F&M BANK CORP
Form 10-Q
May 16, 2011

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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, 2011.

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

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

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

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer o	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 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 4, 2011
Common Stock, par value - $5	2,487,572 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, 2011	Three Months Ended March 31, 2010
Interest income		
Interest and fees on loans held for investment	$ 6,369	$ 6,473
Interest and fees on loans held for sale	97	155
Interest on federal funds sold	18	13
Interest on interest bearing deposits	8	5
Dividends on equity securities	34	48
Interest on debt securities	67	113
Total interest income	6,593	6,807
Interest expense		
Interest on demand deposits	431	458
Interest on savings accounts	47	46
Interest on time deposits over $100,000	300	416
Interest on time deposits	627	848
Total interest on deposits	1,405	1,768
Interest on short-term debt	5	7
Interest on long-term debt	622	629
Total Interest Expense	2,032	2,404
Net interest income	4,561	4,403
Provision for loan losses	1,100	900
Net interest income after provision for loan losses	3,461	3,503
Noninterest income		
Service charges	240	305
Insurance and other commissions	72	81
Other	392	270
Income on bank owned life insurance	87	73
Gain on the sale of securities		30

Total noninterest income	791	759
Noninterest expense		
Salaries	1,325	1,317
Employee benefits	446	420
Occupancy expense	135	148
Equipment expense	149	146
Intangible amortization	46	69
FDIC insurance assessment	283	282
Other	888	764
Total noninterest expense	3,272	3,146
Income before income taxes	980	1,116
Income tax expense	295	357
Consolidated net income	685	759
Net (income) loss Noncontrolling interest	1	(3)
Net Income F & M Bank Corp	$ 686	$ 756
Per share data		
Net income	$ .29	$ .33
Cash dividends	$ .15	$ .15
Weighted average shares outstanding	2,326,848	2,295,643

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Consolidated Balance Sheets
(In Thousands of Dollars Except per Share Amounts)

	March 31, 2011 (Unaudited)	December 31, 2010 (Audited)
Assets		
Cash and due from banks	$ 5,840	$ 4,586
Federal funds sold	17,520	16,338
Cash and cash equivalents	23,360	20,924
Interest bearing deposits in banks	2,673	2,927
Securities:		
Held to maturity fair value of $109,000 in 2011 and 2010 (note 2)	109	109
Available for sale (note 2)	17,026	15,247
Other investments	8,673	8,789
Loans held for sale	23,683	23,764
Loans held for investment (note 3)	452,731	445,147
Less allowance for loan losses (note 4)	(6,095)	(5,786)
Net loans held for investment	446,636	439,361
Other real estate owned	2,765	1,513
Bank premises and equipment, net	6,490	6,792
Interest receivable	1,682	2,001
Core deposit intangible		46
Goodwill	2,670	2,670
Bank owned life insurance	6,956	6,883
Other assets	8,572	7,829
Total assets	$ 551,295	$ 538,855
Liabilities		
Deposits:		
Noninterest bearing	$ 63,754	$ 58,497
Interest bearing:		
Demand	97,843	94,091
Money market accounts	22,690	22,798
Savings	37,653	35,760
Time deposits over $100,000	78,914	80,060
All other time deposits	135,853	133,845
Total deposits	436,707	425,051
Short-term debt	5,148	5,355
Accrued liabilities	6,238	7,241

Subordinated debt	10,191	9,944
Long-term debt	48,012	49,035
Total liabilities	506,296	496,626
Stockholders Equity		
Common stock, $5 par value, 6,000,000 shares authorized, 2,487,197 and 2,306,086 shares issued and outstanding in 2011 and 2010, respectively	12,436	11,530
Retained earnings	32,622	30,837
Noncontrolling interest	154	186
Accumulated other comprehensive income (loss)	(213)	(324)
Total stockholders equity	44,999	42,229
Total liabilities and stockholders equity	$ 551,295	$ 538,855

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Consolidated Statements of Cash Flows
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Cash flows from operating activities		
Net income	$ 686	$ 756
Net change Noncontrolling interest	(32)	(23)
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	157	163
Amortization (accretion) of security premiums (discounts), net	16	15
Net (increase) decrease in loans held for sale	81	9,015
Provision for loan losses	1,100	900
Intangible amortization	46	69
(Increase) decrease in interest receivable	319	127
(Increase) decrease in other assets	(1,061)	(1,362)
Gain on sale of fixed assets	(83)	
Increase (decrease) in accrued expenses	(797)	375
Gain on security transactions		(30)
Amortization of limited partnership investments	116	103
Income from life insurance investment	(73)	(71)
Net adjustments	(179)	9,281
Net cash provided by operating activities	475	10,037
Cash flows from investing activities		
Purchase of investments available for sale	(6,044)	(7,048)
Proceeds from sales of investments available for sale		853
Proceeds from maturity of investments available for sale	4,402	6,677
Net increase in loans held for investment	(11,059)	(7,096)
Proceeds from the sale of other real estate owned	1,433	
Proceeds from the sale of fixed assets	270	
Purchase of property and equipment	(41)	(28)
Net (increase) decrease in interest bearing bank deposits	254	(5,145)
Net cash used in investing activities	(10,785)	(11,787)
Cash flows from financing activities		
Net change in demand and savings deposits	10,793	6,844
Net change in time deposits	862	(11,191)
Net change in short-term debt	(207)	(4,565)
Cash dividends paid	(328)	(332)
Proceeds from rights offering	2,381	

