F&M BANK CORP
Form 10-Q
May 14, 2008

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

þ **Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended March 31, 2008.

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

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

P. O. Box 1111
Timberville, Virginia 22853
(Address of Principal Executive Offices) (Zip Code)
(540) 896-8941
(Registrant s Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant 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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o Noþ

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

Class	Outstanding at May 1, 2008
Common Stock, par value $5	2,329,908 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Interest Income		
Interest and fees on loans held for investment	$ 5,555	$ 5,543
Interest and fees on loans held for sale	21	
Interest on federal funds sold	16	14
Interest on interest bearing deposits	53	23
Dividends on equity securities	127	90
Interest on debt securities	262	293
Total Interest Income	6,034	5,963
Interest Expense		
Interest on demand deposits	218	262
Interest on savings accounts	73	85
Interest on time deposits over $100,000	514	570
Interest on time deposits	1,318	1,292
Total interest on deposits	2,123	2,209
Interest on short-term debt	77	156
Interest on long-term debt	404	324
Total Interest Expense	2,604	2,689
Net Interest Income	3,430	3,274
Provision for Loan Losses	90	60
Net Interest Income after Provision for Loan Losses	3,340	3,214
Noninterest Income		
Service charges	304	273
Insurance and other commissions	55	54
Other	251	246
Income on bank owned life insurance	73	73
Security gains (losses)	(2)	119
Total Noninterest Income	681	765

Noninterest Expense				
Salaries		1,248		1,144
Employee benefits		352		378
Occupancy expense		141		143
Equipment expense		133		157
Intangible amortization		69		69
Other		710		644
Total Noninterest Expense		2,653		2,535
Income before Income Taxes		1,368		1,444
Income Taxes		364		355
Net Income	$	1,004	$	1,089
Per Share Data				
Net Income	$	.43	$	.46
Cash Dividends	$	.22	$	.21
Weighted Average Shares Outstanding		2,337,493		2,370,752

The accompanying notes are an integral part of these statements.

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

	March 31, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Cash and due from banks	$ 8,035	$ 8,705
Interest bearing deposits in banks	2,146	3,132
Fed funds sold	317	
Securities held to maturity (note 2)	109	109
Securities available for sale (note 2)	25,260	30,214
Other investments	6,747	6,291
Loans held for sale	7,002	
Loans held for investment (note 3)	327,951	317,179
Less allowance for loan losses (note 4)	(1,531)	(1,702)
Net Loans Held for Investment	326,420	315,477
Bank premises and equipment	7,411	7,221
Interest receivable	1,637	1,932
Deposit intangible	805	874
Goodwill	2,639	2,639
Bank owned life insurance (note 5)	6,079	6,005
Other assets	3,438	4,128
Total Assets	$ 398,045	$ 386,727
LIABILITIES		
Deposits		
Noninterest bearing demand	$ 49,775	$ 49,755
Interest bearing		
Demand	26,763	25,196
Money Market	31,725	30,393
Savings deposits	29,129	28,214
Time deposits over $100,000	42,893	44,512
Time deposits	120,058	120,490
Total Deposits	300,343	298,560
Short-term debt	8,411	12,743
Long-term debt	44,821	29,714
Accrued expenses	5,568	6,545
Total Liabilities	359,143	347,562

STOCKHOLDERS EQUITY

Common stock, $5 par value, 2,332,150 and 2,343,890 issued and outstanding, in 2008 and 2007, respectively	11,661	11,720
Retained earnings	28,593	28,409
Accumulated other comprehensive income (loss)	(1,352)	(964)
Total Stockholders Equity	38,902	39,165
Total Liabilities and Stockholders Equity	$ 398,045	$ 386,727

