F&M BANK CORP
Form 10-Q
May 14, 2007

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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, 2007.

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, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer o Accelerated filer o Non-accelerated filer þ

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

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

Class	Outstanding at May 1, 2007
Common Stock, par value $5	2,365,830 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, 2007	Three Months Ended March 31, 2006
Interest Income		
Interest and fees on loans held for investment	$ 5,543	$ 4,809
Interest and fees on loans held for sale		
Interest on federal funds sold	14	12
Interest on interest bearing deposits	23	26
Dividends on equity securities	90	104
Interest on debt securities	293	184
Total Interest Income	5,963	5,135
Interest Expense		
Interest on demand deposits	262	75
Interest on savings accounts	85	131
Interest on time deposits over $100,000	570	370
Interest on time deposits	1,292	879
Total interest on deposits	2,209	1,455
Interest on short-term debt	156	160
Interest on long-term debt	324	250
Total Interest Expense	2,689	1,865
Net Interest Income	3,274	3,270
Provision for Loan Losses	60	60
Net Interest Income after Provision for Loan Losses	3,214	3,210
Noninterest Income		
Service charges	273	272
Insurance and other commissions	54	54
Other	246	184
Income on bank owned life insurance	73	66
Security gains (losses)	119	
Total Noninterest Income	765	576

Noninterest Expense		
Salaries	1,144	997
Employee benefits	378	346
Occupancy expense	143	104
Equipment expense	157	122
Intangible amortization	69	69
Other	644	596
Total Noninterest Expense	2,535	2,234
Income before Income Taxes	1,444	1,552
Income Taxes	355	467
Net Income	$ 1,089	$ 1,085
Per Share Data		
Net Income	$ .46	$ .45
Cash Dividends	$ .21	$ .20
Weighted Average Shares Outstanding	2,370,752	2,401,644

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, 2007 (Unaudited)	December 31, 2006 (Audited)
ASSETS		
Cash and due from banks	$ 6,527	$ 6,247
Interest bearing deposits in banks	1,729	2,005
Fed funds sold	1,479	
Securities held to maturity (note 2)		110
Securities available for sale (note 2)	30,564	30,765
Other investments	6,275	6,498
Loans held for sale		
Loans held for investment (note 3)	309,994	309,461
Less allowance for loan losses (note 4)	(1,856)	(1,791)
Net Loans Held for Investment	308,138	307,670
Bank premises and equipment	7,661	7,710
Interest receivable	1,771	1,877
Deposit intangible	1,081	1,150
Goodwill	2,639	2,639
Bank owned life insurance (note 5)	6,032	5,958
Other assets	2,925	3,295
Total Assets	$ 376,821	$ 375,924
LIABILITIES		
Deposits		
Noninterest bearing demand	$ 45,583	$ 45,291
Interest bearing		
Demand	50,902	47,870
Savings deposits	31,044	32,351
Time deposits over $100,000	47,650	45,395
Time deposits	119,992	118,615
Total Deposits	295,171	289,522
Short-term debt	7,825	11,717
Long-term debt	27,854	29,248
Accrued expenses	7,572	7,332
Total Liabilities	338,422	337,819

STOCKHOLDERS EQUITY

Common stock, $5 par value, 2,367,141 and 2,374,193 issued and outstanding, in 2007 and 2006, respectively	11,836	11,871
Surplus		
Retained earnings	27,201	26,794
Accumulated other comprehensive income (loss)	(638)	(560)
Total Stockholders Equity	38,399	38,105
Total Liabilities and Stockholders Equity	$ 376,821	$ 375,924