Proceeds from issuance of common stock	22	31
Proceeds of long-term debt	247	7,250
Repayment of long-term debt	(1,024)	(7,433)
Net cash provided (used) by financing activities	12,746	(9,396)
Net Increase (Decrease) in Cash and Cash Equivalents	2,436	(11,146)
Cash and cash equivalents, beginning of period	20,924	23,640
Cash and cash equivalents, end of period	$ 23,360	$ 12,494
Supplemental disclosure		
Cash paid for:		
Interest expense	$ 2,014	$ 7,753
Income taxes		
Transfers from loans to Other Real Estate Owned	2,685	939

See notes to unaudited consolidated financial 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,	
	2011	**2010**
Balance, beginning of period	$ 42,229	$ 39,002
Comprehensive income		
Net income F & M Bank Corp	686	756
Net income Noncontrolling interest	(1)	3
Minority Interest Contributed Capital (Distributions)	(31)	(26)
Prepaid pension adjustment	(52)	
Net change in unrealized appreciation on securities available for sale, net of taxes	111	485
Total comprehensive income	713	1,218
Issuance of common stock	22	31
Issuance of common stock rights offering	2,381	
Dividends declared	(346)	(344)
Balance, end of period	$ 44,999	$ 39,907

See notes to unaudited consolidated financial 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 of America 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, 2011 and the results of operations for the three month periods ended March 31, 2011 and March 31, 2010. The notes included herein should be read in conjunction with the notes to financial statements included in the 2010 annual report to stockholders of F & M Bank Corp.

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

Comprehensive Income

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

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

	March 31, 2011	March 31, 2010
Changes in:		
Net Income:		
Net Income F & M Bank Corp	$ 686	$ 756
Net Income Noncontrolling Interest	(1)	3
Minority Interest Contributed Capital (Distributions)	(31)	(26)
	654	733
Prepaid pension adjustment	(52)	
Unrealized holding gains on available-for-sale securities:	168	765
Reclassification adjustment for gains realized in income		(30)
Net unrealized gains	168	735
Tax effect	57	250
Unrealized holding gain, net of tax	111	485
Comprehensive income	$ 713	$ 1,218

Subsequent Events

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

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 1. Accounting Principles, continued

Loans

Loans are carried on the balance sheet net of any unearned interest and the allowance for loan losses. Interest income on loans is determined using the effective interest method on the daily amount of principal outstanding except where serious doubt exists as to collectibility of the loan, in which case the accrual of income is discontinued.

Allowance for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectibility of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management s determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

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F & M BANK CORP.
Notes to Consolidated Financial Statements

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, 2011 and December 31, 2010 are as follows:

	2011		2010	
	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

	March 31, 2011			
		Unrealized		Market
	Cost	Gains	Losses	Value
Securities available for sale				
Government sponsored enterprises	$ 10,001	$	$ 17	$ 9,984
Equity securities	2,666	889	36	3,519
Mortgage-backed securities	3,322	204	3	3,523
Total	$ 15,989	$ 1,093	$ 56	$ 17,026

	December 31, 2010			
		Unrealized		Market
	Cost	Gains	Losses	Value
Securities available for sale				
Government sponsored enterprises	$ 7,997	$ 7	$ 3	$ 8,001
Equity securities	2,643	711	39	3,315
Mortgage-backed securities	3,724	209	2	3,931
Total	$ 14,364	$ 927	$ 44	$ 15,247

The amortized cost and fair value of securities at March 31, 2011, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 109	$ 109	$ 255	$ 253
Due after one year through five years			10,001	9,984
Due after five years			3,067	3,270
	109	109	13,323	13,507

Marketable equities			2,666	3,519
Total	$ 109	$ 109	$ 15,989	$ 17,026

There were no sales of debt securities during the three month periods ending March 31, 2011 and 2010. Following is a table reflecting gains and losses on sales of equity securities:

	Three Months Ended	
	March 31, 2011	**March 31, 2010**
Gains	$	$ 114
Losses		(84)
Net Gains	$	$ 30

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 2. Investment Securities, continued

Securities Impairment

The Company follows the guidance in ASC 320-10 and Staff Accounting Bulletin (SAB) Topic 5M, *Other Than Temporary Impairment* in evaluating if these impairments are temporary or other than temporary in nature. This determination is made on an investment by investment basis and includes all available evidence at the time of the determination including the following:

- The length of time of impairment;
- The extent of the impairment relative to the cost of the investment;
- Recent volatility in the market value of the investment;
- The financial condition and near-term prospects of the issuer, including any specific events which may impair the earnings potential of the issuer; or
- The intent and ability of the Company to hold its investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following description provides our policies/procedures for the evaluation for Other Than Temporary Impairment (OTTI):