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31,	
	2008	**2007**
Cash Flows from Operating Activities		
Net income	$ 1,004	$ 1,089
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	156	179
Amortization (accretion) of security premiums (discounts)	(12)	(28)
Net (increase) decrease in loans held for sale	(7,002)	
Provision for loan losses	90	60
Intangible amortization	69	69
(Increase) decrease in interest receivable	295	106
Decrease in other assets	343	361
Increase in accrued expenses	(461)	280
Loss (Gain) on security transactions	2	(119)
Amortization of limited partnership investments	121	145
Income from life insurance investment	(73)	(73)
Net Adjustments	(6,472)	980
Net Cash Provided by Operating Activities	(5,468)	2,069
Cash Flows from Investing Activities		
Purchase of investments available for sale	(7,666)	(3,772)
Proceeds from sales of investments available for sale	95	822
Proceeds from maturity of investments available for sale	11,403	3,265
Proceeds from maturity of investments held to maturity		110
Net increase in loans held for investment	(11,033)	(527)
Purchase of property and equipment	(345)	(130)
Change in federal funds sold	(317)	(1,479)
Net (increase) decrease in interest bearing bank deposits	986	276
Net Cash Used in Investing Activities	(6,877)	(1,435)
Cash Flows from Financing Activities		
Net change in demand and savings deposits	3,834	2,017
Net change in time deposits	(2,051)	3,632
Net change in short-term debt	(1,400)	(1,330)
Cash dividends paid	(520)	(499)
Repurchase of common stock	(364)	(220)
Proceeds from sale of common stock		1
Change in federal funds purchased	(2,932)	(2,562)

Proceeds of long-term debt	16,000	5,000
Repayment of long-term debt	(893)	(6,393)
Net Cash Provided (Used) by Financing Activities	11,674	(354)
Net Increase (Decrease) in Cash and Cash Equivalents	(671)	280
Cash and Cash Equivalents, Beginning of Period	8,706	6,247
Cash and Cash Equivalents, End of Period	$ 8,035	$ 6,527
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 2,708	$ 2,652
Income taxes		

The accompanying notes are an integral part of these statements.

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

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
Balance, beginning of period	$ 39,165	$ 38,105
Comprehensive Income		
Net income	1,004	1,089
Net change in unrealized appreciation on securities available for sale, net of taxes	(388)	(78)
Total comprehensive income	616	1,011
Issuance of Common Stock		1
Repurchase of common stock	(364)	(220)
Dividends declared	(515)	(498)
Balance, end of period	$ 38,902	$ 38,399

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F & M BANK CORP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 ACCOUNTING PRINCIPLES:

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

The consolidated financial statements conform to accounting principles generally accepted in the United States and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2008 and the results of operations for the three month periods ended March 31, 2008 and March 31, 2007. The notes included herein should be read in conjunction with the notes to financial statements included in the 2007 annual report to stockholders of the F & M Bank Corp.

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

NOTE 2 INVESTMENT SECURITIES:

The amounts at which investment securities are carried in the consolidated balance sheets and their approximate market values at March 31, 2008 and December 31, 2007 are as follows:

	2008		2007	
	Cost	Market Value	Cost	Market Value
Securities Held to Maturity				
U. S. Treasury and Agency obligations	$ 109	$ 109	$ 109	$ 109
Total	$ 109	$ 109	$ 109	$ 109

	2008		2007	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
Government sponsored enterprises	$ 12,852	$ 12,472	$ 16,459	$ 16,283
Equity securities	5,058	6,623	5,668	6,620
Mortgage-backed securities	4,854	4,809	5,411	5,402
Corporate Bonds	2,245	2,617	2,426	2,617
Municipals	251	250	250	250
Total	$ 25,260	$ 26,771	$ 30,214	$ 31,172

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at March 31, 2008 and December 31, 2007 are summarized as follows:

	2008	2007
Real Estate		
Construction	$ 55,881	$ 51,301
Residential	148,707	143,248
Commercial and agricultural	105,778	101,749
Installment loans to individuals	15,506	18,772
Credit cards	1,748	1,800
Other	331	310
Total	$ 327,951	$ 317,180