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, 2007	Three Months Ended March 31, 2006
Cash Flows from Operating Activities		
Net income	$ 1,089	$ 1,085
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	179	135
Amortization (accretion) of security premiums (discounts)	(28)	27
Net (increase) decrease in loans held for sale		3,528
Provision for loan losses	60	60
Intangible amortization	69	69
(Increase) decrease in interest receivable	106	(133)
Decrease in other assets	361	15
Increase in accrued expenses	280	1,010
Gain on security transactions	(119)	
Amortization of limited partnership investments	145	92
Income from life insurance investment	(73)	(66)
Net Adjustments	980	4,737
Net Cash Provided by Operating Activities	2,069	5,822
Cash Flows from Investing Activities		
Purchase of investments available for sale	(3,772)	(2,281)
Proceeds from sales of investments available for sale	822	500
Proceeds from maturity of investments available for sale	3,265	282
Proceeds from maturity of investments held to maturity	110	
Net increase in loans held for investment	(527)	(15,127)
Purchase of property and equipment	(130)	(751)
Change in federal funds sold	(1,479)	2,362
Net (increase) decrease in interest bearing bank deposits	276	(155)
Net Cash Used in Investing Activities	(1,435)	(15,170)
Cash Flows from Financing Activities		
Net change in demand and savings deposits	2,017	(857)
Net change in time deposits	3,632	2,842
Net change in short-term debt	(1,330)	3,642
Cash dividends paid	(499)	(482)
Repurchase of common stock	(220)	(56)
Proceeds from sale of common stock	1	

Change in federal funds purchased	(2,562)	
Proceeds of long-term debt	5,000	5,000
Repayment of long-term debt	(6,393)	(1,895)
Net Cash Provided (Used) by Financing Activities	(354)	8,194
Net Increase (Decrease) in Cash and Cash Equivalents	280	(1,154)
Cash and Cash Equivalents, Beginning of Period	6,247	7,904
Cash and Cash Equivalents, End of Period	$ 6,527	$ 6,750
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 2,652	$ 1,826
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, 2007	Three Months Ended March 31, 2006
Balance, beginning of period	38,105	$ 36,567
Comprehensive Income		
Net income	1,089	1,085
Net change in unrealized appreciation on securities available for sale, net of taxes	(78)	173
Total comprehensive income	1,011	1,258
Issuance of Common Stock	1	
Repurchase of common stock	(220)	(56)
Dividends declared	(498)	(480)
Balance, end of period	$ 38,399	$ 37,289

The accompanying notes are an integral part of these statements.

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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, 2007 and the results of operations for the three month periods ended March 31, 2007 and March 31, 2006. The notes included herein should be read in conjunction with the notes to financial statements included in the 2006 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, 2007 and December 31, 2006 are as follows:

	2007		2006	
	Cost	Market Value	Cost	Market Value
Securities Held to Maturity				
U. S. Treasury and Agency obligations	$	$	$ 110	$ 110
Total	$	$	$ 110	$ 110

	2007		2006	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
Government sponsored enterprises	$ 18,967	$ 18,909	$ 18,945	$ 18,902
Equity securities	6,499	6,375	6,508	6,276
Mortgage-backed securities	2,321	2,383	2,506	2,580
Corporate Bonds	2,407	2,500	2,437	2,500
Municipals	370	375	369	375
Total	$ 30,564	$ 30,542	$ 30,765	$ 30,633

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at March 31, 2007 and December 31, 2006 are summarized as follows:

	2007	2006
Real Estate		
Construction	$ 48,621	$ 46,669
Residential	140,594	141,058
Commercial and agricultural	101,160	103,933
Installment loans to individuals	17,936	15,990
Credit cards	1,628	1,709
Other	55	102
Total	$ 309,994	$ 309,461

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Three Months Ended March 31, 2007	Three Months Ended March 31, 2006
Balance, beginning of period	$ 1,791	$ 1,673
Provisions charged to operating expenses	60	60
Net (charge-offs) recoveries:		
Loan recoveries	14	11
Loan charge-offs	(9)	(26)
Total Net (Charge-Offs) Recoveries*	5	(15)
Balance, End of Period	$ 1,856	$ 1,718
* Components of Net (Charge-Offs) Recoveries		
Real Estate		
Commercial	2	1
Installment	3	(16)
Total	$ 5	$ (15)

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 BANK OWNED LIFE INSURANCE (BOLI)

The Bank currently offers a variety of benefit plans to all full time employees. While the costs of these plans are generally tax deductible to the Bank, the cost has been escalating greatly in recent years. The Bank has determined that the benefits offered are necessary in order to attract and retain good employees.

