect on the interest margin. In the longer term, the balance sheet becomes asset sensitive and increases in interest rates, in the longer term, will have a favorable impact on the interest rate margin. However, changes in interest rates that are contrary to these expectations, could negatively impact the interest margin and ultimately earnings.

Our business is subject to various lending and other economic risks that could adversely impact our results of operations and financial condition.

Deterioration in economic conditions, such as the deepening recession, could hurt our business. Our business is directly affected by general economic and market conditions; broad trends in industry and finance; legislative and regulatory changes; changes in governmental monetary and fiscal policies; and inflation, all of which are beyond our control. A deterioration in economic conditions, in particular a prolonged economic slowdown within our geographic region, could result in the following consequences, any of which could hurt our business materially: an increase in loan delinquencies; an increase in problem assets and foreclosures; a decline in demand for our products and services; and a deterioration in the value of collateral for loans made by our various business segments.

Any additional credit losses or deterioration in credit quality could negatively impact our financial results.

Management seeks to maintain a loan portfolio that is well diversified in terms of risk and credit quality. As of December 31, 2008, the portfolio consisted of the following loan categories: residential (1-to-4 family) loans 47.7%, commercial real estate and construction loans 35.3%, commercial loans 9.3%, and consumer loans 7.7%. Our lending focus has generally favored real estate-secured loans over unsecured loans, as a means of mitigating possible losses due to credit losses. A major change in the real estate market, such as deterioration in the value of collateral, or in the local or national economy, could adversely affect our customers' ability to repay these loans, which in turn could impact us. Risk of loan defaults and foreclosures are unavoidable in the banking industry, and we try to limit our exposure to this risk by monitoring our extensions of credit carefully. We cannot fully eliminate credit risk, and as a result credit losses may occur in the future.

Making loans is an essential element of our business. The risk of nonpayment is affected by a number of factors, including but not limited to: the duration of the credit; credit risks of a particular customer; changes in economic and industry conditions; and, in the case of a collateralized loan, risks resulting from uncertainties about the future value of the collateral. Although we seek to mitigate risks inherent in lending by adhering to specific underwriting practices, our loans may not be repaid. We attempt to maintain an appropriate allowance for loan losses to provide for potential losses in our loan portfolio. Our allowance for loan losses is determined by analyzing historical loan losses, current trends in delinquencies and charge-offs, plans for problem loan resolution, the opinions of our regulators, changes in the size and composition of the loan portfolio and industry information. Also included in our estimates for loan losses are considerations with respect to the impact of economic events, the outcome of which are uncertain. Because any estimate of loan losses is necessarily subjective and the accuracy of any estimate depends on the outcome of future events, we face the risk that charge-offs in future periods will exceed our allowance for loan losses and that additional increases in the allowance for loan losses will be required. Additions to the allowance for loan losses would result in a decrease of our net income.

Although we believe our allowance for loan losses is adequate to absorb probable losses in our loan portfolio, we cannot predict such losses or that our allowance will be adequate in the future.

Our future success is dependent on our ability to compete effectively in the highly competitive banking industry.

The Company and the Bank face vigorous competition from other banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans, and other financial services in our market area. Many of these banks and other financial institutions are significantly larger than we are and have greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. To a limited extent, we also compete with other providers of financial services, such as money market mutual funds, brokerage firms, consumer finance companies, insurance companies and governmental organizations which may offer more favorable financing than we are able. Many of our non-bank competitors have advantages over us in providing certain services. This competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

We rely heavily on our management team and the services of key personnel.

The Company and the Bank represent a customer-focused, relationship-driven, and community-oriented financial services organization. The Company expects our future growth to be driven in a large part by the relationships maintained with our customers by Joseph D. Borgerding, President and Chief Executive Officer, and our other executive management team, and our lending officers. Neither the Company nor the Bank has employment agreements with Mr. Borgerding, executive management or our lending officers. The unexpected loss of Mr. Borgerding or other key employees could have a material adverse effect on our business and possibly result in reduced revenues and earnings. The Bank has invested in bank-owned life insurance that covers Mr. Borgerding and certain other members of executive management and the lending officers, but not all.

The business strategy will require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. Many experienced banking professionals employed by our competitors are covered by agreements not to compete or solicit their existing customers if they were to leave their current employment. These agreements make the recruitment of these professionals more difficult. The market for these people is competitive, and we cannot assure you that we will be successful in attracting, hiring, motivating or retaining them.

Our need to comply with extensive and complex government regulation could have an adverse effect on our business.

The banking industry is subject to extensive regulation by state and federal banking authorities. Many of the banking regulations we are governed by are intended to protect depositors, the public or the insurance fund maintained by the Federal Deposit Insurance Corporation, not shareholders. Recently enacted, proposed and future banking legislation and regulations have had, and will continue to have, or may have, a significant impact on the financial services industry. Banking regulations affect our lending practices, capital structure, investment practices, dividend policy and many other aspects of our business. These requirements may constrain our rate of growth and our earnings. The burden imposed by these federal and state regulations may place banks in general, and specifically Citizens Bancorp of Virginia and Citizens Bank & Trust Company, at a competitive disadvantage compared to less regulated competitors. In addition, the cost of compliance with regulatory requirements could adversely affect our earnings.

In addition, because federal regulation of financial institutions changes regularly and is the subject of constant legislative debate, we cannot forecast how federal regulation of financial institutions may change in the future nor the impact those changes may have on our operations. Although Congress in recent years has sought to reduce the regulatory burden on financial institutions with respect to the approval of specific transactions, we fully expect that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

The cost of being a public company is proportionately higher for small companies like us due to the requirements of the Sarbanes-Oxley Act.

The Sarbanes-Oxley Act of 2002 and the related rules and regulations promulgated by the Securities and Exchange Commission have increased the scope, complexity, and cost of corporate governance, reporting and disclosure practices. These regulations are applicable to the Company. We experience increasing compliance costs, including costs related to internal controls and the requirement that our auditors attest to and report on the effectiveness of our internal controls as a result of the Sarbanes-Oxley Act. The regulations are applicable to us for the year ending December 31, 2008 with respect to management's attestation to the effectiveness of internal controls as it relates to financial reporting. Under current regulations, our auditors will be required to attest to the effectiveness of our internal controls over financial reporting for the year ending December 31, 2009. This final implementation of the Act requirements will result in increased audit fees.

Our operations depend upon third party vendors that perform services for us.

The Bank outsources many of its operating and banking functions, including key computer systems software, network transmission services and the interchange and transmission services for the ATM network. As such, the Company's and the Bank's success and the ability to expand our operations depend on the services provided by these third parties. Disputes with these third parties can adversely affect the operations. The Bank may not be able to engage appropriate vendors, in a timely manner, to replace any vendors that are unable to perform with new vendors capable of servicing our needs.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

The Company has no unresolved comments from the SEC staff.

ITEM 2. PROPERTIES

The corporate headquarters of Citizens Bancorp of Virginia, Inc, and the main office of the Bank are located at 126 South Main Street, Blackstone, Virginia. The location consists of a full service banking office, loan and deposit operations, finance, human resources, risk management and compliance. Additional banking offices located within Nottoway County at 101 North Main Street, Blackstone, Virginia; 1575 South Main Street, Blackstone, Virginia; 210 Carter Street, Crewe, Virginia; and 102 Second Street, Northeast, Burkeville, Virginia. In Amelia County, the banking office is located at 9060 North Five Forks Road. Banking offices in Prince Edward County are located at 1517 West Third Street (Route 460 West), Farmville and 712 South Main Street, Farmville. The Chesterfield County banking office is located at 10001 Courtview Commons Lane, Chesterfield. In the City of Colonial Heights the banking office is located at 946 Southpark Boulevard. In Mecklenburg County the banking office is located at 622 East Atlantic Street, South Hill, Virginia. All real estate and improvements at these locations are owned by the Bank except for the real estate at the Chesterfield branch, which is under a lease agreement for five years renewable for five additional terms of five years each. The original lease term is scheduled to end April 30, 2009. The Bank maintains a Loan Production Office located at 201 Wylderose Commons, Midlothian, Virginia in leased office space where the original lease term is for one year, and is renewable, every September.

All of the Company's properties are in good operating condition and are adequate for the Company's present and anticipated future needs.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings to which the Company is a party or of which the property of the Company is subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted during the fourth quarter of 2008 covered by this report to security holders of the Company through a solicitation of proxies or otherwise.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Common Stock Performance and Dividends

Shares of the Company's common stock trade through the Over-the-Counter Bulletin Board (OTCBB) under the symbol "CZBT." As of March 20, 2009, the Company had approximately 821 shareholders of record. As of that date, the closing price of the common stock was $11.25. The chart below illustrates the high and low bid prices of common stock as reported on the OTCBB and the dividends declared during the last two years.

Market Price and Dividends

	2008			2007		
Quarter	**High**	**Low**	**Dividends**	**High**	**Low**	**Dividends**
First	$ 16.35	$ 11.25	$ 0.17	$ 19.10	$ 17.00	$ 0.16
Second	$ 15.90	$ 14.00	$ 0.17	$ 18.00	$ 17.01	$ 0.16
Third	$ 16.30	$ 14.25	$ 0.17	$ 18.00	$ 15.55	$ 0.16
Fourth	$ 16.50	$ 15.13	$ 0.17	$ 16.85	$ 15.10	$ 0.17

Dividend Policy

The Company historically has paid cash dividends on a quarterly basis. The final determination of the timing, amount and payment of dividends on the Common Stock is at the discretion of the Company's Board of Directors and will depend upon the earnings of the Company and its subsidiary, the financial condition of the Company and other factors, including general economic conditions and applicable governmental regulations and policies as discussed in Item 1., "Business – Supervision and Regulation," above.

The Company is organized under the Virginia Stock Corporation Act, which prohibits the payment of a dividend if, after giving it effect, the corporation would not be able to pay its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved, to satisfy the preferential rights upon dissolution of any preferred shareholders.

The Company is a legal entity separate and distinct from its subsidiary. Its ability to distribute cash dividends will depend primarily on the ability of the Bank to pay dividends to it, and the Bank is subject to laws and regulations that limit the amount of dividends that it can pay. As a state member bank, the Bank is subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. Under Virginia law, a bank may not declare a dividend in excess of its undivided profits. Additionally, the Bank may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by it in any calendar year exceeds the total of its retained net income of that year to date, combined with its retained net income of the two preceding years, unless the dividend is approved by the Federal Reserve.

The Federal Reserve and the state of Virginia have the general authority to limit the dividends paid by insured banks if the payment is deemed an unsafe and unsound practice. The state of Virginia and the Federal Reserve has indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice. Under the Federal Reserve's regulations, the Bank may not declare or pay any dividend in excess of its net income for the current year plus any retained net income from the prior two calendar years. The Bank may also not declare or pay a dividend without the approval of its board and two-thirds of its shareholders if the dividend would exceed its undivided profits, as reported to the Federal Reserve.

In addition, the Company is subject to certain regulatory requirements to maintain capital at or above regulatory minimums. These regulatory requirements regarding capital affect its dividend policies. The Federal Reserve has indicated that a bank holding company should generally pay dividends only if its net income available to common shareholders over the past year has been sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition.

Stock Repurchases

The Board of Directors of the Company did approve a Stock Repurchase Plan at its regular meeting on July 18, 2007. The Repurchase Plan is structured under the Securities and Exchange Commission's Rule 10b5-1. The Company appointed FTN Midwest Securities Corp. of Nashville, Tennessee and New York City, New York, to oversee the acquisition of the Company's stock. The Plan went into effect on September 1, 2007, for an initial three month term ending November 30, 2007. The Plan calls for the repurchase of up to 20,000 shares of stock for each three month term. The Repurchase Plan was extended for additional three month terms by the Board of Directors at its regularly scheduled meetings on November 28, 2007, February 21, 2008, May 22, August 21, and November 20, 2008. At the meeting held February 26, 2009, the Board appointed Scott & Stringfellow, Inc. and its affiliate BB&T Capital Markets both of Richmond, Virginia to oversee the Rule 10b5-1 Plan effective March 2, 2009 until May 29, 2009. The Plan continues to be limited to the repurchase of 20,000 shares per term and the maximum per share price to be paid is $16.00.

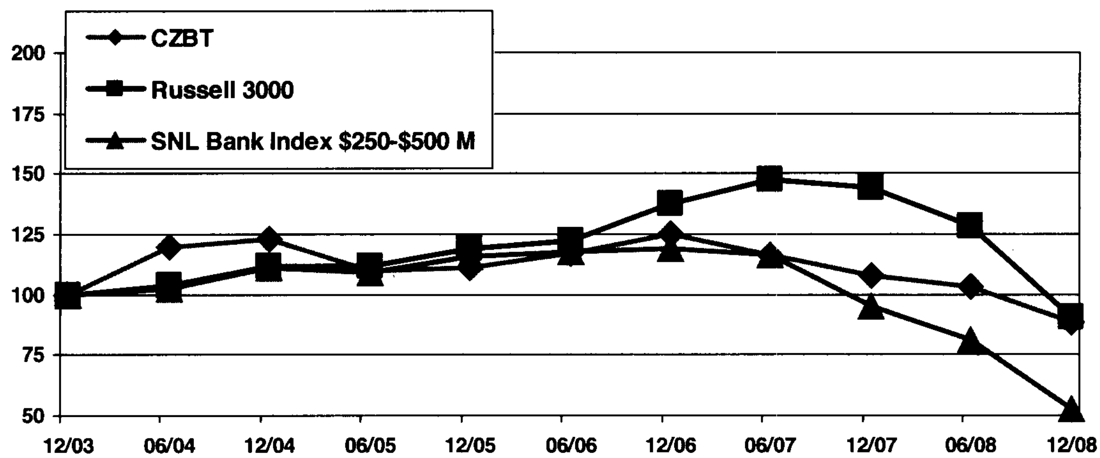
The table below represents the record of when shares of common stock were repurchased during the most recent fiscal quarter.

Repurchase Plan Table

Period	Total number of shares purchased	Average price paid per share	Total number of shares purchased as part of publicly announced plan	Maximum number of shares that may yet be purchased under the plan
October 1 to October 31, 2008	5,000	$ 15.00	44,770	15,000
November 1 to November 30, 2008	-	$ -	44,770	20,000
December 1 to December 31, 2008	5,000	$ 13.00	49,770	15,000
Total	10,000	$ 14.00		

Stock Performance Graph

The following graph compares the cumulative total return to the shareholders of the Company for the last five years as compared to the total return on the Russell 3000 Index and the SNL $250-$500 Million Bank Index as reported by SNL Financial.



Index	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07	12/31/08
CZBT	100.00	123.21	111.15	125.33	107.76	88.36
Russell 3000	100.00	111.95	118.80	137.47	144.54	90.61
SNL Bank Index	100.00	110.86	116.01	119.26	95.11	52.88

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

General

Management's discussion and analysis is intended to assist the reader in evaluating and understanding the consolidated results of operations and financial condition of the Company and should be read in conjunction with the Company's Consolidated Financial Statements and Notes to Consolidated Financial Statements. The following discussion provides information about the major components of the results of operations and financial condition, liquidity, and capital resources of the Company.

The Company conducts the general business of a commercial bank, offering traditional lending and deposit products to business and individuals. Revenue is generated primarily from interest income received on loans, investments combined with fee income and other miscellaneous sources. This income is primarily offset by interest paid on deposits and borrowed funds, provision for loan losses and other noninterest expenses such as salaries and employee benefits, occupancy expense and other miscellaneous expenses.

Forward Looking Statements

The Company makes forward looking statements in this annual report that are subject to risks and uncertainties. These forward looking statements include statements regarding profitability, liquidity, allowance for loan losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. The words "believes," "expects," "may," "will," "should," "projects," "contemplates," "anticipates," "forecasts," "intends," or other similar words or terms are intended to identify forward looking statements.

These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors including:

- level of market interest rates;
- changes in general economic and business conditions in our market area;
- the successful management of interest rate risk; including changes in interest rates and interest rate policies;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- the value of securities held in the Company's investment portfolio;
- the ability to successfully manage growth or to implement growth strategies if the Company is unable to identify attractive markets, locations or opportunities to expand in the future;
- reliance on an experienced management team, including ability to attract and retain key personnel;
- changes in banking regulations, generally accepted accounting principles and;
- competition with other banks, financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- demand, development and acceptance of new products and services;
- the ability to rely on third party vendors that perform critical services for the Company;
- technology utilized by the Company;
- maintaining expense controls and asset qualities as new branches are opened or acquired;
- maintaining capital levels adequate to support growth;
- changing trends in customer profiles and behavior; and
- changes in other laws and regulations.

Because of these uncertainties, actual future results may be materially different from the results indicated by these forward looking statements. In addition, past results of operations do not necessarily indicate future results.