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Three Months Ended March 31,	
	2008	2007
Balance, beginning of period	$ 1,703	$ 1,791
Provisions charged to operating expenses	90	60
Net (charge-offs) recoveries:		
Loan recoveries	21	14
Loan charge-offs	(283)	(9)
Total Net (Charge-Offs) Recoveries*	(262)	5
Balance, End of Period	$ 1,531	$ 1,856
* Components of Net (Charge-Offs) Recoveries		
Real Estate		
Commercial	258	2
Installment	4	3
Total	$ 262	$ 5

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 EMPLOYEE BENEFIT PLAN

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The following is a summary of net periodic pension costs for the three-month periods ended March 31, 2008 and 2007.

	2008	2007
Service cost	$ 80,595	$ 79,197
Interest cost	64,054	59,473
Expected return on plan assets	(94,178)	(68,550)
Amortization of net obligation at transition		2,539
Amortization of prior service cost	(1,325)	(1,325)
Amortization of net (gain) or loss	2,947	11,380
Net periodic benefit cost	$ 52,093	$ 82,714

NOTE 6 FAIR VALUE

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

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

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

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

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

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

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 FAIR VALUE (CONTINUED)

Impaired Loans: SFAS No. 157 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, Accounting by Creditors for Impairment of a Loan, including impaired loans measured at an observable market price (if available), or at the fair value of the loan s collateral (if the loan is collateral dependent). Fair value of the loan s collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of SFAS No. 157.

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

F & M Bank Corp. (Company) is a one-bank holding company organized under Virginia law which provides financial services through its wholly-owned subsidiaries Farmers & Merchants Bank (Bank) and TEB Life Insurance Company (TEB). Farmers & Merchants Financial Services (FMFS) is a wholly-owned subsidiary of the Bank.

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank. The Company s primary trade area services customers in Rockingham County, Shenandoah County, Page County and the northern part of Augusta County.

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

Forward-Looking Statements

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

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

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

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

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

Allowance for Loan Losses

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

Goodwill and Intangibles

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

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

Securities Impairment

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

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

Overview

Net income for the first quarter of 2008 was $1,004,000 or $.43 per share, compared to $1,089,000 or $.46 in the first quarter of 2007, a decrease of 7.8%. Core operating earnings, (exclusive of non-recurring items and intangibles amortization) totaled $1,050,000 in 2008 and $1,041,000 in 2007, an increase of .86%. During the first quarter, noninterest income, exclusive of securities transactions, increased 5.7% and noninterest expense increased 4.7% during the same period.

Results of Operations

The 2008 year to date tax equivalent net interest margin increased $177,000 or 5.3% compared to the same period 2007. The yield on earning assets decreased .19 %, while the cost of funds decreased .27% compared to the same period in 2007. In response to the economic slowdown, the Federal Reserve s Federal Open Market Committee (FOMC) began lowering short-term interest rates in September 2007. Through March 31, 2008, the FOMC had lowered the Federal Funds Rate on six separate occasions by a total of 3.00%.

The Interest Sensitivity Analysis on page 18 indicates the Company is in a liability sensitive position in the one year time horizon (1.77%). This is an improvement compared to the same period in 2007 when the liability sensitive position was (15.43%). During this time period there was very little change in the repricing distribution of interest bearing liabilities, but a substantial shift within assets (primarily loans) towards shorter repricing horizons. This shift has better positioned the Bank to react to changes in short-term rates. The recent decrease in rates has had a minimal impact on the net interest margin compared to the same period in 2007, with the margin increasing by .04%.

As stated previously, the yield on assets has decreased .19%, while the cost of funds decreased .27% in the last twelve months. This change is a combination of the nominal changes resulting from the FOMC s actions causing a shift in market rates and changes in balance sheet leverage. During this period loans, the highest yielding asset, have increased an average of $14.8 million, which accounts for 99% of the growth in earning assets. Within liabilities, all of the increase has come from interest bearing demand deposits and long-term debt. Interest bearing demand deposits are a relatively low cost source of funds whose rates can be adjusted quickly. Long-term debt has been obtained to support loan growth and at favorable rates as market rates have declined.