To help offset the growth in these costs, the Bank decided to enter into BOLI contracts. Dividends received on these policies are tax-deferred and are anticipated to be tax exempt as the death benefits under the policies are exempt from income taxation. Rates of return on a tax-equivalent basis are very favorable when compared to other long-term assets which the Bank could obtain.

NOTE 6 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, 2007 and 2006.

	2007	2006
Service cost	$ 79,197	$ 75,811
Interest cost	59,473	52,406
Expected return on plan assets	(68,550)	(62,665)
Amortization of net obligation at transition	2,539	2,540
Amortization of prior service cost	(1,325)	(1,325)
Amortization of net (gain) or loss	11,380	13,130
Net periodic benefit cost	$ 82,714	$ 79,897

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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. In April, the Bank opened its first office within the Harrisonburg, Virginia city limits on Port Republic Road. In early July, the Bank opened an office at 700 East Main Street, Luray, Virginia, its first office in Page County, Virginia. In late August the Bank opened an office approximately 2 miles east of the Harrisonburg city limits at the intersection of Route 33 and Route 276. Upon opening this office the Bank simultaneously closed and consolidated, into the new branch, the operation of its loan/investment production office located at 207 University Boulevard in Harrisonburg and its branch located at the Elkton Plaza Center, Elkton, VA. The Bank also operates a courier service which picks up commercial deposits on a daily basis in the Harrisonburg area. In September the Bank received regulatory approval to expand its courier service into Page and Shenandoah Counties. The Bank has since added a second courier vehicle to accommodate the additional customer deposit pick ups. 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, the southern part of Page County and the northern part of Augusta County. The addition of the Luray branch will increase the Company s service area to include eastern and northern Page 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 2007 was $1,089,000 or $.46 per share, compared to $1,085,000 or $.45 in the first quarter of 2006, an increase of .37%. Core operating earnings, (exclusive of non-recurring items) totaled $1,075,000 in 2007 and $1,130,000 in 2006, a decrease of 4.9%. During the first quarter, noninterest income, exclusive of securities transactions, increased 12% and noninterest expense increased 13% during the same period.

Results of Operations

The 2007 year to date tax equivalent net interest margin decreased $4,000 or .12% compared to the same period 2006. The yield on earning assets increased .36 %, while the cost of funds increased .85% compared to the same period in 2006. These increases resulted as maturing assets and liabilities began repricing at higher rates.

Beginning in June 2004, the Federal Reserve s Federal Open Market Committee (FOMC) reversed its accommodative monetary policy and has since raised short term interest rates, in .25% increments by a total of 4.25% through March 2007. The Interest Sensitivity Analysis on page 20 indicates the Company is in a liability sensitive position in the one year time horizon, the recent increase in rates has resulted in a .38% decrease in the net interest margin compared to the same period in 2006. This has resulted due to the fact that a large portion of rate sensitive liabilities (certificates of deposit) are repricing at higher rates more quickly (shorter maturities) than rate sensitive assets (primarily adjustable rate mortgage loans).

A schedule of the net interest margin for 2007 and 2006 can be found in Table I on page 18.

Noninterest income, exclusive of securities transactions, increased $70,000 or 12% through March 31, 2007. Items contributing to the increase include a $20,000 increase in secondary market loan origination fees, a $23,000 increase in debt card, ATM surcharge and merchant credit card income and a $7,000 increase in returns on low income housing investments. The returns on these investments are principally in the form of tax credits and in 2007 included $39,000 related to the recognition of deferred 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 $301,000 in 2007. The increase is the result of a $179,000 increase in salaries and benefits expense (13%). The increase in salaries and benefits includes normal salary increases, growth in staff, and an increase in the cost of group insurance of 9.3%. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 14% in 2007 compared to 2006. Areas that increased include a $74,000 increase in occupancy and equipment expense, $12,000 increase in data processing expense and $11,000 increase in ATM expenses. Occupancy expense increased due to costs associated with three branch offices that were opened in the second and third quarters of 2006. ATM expenses increased due to a change in ATM processors during the first quarter which resulted in some overlapping expense for a short period of time. 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 2.71% and 3.23% 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.