- We begin our evaluation using a default position that OTTI has occurred and then use all available evidence to determine whether prospects for the individual security are sufficient to support temporary impairment at the date of the SEC filing. This evaluation will be conducted at each filing date.
- For purposes of determining OTTI, the security value recovery period will be projected for a maximum of a two year holding period. This will be the maximum; a shorter period may be used when there are particular conditions related to the individual security which make recovery unlikely.
- The primary focus in determining whether a security is OTTI, and projecting potential recovery, is the prospects for the individual security, rather than broad market indices. All available evidentiary material is considered, including the Company s public filings with the SEC, press releases, analyst reports, etc.
- Secondary consideration is given to historic returns, but only to the extent that this evidence is instructive in determining whether the individual security has shown a history of outperforming (or underperforming) the market (or industry) in prior economic cycles. These factors are only considered when the declines in value are not limited to the individual security, but were prevalent over the broader market. This measure is considered to aid in determining whether OTTI should be recognized earlier, rather than later (ie. a security which underperforms relative to the industry or market will result in early recognition of OTTI). In no event will OTTI recognition be delayed beyond the two year projection period.
- OTTI may be recognized as early as quarter 1, regardless of holding period projections, when there are specific factors relative to the security which make recovery unlikely. These factors could include evidence contained in the aforementioned SEC filings, press releases, analyst reports, but may also be based on the severity of the impairment.
- Situations where a security has declined in value more rapidly than the industry (or market), absent strong evidence supporting prospects for recovery, will result in OTTI being recognized in quarter 1 or quarter 2 rather than continuing to evaluate the security over several quarters, based on holding period projections.

Declines determined to be other than temporary are charged to operations; there were none for the quarters ended March 31, 2011 or March 31, 2010.

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 2. Investment Securities, continued

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at March 31, 2011 and December 31, 2010 were as follows (dollars in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2011						
Government sponsored Enterprises	$ 3,976	$ (17)	$	$	$ 3,976	$ (17)
Mortgage backed Obligations			253	(3)	253	(3)
Marketable equities	129	(36)			129	(36)
Total	$ 4,105	$ (53)	$ 253	$ (3)	$ 4,358	$ (56)
December 31, 2010						
Government sponsored Enterprises	$ 2,004	$ (3)	$	$	$ 2,004	$ (3)
Mortgage backed Obligations			260	(2)	260	(2)
Marketable equities			575	(39)	575	(39)
Total	$ 2,004	$ (3)	$ 835	$ (41)	$ 2,839	$ (44)

Note 3. Loans Held for Investment

Loans outstanding at March 31, 2011 and December 31, 2010 are summarized as follows:

	2011	2010
Real Estate		
Construction	$ 74,047	$ 79,337
Residential	204,008	202,420
Commercial and agricultural	153,869	141,253
Consumer loans to individuals	18,127	19,042
Credit cards	2,639	2,771
Other	41	324
Total	$ 452,731	$ 445,147

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 3. Loans Held for Investment, continued

The following is a summary of information pertaining to impaired loans (in thousands):

March 31, 2011	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance					
Real Estate	$ 5,302	$ 5,302	$	$ 5,491	$ 49
Commerical	2,177	2,177		1,533	5
Home Equity	1,122	1,122		898	11
Other	202	202		225	3
	8,803	8,803		8,147	68
Impaired loans with a valuation allowance					
Real Estate	5,952	5,952	711	6,447	42
Commerical	305	305	72	727	
Home Equity	305	305	109	372	
Other	1,057	1,057	521	532	
	7,619	7,619	1,413	8,078	42
Total impaired loans	$ 16,422	$ 16,422	$ 1,413	$ 16,225	$ 110

The Recorded Investment is defined as the principal balance, net of deferred fees, less principal payments and charge-offs.

December 31, 2010	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance					
Real Estate	$ 5,680	$ 5,680	$	$ 2,015	$ 84
Commerical	888	888		606	19
Home Equity	673	673		260	5
Other	247	247		292	
	7,488	7,488		3,173	108
Impaired loans with a valuation allowance					
Real Estate	6,942	6,942	1,003	2,881	211
Commerical	1,149	1,149	161	5,013	17
Home Equity	439	439	118	333	11
Other	7	7	1	5	12

	8,537	8,537	1,283	8,232	251
Total impaired loans	$ 16,025	$ 16,025	$ 1,283	$ 11,405	$ 359

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses

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

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Balance, beginning of period	$ 5,786	$ 3,836
Provisions charged to operating expenses	1,100	900
Loan losses:		
Commercial	(310)	(80)
Consumer	(46)	(119)
Real Estate	(477)	(35)
Home Equity		(19)
Total Loan Losses	(833)	(253)
Recoveries:		
Commercial	16	
Consumer	18	27
Real Estate	8	
Total recoveries	42	27
Net loan losses	(791)	(226)
Balance, End of Period	$ 6,095	$ 4,510

Allowance for Loan Losses and Recorded Investment in Loan Receivables (in thousands)

March 31, 2011	Commercial	Real Estate	Home Equity	Credit Cards	Consumer	Unallocated	Total
Allowance for loan losses:							
Beginning Balance	$ 1,724	$ 1,814	$ 407	$ 59	$ 111	$ 1,671	$ 5,786
Charge-offs	(310)	(477)		(35)	(11)		(833)
Recoveries	16	8		10	8		42
Provision	266	145	18	30	541	100	1,100
Ending Balance	$ 1,696	$ 1,490	$ 425	$ 64	$ 649	$ 1,771	$ 6,095
Ending Balance: Individually evaluated for impairment (specific reserve)	72	711	108		522		1,413
Ending Balance: Collectively evaluated for impairment	1,624	779	317	64	127	1,771	4,682
Loans Receivable:							