Critical Accounting Policies

The financial condition and results of operations presented in the Consolidated Financial Statements, accompanying Notes to the Consolidated Financial Statements and management's discussion and analysis are, to a large degree, dependent upon the accounting policies of the Company. The selection and application of these accounting policies involve judgments, estimates, and uncertainties that are susceptible to change.

Presented below is a discussion of those accounting policies that management believes are the most important (Critical Accounting Policies) to the portrayal and understanding of the Company's financial condition and results of operations. These Critical Accounting Policies require management's most difficult, subjective and complex judgments about matters that are inherently uncertain. In the event that different assumptions or conditions were to prevail, and depending upon the severity of such changes, the possibility of materially different financial condition or results of operations is a reasonable likelihood. See also Note 1 of the Notes to Financial Statements for a summary of significant accounting policies.

Allowance for Loan Losses

The Company monitors and maintains an allowance for loan losses to absorb an estimate of probable losses inherent in the loan portfolio. The Company maintains policies and procedures that address the systems of controls over the following areas of maintenance of the allowance: the systematic methodology used to determine the appropriate level of the allowance to provide assurance they are maintained in accordance with accounting principles generally accepted in the United States of America; the accounting policies for loan charge-offs and recoveries; the assessment and measurement of impairment in the loan portfolio; and the loan grading system.

The Company evaluates various loans individually for impairment as required by Statement of Financial Accounting Standards (SFAS) No. 114, Accounting by Creditors for Impairment of a Loan, and SFAS No. 118, Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosures. Loans evaluated individually for impairment include non-performing loans, such as loans on non-accrual, adversely classified loans, loans past due by 90 days or more, restructured loans and other loans selected by management. The evaluations are based upon discounted expected cash flows or collateral valuation concerns. If the evaluation shows that a loan is individually impaired, then a specific reserve is established for the amount of impairment. If a loan evaluated individually is not impaired, then the loan is assessed for impairment under SFAS No. 5, Accounting for Contingencies, with a group of loans that have similar characteristics.

For loans without individual measures of impairment, the Company makes estimates of losses for groups of loans as required by SFAS No. 5. Loans are grouped by similar characteristics, including the type of loan, the assigned loan grade and the general collateral type. A loss rate reflecting the expected loss inherent in a group of loans is derived from historical loss data experienced by the Bank for a given loan grade, the predominant collateral type for the group and the terms of the loan. The resulting estimate of losses for groups of loans are further adjusted for relevant environmental factors and other conditions of the loan portfolio, including: borrower and industry concentrations; levels and trends in delinquencies, charge-offs and recoveries; changes in underwriting standards and risk selection; level of experience, ability and depth of lending management; and national and local economic conditions.

The amount of estimated impairment for individually evaluated loans and groups of loans is added together for a total estimate of potential loan losses. This estimate of losses is compared to the allowance for loan losses of the Bank as of the evaluation date and, if the estimate of losses is greater than the allowance, an additional provision to the allowance would be made. If the estimate of losses is less than the allowance, the degree to which the allowance exceeds the estimate is evaluated to determine whether the allowance falls outside a range of estimates. If the estimate of losses is below the range of reasonable estimates, the allowance would be reduced by way of a credit to the provision for loan losses.

The Bank recognizes the inherent imprecision in estimates of losses due to various uncertainties and variability related to the factors used, and therefore a reasonable range around the estimate of losses is derived and used to ascertain whether the allowance is too high. If different assumptions or conditions were to prevail and it is determined that the allowance is not adequate to absorb the new estimate of probable losses, an additional provision for loan losses would be made, which amount may be material to the Financial Statements. As of December 31, 2008, management believes that the Allowance for Loan Losses is appropriate for the expected loss in the loan portfolio as of that date.

Executive Overview

The Company reported net income of $3,087,000 in 2008, a decrease of 9.07% or $308,000 from 2007 net income of $3,395,000. Net income on a basic and diluted per share basis was reported as $1.28 and $1.38 in 2008 and 2007, respectively. Core earnings of the Company in 2008 were strong despite the overall level of interest rates which impacted the net interest margin and the need to provide $245,000 in additional allowance for loan losses, and a full year of staffing the Midlothian Loan Production Office. Improvements in non-interest income of $326,000 and strong expense management efforts that resulted in only a 2.30% increase in non-interest expense for 2008 as compared to 2007, combined to help offset some of the effects on the net interest margin resulting from the decline in interest rates and the loan loss provision. Net income for 2007 represents a historical record for the Company. Earnings for 2007 included a one-time recovery of a previously charged-off loan resulting in a recovery of the provision for loan losses totaling $157,400, net of income taxes. Core earnings for 2007 exclusive of the recovery were $3,237,834, or $1.33 per share.

Results of Operations

The table below lists the Company's quarterly performance for the years ended December 31, 2008 and 2007.

Summary of Financial Results by Quarter

	Three Months Ended							
(in thousands)	2008				2007			
	Dec. 31	Sep. 30	June 30	Mar. 31	Dec. 31	Sep. 30	June 30	Mar. 31
Interest income	$ 4,127	$ 4,209	$ 4,150	$ 4287	$ 4,456	$ 4,428	$ 4,439	$ 4,200
Interest expense	1,448	1,434	1,542	1,689	1,758	1,718	1,655	1,561
Net interest income	2,678	2,775	2,608	2,598	2,698	2,710	2,784	2,639
Provision for loan losses	190	20	25	10	(238)	-	-	-
Net interest income after Provision for loan losses	2,488	2,755	2,583	2,588	2,936	2,710	2,784	2,639
Non-interest income	684	711	700	637	669	585	612	540
Non-interest expense	2,310	2,225	2,235	2,143	2,317	2,233	2,118	2,045
Income before applicable income taxes	862	1,241	1,048	1,082	1,288	1,062	1,278	1,134
Applicable income taxes	228	331	285	303	373	296	373	325
Net Income	$ 634	$ 910	$ 763	$ 779	$ 914	$ 766	$ 906	$ 809
Net income per share, basic and diluted	$ 0.26	$ 0.38	$ 0.32	$ 0.32	$ 0.37	$ 0.32	$ .37	$ 0.33

Summary

Total assets increased $15.2 million during 2008 from $289.9 million in 2007 to $305.1 million, or a 5.2% increase. Net loans increased $1.5 million during 2008 from $209.4 million in 2007 to $210.9 million, or a 0.7% increase. Average earning assets for 2008 increased by $5.7 million as compared to the annual average for 2007. This increase was the result of average loan balances increasing $6.0 million and federal funds sold increasing $1.9 million over the prior year.

Total deposits were $249.1 million at December 31, 2008, an increase of $6.1 million or 2.5% compared to $243.0 million at the end of 2007. On average, deposit account balances were $241.0 million for 2008 as compared to $242.0 million for 2007; or a decrease of $1.0 million. The deposit category that saw the highest average balance increase over 2007 was time deposits which was up $2.3 million. Meanwhile, average savings deposit balances were down $1.4 million and average interest bearing demand deposits were down $1.3 million. Non-interest bearing demand deposit accounts decreased by $956 thousand from the previous year. Other borrowings consisted of term advances from the Federal Home Loan Bank of Atlanta, overnight commercial repurchase agreements known as the Investment Sweeps product, which are non-deposit accounts, not insured by FDIC, however the accounts are collateralized by the Bank with US Government or Federal Agency securities sufficient to cover average account balances. During 2008 the Investment Sweeps product balances averaged $7.0 million; or an increase of $1 million over the balance for 2007 of $6.0 million. Typically, most increases in the Investment Sweeps product will come at the detriment of non-interest bearing demand deposit balances.

In 2008, Management obtained two advances from the Federal Home Loan Bank of Atlanta for the purposes of funding balance sheet growth while choosing not to be limited to higher-costing time deposits. The illiquidity of some larger financial institutions has forced those institutions to turn to retail time deposits which have resulted in higher interest rates for time deposits in our markets than would otherwise exist during better economic conditions. While management has a preference for customer deposits, advances provide greater flexibility especially during times when deposit gathering is difficult and more costly.

Stockholders' equity balance at December 31, 2008 decreased by $1.0 million from the year earlier ending balance of $37.3 million during 2008, predominantly due to the increase in the unfunded pension liability recorded at year-end. Pension plan assets declined significantly as a result of market declines in the fourth quarter. Book value per share increased 0.85% or $0.13 to $15.20 at December 31, 2008, from $15.33 at December 31, 2007.

The Company's return on average assets (ROAA) for 2008 was 1.06% compared to 1.19% in 2007 while the return on average equity (ROAE) was 8.18% for 2008 compared to 9.38% in 2007. It is important to note that the net earnings for 2007 included a one-time recovery of a previously charged-off loan that contributed an additional $157 thousand, net of tax, to the Company's core earnings for that year. The Company's 2008 earnings were impacted primarily by the rapid decline in interest rates that began during the latter part of 2007 and continued through December 2008. Short-term rates, particularly the prime rate declined 100 basis points between September and December 2007, but declined another 400 basis points between January and December 2008. The decline in the prime rate was in response to the economic crisis currently facing the global economies. The declining prime rate impacted earning assets more quickly than it did for interest bearing liabilities, especially time deposits, since these liabilities do not reprice as quickly as variable rate assets like home equity loans, commercial loans and federal funds sold. The effect on the net interest margin is evident when you see the decline in average earning asset yields of 6.80% for 2007 down to 6.39% for 2008, or a decrease of 41 basis points. Meanwhile, average interest bearing deposit yields (cost) declined 28 basis points between 2007 and 2008; a net decline in the net interest margin of 13 basis points. Another year-to-year impact to earnings is due to the $483 thousand swing from a provision recovery of $238 thousand (before tax) in 2007 to a $245 thousand (before tax) loan loss provision in 2008. Management's ongoing efforts to expand non-interest income opportunities continued to produce positive results in 2008 as income increased $327 thousand to $2.733 million as compared to $2.406 million for 2007. Non-interest expense for 2008 increased $201 thousand to $8.914 million as compared to $8.713 million for the year earlier period or a 2.31% increase. Approximately $80 thousand of 2008's non-interest expense included one-time charges related to the conversion of the Bank's network communications infrastructure that introduced greater bandwidth and allows rapid re-routing of the network from the Bank's main production site to its business resumption center in the event of a disaster at the main production site. The effective income tax rate for the Company decreased for 2008 to 27.07% as compared to 28.71% for 2007.

The following table summarizes the net changes in the income statement as discussed above:

(in thousands)	2008	2007	Net Change	Percent Change
Return on Average Assets	1.06%	1.19%	(.13)	(1.09)%
Return on Average Equity	8.18%	9.38%	(1.20)	(12.80)%
Net interest income	$ 10,660	$ 10,831	$ (171)	(1.58)%
Provision for (Recovery of) loan losses	245	(238)	483	202.94%
Non-interest income	2,732	2,406	326	13.55%
Non-interest expense	8,914	8,713	201	2.31%
Net income before provision for income taxes	4,233	4,762	(529)	(11.10)%
Income taxes	1,146	1,367	(221)	(16.16)%
Net Income	$ 3,087	$ 3,395	$ (308)	(9.07)%
Net Income, exclusive of one-time provision recoveries	$ 3,087	$ 3,238	$ (151)	(4.66)%

Net Interest Income

Net interest income, the amount by which interest income on interest earning assets exceeds interest expense on interest bearing liabilities, is the most significant component of the Company's earnings. Net interest income is the function of several factors consisting of changes in the volume and composition (mix) of interest earning assets, funding sources, and market interest rates. While management's policies influence these factors, external forces such as customer needs and demands, competition and economic and monetary policies of the Federal Reserve Board are also contributing forces.

The following two tables provide information needed to understand the impact on net interest income as it relates not only to changes in mix but also the impact from the combination of changes in rate and volume. As illustrated in the tables below, net interest income, on a tax equivalent basis, decreased $142 thousand in 2008 as compared to 2007 primarily as a result of a greater decline in interest yields on earning assets than the decline in costs for interest-bearing liabilities. Yields for earning assets decreased 41 basis points in 2008 as compared to 2007, however, interest-bearing liabilities decreased by only 34 basis points from 2007 or 7 basis points less than earning assets.

The increase in volume on interest earning assets is primarily the result of executing the Company's strategic plan aimed at profitable growth of the Bank, with the focus of managing the net interest margin and high asset quality. The decrease in interest bearing liability costs is primarily the result of lower short-term interest rates. The Company's efforts are still to focus on growing low-cost deposits, provided these growth efforts are consistent with our goal of managing the overall interest margin.

Rate and Volume Analysis[1]

The following table depicts the changes in interest income and interest expense caused by variations in the volume and mix of these assets and liabilities, as well as changes in interest rates when compared to the previous period.

	2008 vs. 2007			2007 vs. 2006		
(In thousands)	Increase/ (Decrease)	Change Due To: Rate	Volume	Increase/ (Decrease)	Change Due To: Rate	Volume
Assets:						
Loans	$ (643)	$ (1,076)	$ 433	$ 1,130	$ 913	$ 216
Securities available for sale[2]	$ 29	148	(119)	82	50	32
Restricted securities	$ 5	(6)	11	(11)	-	(11)
Federal funds sold and other	$ (111)	(184)	73	113	(9)	122
Total interest-earning assets	(720)	(1,118)	398	1,314	954	359
Liabilities:						
Demand deposits	-	2	(2)	(2)	-	(2)
Savings deposits	(102)	(87)	(15)	174	160	14
Time deposits	(486)	(588)	102	1,020	834	186
Other borrowings	10	(132)	142	12	(17)	29
Total interest-bearing liabilities	(578)	(805)	227	1,204	977	227
Net interest income	$ (142)	$ (313)	$ 171	$ 110	$ (23)	$ 132

Notes:

(1) Changes caused by the combination of rate and volume are allocated based on the percentage caused by each.

(2) Income is reported on a tax-equivalent basis, assuming a federal income tax rate of 34%.

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Average Balance Sheet Data
(In thousands)

	Years Ended December 31,								
	2008			2007			2006		
	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate	Average Balance	Interest	Yield/ Rate
ASSETS									
Interest earning assets:									
Loans	$213,350	$14,551	6.82%	$207,317	$15,194	7.33%	$204,224	$14,064	6.89%
Securities Available for Sale	45,833	2,319	5.06%	48,264	2,290	4.74%	47,575	2,208	4.64%
Restricted Securities	878	39	4.44%	638	34	5.33%	834	44	5.28%
Federal funds sold and other	6,793	138	2.03%	4,918	249	5.06%	2,515	136	5.41%
Total interest earning assets	266,854	17,047	6.39%	261,137	17,767	6.80%	255,148	16,452	6.45%
Non-interest earning assets:									
Cash and due from banks	9,684			9,495			7,445		
Premises and equipment, net	7,685			7,952			7,477		
Other assets	10,342			9,832			10,022		
Less allowance for loan losses	(2,008)			(1,933)			(1,986)		
TOTAL	$292,557			$286,483			$278,106		
LIABILITIES AND SHAREHOLDERS' EQUITY									
Interest bearing liabilities:									
Demand deposits	$34,246	$56	0.16%	$35,524	$56	0.16%	$36,923	$58	0.16%
Savings deposits	33,413	289	0.86%	34,818	391	1.12%	32,853	217	0.66%
Time deposits	137,530	5,549	4.03%	135,212	6,035	4.46%	130,504	5,015	3.84%
Other borrowings	11,901	220	1.85%	5,953	210	3.53%	5,152	198	3.84%
Total interest bearing liabilities	217,090	6,114	2.82%	211,507	6,692	3.16%	205,432	5,488	2.67%
Non-interest bearing liabilities:									
Demand deposits	35,466			36,422			36,190		
Other	2,263			2,365			1,849		
	254,819			250,294			243,471		
Shareholders' equity	37,738			36,189			34,635		
TOTAL	$292,557			$286,483			$278,106		
Net interest earnings		$10,933			$11,075			$10,964	
Interest rate spread			3.57%			3.64%			3.78%
Net interest margin			4.10%			4.24%			4.30%

Notes: Tax-exempt interest income for investment securities has been adjusted to a tax-equivalent basis, resulting in an increase in interest income of $273, $244 and $252 for 2008, 2007 and 2006 respectively. The federal tax rate of 34% was used.

Non-Accrual loans are included in average loans outstanding.

Noninterest Income

The Company's noninterest income increased 13.55% to $2.732 million in 2008, compared to $2.406 million in 2007, which is an increase of $326 thousand. When non-interest income is viewed exclusive of net gains on other real estate owned and investment securities gains, the result for 2008 is $2.712 million as compared to $2.391 million, an increase of $321 thousand or 13.43% as compared to 2007. With the exception of net gains, growth in noninterest income for 2008 is attributable to further growth in ATM transactions and increases in other fee services particularly in non-deposit investment services and service charges on deposit accounts. The Company's strategic plan remains focused on expanding the level of services where fees can be charged and that serves to deepen the Bank's customer relationships, in its existing markets.