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

Financial Condition

Federal Funds Sold and Interest Bearing Bank Deposits

The Company s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end was benchmarked at 5.25% 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, 2007, the market value of securities available for sale exceeded their cost by $22,000. This includes increases in value in the equity securities portfolio held by the Company and a modest decrease in the value of government obligations held by the Bank. Declines in the value of the bond portfolio are the result of recent changes in short term rates within the market for fixed income securities. Management has traditionally held debt securities (regardless of classification) until maturity and thus it does not expect the fluctuations in value of these securities to have a direct impact on earnings.

Investments in debt securities were virtually unchanged in the first quarter of 2007. The 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. Scheduled maturities in 2007 total $9,032,000 and these bonds have an average yield of approximately 3.97%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are approximately 100 BP higher.

The Company s equity securities portfolio was $124,000 above cost at March 31, 2007. The increase in the value of the equities portfolio is spread over a number of asset sectors including holdings in the financial sector. To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions, a diversified portfolio of REITs and a variety of other predominantly blue-chip securities. Management continues to believe that these investments offer adequate current returns (dividends) and have the potential for future increases in value.

A review of these investments as of March 31, 2007, revealed no securities that were impaired as of quarter end and management continues to re-evaluate the portfolio for impairment on a quarterly basis.

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

Loan Portfolio

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

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

While lending is geographically diversified within the service area, the Company does have loan concentrations in agricultural (primarily poultry farming), construction, hotels, churches, assisted living facilities and the aforementioned mortgage participations. Management and the Board of Directors review these concentrations quarterly.

The first three months of 2007 resulted in an increase of $533,000 in the Bank s core loan portfolio. The increase in the loan portfolio is reflective of the strong local economy. The growth has been concentrated within the real estate portfolio, both residential and 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 $3,773,000 at March 31, 2007 compared to $2,187,000 at December 31, 2006. 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, 2007, 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, 2007	December 31, 2006
Nonaccrual loans	$ 1,749,000	$
Loans past due 90 days or more and still accruing interest	2,024,000	2,187,000
	$ 3,773,000	$ 2,187,000
Percent of loans held for investment	1.22%	.71%

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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 $1,856,000 at March 31, 2007 is equal to .60% of loans held for investment. This compares to an allowance of $1,791,000 (.58%) at December 31, 2006. Management has funded the allowance at a rate of $20,000 per month throughout the year of 2007, for a total of $60,000. Total recoveries exceed charge-offs by $5,000 year to date. In recent years, the company has had an average loss rate of .08% which is approximately one half the loss rate of its peer group.

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

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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 $5,648,892 since December 31, 2006. Time deposits increased $3,632,000 during this period while demand deposits and savings deposits increased $2,017,000. Due to the growth in its loan portfolio and competition for deposits within its market, the Bank has offered various short term certificate of deposit rate specials to attract new funds.

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 either a fifteen-year fixed rate loan or a twenty-year loan, of which the first ten years have a fixed rate. This program allows the Bank to match the maturity of its fixed rate real estate portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. Scheduled repayments totaled $6,393,000 through March 31, 2007. Additional borrowings of $5,000,000 were obtained to refinance short term debt at more favorable long term rates.

In September 2002, the Company borrowed $3 million from SunTrust Bank. This loan carries an interest rate of LIBOR + 1.10% and is variable. Payments of $230,769 plus interest began in the second quarter of 2004 and will continue for a period of thirteen quarters. Proceeds of this loan were used primarily to provide a capital contribution to the Bank.