Ending balance	$ 153,869	$ 223,112	$ 54,943	$ 2,639	$ 18,168	$	$ 452,731
Ending balance: Individually evaluated for impairment	$ 15,477	$ 17,037	$ 1,176	$	$ 1,075	$	$ 34,765
Ending Balance: Collectively evaluated for impairment	$ 138,392	$ 206,075	$ 53,767	$ 2,639	$ 17,093	$	$ 417,966

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

Allowance for Loan Losses and Recorded Investment in Loan Receivables (in thousands), continued

December 31, 2010	Commercial	Real Estate	Home Equity	Credit Cards	Consumer	Unallocated	Total
Allowance for loan losses:							
Ending Balance	$ 1,724	$ 1,814	$ 407	$ 59	$ 111	$ 1,671	$ 5,786
Ending Balance: Individually evaluated for impairment (specific reserve)	161	1,003	118		1		1,283
Ending Balance: Collectively evaluated for impairment	1,563	811	289	59	110	1,671	4,503
Loans Receivable:							
Ending balance	$ 153,511	$ 214,906	$ 54,593	$ 2,771	$ 19,366	$	$ 445,147
Ending balance: Individually evaluated for impairment	$ 12,406	$ 16,806	$ 1,538	$	$ 1,099	$	$ 31,849
Ending Balance: Collectively evaluated for impairment	$ 141,105	$ 198,100	$ 53,055	$ 2,771	$ 18,267	$	$ 413,298

Aging of Past Due Loans Receivable (in thousands) as of March 31, 2011

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Total Past Due	Non-Accrual Loans	Current	Total Loan Receivable	Recorded Investment > 90 Days & Accruing
Commercial	$ 2,109	$ 592	$ 255	$ 2,956	$ 5,454	$ 145,459	$ 153,869	$ 255
Real Estate	11,095	5,499	1,466	18,060	5,628	199,424	223,112	1,466
Home Equity	544	824	411	1,779	675	52,488	54,942	411
Credit Cards	22	2		24		2,615	2,639	
Consumer	127	68	21	216	1,107	16,846	18,169	21
Total	$ 13,897	$ 6,985	$ 2,153	$ 23,035	$ 12,864	$ 416,832	$ 452,731	$ 2,153

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

Aging of Past Due Loans Receivable (in thousands) as of December 31, 2010

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Total Past Due	Non-Accrual Loans	Current	Total Loan Receivable	Recorded Investment > 90 Days & Accruing
Commercial	$ 756	$ 382	$ 4,581	$ 5,719	$ 1,656	$ 146,137	$ 153,512	$ 4,581
Real Estate	6,303	1,395	3,021	10,719	5,189	198,998	214,906	3,021
Home Equity	1,302	595	588	2,485	715	51,392	54,592	588
Credit Cards	19	6		25		2,746	2,771	
Consumer	1,240	67	54	1,361	30	17,975	19,366	54
Total	$ 9,620	$ 2,445	$ 8,244	$ 20,309	$ 7,590	$ 417,248	$ 445,147	$ 8,244

Credit quality indicators as of March 31, 2011

Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	MARCH 31, 2011		
	Real Estate	Commercial	Home Equity
Grade 1 - Minimal Risk	$ 67,006	$ 168,296	$
Grade 2 - Modest Risk	1,212,780	3,214,402	456,188
Grade 3 - Average Risk	27,482,287	16,808,584	7,487,518
Grade 4 - Acceptable Risk	107,296,051	73,218,493	38,115,952
Grade 5 - Marginally Acceptable	46,571,773	39,120,506	5,484,020
Grade 6 - Watch	20,308,512	5,460,797	1,455,899
Grade 7 - Substandard	20,172,363	15,534,703	1,942,867
Grade 8 - Doubtful		344,142	
Total	$ 223,110,772	$ 153,869,923	$ 54,942,444

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$ 2,639,288	$ 18,147,339
Non performing		21,383
Total	$ 2,639,288	$ 18,168,722

See following page for description of loan grades.

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

Credit quality indicators as of December 31, 2010

Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	DECEMBER 31, 2010		
	Real Estate	**Commercial**	**Home Equity**
Grade 1 - Minimal Risk	$ 69,231	$ 174,582	$
Grade 2 - Modest Risk	817,827	1,678,841	574,374
Grade 3 - Average Risk	30,041,586	16,254,057	7,942,935
Grade 4 - Acceptable Risk	107,027,580	77,472,242	37,848,295
Grade 5 - Marginally Acceptable	40,163,358	40,908,350	5,473,349
Grade 6 - Watch	16,785,371	7,781,021	904,542
Grade 7 - Substandard	19,718,886	8,639,726	1,849,301
Grade 8 - Doubtful	281,678	602,691	
Total	$ 214,905,517	$ 153,511,510	$ 54,592,796

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	**Consumer**
Performing	$ 2,770,826	$ 19,311,799
Non performing		54,779
Total	$ 2,770,826	$ 19,366,578

Description of loan grades:

Grade 1 Minimal Risk: Excellent credit, superior asset quality, excellent debt capacity and coverage, and recognized management capabilities.