The following table illustrates the main revenue sources for non-interest income:

(in thousands)	2008	2007	Net Change	% of Yr/Yr Change
Service charges on deposit accounts	$ 1,414	$ 1,268	$ 146	11.51%
Gain on sale or call of securities	20	-	20	100.00%
Net gain on sales of loans	100	92	8	8.70%
Net gain (loss) on sale of OREO	-	15	(15)	(100.00)%
Income from bank owned life insurance	308	285	23	8.07%
ATM fees	505	412	93	22.57%
Other fees	385	334	52	15.57%
Total noninterest income	$ 2,732	$ 2,406	$ 326	13.55%
Total noninterest income, exclusive of net gains & losses.	$ 2,712	$ 2,391	$ 321	13.43%

Noninterest Expense

The Company's noninterest expense increased 2.31% to $8.914 million in 2008 from $8.713 million in 2007. The year ended December 31, 2008 reflected a full twelve months of operations for the Midlothian loan production office. Certain projects that were completed in 2008 that are expected to result in greater efficiency and reduced expenses included converting all banking offices to branch capture, and converting the network communications infrastructure that not only provides increased bandwidth, but will allow the rapid re-routing of the network to the Bank's business resumption center should it be needed.

Personnel costs in 2008 increased $115 thousand or 2.29% to $5.162 million as compared to $5.047 million for 2007. Among the areas responsible for cost increases were cost-of-living and merit salary raises ($53 thousand), increases in commissions and incentive compensation ($44 thousand), and increases in contract security ($13 thousand). Costs for employee pension programs declined by a net of $18 thousand over 2007. The defined benefit pension plan cost declined $21 thousand from the year earlier period, and 401-k employer contribution expense increased by $3 thousand. Education and training costs increased $8 thousand for 2008 as compared to 2007. The deferral of loan origination cost in 2008 was $462 thousand and represents a decrease of $6 thousand from the $468 thousand of cost that was deferred in 2007. Deferral of loan origination costs are attributed to the accounting treatment prescribed by FASB Statement 91, whereby direct costs associated with the loan origination function are deferred for amortization against the loan income during the life of the loan.

Total occupancy expense for 2008 was $609 thousand, which is $55 thousand greater than the $554 thousand expended in 2007; or a 9.93% increase. The following categories saw increases in 2008: building depreciation and lease expense ($6 thousand, each), and local property taxes ($4 thousand). Utility costs increased $12 thousand over 2007's costs due to higher fuel surcharges included in electric utility bills, and higher heating oil costs. Repairs and maintenance costs represent $24 thousand of the increases in occupancy expense for 2008 versus 2007. Much of the costs for 2008 are attributable to either one-time repairs or repairs that last for a number of years rather than re-occurring annually.

Repairs and maintenance costs for the last three years, in thousands, have totaled $177 for 2008, $154 for 2007 and $185 for 2006.

Total equipment expense for 2008 totaled $633 thousand or a decrease of 8.13% or $56 thousand from the $689 thousand expensed in 2007 and represents the second consecutive year that equipment costs have declined. In 2007, equipment costs declined $67 thousand from 2006. The reduction in cost for 2008 was namely due to a decrease in equipment depreciation of $62 thousand from the amount expensed in 2007. Much of the decrease in depreciation expense was due to equipment purchased in 2002 (as part of the conversion to a new core processing system) that equipment became fully depreciated during the first half of 2008. Equipment replacement, including computer hardware, is on a scheduled basis and equipment purchases are budgeted as part of the Bank's annual Capital Budget Plan.

Total other expenses for 2008 were $2.510 million, an increase of 3.59% or $87 thousand from 2007 when the cost was $2.423 million. Expense results for 2008 included certain one-time costs associated with the conversion to branch capture ($31 thousand), the upgrading of the network communications infrastructure ($80 thousand) and conversion of the loan and deposit software platforms ($18 thousand). Accounting and audit fees increased 11.83% or $20 thousand in 2008 from 2007. Deposit account-related losses increased $21 thousand in 2008 over 2007 primarily as a result of an increasing number of uncollected balances. A number of other increases for 2008 were noted in areas such as marketing expense increased $21 thousand, postage (tied in part to the postal rate increases) was up $31 thousand, the Virginia franchise tax increased $25 thousand and costs associated with collections, foreclosures and other real estate owned collectively, increased $28 thousand from 2007. Meanwhile, costs for internet banking declined $41 thousand and ATM-related processing expenses declined $16 thousand, each of these decreases were a result of cost reductions negotiated as part of renewed contracts in 2008. Insurance premiums tied to fiduciary and financial institution bond coverage decreased by $58 thousand in 2008 as compared to 2007 and this is the result of a renegotiated multi-year contract.

The four main components of noninterest expense and their respective increases are detailed in the table below:

(in thousands)	2008	2007	Net Change	% of Yr/Yr Change
Salaries and employee benefits	$ 5,162	$ 5,047	$ 115	2.28%
Occupancy	609	554	55	9.93%
Equipment	633	689	(56)	(8.13)%
Other (1)	2,510	2,423	87	3.59%
Total non-interest expense	$ 8,914	$ 8,713	$ 201	2.31%

(1) Please reference Note 12 of the Consolidated Financial Statements for the principal components of Other Expenses.

Provision for Income Taxes

Income before income taxes includes both taxable income and tax-exempt income, including interest on municipal securities and bank-owned life insurance. The effective income tax rate, based on income before taxes is, therefore, lower than the statutory Federal income tax rate of 34%. Financial institutions in the Commonwealth of Virginia are not subject to a state income tax, rather, a franchise tax is assessed and paid. The cost of the franchise tax is recorded as part of the Other Expense category discussed above. The effective income tax rate for 2008 was 27.07% or a decrease from 28.71% in 2007 and 28.10% in 2006. Income taxes for 2008 totaled $1.146 million from $1.367 million for 2007 and from $1.317 million in 2006 as a result of lower pre-tax net earnings and an increase in tax-exempt securities as a percentage of total assets.

Asset Quality

Allowance and Provision for Loan Losses

The Allowance for Loan Losses is maintained at a level that in management's judgment will be adequate to absorb any losses on existing loans that may become uncollectible. The provision for loan losses increases the allowance, and loans charged off, net of recoveries, reduce the allowance.

Five-Year Loan Charge-offs and Recoveries Summary

	December 31,				
(In thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Allowance, beginning of period	$ 1,950	$ 1,935	$ 1,954	$ 2,740	$ 2,371
Charge-offs:					
Commercial & Agricultural	-	10	21	872	23
Real Estate	101	16	52	377	292
Consumer	63	105	82	138	153
Total Charge-Offs	**$ 164**	**$ 131**	**$ 155**	**$ 1,387**	**$ 468**
Recoveries:					
Commercial & Agricultural	$ 78	$ 1	$ 371	$ 141	$ 33
Real Estate	7	5	3	138	4
Consumer	51	378	78	114	97
Total Recoveries	**$ 136**	**$ 384**	**$ 452**	**$ 393**	**$ 134**
Net Charge-offs (Recoveries)	**$ 28**	**$ (253)**	**$ (297)**	**$ 994**	**$ 334**
Provision for loan losses	$ 245	$ (238)	$ (316)	$ 208	$ 703
Allowance, end of period	**$ 2,167**	**$ 1,950**	**$ 1,935**	**$ 1,954**	**$ 2,740**
Ratio of net charge-offs to average loans outstanding	0.01%	(0.12%)	(0.14%)	0.50%	0.18%

After considering factors such as portfolio and economic conditions, delinquency trends, past loan loss experience, the volume of new loans, as well as other factors deserving recognition, the allowance for loan losses was set at $2.167 million at year end 2008. This is an increase of $217 thousand from December 31, 2007 and $232 thousand greater than the allowance balance at December 31, 2006. Charge-offs for 2008 were concentrated in commercial real estate and consumer loans. The Bank accepted deeds in lieu of foreclosure and the charge-offs were primarily needed to adjust the loan balances for the current carrying value of the other real estate owned. Consumer loan charge-offs were mainly the result of vehicle loan defaults. Recoveries for 2008 totaled $136 thousand. The allowance for loan losses at December 31, 2008 was 1.02% of total loans, an increase of 10 basis points from 0.92% at December 31, 2007.

The Bank recognized recoveries of previously charged provision in 2007 of $238 thousand and in 2006 of $316 thousand as a result of reaching settlement agreements with loan guarantors.

Depending on the effects of current economic conditions, a higher level of nonperforming loans may result during 2009, which may require a higher provision for loan losses.

The following table shows the allocation of the allowance for loan losses at the dates indicated. The allocation of portions of the allowance to specific categories of loans is not intended to be indicative of future losses, and does not restrict the use of the allowance to absorb losses in any category of loans.

Allocation of Allowance for Loan Losses

	2008		2007		2006		2005		2004	
(In thousands)	Amount	Percent of total Loans	Amount	Percent of total Loans	Amount	Percent of total Loans	Amount	Percent of total Loans	Amount	Percent of total Loans
Commercial real estate loans	$ 606	27.56%	$ 1,031	25.25%	$ 913	24.16%	$ 693	27.22%	$ 955	25.54%
Real estate 1-4 family loans	535	47.76%	351	45.82%	315	47.76%	174	46.00%	159	46.91%
Real estate construction loans	417	7.66%	108	8.85%	97	8.75%	319	5.93%	116	5.43%
Commercial loans	345	9.32%	346	11.18%	452	10.15%	592	11.92%	1,320	13.35%
Consumer loans	264	7.70%	114	8.90%	158	9.18%	176	8.93%	190	8.77%
Balance End of Period	$ 2,167	100.00%	$ 1,950	100.00%	$ 1,935	100.00%	$ 1,954	100.00%	$ 2,740	100.00%

Loan portfolio risks are monitored by management. A credit review of outstanding loans and loan collateral is performed by management in order to identify potential losses. Non-accrual and impaired loans were $1,581,000 and $2,099,000 at December 31, 2008 and December 31, 2007, respectively. It is the Company's policy to put loans on a non-accrual basis once they are past due 90 days or more. Loans greater than 90 days past due may remain on accrual status if management determines we have adequate collateral value to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding.

At December 31 2008, management was monitoring loans considered to be impaired (under Statement 114) totaling $912,000 of which $447,000 are on a non-accrual status. They are followed closely, and management at present believes the allowance for loan losses is adequate to cover anticipated losses that may be attributable to these loans. Various forms of collateral are held as security on the loans.

Non-Performing Assets

	December 31,				
(In thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Non-accrual and impaired loans	$1,581	$2,099	$1,942	$1,695	$2,189
Restructured loans	-	-	-	-	-
OREO	957	-	85	200	-
Total non-performing assets	$2,538	$2,099	$2,027	$1,895	$2,189
Loans past due 90 days and accruing interest	$241	$0	$0	$242	$51

Other Real Estate Owned (OREO) balances represent the lower of cost or appraised value less cost to sell of real estate acquired through foreclosure by the Bank. The Bank regularly evaluates the carrying value of such assets and adjusts the balances as required. The Bank actively markets such properties to reduce potential losses and expenses related to carrying these assets.

Financial Condition

Summary

At December 31, 2008, the Company had total assets of $305.1 million compared to $290.0 million at December 31, 2007. The increase is total assets was invested namely in loans and short-term investments and was funded by a combination of growth in deposit balances, borrowed funds and retained earnings.

Stockholders' equity at December 31, 2008 was $36.3 million compared to $37.3 million at December 31, 2007. The net decline in total equity is namely the result of the decline in market values for securities and the increase in the unfunded pension liability, both a direct result of the significant decline in the national economy. (Refer to *Consolidated Statements of Changes in Stockholders' Equity* for further details.)

Loan Portfolio

The Bank uses the funds generated from deposits, short-term FHLB advances, combined with investment portfolio liquidity to support its lending activities and it competes aggressively for loans in its market areas. Loan originations for 2008 totaled $78.3 million or a 6.4% increase over the $73.6 million originated in 2007. Total loans at December 31, 2008 totaled $213.0 million or an increase of $1.7 million from the $211.3 million at December 31, 2007. (The Bank does not make loans outside of the United States.)

Loans are made predominantly to residents and businesses located in the Company's trade area. Approximately 83% of the loan portfolio on December 31, 2008 was composed of real estate secured loans.

Summary of Loans Held for Investment

	December 31,				
(In thousands)	**2008**	**2007**	**2006**	**2005**	**2004**
Commercial & Agricultural	$19,859	$23,643	$20,324	$23,884	$26,464
Commercial Real Estate	58,714	53,362	48,358	54,549	50,624
Real Estate – Mortgage	101,750	96,831	95,601	92,158	93,002
Real Estate – Construction	16,321	18,697	17,510	11,888	10,767
Consumer	16,402	18,798	18,376	17,887	17,381
Total Loans	$213,046	$211,331	$200,169	$200,366	$198,238

The Company does not engage in highly leveraged transactions. Commitments to extend credit and standby letters of credit to customers in the normal course of business totaled $27.2 million at December 31, 2008. (See Financial Instruments with Off-Balance Sheet Risk discussion).

The following table shows the maturities of loans outstanding as of December 31, 2008.

(In thousands)	Within One Year	Maturing After One But Within Five Years	After Five Years	Total
Commercial & Agricultural	$11,196	$ 8,169	$ 494	$19,859
Commercial Real Estate	13,713	39,169	5,832	58,714
Real Estate – Mortgage	29,478	53,515	18,757	101,750
Real Estate – Construction	7,473	7,502	1,346	16,321
Consumer	1,702	13,717	983	16,402
Total Loans	$63,562	$ 122,072	$ 27,412	$ 213,046
Maturities after one year with:				
Fixed interest rates		$ 84,528	$10,458	$ 94,986
Variable interest rates		$ 37,544	$16,954	$ 54,498

Investment Securities

The investment securities portfolio has a primary role in the management of the Company's liquidity requirements, interest rate sensitivity and in generating substantial interest income. Investment securities play a key role in diversifying the Company's balance sheet. The investment securities provide the Company's balance sheet with an average maturity duration that is shorter (under 7 years) than compared to the loan portfolio which generally has longer average maturities (5 years and greater). The Company's securities portfolio is generally used to meet collateral requirements for public funds deposits and for commercial customers utilizing the overnight repurchase program. The investment securities portfolio is actively utilized to assist in managing the Company's interest rate sensitivity and prepayment risks. It is managed to ensure adequate balance sheet liquidity can be obtained to fund loans or for other needs.

The investment policy of the Company prohibits any investment in any form of equity security, whether it is private, publicly-traded, or Federal government-sponsored entities (GSEs). Corporate debt investments are permitted for nationally-known, highly-rated companies.

The investment policy does not require the immediate liquidation of any security that falls below the investment grade rating of BBB minus for Fitch and S&P, or Baa3 for Moody's. The liquidation of a security simply due to a credit rating change without considering other factors such as the likelihood of the security recovering from the downgrade or the possibility of ultimately recovering the full book value of the security might lead to taking losses, unnecessarily. If a security falls below investment grade, management is required to monitor the security for any subsequent deterioration and to provide the Board of Directors with an update, monthly. As of December 31, 2008, the Company held two securities with below investment grade ratings. These are discussed below under "Downgraded Securities".

All investment securities are classified as available for sale and are carried at fair value adjusted for amortization of premiums and the accretion of discounts. By classifying the securities as available for sale, management has the opportunity to react to changing liquidity needs and market conditions.

The table below provides the consolidated investment portfolios for both the Company and the Bank.

Investment Securities Portfolio

(In thousands)	December 31, 2008	2007	2006
U.S. Treasury and other U.S. Government agencies and mortgage-backed securities	$ 25,547	$ 29,844	$ 32,336
State and political subdivisions	16,493	15,142	15,284
Other	1,441	3,466	3,458
Total available for sale securities	$ 43,481	$ 48,452	$ 51,078

Projected Maturities for Investment Securities Portfolio

(In thousands)	Within One Year Amount	Within One Year T/E Yield	After One Year Within Five Years Amount	After One Year Within Five Years T/E Yield	After Five But Within Ten Years Amount	After Five But Within Ten Years T/E Yield	After Ten Years Amount	After Ten Years T/E Yield
U.S. Treasury and other U.S. government agencies and mortgage-backed securities	$ 1,404	2.44%	$ 5,293	4.01%	$ 5,285	3.68%	$ 13,565	5.33%
State and political subdivisions	1,011	6.47%	5,329	4.78%	4,101	5.28%	6,052	5.80%
Other	701	3.39%	740	5.28%	-	0.00%	-	0.00%
Total	$ 3,116		$ 11,362		$ 9,386		$ 19,617	

Mortgage backed securities in the amount of $16,840,000 are included in the above table based on expected weighted average maturities of individual security. The tax equivalent yield is based upon a federal income rate of 34%.