A schedule of the net interest margin for 2008 and 2007 can be found in Table I on page 17

Noninterest income, exclusive of securities transactions, increased $37,000 or 5.7% through March 31, 2008. Items contributing to the increase include a $31,000 increase in service charges on deposit accounts, a $33,000 increase in debt card, ATM surcharge, credit card interchange and merchant credit card income; these increases were partially offset by a decrease in returns on low income housing investments. The returns on these investments are principally in the form of tax credits. During 2007 these tax credits were substantially higher than most years due to the recognition of non-recurring state tax credits. These credits have been classified as a return on investment rather than as a reduction of income tax expense. This has been done to reflect the fact that the Company entered into these investments with the expectation that tax credits would be the primary source of investment return and to avoid a distortion of income tax expense for the period.

Noninterest expense increased $118,000 in 2008, or 4.7%. The increase is primarily the result of a $78,000 increase in salaries/benefits expense (5.12%). The increase in salaries/benefits includes normal salary increases, growth in staff, and an increase in the cost of group insurance. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 3.9% in 2008 compared to 2007.

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

Areas that increased include a $10,000 increase in training, and a $30,000 increase in legal and professional expenses. The increase in legal and professional expense is made up of a variety of costs related to legal work on problem loans and the use of a consultant that is assisting with our internal audit program. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available Bank Holding Company Performance Report, the Company s and peer group noninterest expenses averaged 2.75% and 3.26% of average assets, respectively. The Company s operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

Financial Condition

Federal Funds Sold and Interest Bearing Bank Deposits

The Company s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end was benchmarked at 2.25% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits. Combined balances in fed funds sold and interest bearing bank deposits have decreased due to growth in the loan portfolio.

Securities

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

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

As of March 31, 2008, the market value of securities available for sale was $1,511,000 below cost. Most of the decrease is concentrated in declines in value of the equity securities portfolio held by the Company. Investments in debt securities decreased $4.3 million in the first quarter of 2008. This decrease helped fund loan growth and included the maturity of short-term government bonds that were no longer needed for pledging purposes. The bond portfolio is made up of primarily agency and mortgage-backed securities with an average portfolio life of approximately two years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates.

To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions, a diversified portfolio of REITs and a variety of other predominantly blue-chip securities. Many of these holdings have been hurt by the recent economic slowdown, stock market volatility and the sub-prime lending crisis.

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

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

Based on recent significant market volatility, both before and after the recently ended quarter, and management s review of these investments as of March 31, 2008, it was determined that there would be no impairment write-down for the first quarter of 2008. Management will continue to evaluate the portfolio for impairment on a quarterly basis.

Loan Portfolio

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

The allowance for loan losses (see subsequent section) provides for the risk that borrowers will be unable to repay their obligations and is reviewed quarterly for adequacy. The risk associated with real estate and installment notes to individuals is based upon employment, the local and national economies and consumer confidence. All of these affect the ability of borrowers to repay indebtedness. The risk associated with commercial lending is substantially based on the strength of the local and national economies. While lending is geographically diversified within the service area, the Company does have loan concentrations in agricultural (primarily poultry farming), construction, hotels, churches, and assisted living facilities. Management and the Board of Directors review these concentrations quarterly.

The first three months of 2008 resulted in an increase of $10.8 million in the Bank s core loan portfolio. The increase in the loan portfolio is reflective of improvements in the local economy and in efforts by management to add further diversification to its loan portfolio through loan participations with a number of correspondent banks. The growth has been concentrated within the real estate portfolio, primarily commercial properties.