Grade 2 Modest Risk: Borrower consistently generates sufficient cash flow to fund debt service, excellent credit, above average asset quality and liquidity.

Grade 3 Average Risk: Borrower generates sufficient cash flow to fund debt service. Employment (or business) is stable with good future trends. Credit is very good.

Grade 4 Acceptable Risk: Borrower s cash flow is adequate to cover debt service; however, unusual expenses or capital expenses must by covered through additional long term debt. Employment (or business) stability is reasonable, but future trends may exhibit slight weakness. Credit history is good. No unpaid judgments or collection items appearing on credit report.

Grade 5 Marginally acceptable: Credit to borrowers who may exhibit declining earnings, may have leverage that is materially above industry averages, liquidity may be marginally acceptable. Employment or business stability may be weak or deteriorating. May be currently performing as agreed, but would be adversely affected by developing factors such as layoffs, illness, reduced hours or declining business prospects. Credit history shows weaknesses, past dues, paid or disputed collections and judgments, but does not include borrowers that are currently past due on obligations or with unpaid, undisputed judgments.

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

Grade 6 Watch: Loans are currently protected, but are weak due to negative balance sheet or income statement trends. There may be a lack of effective control over collateral or the existence of documentation deficiencies. These loans have potential weaknesses that deserve managements close attention. Other reasons supporting this classification include adverse economic or market conditions, pending litigation or any other material weakness. Existing loans that become 60 or more days past due are placed in this category pending a return to current status.

Grade 7 Substandard: Loans having well-defined weaknesses where a payment default and or loss is possible, but not yet probable. Cash flow is inadequate to service the debt under the current payment, or terms, with prospects that the condition is permanent. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower and there is the likelihood that collateral will have to be liquidated and/or guarantor(s) called upon to repay the debt. Generally, the loan is considered collectible as to both principal and interest, primarily because of collateral coverage, however, if the deficiencies are not corrected quickly; there is a probability of loss.

Grade 8 Doubtful: The loan has all the characteristics of a substandard credit, but available information indicates it is unlikely the loan will be repaid in its entirety. Cash flow is insufficient to service the debt. It may be difficult to project the exact amount of loss, but the probability of some loss is great. Loans are to be placed on non-accrual status when any portion is classified doubtful.

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 Bank contributed $1 million to the plan in the first quarter of 2011 and does not anticipate additional contributions for the 2011 plan year. The following is a summary of net periodic pension costs for the three-month periods ended March 31, 2011 and 2010.

	Three Months Ended March 31, 2011	March 31, 2010
Service cost	$ 111,355	$ 96,979
Interest cost	80,378	79,250
Expected return on plan assets	(126,109)	(120,427)
Amortization of net obligation at transition		
Amortization of prior service cost	(1,943)	(1,325)
Amortization of net (gain) or loss	15,961	16,378
Net periodic benefit cost	$ 79,642	$ 70,855

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 6. Fair Value

Accounting Standards Codification (ASC) 820, 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.

Impaired Loans: ASC 820 applies to loans measured for impairment using the practical expedients permitted by ASC 310 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 the lower of carrying amount or fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

March 31, 2011	Total	Level 1	Level 2	Level 3
Government sponsored enterprises	$ 9,984	$	$ 9,984	
Mortgage-backed obligations of federal agencies	3,523		3,523	
Marketable Equities	3,519	3,519		
Investment securities available for sale	$ 17,026	$ 3,519	$ 13,507	
Total assets at fair value	$ 17,026	$ 3,519	$ 13,507	
Total liabilities at fair value	$	$	$	

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F & M BANK CORP.
Notes to Consolidated Financial Statements

Note 6. Fair Value, continued

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

December 31, 2010	Total	Level 1	Level 2	Level 3
Government sponsored enterprises	$ 8,001	$	$ 8,001	
Mortgage-backed obligations of federal agencies	3,931		3,931	
Marketable Equities	3,315	3,315		
Investment securities available for sale	$ 15,247	$ 3,315	$ 11,932	
Total assets at fair value	$ 15,247	$ 3,315	$ 11,932	
Total liabilities at fair value	$	$	$	

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis

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

March 31, 2011	Total	Level 1	Level 2	Level 3
Loans Held for Sale	$ 23,683		$ 23,683	
Other Real Estate Owned	2,765		2,765	
Real Estate	5,240		5,240	
Commercial	233		233	
Consumer	536		536	
Home Equity	197		197	
Impaired loans	6,206		6,206	
Total assets at fair value	$ 32,654		$ 32,654	
Total liabilities at fair value				

December 31, 2010	Total	Level 1	Level 2	Level 3
Loans Held for Sale	$ 23,764		$ 23,764	
Other Real Estate Owned	1,513		1,513	
Real Estate	5,938		5,938	
Commercial	988		988	
Consumer	7		7	
Home Equity	321		321	
Impaired loans	7,254		7,254	

Total assets at fair value	$ 32,531	$ 32,531
Total liabilities at fair value		

There were no significant transfers between levels 1 and 2.