At December 31, 2008 and 2007, investment securities with a book value of $18,891,000 and $18,435,000, respectively, were pledged to collateralize public deposits and for other purposes.

Downgraded Securities

As of December 31, 2008, the Company had two investment securities that were downgraded in the fourth quarter of 2008 from AAA to a split rating of AAA minus/BB. The investment policy of the Company determines that in the case of a security having a split rating, the lower rating will prevail, thereby making these two securities below investment grade. The two securities are collateralized mortgage obligations (CMO) that were securitized by private firms and not by Fannie Mae (FNMA) or Freddie Mac (FHLMC). The underlying collateral consists of jumbo residential mortgage loans consisting of fixed rate, 30 year terms. Jumbo mortgages are loans that have original loan balances that exceed $417,000.

CMOs are a hybrid form of a mortgage-backed security that creates separate pools of pass-through rates for different classes of bondholders with varying maturities, called tranches. Each security was purchased at separate times, one on November 15, 2005 and the other on December 7, 2006. The combined book value of the securities at December 31, 2008 totaled $1,950,199; or 4.3% of the investment portfolio total book value.

The senior tranche of each security was purchased and each security met all of the investment policy's pre-purchase requirements. The purchase of a senior tranche provides that the investor is paid out first with prepayments and repayments of principal and interest until they are paid off. The yield of a senior tranche is typically lower as compared to less senior tranches, conversely, the risk of bearing credit losses is deemed to be less in a senior tranche than it is for the lower tranches which inherently carry higher risk of loss as a result of credit defaults. Both securities were rated by rating agencies Fitch and Standard & Poors as AAA, when purchased.

After the announced downgrades by Fitch and Standard & Poors, management obtained third party consultants, who used advanced analytic models to assist in determining the likelihood that these securities would require an "other than temporary impairment" (OTTI). The assessment of each security was conducted using credit default parameters that were more severe than the default in comparison to the credit defaults that each security had experienced, to date. The stress testing of each security was conducted beginning in January 2009 until the contractual maturity of the each security. The results of this stress testing concluded that as of December 31, 2008 there was no basis upon which management could recommend an other than temporary impairment for either security. This information was shared with the Board of Directors and with the Company's external auditors, Yount, Hyde & Barbour, and P.C. in January 2009.

Deposits

The Company's predominant source of funds is depository accounts, which are comprised of demand deposits, savings, money market accounts, and time deposits. The Company's deposits are principally provided by individuals and businesses located within the communities served. In 2008, the Bank began to offer certificates of deposits that provided FDIC deposit insurance up to $50 million per customer. Management sought to offer this product as a convenience to those customers who desire this type of guarantee and has chosen not to extensively promote the offering.

Total average deposits decreased $1.3 million or 0.54% in 2008. During 2008, average noninterest demand deposit balances decreased $1.0 million for an average of $35.4 million during 2008 as compared to an average balance of $36.4 million for 2007. The downturn in the general economic environment forced individuals and businesses to rely on cash in their accounts for everyday living expenditures. Management places an emphasis on increasing lower cost deposit account balances as a means of managing the net interest margin. Average interest-bearing deposit accounts and savings accounts decreased $2.6 million for an average balance of $67.7 million for 2008 as compared to an average balance of $70.3 million for 2007; or a decrease of 3.7%. Average time deposits for 2008 were $137.5 million or an average balance increase of $2.3 million as compared to the average balance for 2007 of $135.5 million.

Average Deposits and Rates Paid

(In thousands)	2008 Amount	2008 Rate	2007 Amount	2007 Rate	2006 Amount	2006 Rate
Non-interest bearing demand deposits	$ 35,466		$ 36,422		$ 36,190	
Interest bearing demand Deposits	34,246	0.16%	35,524	0.16%	36,923	0.16%
Savings deposits	33,413	0.86%	34,818	1.12%	32,853	0.66%
Time deposits	137,530	4.03%	135,212	4.46%	130,504	3.84%
Total	$240,655	2.45%	$241,976	2.68%	$236,470	2.24%

The Company's time deposits with balances of $100,000 or more totaled $61.0 million at December 31, 2008, and comprised 24.5% of the Company's total deposits. These time deposits were maintained predominantly by long-time customers located in the Company's trade area.

Maturity Projection of Time Deposits over $100,000
(In thousands)

	December 31, 2008
3 months or less	$ 17,456
3 months to 6 months	7,126
6 months to 12 months	9,026
Over 1 year	27,410
Total	$ 61,018

Financial Instruments with Off Balance Sheet Risk

The Company is a party to credit related 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, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At December 31, 2008 and 2007, the following financial instruments were outstanding whose contract amounts represent credit risk:

Outstanding Financial Instruments with Credit Risk

	December 31, 2008	2007
	(In thousands)	
Commitments to extend credit	$ 26,307	$ 30,917
Standby letters of credit	867	1,539

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit may be secured or unsecured with varied maturities based upon product type, collateral, and credit worthiness of the borrower.

Standby letters-of-credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments if deemed necessary.

Liquidity

Liquidity assesses the Company's ability to meet financial obligations consisting of lending commitments, deposit outflows, operational expenses and contingencies that arise during the normal course of business. Liquidity is also defined as the Company's ability to meet the borrowing and deposit withdrawal requirements of the customers of the Company in addition to meeting current and planned expenditures. The Company's liquidity is derived primarily from its deposit base and equity capital and is provided through the Company's cash, balances in correspondent banks, federal funds sold, investments maturing or repaying within one year and securities available for sale. The Company's growth has continued to be funded primarily through these sources.

As of December 31, 2008, approximately $93.7 million or 44% of the loan portfolio will mature or re-price within one year. Maturities and principal repayments from the investment securities portfolio that are expected within one year are approximately $18.8 million, or 43% of the investment portfolio. Expected liquidity of approximately $105.1 million from the loan and investment portfolios, within the next year, is scheduled to provide a steady flow of funds to meet deposit withdrawals or loan demand. Additionally, a cash reserve is maintained, usually in the form of overnight investments in federal funds. During 2008, the Company was a seller of Federal funds in daily average amounts of $1.8 million.

Other sources of liquidity available to the Company include its capacity to borrow additional funds when necessary. Federal funds lines of credit are maintained with the Federal Reserve Bank of Richmond and the Federal Home Loan Bank of Atlanta and with major regional banks that totaled $60.9 million at December 31, 2008.

At December 31, 2008 the Company had outstanding advances totaling $11,000,000 with the Federal Home Loan Bank of Atlanta, detailed below. There were no advances outstanding at December 31, 2007.

Fixed rate advance, at 1.39% maturing December 11, 2009	$ 6,000,000
Five-year / two -year convertible advance at 2.47% maturing February 5, 2013	5,000,000
	$ 11,000,000

As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its clients' credit needs.

Capital Resources

The Company's principal source of capital is generated through retained earnings. In 2008, $1,450,000, or 47%, of earnings were retained and added to the capital of the Company.

Capital growth has historically benefited from our level of dividend payout limits. In 2008 the dividend payout represented 53% of net income. The Company's current dividend policy limits annual dividend payouts to no more than 60% of the net earnings for the trailing twelve months. The ratio of average equity to average assets was 12.90% in 2008, compared to 12.63% in 2007. Stockholders' equity was $36,342,000 at December 31, 2008.

The Company's Tier I Leverage ratio was 13.0%. The Tier I risk-based capital ratio for the Company was 19.4% on December 31, 2008 while the Tier II or total risk-based capital ratio was 20.5%. Both Tier I and total risk-based capital ratios at December 31, 2008 exceeded regulatory risk-based capital requirements by substantial margins and the Company continues to be well capitalized.

Cash dividends totaling $1,637,000 were declared in 2008 which represents a payout ratio of 53% compared to a payout ratio of 47% in 2007. It is anticipated that internally generated funds will cover any capital improvements in 2009. The Company believes its liquidity and capital resources are more than adequate to meet its cash requirements for the foreseeable future.

A stock repurchase plan is ongoing since September 1, 2007. The plan is intended to provide additional liquidity in the trading of the Company's stock and to provide the Company with opportunities to reduce the number of shares outstanding. (Additional information on the stock repurchase plan is discussed in Part II, Item 5, earlier in this report.)

Capital Expenditures

Capital expenditures were $632 thousand in 2008 compared to $419 thousand in 2007. The capital expenditures in 2008 were focused on planned building repairs and improvements such as handicap accessibility and a new roof for the Main Office facility, the planned renovation of two banking offices, the replacement of outdated security surveillance systems with digital systems, and the planned enhancement of certain computer workstations.

Capital expenditures are projected to be approximately $401 thousand in 2009, which includes the installation of a new ATM for the banking office located at 9060 North Five Forks Road, Amelia, VA, continued handicap accessibility at the Farmville and Colonial Heights banking offices, and complete the installation of new drive-up windows and audio equipment at certain banking offices.

Inflation

In financial institutions virtually all of the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on a bank's performance than the effects of general levels of inflation since interest rate movement is not necessarily affected by inflation.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential risk to earnings and/or to the economic value of equity due to changes in interest rates and other market conditions as they relate to the financial industry. The Company's market risk exposure is primarily its exposure to interest rate risk (IRR). The measuring, monitoring and management of IRR is the responsibility of the Asset Liability Management Committee (the ALCO). The Board of Directors of the Company has delegated responsibility for asset liability management to the ALCO whose main objectives are to manage IRR while optimizing earnings through net interest income and management of the balance sheet. The Company uses a simulation model on a quarterly basis to measure IRR. This model utilizes the Company's financial data and various management assumptions and projections as they relate to growth, interest rates, noninterest income and noninterest expenses in order to forecast the interest sensitivity of the Company and its potential impact on net interest income, earnings and equity. The model projects a "most likely" forecast which is then "shocked" with various interest rate increases and decreases in order to project the *short term* effects on net interest income and net income. The model also projects the effects on the economic value of equity (EVE) of the Company using the same interest rate increases and decreases. The EVE sensitivity measure is a measure of the *long-term* risk of the bank.

As of December 31, 2008, the Company's asset/liability model analysis indicates that the Company remains liability sensitive for the first quarter of 2009, the balance sheet becomes asset sensitive during the second quarter and then returns to being liability sensitive for the remainder of 2009. The ALCO adopted an interest rate forecast that called for short-term interest rates to be at the same level for all of 2009 as they were at December 31, 2008. Therefore, being asset sensitive in a steady rate environment would not impact net interest income and the balance sheet becomes liability sensitive at a time when rates are anticipated to be at these same levels. The Company's balance sheet becomes asset sensitive after 12 months and up to 2 years. After 2 years and up to 3 years, the balance sheet becomes liability sensitive. From 3 years out to 5 years, the balance sheet returns to being asset sensitive.

Since the earnings model uses numerous assumptions regarding the effect of changes in interest rates, on the timing and extent of re-pricing characteristics, future cash flows and customer behavior, the model cannot precisely estimate net interest income and the effect on net income from sudden changes in interest rates. Actual results will differ from simulated results due to the timing, magnitude and frequency of interest rate changes and changes in market conditions and management strategies, among other factors. The model simulation results presented below are based upon the instantaneous increase or decrease (shock) of current interest rates. This method meets regulatory requirements. The Company's management does recognize that rate shocks represent the most severe of interest rate change scenarios, and has viewed past modeling results using a "rate ramping" methodology that illustrates the effect of interest rate changes over a period of 12 months, rather than overnight. The model utilizes current market interest rates to measure against the Company's portfolio rates for earning assets, deposits and other interest sensitive liabilities in order to compute the economic value of equity.

Summary Interest Rate Risk Measures

	December 31, 2008	December 31, 2007
Net Interest income - 12-month simulation:		
+ 200 basis point shock vs. current rates	+3.4%	+2.3%
- 200 basis point shock vs. current rates	-0.8%	-5.1%
Net Income - 12-month simulation:		
+ 200 basis point shock vs. current rates	+7.5%	+5.0%
- 200 basis point shock vs. current rates	-2.3%	-11.5%
Economic Value of Equity change:	**($ in thousands)**	
Book Value of Equity at current rates	$ 36,342	$ 37,331
Market Value of Equity at current rates	$ 46,304	$ 48,635
+ 200 basis point shock vs. current rates	+1.0%	-1.9%
- 200 basis point shock vs. current rates	-10.4%	-4.7%

The following static gap table illustrates the Company's interest rate sensitivity between interest earnings assets and interest-bearing liabilities over time:

Interest Sensitivity GAP Analysis

At December 31, 2008
(In thousands)

	Within 90 Days	91 to 365 Days	1 to 2 Years	2 to 5 Years	Over 5 Years	Total Institutional
Earning Assets						
Securities, at fair value	$ 9,513	$ 9,326	$ 10,063	$ 6,193	$ 8,386	$ 43,481
Restricted securities	1,161	-	-	-	-	1,161
Federal funds sold	9,512	-	-	-	-	9,512
Interest-bearing deposits in banks	13,279	-	-	-	-	13,279
Loans, net of unearned income	58,661	35,014	65,165	41,648	12,558	213,046
Total earning assets	$ 92,126	$ 44,340	$ 75,228	$ 47,841	$ 20,944	$ 280,479
Interest-bearing Liabilities						
NOW Accounts	1,698	3,177	3,177	9,532	15,958	33,542
Money market accounts	826	3,305	3,305	7,436	1,650	16,522
Savings accounts	978	1,859	1,859	5,576	5,849	16,121
Time deposits	35,368	38,731	17,787	50,782	-	142,668
Borrowings	5,183	6,000	-	5,000	-	16,183
Total interest-bearing liabilities	44,053	53,072	26,128	78,326	23,457	225,036
Cumulative interest sensitivity gap	**48,073**	**39,341**	**88,441**	**57,956**	**55,443**	
Cumulative GAP / total earning assets (%)	17.14%	14.03%	31.53%	20.66%	19.77%	

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following financial statements are filed as a part of this report following Item 15 below:

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets as of December 31, 2008 and 2007
Consolidated Statements of Income for the Years Ended December 31, 2008, 2007 and 2006
Consolidated Statements of Changes in Stockholders' Equity for the Years Ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the Years Ended December 31, 2008, 2007 and 2006
Notes to Consolidated Financial Statements

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company does not have any changes or disagreements with respect to accounting or financial disclosure with its external accountants.

ITEM 9A. CONTROLS AND PROCEDURES

As of December 31, 2008, the Company carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the design and operation of the disclosure controls and procedures. Based on this evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that the disclosure controls and procedures are effective.

Management's Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company.

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

Any system of internal control, no matter how well designed, will have inherent limitations, such as the possibility of unintentional human error or intentional circumvention of overriding control. Therefore, any system of internal control can provide only a reasonable assurance as to the effectiveness of the internal control over financial reporting. Further, because of changes in conditions, internal control effectiveness may vary over time.

The Company's management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2008. This assessment was based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2008.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the

Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

ITEM 9B. OTHER INFORMATION

First Quarter 2009 Cash Dividend Approved

On March 26, 2009, the Board of Directors of the Company approved a $0.17 per share quarterly cash dividend that will be payable on April 10, 2009 to shareholders of record on April 3, 2009. Based upon the closing stock price recorded on March 26, 2009 of $12.50, this quarterly dividend results in an annualized yield of 5.44%.

Board of Directors Approves Amended Management Continuity Agreements

On March 26, 2009, the Board of Directors of the Company approved two amendments to the management continuity agreements of Joseph D. Borgerding, President and Chief Executive Officer, Ronald E. Baron, Senior Vice President and Chief Financial Officer, Lynn K. Shekleton, Senior Vice President, Branch Administration and Human Resources, and Rhonda W. Kincer, Vice President, Operations and Security Officer. The amendments increase the lump sum benefit payable to an executive if he or she leaves the Company under certain circumstances from one times to one and one half times the executive's final annual compensation. The amendments also eliminate the right, previously provided by the management continuity agreements, of the executive to receive a bonus payment at least equal to the highest annual bonus he or she received during the previous two years after leaving the Company under certain circumstances. The Form of Management Continuity Agreement, as amended, is attached as an exhibit to this report.

Director Retirement

On March 26, 2009, the Board of Directors of the Company accepted the resignation of Director Irving J. Arnold, effective at the 2009 Annual Meeting. Director Arnold was granted an exception to the mandatory retirement age for Directors as part of an amendment of the Company Bylaws approved on June 28, 2006. The exception permitted Director Arnold to remain on the Board of Directors for three years from the 2006 Annual Meeting.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Pursuant to General Instruction G(3) of Form 10-K, the information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year.

ITEM 11. EXECUTIVE COMPENSATION

Pursuant to General Instruction G(3) of Form 10-K, the information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Pursuant to General Instruction G(3) of Form 10-K, the information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPEDENCE

Pursuant to General Instruction G(3) of Form 10-K, the information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Pursuant to General Instruction G(3) of Form 10-K, the information required by this Item is incorporated by reference to the Company's definitive Proxy Statement for the 2009 Annual Meeting of Shareholders to be filed within 120 days of the end of the fiscal year.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2). The response to this portion of Item 15 is submitted as a separate section of this report.