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, 2007, the Company s total risk based capital and total capital to total assets ratios were 13.48% and 9.44%, 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 2007 of 5%.

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, 2007, the Company had a cumulative Gap Rate Sensitivity Ratio of (15.43%) 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.

Stock Repurchase

On June 12, 2003, the Board authorized the repurchase of 50,000 shares of the Company s outstanding common stock. Management has been authorized to repurchase shares from time to time in the open market or through privately negotiated transactions when market conditions warrant. The repurchased shares are accounted for as retired stock. On July 26, 2006, the Board of Directors approved an amendment to the share repurchase program. The amendment increases the number of shares of common stock that the Registrant can repurchase under the program from 50,000 to 100,000 shares. Shares repurchased through March 31, 2007 total 80,021; of this amount, 7,052 shares were repurchased in 2007, at an average cost of $28.92 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, 2007			Three Months Ended March 31, 2006		
	Average Balance[2]	Income/ Expense	Rates	Average Balance[2]	Income/ Expense	Rates
Interest Income						
Loans held for investment[1,2]	$ 309,136	$ 5,564	7.20%	$ 281,824	$ 4,830	6.86%
Loans held for sale			%	569		%
Federal funds sold	1,184	14	4.73%	1,156	12	4.15%
Interest bearing deposits	1,996	23	4.61%	2,094	26	4.97%
Investments						
Taxable [3]	23,450	309	5.27%	19,675	200	4.07%
Partially taxable	6,826	91	5.33%	6,686	113	6.76%
Tax exempt [2,3]	375	4	4.27%	375	4	4.27%
Total Earning Assets	342,967	6,005	7.00%	312,379	5,185	6.64%
Interest Expense						
Demand deposits	50,286	262	2.08%	37,889	75	.79%
Savings	31,288	85	1.09%	42,998	131	1.22%
Time deposits	165,101	1,862	4.51%	139,943	1,249	3.57%
Short-term debt	12,748	156	4.89%	15,258	160	4.19%
Long-term debt	28,768	324	4.51%	23,074	250	4.33%
Total Interest Bearing Liabilities	$ 288,191	2,689	3.73%	$ 259,162	1,865	2.88%
Net Interest Margin [1]		$ 3,316			$ 3,320	
Net Yield on Interest Earning Assets			3.87%			4.25%

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, 2006
(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	$ 51,747	$ 4,380	$ 89,189	$ 4,783	$	$ 150,099
Installment	3,795	628	10,749	2,500		17,672
Real estate for investments	23,781	6,793	97,161	12,860		140,595
Real estate for sale						
Credit cards	1,628					1,628
Federal funs sold	1,479					1,479
Interest bearing bank deposits	1,036	396	297			1,729
Investment securities	9,052	880	11,665	2,040	6,927	30,564
Total	92,518	13,077	209,061	22,183	6,927	343,766
Sources of Funds						
Interest bearing demand deposits		17,807	27,999	5,096		50,902
Savings deposits		6,209	18,626	6,209		31,044
Certificates of deposit $100,000 and over	8,147	27,156	12,347			47,650
Other certificates of deposit	18,618	68,840	32,534			119,992
Short-term borrowings	7,825					7,825
Long-term borrowings	1,124	2,910	18,572	5,248		27,854
Total	35,714	122,922	110,078	16,553		285,267
Discrete Gap	56,804	(109,845)	98,983	5,630	6,927	58,499
Cumulative Gap	56,804	(53,041)	45,942	51,572	58,499	
Ratio of Cumulative Gap to Total Earning Assets	16.52%	(15.43)%	13.36%	15.00%	17.02%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of March 31, 2007. 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

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

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Part II Other Information

Item 1.	Legal Proceedings	Not Applicable

Item 1a. Risk Factors There have been no material changes from the risk factors previously disclosed in Item 1a of the Corporation s Form 10k filed on March 20, 2007.

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. are incorporated by reference to Exhibits to F & M Bank Corp. s 2001 Form 10K filed March 1, 2002.

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 7, 2007