Nonperforming loans include nonaccrual loans, loans 90 days or more past due and restructured loans. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Restructured loans are loans which have had the original interest rate or repayment terms changed due to financial hardship. Nonperforming loans totaled $3,391,000 at March 31, 2008 compared to $4,343,000 at December 31, 2007. Approximately 90% of these past due loans are secured by real estate. Although the potential exists for some loan losses, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of March 31, 2008, the Company does not hold any real estate which was acquired through foreclosure.

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

	March 31, 2008	December 31, 2007
Nonaccrual loans	$ 1,499	$ 1,758
Loans past due 90 days or more and still accruing interest	1,892	2,585
	$ 3,391	$ 4,343
Percent of loans held for investment	1.03%	1.37%

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

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

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

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

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

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

The allowance for loan losses of $1,531,000 at March 31, 2008 is equal to .47% of loans held for investment. This compares to an allowance of $1,703,000 (.54%) at December 31, 2007. Total Charge-offs exceed recoveries by $262,000 year to date. This includes a $259,000 charge-off on one loan relationship in the medical field, and completes our anticipated losses associated with this borrower. Management has funded the allowance at a rate of $30,000 per month throughout the first quarter of 2008, for a total of $90,000. Due to the recent loan charge-offs and the somewhat unsettled economy, management has raised the monthly funding to $50,000 beginning in April.

The overall level of the allowance is well below its peer group average. The current allowance for loan losses is equal to approximately five years of average loan losses. Based on historical losses, improvements in the level of problem loans, collateral values of delinquent loans, recent charge-offs that cleaned up a significant problem asset and a thorough review of the loan portfolio, management is of the opinion that the allowance for loan losses fairly states the estimated losses in the current portfolio.

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

Deposits and Other Borrowings

The Company s main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company s service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits have increased $1,783,000 since December 31, 2007. Time deposits decreased $2,051,000 during this period while demand deposits and savings deposits increased $3,834,000.

Short-term debt

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

Long-term debt

Borrowings from the Federal Home Loan Bank of Atlanta (FHLB) continue to be an important source of funding real estate loan growth. The Company s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund a variety of loan terms. This program allows the Bank to match the maturity of its loan portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. Scheduled repayments totaled $893,000 through March 31, 2008. Additional borrowings of $13 million were obtained to assist in funding loan growth.

In March 2008, the Company entered into an agreement with a correspondent bank (Silverton Bank) to provide a $5 million line of credit to be used for general corporate purposes, including capital contributions to the Bank and for the current stock repurchase program. The loan is unsecured and bears a rate of prime minus 1.25%. At March 31, 2008, $3 million was owed on this line of credit.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of March 31, 2008, the Company s total risk based capital and total capital to total assets ratios were 12.57% and 9.06%, respectively. Both ratios are in excess of regulatory minimums and exceed the ratios of the Company s peers. Earnings have been sufficient to allow an increase in the first quarter dividend in 2008 of 4.8%.

Liquidity

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

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

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

Interest Rate Sensitivity

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

As of March 31, 2008, the Company had a cumulative Gap Rate Sensitivity Ratio of (1.77%) for the one year repricing period. This generally indicates that earnings would decrease in an increasing interest rate environment as liabilities reprice more quickly than assets. However, in actual practice, this may not be the case as loans tied to the prime rate of interest will reprice immediately with an increase in short term market rates, while deposit rates will remain stable until competitive market conditions dictate the necessity for an increase in rates. Management constantly monitors the Company s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, page 18.

Stock Repurchase

As previously reported, on September 20, 2007, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 100,000 to 150,000 shares. Shares repurchased through March 31, 2008 totaled 115,306 shares; of this amount, 11,740 shares were repurchased in 2008, at an average cost of $31.05 per share.

Effect of Newly Issued Accounting Standards

The Company does not believe that any newly issued but as yet unapplied accounting standards will have a material impact on the Company s financial position or operations.