(3) Exhibits.

Exhibit No.	Description
3.1	Restated Articles of Incorporation of the Company (restated in electronic format only through June 10, 2004) (incorporated by reference to Exhibit 3.1 to the Company's Form 10-K, filed April 1, 2005).
3.2	Amended Bylaws of the Company, restated in electronic format as of June 28, 2006 (incorporated by reference to Exhibit 3.1 to the Company's Form 8-K, filed June 30, 2006).
10.1	Management Continuity Agreement dated as of May 2, 2005 between the Company and Ronald E. Baron (incorporated by reference to Exhibit 10.1 to the Company's Form 8-K, filed May 13, 2005).
10.2	Management Continuity Agreement dated as of March 28, 2003 between the Company and Joseph D. Borgerding (incorporated by reference to Exhibit 10.2 to the Company's Form 10-K, filed April 5, 2006).
10.3	Amendment to Management Continuity Agreement between the Company and Joseph D. Borgerding, dated April 26, 2006 (incorporated by reference to Exhibit 10.1 to the Company's Form 10-Q, filed August 14, 2006).
10.4	Form of Management Continuity Agreement, amended and restated as of December 31, 2008, entered into by the Company and each of Joseph D.

	Borgerding, Ronald E. Baron, Lynn K. Shekleton, and Rhonda W. Kincer (filed herewith).
10.5	Form of Management Continuity Agreement, amended and restated as of March 26, 2009, entered into by the Company and each of Joseph D. Borgerding, Ronald E. Baron, Lynn K. Shekleton, and Rhonda W. Kincer (filed herewith).
21.1	Subsidiary of the Company (filed herewith).
31.1	Certification of Principal Executive Officer Pursuant to Rule 13a-14(a) (filed herewith).
31.2	Certification of Principal Financial Officer Pursuant to Rule 13a-14(a) (filed herewith).
32.1	Statement of Principal Executive Officer Pursuant to 18 U.S.C. § 1350 (filed herewith).
32.2	Statement of Principal Executive Officer Pursuant to 18 U.S.C. § 1350 (filed herewith).

(b) Exhibits - - See Item 15(a)(3) above.

(c) Financial Statement Schedules - - See Item 15(a)(2) above.

Citizens Bancorp of Virginia, Inc.

Blackstone, Virginia

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2008

Citizens Bancorp of Virginia, Inc.

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Yount
Hyde &
Barbour

Certified Public Accountants
and Consultants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders
Citizens Bancorp of Virginia, Inc. and Subsidiary
Blackstone, Virginia

We have audited the consolidated balance sheets of Citizens Bancorp of Virginia, Inc. and Subsidiary as of December 31, 2008 and 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Citizens Bancorp of Virginia, Inc. and Subsidiary as of December 31, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

We were not engaged to examine management's assessment of the effectiveness of Citizens Bancorp of Virginia, Inc. and Subsidiary's internal control over financial reporting as of December 31, 2008 included in the accompanying *Management's Report on Internal Control Over Financial Reporting* and, accordingly, we do not express an opinion thereon.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 27, 2009

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Consolidated Balance Sheets

December 31, 2008 and 2007

Assets	2008	2007
Cash and due from banks	$ 7,136,253	$ 11,769,175
Interest-bearing deposits in banks	13,279,444	2,002,046
Federal funds sold	9,512,000	344,000
Securities available for sale, at fair market value	43,481,333	48,452,286
Restricted securities	1,161,000	630,600
Loans, net of allowance for loan losses of $2,167,035 in 2008 and $1,949,731 in 2007	210,879,319	209,380,672
Premises and equipment, net	7,759,263	7,761,568
Accrued interest receivable	1,741,685	1,856,584
Other assets	9,235,612	7,763,335
Other real estate owned	957,112	- -
Total assets	$ 305,143,021	$ 289,960,266
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Noninterest-bearing	$ 40,288,101	$ 37,512,214
Interest-bearing	208,853,027	205,494,736
Total deposits	$ 249,141,128	$ 243,006,950
FHLB advances	11,000,000	- -
Other borrowings	5,183,353	7,323,512
Accrued interest payable	1,154,480	1,540,268
Accrued expenses and other liabilities	2,322,139	758,998
Total liabilities	$ 268,801,100	$ 252,629,728
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, $0.50 par value; authorized 1,000,000 shares; none outstanding	$ - -	$ - -
Common stock, $0.50 par value; authorized 10,000,000 shares; issued and outstanding, 2,390,980 in 2008 and 2,434,550 in 2007	1,195,490	1,217,275
Retained earnings	37,198,417	36,416,195
Accumulated other comprehensive (loss), net	(2,051,986)	(302,932)
Total stockholders' equity	$ 36,341,921	$ 37,330,538
Total liabilities and stockholders' equity	$ 305,143,021	$ 289,960,266

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY
Consolidated Statements of Income
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Interest and Dividend Income			
Loans, including fees	$ 14,550,641	$ 15,193,582	$ 14,063,457
Investment securities:			
Taxable	1,515,204	1,575,063	1,467,666
Tax-exempt	530,237	471,684	488,811
Dividends	39,184	33,633	43,863
Federal funds sold	17,721	108,738	124,500
Other	120,803	140,288	11,563
Total interest and dividend income	$ 16,773,790	$ 17,522,988	$ 16,199,860
Interest Expense			
Deposits	$ 5,893,992	$ 6,482,913	$ 5,290,645
Borrowings	220,283	209,524	197,909
Total interest expense	$ 6,114,275	$ 6,692,437	$ 5,488,554
Net interest income	$ 10,659,515	$ 10,830,551	$ 10,711,306
Provision for (recovery of) Loan Losses	245,000	(238,485)	(316,116)
Net interest income after provision for (recovery of) loan losses	$ 10,414,515	$ 11,069,036	$ 11,027,422
Noninterest Income			
Service charges on deposit accounts	$ 1,413,615	$ 1,267,836	$ 1,241,456
Gain on sale of investment fund	- -	- -	40,016
Net gain on sales and calls of securities	19,821	- -	- -
Net gain on sales of loans	100,255	91,949	106,339
Net gain on sale of other real estate owned	- -	15,000	76,790
Income from bank-owned life insurance	307,892	285,403	259,597
ATM fees	505,338	412,497	286,035
Other	385,663	333,616	295,877
Total noninterest income	$ 2,732,584	$ 2,406,301	$ 2,306,110
Noninterest Expenses			
Salaries and employee benefits	$ 5,162,291	$ 5,046,924	$ 4,864,907
Occupancy	608,709	554,460	554,029
Equipment	633,121	689,463	755,907
Other	2,510,239	2,422,635	2,475,222
Total noninterest expenses	$ 8,914,360	$ 8,713,482	$ 8,650,065
Income before income taxes	$ 4,232,739	$ 4,761,855	$ 4,683,467
Provision for income taxes	1,145,991	1,366,621	1,316,609
Net income	$ 3,086,748	$ 3,395,234	$ 3,366,858
Earnings Per Share, basic and diluted	$ 1.28	$ 1.39	$ 1.38

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Consolidated Statements of Changes in Stockholders' Equity

For the Years Ended December 31, 2008, 2007 and 2006

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Compre-hensive Income (Loss)	Compre-hensive Income	Total
Balance at December 31, 2005	$ 1,220,375	$ 49,420	$ 32,971,223	$ (781,911)		$ 33,459,107
Comprehensive income:						
Net income	--	--	3,366,858	--	$ 3,366,858	3,366,858
Other comprehensive income, net of tax						
Unrealized gains on securities available for sale, net of tax of ($129,017)	--	--	--	250,443	250,443	250,443
Total comprehensive income					$ 3,617,301	
Adjustment to inititially apply SFAS No. 158 in regard to pension plan, net of tax of $172,565	--	--	--	(334,981)		(334,981)
Cash dividends declared ($.69 per share)	--	--	(1,684,122)	--		(1,684,122)
Balance at December 31, 2006	$ 1,220,375	$ 49,420	$ 34,653,959	$ (866,449)		$ 35,057,305
Comprehensive income:						
Net income	--	--	3,395,234	--	$ 3,395,234	3,395,234
Other comprehensive income, net of tax						
Unrealized gains on securities available for sale, net of tax of ($236,204)	--	--	--	458,514	458,514	458,514
Change in unfunded pension liability, net of tax of ($54,092)	--	--	--	105,003	105,003	105,003
Total other comprehensive income					$ 563,517	
Total comprehensive income					$ 3,958,751	
Shares repurchased	(3,100)	(49,420)	(47,644)	--		(100,164)
Cash dividends declared ($.65 per share)	--	--	(1,585,354)	--		(1,585,354)
Balance at December 31, 2007	$ 1,217,275	$ --	$ 36,416,195	$ (302,932)		$ 37,330,538
Comprehensive income:						
Net income	--	--	3,086,748	--	$ 3,086,748	3,086,748
Other comprehensive (loss), net of tax						
Unrealized (losses) on securities available for sale, net of tax of $474,876	--	--	--	(921,819)	(921,819)	(921,819)
Less: reclassification adjustment for gain on on sale of securities, net of tax of $6,739	--	--	--	(13,082)	(13,082)	(13,082)
Change in unfunded pension liability, net of tax of $419,412	--	--	--	(814,153)	(814,153)	(814,153)
Other comprehensive (loss)					$ (1,749,054)	
Total comprehensive income					$ 1,337,694	
Effects of changing the pension plan measurement date pursuant to SFAS No. 158, net of tax of $19,352	--	--	(37,566)	--		(37,566)
Shares repurchased	(21,785)	--	(629,774)	--		(651,559)
Cash dividends declared ($.68 per share)	--	--	(1,637,186)	--		(1,637,186)
Balance at December 31, 2008	$ 1,195,490	$ --	$ 37,198,417	$ (2,051,986)		$ 36,341,921

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash Flows from Operating Activities			
Net income	$ 3,086,748	$ 3,395,234	$ 3,366,858
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	633,906	690,196	648,791
Provision for (recovery of) loan losses	245,000	(238,485)	(316,116)
Gain on sale of investment fund	- -	- -	(40,016)
Net gain on sales of loans	(100,255)	(91,949)	(106,339)
Origination of loans held for sale	(7,280,811)	(7,545,800)	(8,863,700)
Proceeds from sales of loans	7,381,066	7,637,749	8,970,039
Net (gain) on sales and calls of securities	(19,821)	- -	- -
Net (gain) on sale of other real estate owned	- -	(15,000)	(76,790)
Net amortization of securities	61,628	56,303	60,504
Deferred tax (benefit) expense	(48,480)	44,386	90,461
Changes in assets and liabilities:			
(Increase) decrease in accrued interest receivable	114,899	(36,349)	(114,319)
(Increase) decrease in other assets	(503,378)	(150,290)	376,914
Increase (decrease) in accrued interest payable	(385,788)	166,628	499,150
Increase (decrease) in accrued expenses and other liabilities	272,658	145,917	(665,438)
Net cash provided by operating activities	$ 3,457,372	$ 4,058,540	$ 3,829,999
Cash Flows from Investing Activities			
Activity in available for sale securities:			
Sales and calls	$ 15,793,135	$ 1,000,000	$ - -
Maturities and prepayments	8,379,710	8,818,863	5,915,295
Purchases	(20,660,215)	(6,555,034)	(9,420,201)
Redemption (purchase) of restricted securities	(530,400)	1,700	51,300
Net (increase) decrease in loans	(2,700,759)	(10,907,997)	493,711
Purchases of land, premises and equipment	(631,601)	(418,730)	(1,507,364)
Proceeds from sale of other real estate owned	- -	100,000	276,790
Net cash (used in) investing activities	$ (350,130)	$ (7,961,198)	$ (4,190,469)

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Consolidated Statements of Cash Flows
(Continued)
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash Flows from Financing Activities			
Net increase in deposits	$ 6,134,178	$ 3,663,937	$ 6,066,351
Net increase (decrease) in borrowings	8,859,841	2,955,055	(167,619)
Dividends paid	(1,637,186)	(1,585,354)	(1,684,122)
Repurchase of common stock	(651,599)	(100,164)	- -
Net cash provided by financing activities	$ 12,705,234	$ 4,933,474	$ 4,214,610
Net increase in cash and cash equivalents	$ 15,812,476	$ 1,030,816	$ 3,854,140
Cash and Cash Equivalents			
Beginning of year	14,115,221	13,084,405	9,230,265
End of year	$ 29,927,697	$ 14,115,221	$ 13,084,405
Supplemental Disclosures of Cash Flow Information			
Cash paid during the year for:			
Interest	$ 6,500,063	$ 6,525,809	$ 4,989,404
Income taxes	$ 1,243,573	$ 1,082,732	$ 1,445,000
Supplemental Disclosures of Noncash Investing and Financing Activities			
Other real estate acquired in settlement of loans	$ 957,112	$ - -	$ 85,000
Unrealized gains (losses) on available for sale securities	$ (1,416,516)	$ 694,718	$ 379,460
Minimum pension liability adjustment	$ 1,290,483	$ 159,095	$ (507,546)

The accompanying notes are an integral part of these consolidated financial statements.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Citizens Bancorp of Virginia, Inc. (the "Company") and its wholly-owned subsidiary, Citizens Bank and Trust Company (the "Bank"). All significant intercompany balances and transactions have been eliminated in consolidation.

Business

The Company conducts the general business of a commercial bank. The Company is chartered under the laws of the Commonwealth of Virginia and is a member of the Federal Reserve System. The Company's primary trade areas are in the Virginia counties of Nottoway, Amelia, Prince Edward, Chesterfield, Mecklenburg and the City of Colonial Heights. The Company offers traditional lending and deposit products to businesses and individuals.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those 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 following is a summary of the significant accounting policies used in the preparation of the financial statements.

Cash and Cash Equivalents

Cash and cash equivalents include cash and balances due from banks, interest-bearing deposits in banks and federal funds sold. With the exception of certain FDIC-insured time deposits, all balances are readily available for use by the Company and its subsidiary. All the FDIC-insured time deposits mature prior to December 31, 2009.

Securities

Debt securities that management has the intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Securities not classified as held to maturity, including equity securities with readily determinable fair values, are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income, net of taxes. As of December 31, 2008, all investment securities were classified as "available for sale".

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted Securities

The Company is required to maintain an investment in the capital stock of certain correspondent banks. No ready market exists for this stock, and it has no quoted market value. The Company's investment in these stocks is recorded at cost.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Mortgage loans held for sale are sold with the mortgage servicing rights released by the Company.

The Company enters into commitments to originate certain mortgage loans whereby the interest rate on the loans is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. The period of time between issuance of a loan commitment and closing and the sale of the loan generally ranges from thirty to ninety days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on the loan. As a result, the Company is not exposed to losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity. Because of this high correlation, no gain or loss occurs on the rate lock commitments.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in the Virginia counties of Nottoway, Amelia, Prince Edward, Chesterfield, Mecklenburg and the City of Colonial Heights. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in the process of collection. Other personal loans are typically charged off no later than 180 days past due. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loans are charged against the allowance for loan losses when management believes that collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is impaired when it is probable, based on current information and events, that the Company will be unable to collect all contractual principal and interest payments due in accordance with the terms of the loan agreement. Impaired loans are measured on an individual basis for commercial and construction loans based on the present value of expected future cash flows discounted at the loan's effective interest rate or, as a practical expedient, at the loan's observable market price or the fair value of the collateral if the loan is collateral dependent. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment disclosures.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization expense is computed by the straight-line method over the estimated useful lives of the assets. Estimated useful lives of the assets range from 3 to 39 years. Major improvements are capitalized while maintenance and repairs are charged to expense as incurred.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of carrying value or fair value less cost to sell at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses related to holding foreclosed assets and changes in the valuation allowance are included in net expenses from foreclosed assets. The Company had $957,112 in foreclosed assets at December 31, 2008 and no foreclosed assets at December 31, 2007.

Income Taxes

Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statements of income.

Defined Benefit Pension Plan

The Company provides a noncontributory pension plan covering substantially all of the Company's employees who are eligible based on age and length of service. The Company funds pension costs in accordance with the funding provisions of the Employee Retirement Income Security Act.

Accumulated Other Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. However certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and pension liability adjustments are reported as a separate component in the equity section of the balance sheet, as components of accumulated other comprehensive income. At December 31, 2006, the Company implemented FASB No. 158, requiring the recognition of the under-funded status of a company's defined benefit pension plan as a component of accumulated other comprehensive income, net of income taxes.

Earnings Per Share

Earnings per share are calculated based on the weighted-average number of common shares and common stock equivalents outstanding. The Company has no dilutive or potentially dilutive common stock equivalents. For the years ending December 31, 2008, 2007 and 2006, the weighted-average common shares outstanding were 2,412,954, 2,439,505 and 2,440,750, respectively.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

Reclassifications

Certain reclassifications have been made to prior period balances to conform to the current year presentation.