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 7. Disclosures About Fair Value of Financial Instruments

ASC 825 Financial Instruments defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank s financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. Estimated fair value and the carrying value of financial instruments at March 31, 2011 and December 31, 2010 are as follows (in thousands):

	March 31, 2011		December 31, 2010	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial Assets				
Cash	$ 5,840	$ 5,840	$ 4,586	$ 4,586
Interest bearing deposits	2,673	2,673	2,927	2,927
Federal funds sold	17,520	17,520	16,338	16,338
Securities available for sale	17,026	17,026	15,247	15,247
Securities held to maturity	109	109	109	109
Other investments	8,673	8,673	8,789	8,789
Loans	485,911	452,731	475,166	445,147
Loans held for sale	23,683	23,683	23,764	23,764
Bank owned life insurance	6,956	6,956	6,883	6,883
Accrued interest receivable	1,682	1,682	2,001	2,001
Financial Liabilities				
Demand Deposits:				
Non-interest bearing	63,754	63,754	58,497	58,497
Interest bearing	120,533	120,533	116,889	116,889
Savings deposits	37,653	37,653	35,760	35,760
Time deposits	216,810	214,767	216,199	213,905
Short-term debt	5,148	5,148	5,355	5,355
Subordinated debt	10,191	10,191	9,944	9,944
Long-term debt	51,099	48,012	51,566	49,035

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

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

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

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank. VBS originates conventional and government sponsored mortgages through their offices in Harrisonburg and Woodstock. VBS began operating its Woodstock office in February 2010 in space leased from Farmers & Merchants 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 of this Form 10-Q.

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 and 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) ASC 450 Contingencies , which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC 310 Receivables , 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. For further discussion refer to page 25 in the Management Discussion & Analysis.

Goodwill and Intangibles

ASC 805 Business Combinations and ASC 350 Intangibles require 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. ASC 350 prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of ASC 350 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. ASC 350 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 ASC 350 on January 1, 2002 and determined that the core deposit intangible will continue to be amortized over the estimated useful life.

Securities Impairment

For a complete discussion of securities impairment see Note 2 of the Notes to Consolidated Financial Statements.

Overview

Net income for the three months ended March 31, 2011 was $686,000 or $.29 per share, compared to $756,000 or $.33 in the same period in 2010, a decrease of 9.26%. During the three months ended March 31, 2011, noninterest income, exclusive of securities transactions, increased 8.50% and noninterest expense also increased 4.01% during the same period. Net income from Bank operations adjusted for income or loss from Parent activities is as follows:

In thousands	**2011**	**2010**
Net Income from Bank Operations	$ 771	$ 799
Income or loss from Parent Company Activities	(85)	(43)
Net Income for the three months ended March 31	$ 686	$ 756

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

Core operating earnings, (exclusive of gains or losses on the Parent s equity portfolio and historic rehabilitation credits related to the investment in low income housing projects) totaled $694,000 in 2011 and $748,000 in 2010, a decrease of 7.22%. Income from core operations decreased in 2011 primarily due to the increase in the provision for loan losses and increased legal fees related to problem loans and the rights offering. A reconciliation of core earnings follows:

In thousands	**2011**	**2010**
Net Income	$ 686	$ 756
Non-recurring Tax Items	8	11
Non-recurring Securities Transactions, net of tax		(19)
Core Earnings for the three months ended March 31	$ 694	$ 748

Management and the Board of Directors use Core Earnings (a non-GAAP financial measure) in a variety of ways, including comparing various operating units (branches) to prior periods, establishing goals and incentive plans that are based on Core Earnings.

Results of Operations

As shown in Table I, the 2011 year to date tax equivalent net interest income increased $147,000 or 3.31% compared to the same period in 2010. The yield on earning assets decreased .25%, while the cost of funds decreased .32% compared to the same period in 2010. The Federal Reserve has continued to maintain short-term interest rates at historically low levels. Longer term rates are also at historical lows due to the sluggish economy and Federal Reserve monetary policy. Yields on assets and costs of liabilities continue to reprice at lower levels due to the current monetary policy described above.

The Interest Sensitivity Analysis on page 30 indicates the Company is in an asset sensitive position in the one year time horizon. The decrease in rates and asset growth has resulted in a .08% increase in the net interest margin compared to the same period in 2010. A schedule of the net interest margin for the three month periods ended March 31, 2011 and 2010 can be found in Table I on page 29.

Noninterest income, exclusive of securities transactions, increased $62,000 or 8.50% through March 31, 2011 compared to the same period in 2010. Increases were due to debit card fee income and a gain on the sale of fixed assets.

Noninterest expense increased $126,000 through three months of 2011 as compared to 2010. Salary and benefits expense increased $34,000 (1.96%) through March 2011. This increase is due to increases in personnel as well as salary increases and benefit increases. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 6.53% in 2011 compared to 2010. The majority of the increase is due to legal expenses related to problem loans and the Rights Offering. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available (December 31, 2010) Bank Holding Company Performance Report, the Company s and peer s noninterest expenses averaged 2.36% and 3.10% 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 0% to .25% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits. Combined balances in fed funds sold and interest bearing bank deposits have decreased due to growth in the loan portfolio.

Securities

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

The securities portfolio consists of investment securities commonly referred to as securities held to maturity and securities available for sale. Securities are classified as Held to Maturity investment securities when management has the intent and ability to hold the securities to maturity. Held 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 stockholders equity.