Existence of Securities and Exchange Commission Web Site

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

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TABLE 1

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

	Three Months Ended March 31, 2008			Three Months Ended March 31, 2007		
	Average Balance[2]	Income/ Expense	Rates	Average Balance[2]	Income/ Expense	Rates
Interest Income						
Loans held for investment[1,2]	322,204	5,585	6.95%	$ 309,136	$ 5,564	7.20%
Loans held for sale	1,725	21	4.88%			%
Federal funds sold	2,418	16	2.65%	1,184	14	4.73%
Interest bearing deposits	4,237	53	5.02%	1,996	23	4.61%
Investments						
Taxable [3]	21,174	287	5.42%	23,450	309	5.27%
Partially taxable	5,887	132	8.97%	6,826	91	5.33%
Tax exempt [2,3]	250	3	4.80%	375	4	4.27%
Total Earning Assets	357,895	6,097	6.83%	342,967	6,005	7.00%
Interest Expense						
Demand deposits	56,397	218	1.55%	50,286	262	2.08%
Savings	28,690	73	1.02%	31,288	85	1.09%
Time deposits	165,042	1,832	4.45%	165,101	1,862	4.51%
Short-term debt	10,731	77	2.88%	12,748	156	4.89%
Long-term debt	41,197	404	3.93%	28,768	324	4.51%
Total Interest Bearing Liabilities	302,057	2,604	3.46%	$ 288,191	2,689	3.73%
Net Interest Margin [1]		3,493			$ 3,316	
Net Yield on Interest Earning Assets			3.91%			3.87%

1 Interest income on loans includes loan fees.

2 An incremental income tax rate of 34% was

used to calculate the tax equivalent income on nontaxable and partially taxable investments and loans.

[3] Average balance information is reflective of historical cost and has not been adjusted for changes in market value.

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TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
March 31, 2008
(In Thousands of Dollars)

The following table presents the Company s interest sensitivity.

	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Not Classified	Total
Uses of Funds						
Loans						
Commercial	$ 58,067	$ 15,226	$ 80,929	$ 4,110	$	$ 158,332
Installment	5,044	951	10,371	2,434		18,800
Real estate for investments	29,811	22,563	80,848	15,849		149,071
Real estate held for sale	7,002					7,002
Credit cards	1,748					1,748
Federal funs sold	317					317
Interest bearing bank deposits	463	891	792			2,146
Investment securities	6,091	774	7,496	5,590	5,418	25,369
Total	108,543	40,405	180,436	27,983	5,418	362,785
Sources of Funds						
Interest bearing demand deposits		21,214	31,921	5,353		58,488
Savings deposits		5,826	17,477	5,826		29,129
Certificates of deposit $100,000 and over	6,798	23,211	12,884			42,893
Other certificates of deposit	18,560	62,986	38,512			120,058
Short-term borrowings	8,411					8,411
Long-term borrowings	893	7,465	31,929	4,534		44,821
Total	34,662	120,702	132,723	15,713		303,800
Discrete Gap	73,881	(80,297)	47,713	12,270	5,418	58,985
Cumulative Gap	73,881	(6,416)	41,297	53,567	58,985	
Ratio of Cumulative Gap to Total Earning Assets	20.36%	(1.77)%	11.38%	14.77%	16.26%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of March 31, 2008. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Changes in Internal Controls

Management is also responsible for establishing and maintaining adequate internal control over the Company s financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended).

There were no changes in the Company s internal control over financial reporting during the Company s quarter ended March 31, 2008 that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

Part II Other Information

Item 1.	Legal Proceedings -	Not Applicable
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds-	Not Applicable
Item 3.	Defaults Upon Senior Securities -	Not Applicable
Item 4.	Submission of Matters to a Vote of Security Holders-	Not Applicable
Item 5.	Other Information -	Not Applicable

Item 6. Exhibits

(a) **Exhibits**

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

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

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

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

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

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Signature

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

F & M BANK CORP.

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

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

May 12, 2008