Recent Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 157, "Fair Value Measurements" (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 does not require any new fair value measurements, but rather, provides enhanced guidance to other pronouncements that require or permit assets or liabilities to be measured at fair value. This Statement is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those years. The FASB has approved a one-year deferral for the implementation of the Statement for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The Company does not expect the implementation of SFAS 157 to have a material impact on its consolidated financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans – an amendment of FASB Statements No. 87, 88, 106, and 132(R)" (SFAS 158). This Statement requires that employers measure plan assets and obligations as of the balance sheet date. This requirement is effective for fiscal years ending after December 15, 2008. The other provisions of SFAS 158 were implemented by the Company as of December 31, 2006.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS 159). This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective of this Statement is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The fair value option established by this Statement permits all entities to choose to measure eligible items at fair value at specified election dates. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. The fair value option may be applied instrument by instrument and is irrevocable. SFAS 159 is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007, with early adoption available in certain circumstances. The Company adopted SFAS 159 effective January 1, 2008. The Company decided not to report any existing financial assets or liabilities at fair value that are not already reported, thus the adoption of this statement did not have a material impact on the consolidated financial statements.

In November 2007, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 109, "Written Loan Commitments Recorded at Fair Value Through Earnings" (SAB 109). SAB 109 expresses the current view of the staff that the expected net future cash flows related to the associated servicing of the loan should be included in the measurement of all written loan commitments that are accounted for at fair value through earnings. SEC registrants are expected to apply the views in Question 1 of SAB 109 on a prospective basis to derivative loan commitments issued or modified in fiscal quarters beginning after December 15, 2007. Implementation of SAB 109 did not have a material impact on the consolidated financial statements.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 141(R), "Business Combinations" (SFAS 141(R)). The Standard will significantly change the financial accounting and reporting of business combination transactions. SFAS 141(R) establishes principles for how an acquirer recognizes and measures the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141(R) is effective for acquisition dates on or after the beginning of an entity's first fiscal year that begins after December 15, 2008. The Company expects the implementation of SFAS 141(R) will not have a material impact on the consolidated financial statements at this time.

In December 2007, the FASB issued Statement of Financial Accounting Standards No. 160, "Noncontrolling Interests in Consolidated Financial Statements an Amendment of ARB No. 51" (SFAS 160). The Standard will significantly change the financial accounting and reporting of noncontrolling (or minority) interests in consolidated financial statements. SFAS 160 is effective as of the beginning of an entity's first fiscal year that begins after December 15, 2008, with early adoption prohibited. The Company expects the implementation of SFAS 160 will not have a material impact on the consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities – an amendment of SFAS No. 133," (SFAS No. 161). SFAS No. 161 requires that an entity provide enhanced disclosures related to derivative and hedging activities. SFAS No. 161 is effective for the Company on January 1, 2009.

In April 2008, the FASB issued FASB Staff Position No. 142-3, "Determination of the Useful Life of Intangible Assets" (FSP No. 142-3). FSP No. 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB SFAS No. 142, "Goodwill and Other Intangible Assets" (SFAS No. 142). The intent of FSP No. 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141(R). FSP No. 142-3 is effective for the Company on January 1, 2009, and applies prospectively to intangible assets that are acquired individually or with a group of other assets in business combinations and asset acquisitions. The adoption of FSP No. 142-3 is not expected to have a material impact on the Company's consolidated financial statements.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles," ("SFAS No. 162"). SFAS No. 162 identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles. SFAS No. 162 is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." Management does not expect the adoption of the provision of SFAS No. 162 to have any impact on the consolidated financial statements.

In September 2008, the FASB issued FSP FAS 133-1 and FIN 45-4, "Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161," ("FSP 133-1 and FIN 45-4"). FSP 133-1 and FIN 45-4 require a seller of credit derivatives to disclose information about its credit derivatives and hybrid instruments that have embedded credit derivatives to enable users of financial statements to assess their potential effect on its financial position, financial performance and cash flows. The disclosures required by FSP 133-1 and FIN 45-4 were effective for the Company on December 31, 2008 and did not have a material impact on the consolidated financial statements.

In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active," ("FSP 157-3"). FSP 157-3 clarifies the application of SFAS No. 157 in determining the fair value of a financial asset during periods of inactive markets. FSP 157-3 was effective as of September 30, 2008 and did not have material impact on the Company's consolidated financial statements.

In December 2008, the FASB issued FSP No. FAS 140-4 and FIN 46(R)-8, "Disclosures by Public Entities (Enterprises) about Transfers of Financial Assets and Interests in Variable Interest Entities." FSP No. FAS 140-4 and FIN 46(R)-8 requires enhanced disclosures about transfers of financial assets and interests in variable interest entities. The FSP is effective for interim and annual periods ending after December 15, 2008. Since the FSP requires only additional disclosures concerning transfers of financial assets and interest in variable interest entities, adoption of the FSP will not affect the Company's financial condition, results of operations or cash flows.

In January 2009, the FASB reached a consensus on EITF Issue 99-20-1. This FSP amends the impairment guidance in 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," to achieve more consistent determination of whether an other-than-temporary impairment has occurred. The FSP also retains and emphasizes the objective of an other-than-temporary impairment assessment and the related disclosure requirements in FASB Statement No. 115, "Accounting for Certain Investments in Debt and Equity Securities," and other related guidance. The FSP is effective for interim and annual reporting periods ending after December 15, 2008 and shall be applied prospectively. The FSP was effective as of December 31, 2008 and did not have a material impact on the consolidated financial statements.

Note 2. Securities

U.S. Government and Federal Agency securities consist of debt obligations of the U.S. Government or of its designated agencies including Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, and the Federal National Mortgage Association. At December 31, 2008, the Company held debt securities for the Federal Farm Credit Bank, Federal Home Loan Bank, and the Federal Home Loan Mortgage Corporation.

State and municipal bonds consist of debt obligations of states, municipalities, and school districts throughout the United States. Management's evaluation of state and municipal debt securities, prior to the purchase, includes a review of the governmental entity's credit rating. A security purchase is made based on the entity's credit rating without any consideration to the rating enhancement which may come from the bond insurer. Management strives to purchase general obligation debt securities which can offer a reduced risk of default.

Mortgage-backed securities consist of mortgage-backed pass-through securities that are issued by the Federal Agencies: Government National Mortgage Association, Federal Home Loan Mortgage Corporation, and Federal National Mortgage Association. This category also includes collateralized mortgage obligations, otherwise known as CMOs, which are issued by Federal Agencies such as FNMA and FHLMC and by private issuers.

Corporate securities consist of debt obligations issued by large, national corporations. This category while providing diversity for the investment portfolio, it is generally the smallest of the four securities categories in terms of total dollars invested.

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, follows:

	December 31, 2008			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Government and federal agency	$ 8,670,458	$ 37,243	$ (59)	$ 8,707,643
State and municipal	16,904,586	78,450	(489,818)	16,493,218
Mortgage-backed	17,978,220	243,905	(1,382,364)	16,839,761
Corporate	1,455,122	--	(14,410)	1,440,712
	$ 45,008,386	$ 359,598	$ (1,886,651)	$ 43,481,333

	December 31, 2007			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
U.S. Government				
and federal agency	$ 16,431,344	$ 1,159	$ (52,581)	$ 16,379,922
State and municipal	15,114,081	74,943	(46,562)	15,142,462
Mortgage-backed	13,513,415	60,968	(110,240)	13,464,143
Corporate	3,503,982	--	(38,223)	3,465,759
	$ 48,562,822	$ 137,070	$ (247,606)	$ 48,452,286

The amortized cost and fair value of securities available for sale by contractual maturity at December 31, 2008 follows. Maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be called or prepaid without any penalties.

	Amortized Cost	Fair Value
Maturing within one year	$ 2,720,169	$ 2,738,361
Maturing after one year through five years	8,786,723	8,849,829
Maturing after five years through ten years	8,884,469	8,855,545
Maturing after ten years	6,638,805	6,197,837
Mortgage-backed securities	17,978,220	16,839,761
	$ 45,008,386	$ 43,481,333

Information pertaining to securities with gross unrealized losses at December 31, 2008 and 2007 aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less than 12 Months		12 Months or More	
2008	Fair Value	Unrealized (Loss)	Fair Value	Unrealized (Loss)
		(In thousands)		
U.S. Government				
and federal agency	$ --	$ --	$ --	$ --
State and municipal	8,945	(490)	--	--
Mortgage-backed	5,038	(924)	1,094	(459)
Corporate	1,441	(14)	--	--
Total temporarily impaired securities	$ 15,424	$ (1,428)	$ 1,094	$ (459)

The unrealized losses in the investment portfolio as of December 31, 2008 are considered temporary and are a result of general market fluctuations. The unrealized losses are from 50 securities, of which 48 securities are rated as investment grade and are backed by insurance, U.S. government agency guarantees, or the full faith and credit of local municipalities throughout the United States, and 2 non-agency collateralized mortgage obligations (CMO) securities which carried a "split rating" at December 31, 2008 of AAA and BB. When a split rating occurs, the Company's investment policy states that the lower rating will be used to determine if the security is still investment grade. The investment policy does require that a below investment grade security be monitored by Management but the policy does not require that the security be sold just because it has fallen to below investment grade.

The 2 non-agency CMO securities were initially downgraded by S&P and Moody's in the fourth quarter of 2008. The book value of these 2 non-agency CMO securities at December 31, 2008 was $1,950,199 as compared to a market value of $1,113,726, or an unrealized loss of $836,473. Market values, in general, for the non-agency CMO category have been very volatile due to the lack of market participants. The Financial Accounting Standards Board (FASB) issued EITF 99-20-1 on January 12, 2009 providing new guidance as to what additional criteria, in addition to the decline in fair value of a security, that should be considered in assessing if a security is other-than-temporarily-impaired. EITF 99-20-1 does mention that an analysis such as the one described below is another means of assessing a security's impairment. Since the announced downgrade of these securities, Management has taken a proactive stance in the monthly monitoring of the underlying collateral's performance and is using advanced analytics (with severe delinquency projections) to project the future likelihood of these securities experiencing or requiring an other-than-temporary-impairment. The analytic results using December data indicate that there is no impairment of these securities as of the balance sheet date. The analysis will continue to be monitored and reported to the Board of Directors monthly. The amortized cost of these 2 CMO securities represents 0.6% of total assets as of December 31, 2008.

Market prices change daily and are affected by conditions beyond the control of the Company. Investment decisions are made by the management group of the Company and reflect the overall liquidity and strategic asset/liability objectives of the Company. Management analyzes the securities portfolio frequently and manages the portfolio to provide an overall positive impact to the Company's income statement and balance sheet. As management has the ability and intent to hold debt securities for the foreseeable future, no declines are deemed to be other than temporary.

	Less than 12 Months		12 Months or More	
2007	**Fair Value**	**Unrealized (Loss)**	**Fair Value**	**Unrealized (Loss)**
		(In thousands)		
U.S. Government and federal agency	$ --	$ --	$ 12,950	$ (53)
State and municipal	2,024	(11)	3,266	(36)
Mortgage-backed	4,470	(55)	4,164	(55)
Corporate	--	--	3,466	(38)
Total temporarily impaired securities	$ 6,494	$ (66)	$ 23,846	$ (182)

Securities having carrying values of $18,891,076 and $18,434,955 at December 31, 2008 and 2007, respectively, were pledged to secure public deposits and for other purposes required by law.

For the years ended December 31, 2008 and 2007, proceeds from the sales and calls of securities amounted to $15,793,135 and $1,000,000 respectively. There were no sales or calls in 2006. Gross realized gains for the year ended December 31, 2008 were $19,821. There were no gross realized gains or losses for the years ended December 31, 2007 and 2006.

Note 3. Loans

A summary of the balances of loans follows:

	December 31, 2008	December 31, 2007
	(In thousands)	
Mortgage loans on real estate:		
Commercial	$ 58,714	$ 53,362
Residential 1-4 family	101,750	96,831
Construction	16,321	18,697
Commercial	19,859	23,643
Consumer installment	16,402	18,798
Total loans	$ 213,046	$ 211,331
Less: Allowance for loan losses	2,167	1,950
Loans, net	$ 210,879	$ 209,381

Note 4. Allowance for Loan Losses

An analysis of the allowance for loan losses follows:

	Years Ended December 31, 2008	2007	2006
	(In thousands)		
Balance, beginning	$ 1,950	$ 1,935	$ 1,954
Provision for (recovery of) loan losses	245	(238)	(316)
Loans charged off	(164)	(131)	(155)
Recoveries of loans previously charged-off	136	384	452
Balance, ending	$ 2,167	$ 1,950	$ 1,935

A summary of information pertaining to impaired loans follows:

	Years Ended December 31,		
	2008	2007	2006
		(In thousands)	
Impaired loans with a valuation allowance	$ 865	$ 1,319	$ 1,906
Impaired loans without a valuation allowance	47	182	- -
Total impaired loans	$ 912	$ 1,501	$ 1,906
Valuation allowance related impaired loans	$ 218	$ 305	$ 348
Average investment in impaired loans	$ 1,119	$ 1,442	$ 2,200
Interest income recognized	$ 45	$ 79	$ 91

Nonaccrual loans excluded from the impairment disclosure above under SFAS No. 114 totaled $668,988, $598,268, and $35,862 at December 31, 2008, 2007 and 2006, respectively. Income on nonaccrual and impaired loans under the original terms would have been approximately $142,710, $152,993, and $198,073 for 2008, 2007 and 2006, respectively.

At December 31, 2008, loans totaling $241,000 were past due 90 days or more and were still accruing interest. This compares to no loans being past due 90 days or more and still accruing at December 31, 2007 and 2006.

Note 5. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment follows:

	December 31,	
	2008	2007
	(In thousands)	
Land	$ 1,753	$ 1,753
Buildings	7,721	7,517
Furniture, fixtures and equipment	4,740	4,313
	$ 14,214	$ 13,583
Accumulated depreciation	(6,455)	(5,821)
	$ 7,759	$ 7,762

Depreciation expense for the years ended December 31, 2008, 2007 and 2006 totaled $633,906, $690,196, and $648,791, respectively.

All branch locations are owned by the bank except the Chesterfield branch, the Midlothian loan production office and locations where the bank has remote ATM machines.

The Chesterfield branch is under a lease agreement for five years renewable for five additional terms of five years each. The original lease term is scheduled to end April 30, 2009.

The Midlothian office is under a lease agreement for one year renewable for additional terms of one year each. The lease term is scheduled to end September 30, 2009.

The bank installed one remote ATM in 2008 located at 200 North Main Street in Farmville, Virginia. The lease is a five year lease with option for automatic renewal for another five-year term.

All leases are classified as operating leases. Pursuant to the terms of the lease agreements, future minimum rent commitments are as follows:

2009	21,185
2010	3,000
2011	3,000
2012	3,000
2013	1,000
	$ 31,185

Note 6. Deposits

The aggregate amounts of time deposits in denominations of $100,000 or more at December 31, 2008 and 2007 were $61,017,704 and $53,043,695, respectively.

At December 31, 2008, the scheduled maturities of time deposits are as follows:

	(In thousands)
2009	$ 78,082
2010	17,289
2011	34,852
2012	8,271
2013	7,589
	$ 146,083

At December 31, 2008 and 2007, overdraft demand deposits reclassified to loans totaled $54,771 and $239,454, respectively.

Note 7. FHLB Advances

At December 31, 2008 the Company had outstanding advances totaling $11,000,000 with the Federal Home Loan Bank of Atlanta, detailed below. There were no advances outstanding at December 31, 2007.

	(In thousands)
Fixed rate advance, at 1.39% maturing December 11, 2009	$ 6,000
Five-year/ two-year convertible advance at 2.47% maturing February 5, 2013	5,000
	$ 11,000

Note 8. Other Borrowings

Other borrowings include commercial customer deposit balances that are invested overnight into an investment sweeps product. The balances held in this deposit-alternative investment vehicle are not insured by the FDIC; however, the Company pledges U.S. government securities sufficient to cover the balances held in these accounts.

The Company also has available credit facilities with several correspondent banks totaling $71,890,833.

Note 9. Income Taxes

The Company files income tax returns with the U.S. federal government. With few exceptions, the Company is no longer subject to U.S. federal income tax examinations by tax authorities for years prior to 2005.

The Company adopted the provisions of FIN 48, *"Accounting for Uncertainty in Income Taxes"*, on January 1, 2007 with no impact on the financial statements.