As of March 31, 2011, the market value of securities available for sale exceeded their cost by $1,037,000. This includes increases in value in the equity securities portfolio held by the Company and an increase in the value of government obligations held by the Bank. Management has traditionally held debt securities (regardless of classification) until maturity and thus it does not expect the fluctuations in value of these securities to have a direct impact on earnings.

Investments in debt securities have increased approximately $1,575,000 in 2011. 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. Given the historically low interest rates, proceeds from bond maturities and mortgage backed security pay downs have been used to support growth in the loan portfolio. Scheduled maturities for the remainder of 2011 total $648,000 and these bonds have an average yield of approximately 5.00%. Based on current market rates, as these bonds mature, the funds will be reinvested at rates that are significantly lower.

In reviewing these investments as of March 31, 2011, there were no securities deemed to be other than temporarily impaired. Management continues to re-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.

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

While lending is geographically diversified within the service area, the Company does have loan concentrations in agricultural (primarily poultry farming), construction/development, hotels, and multifamily housing. Management and the Board of Directors review these concentrations quarterly. The first three months of 2011 resulted in an increase of $7.6 million in the Bank s core loan portfolio.

Nonperforming loans include nonaccrual loans and loans 90 days or more past due. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Nonperforming loans totaled $15,017,000 at March 31, 2011 compared to $15,834,000 at December 31, 2010. Although the potential exists for 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, 2011, the Company holds $2,765,000 of real estate which was acquired through foreclosure.

The following is a summary of information pertaining to risk elements and nonperforming loans (in thousands):

	March 31, 2011	December 31, 2010
Nonaccrual Loans		
Real Estate	$ 5,628	$ 5,189
Commercial	5,454	1,656
Home Equity	675	715
Other	1,107	30
	12,864	7,590
Loans past due 90 days or more		
Real Estate	1,466	3,021
Commercial	255	4,581
Home Equity	411	588
Other	21	54
	2,153	8,244
Total Nonperforming loans	$ 15,017	$ 15,834
Nonperforming loans as a percentage of loans held for investment	3.32%	3.56%
Net Charge Offs to Total Loans	.17%	.53%
Allowance for loan and lease losses to loans held for investment	1.35%	1.30%
Allowance for loan and lease losses to nonperforming loans	40.59%	36.54%

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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 trends in 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 Bank s 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 $200,000 are reviewed individually for impairment under ASC 310. 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 ASC 450.

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 two 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 $6,095,000 at March 31, 2011 is equal to 1.35% of loans held for investment. This compares to an allowance of $5,786,000 (1.30%) at December 31, 2010. Based on the evaluation of the loan portfolio described above management has funded the allowance a total of $1,100,000 in the first three months of 2011. Net charge-offs year to date totaled $791,000.

The overall level of the allowance is below its peer group average, but has been increasing in recent quarters. Management feels a lower reserve is appropriate based on its loan loss history and the composition of its loan portfolio. 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 $11,656,000 since December 31, 2010. Time deposits increased $862,000 during this period while demand deposits and savings deposits increased $10,794,000. The increase in certificates of deposits is a result of an increase in core time deposits. The Bank also participates in the CDARS program. CDARS (Certificate of Deposit Account Registry Service) is a program that allows the bank to accept customer deposits in excess of FDIC limits and through reciprocal agreements with other network participating banks by offering FDIC insurance up to as much as $50 million in deposits. The CDARS program also allows the Bank to purchase funds through its One-Way Buy program. At quarter end the Bank had a total of $23.7 million in CDARS funding, a decrease of $793,000 since December 31, 2010.

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. The Company s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund loan growth and also assist the Bank in matching the maturity of its fixed rate real estate loan portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. Scheduled repayments totaled $773,000 through March 31, 2011. There were no additional borrowings through March 31, 2011.

In November 2009, the Company entered into an agreement with Page Valley Bank (and several sub-participants) to refinance a line of credit previously owed to Silverton Bank as a five year, fixed rate, amortizing loan at 6%. At March 31, 2011 the outstanding balance was $3,750,000.

In August 2009, the Company began to issue Subordinated debt agreements with local investors with terms of 7 to 10 years. Interest rates are fixed on the notes for the full term but vary by maturity. Rates range from 7.0% on the 7 year note to 8.05% on the 10 year note. As of March 31, 2011 the balance outstanding was $10,191,000.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of March 31, 2011, the Company s total risk based capital and leverage ratios were 14.06% and 7.93%, respectively. These ratios are in excess of regulatory minimums. For the same period, Bank only total risk based capital and leverage ratios were 13.12% and 7.68%, respectively.

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

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.

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 s subsidiary bank also maintains a line of credit with its primary correspondent financial institution. The 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, 2011, the Company had a cumulative Gap Rate Sensitivity Ratio of 14.05% for the one year repricing period. This generally indicates that earnings would increase in an increasing interest rate environment as assets reprice more quickly than liabilities. However, in actual practice, this may not be the case as balance sheet leverage, funding needs and competitive factors within the market could dictate the need to raise deposit rates more quickly. Management constantly monitors the Company s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, on page 30.

Stock Repurchase

On September 18, 2008, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 150,000 to 200,000 shares. However, due to the impact on capital ratios resulting from the growth in the balance sheet, other than temporary impairment securities write downs in 2009 and increased funding of the allowance for loan losses, the stock repurchase plan has been suspended. There were no stock repurchases in 2011.