Allocation of income tax expense between current and deferred portions is as follows:

	Years Ended December 31,		
	2008	2007	2006
Current tax expense	$ 1,194,471	$ 1,322,235	$ 1,226,148
Deferred tax expense (benefit)	(48,480)	44,386	90,461
	$ 1,145,991	$ 1,366,621	$ 1,316,609

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,		
	2008	2007	2006
Computed "expected" tax expense	$ 1,439,131	$ 1,619,031	$ 1,592,379
Tax-exempt income	(285,805)	(252,631)	(259,285)
Other, net	(7,335)	221	(16,485)
	$ 1,145,991	$ 1,366,621	$ 1,316,609

The Bank is subject to a Bank Franchise Tax that is imposed by the Commonwealth of Virginia. The Bank Franchise Tax is not an income tax and as such the tax cost is included in other non-interest expense.

The components of the net deferred tax asset, included in other assets, are as follows:

	December 31,	
	2008	**2007**
Deferred tax assets:		
Allowance for loan losses	$ 305,273	$ 221,973
Non-accrual loan interest	51,673	36,924
Intangible assets	13,066	16,012
Accrued pension	456,929	26,916
OREO expenses	4,718	- -
Net unrealized loss on securities available for sale	519,198	37,582
Deferred tax assets	$ 1,350,857	$ 339,407
Deferred tax liabilities:		
Deferred loan costs	$ 169,882	$ 162,350
Depreciation	168,236	126,417
Prepaid pension	-	-
Discount accretion on securities	16,051	14,061
Deferred tax liabilities	$ 354,169	$ 302,828
Net deferred tax assets	$ 996,688	$ 36,579

Note 10. Employee Benefit Plans

The Company offers a number of benefit plans to its employees. Among them are a 401(k) plan and a defined benefit plan, which are described below:

401(k) Plan

The Company offers a 401(k) plan for the benefit of all employees who have attained the age of 18 and completed three months of continuous service. The plan allows participating employees to contribute amounts up to the limits set by the Internal Revenue Service and permits the Company to make discretionary contributions to the plan in such amounts as the Board of Directors may determine to be appropriate. The Company presently makes matching contributions equal to 50% of the first six percent of an employee's compensation contributed to the plan. Contributions made to the plan by the Company for the years ended December 31, 2008, 2007, and 2006, were $73,728, $70,028, and $66,875, respectively.

Defined Benefit Pension Plan

The Company has a defined benefit pension plan covering all employees who meet eligibility requirements. To be eligible, an employee must be 20.5 years of age and have completed six months of eligibility service. The plan provides benefits based on the participant's years of service and five year average final compensation. At a minimum, our funding policy is to make annual contributions as permitted or required by regulations. For the twelve months ended December 31, 2008, the Company made cash contributions totaling $253,411. The Company made a one-time additional cash contribution of $250,000 to the plan in 2006. Contributions for the twelve months ended December 31, 2007 and 2006 were $224,155 and $489,819, respectively.

CITIZENS BANCORP OF VIRGINIA, INC. AND SUBSIDIARY

Notes to Consolidated Financial Statements

Additional information regarding the Company's pension plan is presented below in accordance with SFAS 158 for all years. The measurement date used for the pension disclosure is December 31 for 2008 and September 30 for years 2007 and 2006.

	Years Ended December 31,		
	2008	2007	2006
Change in Benefit Obligation			
Benefit obligation, beginning	$ 3,785,496	$ 3,780,265	$ 3,431,501
Service cost	408,263	307,566	297,905
Interest cost	294,554	225,920	205,196
Actuarial (gain)	(149,367)	(123,757)	(60,027)
Benefits paid	(189,728)	(404,498)	(94,310)
Benefit obligation, ending	$ 4,149,218	$ 3,785,496	$ 3,780,265
Change in Plan Assets			
Fair value of plan assets, beginning	$ 3,706,332	$ 3,557,670	$ 2,950,097
Actual return on plan assets	(964,705)	329,005	212,064
Employer contributions	253,411	224,155	489,819
Benefits paid	(189,728)	(404,498)	(94,310)
Fair value of plan assets, ending	$ 2,805,310	$ 3,706,332	$ 3,557,670
Funded Status at the end of year	$ (1,343,908)	$ (79,164)	$ (222,595)
Amounts Recognized in Accumulated Other Comprehensive (Income)/Loss			
Net actuarial loss	$ 2,914,884	$ 1,802,489	$ 2,058,520
Prior service cost	(1,332,868)	(1,454,038)	(1,550,974)
Deferred taxes	(537,885)	(118,473)	(172,565)
Net amount recognized	$ 1,044,131	$ 229,978	$ 334,981

The accumulated benefit obligation for the defined benefit pension plan was $3,470,359, $3,067,402 and $3,210,155 at December 31, 2008, 2007 and 2006, respectively.

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	Years Ended December 31,		
	2008	2007	2006
Components of Net Periodic Benefit Cost			
Service cost	$ 326,610	$ 307,566	$ 297,905
Interest cost	235,643	225,920	205,196
Expected return on plan assets	(308,842)	(280,756)	(234,118)
Amortization of prior service cost	(96,936)	(96,936)	(96,936)
Recognized net actuarial loss	71,197	84,025	87,667
Net periodic benefit cost	$ 227,672	$ 239,819	$ 259,714
Other Changes in Plan Assets and Benefit Obligations Recognized in Accumulated Other Comprehensive (Income)			
Net actuarial (gain)/ loss	$ 1,112,395	$ (256,031)	$ 2,058,520
Prior service cost	- -	- -	(1,550,974)
Amortization of prior service cost	121,170	96,936	- -
Total recognized in accumulated other comprehensive loss	$ 1,233,565	$ (159,095)	$ 507,546
Total Recognized in Net Pension Benefit Cost and Accumulated Other Comprehensive (Income)	$ 1,461,237	$ 80,724	$ 767,260
Adjustment to Retained Earnings due to Change in Measurement Date			
Service cost	$ 81,653	N/A	N/A
Interest cost	58,911	N/A	N/A
Expected return on plan assets	(77,211)	N/A	N/A
Amortization of prior service cost	(24,234)	N/A	N/A
Recognized net actuarial loss	17,799	N/A	N/A
Net periodic benefit cost	$ 56,918	N/A	N/A

The weighted-average assumptions used in the measurement of the Company's benefit obligation are shown in the following table:

	2008	2007	2006
Discount rate	6.00%	6.25%	6.00%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	5.00%	5.00%

The weighted-average assumptions used in the measurement of the Company's net periodic benefit cost are shown in the following table:

	2008	2007	2006
Discount rate	6.25%	6.00%	6.00%
Expected return on plan assets	8.50%	8.50%	8.50%
Rate of compensation increase	4.00%	5.00%	5.00%

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with its investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust and for the trust itself. Undue weight is not given to recent experience that may not continue over the measurement period with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period in which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The pension plan's weighted-average asset allocations as December 31, 2008 and September 30, 2007, by asset category are as follows:

	December 31, 2008	September 30, 2007
Asset Category		
Mutual funds - fixed income	42%	46%
Mutual funds - equity	52%	49%
Other	6%	5%
Total	100%	100%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return with a targeted asset allocation of 50% fixed income and 50% equities. The investment manager selects investment fund managers with demonstrated experience and expertise and funds with demonstrated historical performance for the implementation of the plan's investment strategy. The investment manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the trustee to administer the investments of the trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administrative costs chargeable to the trust.

The Company expects to contribute $250,000 to its pension plan in 2009.

Estimated future benefit payments, which reflect expected future service as appropriate, are as follows:

2009	$ 38,584
2010	85,597
2011	88,375
2012	98,350
2013	155,908
2014-2018	831,970
	$ 1,298,784

Note 11. Related Party Transactions

In the ordinary course of business, the Company has granted loans to principal officers and directors and their affiliates amounting to $2,682,000 and $2,029,000 at December 31, 2008 and 2007, respectively. During the year ended December 31, 2008, total principal additions were $1,283,000 and total principal payments were $630,000. For the years ended December 31, 2008 and 2007, total deposits for principal officers and directors and their affiliates amounted to $3,262,000 and $4,158,000, respectively.

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Note 12. Other Expenses

The principal components of other expenses in the statements of income are:

	2008	2007	2006
Accounting and audit fees	$ 189,155	$ 168,755	$ 193,600
ATM expense	233,173	248,930	178,974
Bank franchise tax	232,002	207,224	198,004
Consulting fees	58	10,138	17,832
Directors fees	116,450	118,150	115,175
Data processing services	361,648	227,728	182,907
Internet banking expense	76,469	117,609	103,930
Legal fees	38,598	31,937	41,264
Marketing	126,639	105,157	119,347
Software	131,960	136,770	146,469
Stationery and supplies	175,702	167,961	183,020
Telephone	102,164	92,749	108,761
Other (includes no items in excess of 1% of total revenues)	726,221	789,527	885,939
	$ 2,510,239	$ 2,422,635	$ 2,475,222

Note 13. Off-Balance Sheet Activities

The Company is a party to credit related 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, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2008 and 2007, the following financial instruments were outstanding:

	2008	2007
	(In thousands)	
Commitments to extend credit	$ 26,307	$ 30,917
Standby letters of credit	867	1,539

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. All letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments, if deemed necessary.

Note 14. Restrictions on Cash and Due From Banks

The Federal Reserve Bank requires banks to maintain cash reserves against certain categories of deposit liabilities. At December 31, 2008 and 2007, the aggregate amount of daily average required reserves was approximately $198,000 and $193,000 respectively.

Note 15. Concentration of Credit Risk

The Company has a diversified loan portfolio consisting of commercial, real estate and consumer (installment) loans. Substantially all of the Company's customers are residents or operate business ventures in its market area consisting of Nottoway, Amelia, Prince Edward, Chesterfield and adjacent cities and counties. Therefore, a substantial portion of its debtors' ability to honor their contracts and the Company's ability to realize the value of any underlying collateral, if needed, is influenced by the economic conditions in this market area.

The Company maintains a portion of its cash balances with its subsidiary and with its securities safekeeping correspondent, First Tennessee Bank, N.A. These deposits are fully insured by the Federal Deposit Insurance Corporation until December 31, 2009. The Bank has several correspondent banking relationships that are principally related to services obtained from these correspondents. The balances in these accounts are fully insured by the FDIC until December 31, 2009. Management monitors the financial stability of its correspondents on a regular basis.

Note 16. Restriction on Dividends

The Bank is subject to certain restrictions on the amount of dividends it may pay without prior regulatory approval. The Bank normally restricts dividends to a lesser amount. At December 31, 2008, retained earnings of approximately $5,411,313 were available for the payment of dividends without prior regulatory approval.

Note 17. Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Management believes, that as of December 31, 2008 and 2007, the Company and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2008, the most recent notification from the Federal Reserve Bank categorized the Bank as well capitalized under the framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's categorization.

(Capital ratio tables continued on next page.)

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2008 and 2007 are presented in the table below:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Amount in thousands)			
As of December 31, 2008:						
Total Capital to Risk Weighted Assets						
Consolidated	$ 40,561	20.5%	$ 15,834	8.0%	N/A	
Bank	$ 33,967	17.3%	$ 15,714	8.0%	$ 19,642	10.0%
Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ 38,394	19.4%	$ 7,917	4.0%	N/A	
Bank	$ 31,800	16.2%	$ 7,857	4.0%	$ 11,785	6.0%
Tier 1 Capital to Average Assets						
Consolidated	$ 38,394	13.0%	$ 11,854	4.0%	N/A	
Bank	$ 31,800	11.0%	$ 11,598	4.0%	$ 14,498	5.0%
As of December 31, 2007:						
Total Capital to Risk Weighted Assets						
Consolidated	$ 39,587	19.9%	$ 15,886	8.0%	N/A	
Bank	$ 32,248	16.4%	$ 15,753	8.0%	$ 19,691	10.0%
Tier 1 Capital to Risk Weighted Assets						
Consolidated	$ 37,637	19.0%	$ 7,943	4.0%	N/A	
Bank	$ 30,298	15.4%	$ 7,786	4.0%	$ 11,815	6.0%
Tier 1 Capital to Average Assets						
Consolidated	$ 37,637	12.9%	$ 11,649	4.0%	N/A	
Bank	$ 30,298	10.6%	$ 11,392	4.0%	$ 14,240	5.0%

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Note 18. Fair Value Measurements and Interest Rate Risk

Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. SFAS No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The Company in estimating fair value disclosures for financial instruments used the following methods and assumptions:

Cash and cash equivalents: The carrying amounts of cash and short-term instruments approximate fair values.

Securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Restricted securities: The carrying value of restricted stock approximates fair value based on the redemption provisions of the respective entity.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying values. Fair values for certain mortgage loans (e.g., one-to-four family residential) and other consumer loans are based on quoted market prices of similar loans sold in conjunction with securitization transactions, adjusted for differences in loan characteristics. Fair values for other loans (e.g., commercial real estate and investment property mortgage loans, commercial and industrial loans) are estimated using discounted cash flow analyses based upon interest rates currently being offered for loans with similar terms to borrowers of similar credit quality.

Deposits: The fair values disclosed for demand deposits (e.g., interest and non-interest checking, passbook savings, and certain types of money market accounts) are, by definition, equal to the amounts payable on demand at the reporting date (i.e., their carrying amounts). The carrying amounts of variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Borrowings: The carrying amounts of federal funds purchased and other short term borrowings maturing within 90 days approximate their fair values. Fair values for Federal Home Loan Bank advances are estimated based upon current advance rates for the remaining term of the advance.

Accrued interest: The carrying amounts of accrued interest approximate fair value.

Off-balance-sheet instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing. At December 31, 2008 and 2007, the fair value of loan commitments and standby letters of credit was deemed to be immaterial.

The estimated fair values, and related carrying or notional amounts, of the Company's financial instruments are as follows:

	December 31, 2008		December 31, 2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	(in thousands)			
Financial assets:				
Cash and cash equivalents	$ 29,928	$ 29,928	$ 14,115	$ 14,115
Securities available for sale	43,481	43,481	48,452	48,452
Restricted securities	1,161	1,161	631	631
Loans, net	210,879	212,015	209,381	207,362
Accrued interest receivable	1,742	1,742	1,857	1,857
Financial liabilities:				
Deposits	$ 249,141	$ 250,217	$ 243,007	$ 241,104
Other borrowings	16,183	16,146	7,324	7,324
Accrued interest payable	1,154	1,154	1,540	1,540

The Company assumes interest rate risk as part of its normal operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent possible to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

The Company adopted SFAS No. 157, "Fair Value Measurements" (SFAS 157), on January 1, 2008 to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. SFAS 157 clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants.

In February of 2008, the FASB issued Staff Position No. 157-2 (FSP 157-2) which delayed the effective date of SFAS 157 for certain nonfinancial assets and nonfinancial liabilities except for those items that are recognized or disclosed at fair value in the financial statements on a recurring basis. FSP 157-2 defers the effective date of SFAS 157 for such nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years. Thus, the Company has only partially applied SFAS 157. Those items affected by FSP 157-2 include other real estate owned (OREO), goodwill and core deposit intangibles.

In October of 2008, the FASB issued Staff Position No. 157-3 (FSP 157-3) to clarify the application of SFAS 157 in a market that is not active and to provide key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. FSP 157-3 was effective upon issuance, including prior periods for which financial statements were not issued.

SFAS 157 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy under SFAS 157 based on these two types of inputs are as follows:

- Level 1 Inputs to the valuation methodology are quoted prices for similar assets and liabilities inactive markets.
- Level 2 Inputs to the valuation methodology included 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 describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2008:

		Fair Value Measurements at December 31, 2008 Using		
Description	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Signigicant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Securities available for sale	$ 43,481	$ -	$ 43,481	$ -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

Impaired Loans: Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is over two years old, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Impaired loans allocated to the Allowance for Loan Losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The following table summarizes the Company's financial assets that were measured at fair value on a nonrecurring basis during the period.

		Carrying value at December 31, 2008		
Description	Balance as of December 31, 2008	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(Dollars in thousands)		
Assets:				
Impaired Loans, net of valuation allowance	$ 647	$ -	$ 181	$ 466

Note 19. Condensed Parent Company Financial Statements

The following parent company accounting policies should be read in conjunction with the related condensed balance sheets, statements of income, and statements of cash flows.

The investment in subsidiary is accounted for using the equity method of accounting. The parent company and its subsidiary file a consolidated federal income tax return. The subsidiary's individual tax provision and liability are stated as if it filed a separate return and any benefits or detriments of filing the consolidated tax return are absorbed by the parent company.

The parent company's principal asset is its investment in its wholly-owned subsidiary. Dividends from the subsidiary are the primary source of funds for the parent company. The payment of dividends by the subsidiary is restricted by various statutory limitations. Banking regulations also prohibit extensions of credit by the Bank to the parent company unless appropriately secured by assets.