Effect of Newly Issued Accounting Standards

In July 2010, the Receivables topic of the Accounting Standards Codification (ASC) was amended by Accounting Standards Update (ASU) 2010-20 to require expanded disclosures related to a company s allowance for credit losses and the credit quality of its financing receivables. The amendments require the allowance disclosures to be provided on a disaggregated basis. The Company is required to include these disclosures in their interim and annual financial statements. See Notes and Allowance for Loan Losses section of Management s Discussion and Analysis.

Disclosures about Troubled Debt Restructurings (TDRs) required by ASU 2010-20 were deferred by the Financial Accounting Standards Board (FASB) in ASU 2011-01 issued in January 2011. In April 2011 the FASB issued ASU 2011-02 to assist creditors with their determination of when a restructuring is a TDR. The determination is based on whether the restructuring constitutes a concession and whether the debtor is experiencing financial difficulties as both events must be present.

Disclosures related to TDRs under ASU 2010-20 will be effective for reporting periods beginning after June 15, 2011.

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

Effect of Newly Issued Accounting Standards (continued)

In December 2010, the Intangibles topic of the ASC was amended to modify Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. Any resulting goodwill impairment should be recorded as a cumulative-effect adjustment to beginning retained earnings upon adoption. Impairments occurring subsequent to adoption should be included in earnings. The amendment was effective for the Company beginning January 1, 2011.

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 I

F & M BANK CORP.
Net Interest Margin Analysis
(on a fully taxable equivalent basis)
(Dollar Amounts in Thousands)

	Three Months Ended March 31, 2011			Three Months Ended March 31, 2010		
Average	**Balance[2]**	**Income/ Expense**	**Average Rates[4]**	**Balance[2]**	**Income/ Expense**	**Average Rates[4]**
Interest income						
Loans held for investment[1,2]	$ 449,823	$ 6,392	5.76%	$ 438,277	$ 6,500	5.93%
Loans held for sale	9,978	97	3.94%	15,873	155	3.91%
Federal funds sold	32,047	18	.23%	23,176	13	.22%
Interest bearing deposits	2,756	7	1.03%	3,040	4	.53%
Investments						
Taxable [3]	12,499	75	2.40%	12,928	110	3.40%
Partially taxable[2]	3,417	33	3.86%	4,180	65	6.22%
Total earning assets	$ 510,520	$ 6,622	5.26%	$ 497,474	$ 6,847	5.51%
Interest Expense						
Demand deposits	$ 117,971	$ 431	1.48%	$ 103,345	$ 458	1.77%
Savings	36,894	47	.52%	33,508	46	.55%
Time deposits	215,031	927	1.75%	230,585	1,264	2.19%
Short-term debt	5,169	5	.39%	5,650	7	.50%
Long-term debt	58,689	622	4.30%	59,939	629	4.20%
Total interest bearing liabilities	$ 433,754	$ 2,032	1.90%	$ 433,027	$ 2,404	2.22%
Tax equivalent net interest income		$ 4,590			$ 4,443	
Net interest margin			3.65%			3.57%

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. The taxable equivalent adjustment was $29,000 and $40,000 for the three months ended March 31, 2011 and 2010, respectively.

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

4 Annualized.

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TABLE II

F & M BANK CORP.
Interest Sensitivity Analysis
March 31, 2011
(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	$ 98,021	$ 26,465	$ 98,824	$ 4,446	$	$ 227,756
Installment	9,866	903	7,391	8		18,168
Real estate for investments	48,188	15,246	126,093	14,641		204,168
Real estate held for sale	23,683					23,683
Credit cards	2,639					2,639
Federal funds sold	17,520					17,520
Interest bearing bank deposits	433	1,743	497			2,673
Investment securities	51	8,186	2,109	3,270	3,519	17,135
Total	$ 200,401	$ 52,543	$ 234,914	$ 22,365	$ 3,519	$ 513,742
Sources of funds						
Interest bearing demand deposits	$	$ 30,913	$ 70,051	$ 19,569	$	$ 120,533
Savings deposits		7,530	22,592	7,531		37,653
Certificates of deposit $100,000 and over	8,531	40,559	29,824			78,914
Other certificates of deposit	12,414	62,918	60,521			135,853
Short-term borrowings	5,148					5,148
Long-term borrowings	5,024	7,738	35,250	10,191		58,203
Total	$ 31,117	$ 149,658	$ 218,238	$ 37,291		$ 436,304
Discrete Gap	$ 169,284	$ (97,115)	$ 16,676	$ (14,926)	$ 3,519	$ 77,438
Cumulative Gap	$ 169,284	$ 72,169	$ 88,845	$ 73,919	$ 77,438	
Ratio of Cumulative Gap to Total Earning Assets	32.95%	14.05%	17.29%	14.39%	15.07%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of March 31, 2011. 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 an internal auditor to complete regular audits, which examine the processes and procedures of the Company and the Bank to ensure that these processes are reasonably effective to prevent internal or external fraud and that the processes comply with relevant regulatory guidelines of all relevant banking authorities. The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company.

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Part II Other Information

Item 1. Legal Proceedings	Not Applicable
Item 1a. Risk Factors	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. Removed and reserved-	
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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Signatures

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

F & M BANK CORP.

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

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

May 13, 2011