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Notes to Consolidated Financial Statements

Condensed Parent Company Financials

Balance Sheets
December 31, 2008 and 2007

Assets	2008	2007
Cash	$ 705,075	$ 1,091,737
Investment in subsidiary	29,908,823	30,018,457
Securities available for sale at fair market value	5,879,199	6,492,499
Other assets	286,938	174,083
Total assets	$ 36,780,035	$ 37,776,776
Liabilities and Stockholders' Equity		
Other liabilities	$ 438,114	$ 446,238
Stockholders' equity	36,341,921	37,330,538
Total liabilities and stockholders' equity	$ 36,780,035	$ 37,776,776

Statements of Income
For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Dividends from subsidiary	$ 1,575,000	$ 1,500,000	$ 1,500,000
Interest income on investments	288,324	213,892	188,261
Total Interest Income	1,863,324	1,713,892	1,688,261
Noninterest income	- -	- -	40,016
Total income	$ 1,863,324	$ 1,713,892	$ 1,728,277
Noninterest expense - other	$ 382,313	$ 326,941	$ 338,854
Income before income taxes	$ 1,481,011	$ 1,386,951	$ 1,389,423
Allocated income tax benefit	66,070	61,598	52,474
Income before equity in undistributed earnings of subsidiary	$ 1,547,081	$ 1,448,549	$ 1,441,897
Equity in undistributed earnings of subsidiary	1,539,667	1,946,685	1,924,961
Net income	$ 3,086,748	$ 3,395,234	$ 3,366,858

Condensed Parent Company Financials

Statements of Cash Flows

For the Years Ended December 31, 2008, 2007 and 2006

	2008	2007	2006
Cash Flows from Operating Activities			
Net income	$ 3,086,748	$ 3,395,234	$ 3,366,858
Adjustments to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiary	(1,539,667)	(1,946,685)	(1,924,961)
Gain on sale of investment fund	- -	- -	(40,016)
Net amortization (accretion) of securities	5,464	(1,018)	(1,894)
Changes in other assets and liabilities:			
(Increase) decrease in other assets	(42,115)	(48,826)	334,158
Increase (decrease) in other liabilities	(8,124)	(135,649)	157,187
Net cash provided by operating activities	$ 1,502,306	$ 1,263,056	$ 1,891,332
Cash Flows from Investing Activities			
Purchases of securities	$ (3,091,934)	$ (1,847,347)	$ (1,267,632)
Calls and prepayments of securities	3,491,711	1,292,956	137,736
Net cash provided by (used in) investing activities	$ 399,777	$ (554,391)	$ (1,129,896)
Cash Flows from Financing Activities			
Repurchase of common stock	$ (651,559)	$ (100,164)	$ - -
Dividends paid	(1,637,186)	(1,585,354)	(1,684,122)
Net cash (used in) financing activities	$ (2,288,745)	$ (1,685,518)	$ (1,684,122)
Decrease in cash and cash equivalents	$ (386,662)	$ (976,853)	$ (922,686)
Cash and Cash Equivalents			
Beginning of year	1,091,737	2,068,590	2,991,276
End of year	$ 705,075	$ 1,091,737	$ 2,068,590

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Exhibit 31.1

CERTIFICATION

I, Joseph D. Borgerding, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens Bancorp of Virginia, Inc. for the year ended December 31, 2008;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-a5(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

Joseph D. Borgerding
Principal Executive Officer

Exhibit 31.2

CERTIFICATION

I, Ronald E. Baron, certify that:

1. I have reviewed this annual report on Form 10-K of Citizens Bancorp of Virginia, Inc. for the year ended December 31, 2008;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-a5(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2009

Ronald E. Baron

Ronald E. Baron
Principal Financial Officer

Exhibit 32.1

STATEMENT OF PRINCIPAL EXECUTIVE OFFICER PURSUANT TO 18 U.S.C. § 1350

In connection with the Annual Report on Form 10-K for the period ended December 31, 2008 (the "Form 10-K") of Citizens Bancorp of Virginia, Inc. (the "Company"), I, Joseph D. Borgerding, principal executive officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) the Form 10-K fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Form 10-K.

By:

Joseph D. Borgerding
Principal Executive Officer

Date: March 31, 2009

Exhibit 32.2

STATEMENT OF PRINCIPAL FINANCIAL OFFICER PURSUANT TO 18 U.S.C. § 1350

In connection with the Annual Report on Form 10-K for the period ended December 31, 2008 (the "Form 10-K") of Citizens Bancorp of Virginia, Inc. (the "Company"), I, Ronald E. Baron, principal financial officer of the Company, hereby certify pursuant to 18 U.S.C. § 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

(a) the Form 10-K fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and

(b) the information contained in the Form 10-K fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Form 10-K.

By:

Ronald E. Baron
Principal Financial Officer

Date: March 31, 2009

Valued Employees of Citizens Bank and Trust Company

30 + Years of Service

Joyce C. Hawkins	Indirect Lender Assistant	Blackstone Main Office
Janice P. Jones	Vice President/Risk Manager	Blackstone Main Office
Rhonda W. Kincer	Vice President/Operations & Security Officer	Blackstone Main Office
Lynn K. Shekleton*	Senior Vice President/Human Resources & Branch Administration	Blackstone Main Office
James M. Snead	Vice President/Small Business & Retail Lender	Blackstone Main Office

20 to 29 Years of Service

Mary H. Bishop	Assistant Vice President/ Loan Services Manager & Mortgage Underwriter	Blackstone Main Office
Tammy B. Blevins	Customer Service Representative	Crewe Office
Sue C. Cobbs	Receptionist	Blackstone Main Office
Janet W. Eanes	Computer/Proof Operator	Blackstone Main Office
Theresa W. Hardaway	Branch Support Specialist	Blackstone Main Office
Barbara W. Harver	Customer Service Representative	Amelia Office
Alice M. Hurte	Operations Manager	Crewe Office
Judith C. Miracle	Bookkeeper	Blackstone Main Office
Nancy Blair Myers	Loan Support Supervisor	Blackstone Main Office
Rebecca J. Redford	Teller/Customer Service Representative	Burkeville Office
Tamra M. Reekes	Assistant Vice President Corporate Secretary/BSA Coordinator	Blackstone Main Office
Melissa M. Roberts	Head Teller	Crewe Office
Connie H. Wilkinson	Banking Officer/Bookkeeping Supervisor	Blackstone Main Office
Patricia P. Williamson	Bookkeeper	Blackstone Main Office

10 to 19 Years of Service

Sally C. Beale	ATM Coordinator	Blackstone Main Office
Ellis G. Corley	Courier	Blackstone Main Office
Becky L. Covington	ATM Coordinator Assistant	Blackstone Main Office
Cathy R. Dews	ACH Coordinator	Blackstone Main Office
Joyce M. Dooley	Head Teller	Blackstone Drive Thru
Robin E. Gough	Assistant Vice President/Branch Manager	Amelia Office
Tracey L. Higgins	Loan Quality Control Specialist	Blackstone Main Office
Beverly H. Hite	Loan Processor	Blackstone Main Office
Rhonda L. Hodge	Loan Processor	Blackstone Main Office
Charles R. Houchins, III	Vice President/Indirect Lender	Blackstone Main Office
Dianne H. Hudson	Human Resources Generalist/Training Officer	Blackstone Main Office
Dottie L. Jones	Banking Officer/Senior Loan Processor	Blackstone Main Office
Barbara W. Maitland	Loan Support Specialist	Blackstone Main Office
Marva Moseley	Head Teller	Farmville West Office
Kelly W. Norton	Loan Processor	Blackstone Main Office
Kimberly D. Queen	Computer/Proof Operator	Blackstone Main Office
Mary E. Rhodes	Teller	Amelia Office
Gloria F. Robertson	Assistant Vice President/Branch Manager	Blackstone Shopping Center
Lisa H. Whitehead	Banking Officer/Accounting Manager	Blackstone Main Office

* *Denotes Officer of Citizens Bancorp of Virginia, Inc. and Citizens Bank and Trust Company.*

Valued Employees of Citizens Bank and Trust Company

5 to 9 Years of Service

Dana H. Abernathy	Head Teller	Farmville South Office
Anessa S. Acors	Loan Processor	Blackstone Main Office
Rhonda E. Arnold	Assistant Vice President/Branch Manager	Farmville South Office
Sandra N. Asal	Banking Officer/Operations Manager	Farmville South Office
Kay F. Baughan	Assistant Vice President/Branch Manager	Crewe & Burkeville Offices
Lisa E. Biggers	Branch Manager	Farmville West Office
Joseph D. Borgerding*	President and Chief Executive Officer	Blackstone Main Office
Nicole A. Clark	Online Banking/Public Relations/Marketing Coordinator	Blackstone Main Office
Robert H. Davis, III	Assistant Vice President/Network & Information Systems	Blackstone Main Office
Timothy S. Davis	Risk Management Specialist	Blackstone Main Office
Ginger P. Ferguson	Operations Manager	Amelia Office
Joellen R. Franklin	Customer Service Representative	Farmville South Office
Sandra C. Griffin	Head Teller	Blackstone Main Office
Melissa B. Hart	Facilities Manager	Blackstone Main Office
Sharon T. Huddleston	Customer Service Representative/Operations Manager	Farmville West Office
Crystal M. Jennings	Teller	Burkeville Office
Tonia W. Knight	Teller	Blackstone Drive Thru
Sandra E. Leonard	Teller	Crewe Office
Jennifer R. Lewis	Teller	Amelia Office
Kristie Martin-Wallace	Vice President/Compliance/Credit Review/BSA Officer	Blackstone Main Office
Shirley M. Mercier	Teller	Crewe Office
Doretha M. Pegram	Human Resources Assistant/Project Coordinator	Blackstone Main Office
Kathryn M. Ranson	Teller	Farmville South Office
Tina M. Wyatt	Teller	Crewe Office

≤ than 5 Years of Service

Lindsay D. Bain	Head Teller	Colonial Heights Office
Kristina R. Barlow	Teller	Blackstone Shopping Center
Ronald E. Baron*	Senior Vice President/Chief Financial Officer	Blackstone Main Office
John E. Beale	Credit Analyst	Blackstone Main Office
Devee G. Bradner	Teller	Blackstone Main Office
Kimberly A. Broughton	Branch Manager	Blackstone Main Office
Sonya P. Bullock	Teller/Customer Service Representative	Blackstone Shopping Center
Ann S. Butler	Internal Audit Manager	Blackstone Main Office
William J. Collins, III	Lending Officer	Blackstone Main Office
Margaret A. Cooke	Teller	Colonial Heights Office
April S. Cottrell	Teller	Farmville South Office
Conchedra S. Dickerson	Teller	Amelia Office
Michelle M. Farley	Loan & Branch Operations Support Specialist	Burkeville Office
Michelle M. Fulford	Mortgage Loan Originator	Farmville South Office
Sarah L. Fussell	Teller	South Hill Office

** Denotes Officer of Citizens Bancorp of Virginia, Inc. and Citizens Bank and Trust Company.*

Valued Employees of Citizens Bank and Trust Company

< than 5 Years of Service - continued

Cetric A. Gayles	Vice President/Senior Credit Approval Officer	Farmville South Office
Kimberly N. Gerner	Vice President/Branch Manager	Colonial Heights & Chesterfield Offices
Sertear S. Green	Teller	Farmville West Office
Shelley N. Grise	Customer Service Representative/Operations Manager	Colonial Heights Office
Marjorie S. Harris	Mortgage Originator	South Hill Office
Deborah M. Henley	Vice President/Commercial Lender	Midlothian Office
Lindsey N. Inge	Customer Service Representative	Blackstone Main Office
Linwood W. Jennings	Branch Manager	South Hill Office
Susan G. Keene	Teller	Blackstone Drive Thru
TaMara J. Lafoon	Customer Service Representative	Blackstone Main Office
Christopher J. Lorraine	Customer Service Representative	Chesterfield Office
Donna R. Marker	Teller	Amelia
Darlene A. McElderry	Teller	Chesterfield Office
Brentley O. Morris	Teller	South Hill Office
Kimberly W. Morris	Customer Service Representative	South Hill Office
James O. Phillips	Financial Advisor	Blackstone Main Office
Jason E. Powers	General Service Technician	Blackstone Main Office
William B. Reynolds	Commercial Lender	Farmville South Office
Sheana N. Scruggs	Teller	Farmville South Office
Crystal A. Seamster	Teller	Blackstone Main Office
P. Ward Shelton	Vice President/Commercial Lender	Chesterfield Office
Devin B. Simon	Staff Accountant	Blackstone Main Office
April L. Skipwith	Teller	Blackstone Shopping Center
Erin M. Spillman	Teller	Farmville South Office
Eric R. Stiles	Data Security & Systems Administrator	Blackstone Main Office
Diane B. Thackston	Head Teller	Blackstone Shopping Center
Jennifer L. Tobias	Teller	Farmville West Office
Leslie Y. Tucker	Floating Teller	Burkeville Office
Donna C. Wilborn	Teller	Crewe Office
Tammy L. Wright	Head Teller	South Hill Office

** Denotes Officer of Citizens Bancorp of Virginia, Inc. and Citizens Bank and Trust Company.*

Office Locations

Main Office
126 South Main Street
Blackstone, VA 23824
(434) 292-8100

Branch Offices – Automated Teller Machine (ATM) at each location

Amelia
9060 North Five Forks Road
Amelia, Virginia 23002
(804) 561-3939

Blackstone
101 North Main Street
Blackstone, Virginia 23824
(434) 292-8100

Blackstone Shopping Center
1575 South Main Street
Blackstone, Virginia 23824
(434) 292-7205

Burkeville
102 Second Street, Northeast
Burkeville, Virginia 23922
(434) 767-5534

Chesterfield
10001 Courtview Lane
Chesterfield, Virginia 23832
(804) 751-0909

Colonial Heights
497 Southpark Circle
Colonial Heights, VA 23834
(804) 520-1101

Crewe
210 Carter Street
Crewe, Virginia 23930
(434) 645-7125

Farmville
1517 West Third Street
Farmville, Virginia 23901
(434) 392-3078

Farmville
1712 South Main Street
Farmville, Virginia 23901
(434) 392-7633

South Hill
622 East Atlantic Street
South Hill, Virginia 23970
(434) 447-7718

Loan Production Office

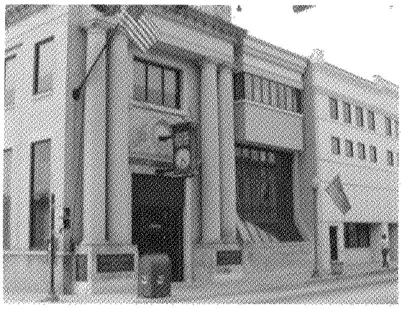
Midlothian
201 Wylderose Commons, Suite 200A
Midlothian, VA 23113
(804) 379-6251

Remote ATM

Farmville
200 North Main Street
Farmville, VA 23930

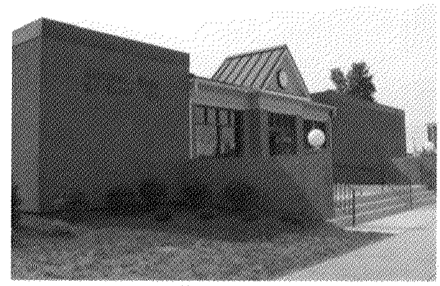
Corporate website: **www.cbtva.com**

Citizens 24-Hour Telephone Inquiry Service
Customers may access account information 24 hours a day, 7 days a week from a touch-tone telephone. Call (434) 292-1033 or 1-800-436-5899.



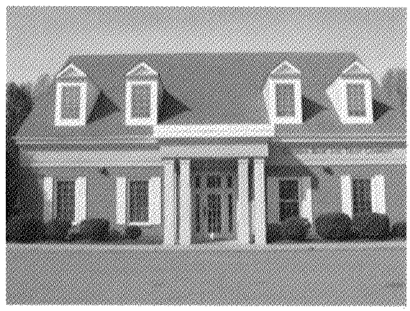
Blackstone Main Office

Blackstone Drive Thru



Crewe

Burkeville



Amelia

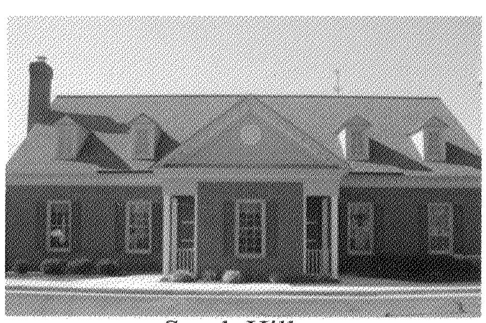
Blackstone
Shopping Center

Farmville West

Farmville South

Chesterfield

Colonial Heights



South Hill

Midlothian
Commercial Lending Office

Citizens Bancorp
of Virginia, Inc.

HEADQUARTERS:
126 South Main Street
Blackstone, VA 23824
PHONE: 434-292-8100 or 800-550-1873
FAX: 434-292-1906

www.cbtva.com