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

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

þ **Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended September 30, 2008.

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

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

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

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

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

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

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

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

Class	Outstanding at November 13, 2008
Common Stock, par value $5	2,292,667 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 September 30, 2008	2007
Interest Income		
Interest and fees on loans held for investment	$ 6,125	$ 5,712
Interest and fees on loans held for sale	65	22
Interest on federal funds sold	17	89
Interest on interest bearing deposits	24	22
Dividends on equity securities	140	127
Interest on debt securities	246	316
Total Interest Income	6,617	6,288
Interest Expense		
Interest on demand deposits	187	315
Interest on savings accounts	77	83
Interest on time deposits over $100,000	281	509
Interest on time deposits	1,370	1,519
Total interest on deposits	1,915	2,426
Interest on short-term debt	216	117
Interest on long-term debt	534	277
Total Interest Expense	2,665	2,820
Net Interest Income	3,952	3,468
Provision for Loan Losses	120	60
Net Interest Income after Provision for Loan Losses	3,832	3,408
Noninterest Income		
Service charges	367	320
Insurance and other commissions	54	138
Other	272	339
Income on bank owned life insurance	94	74
Security gains (losses)	(312)	20
Total Noninterest Income	475	891

Noninterest Expense				
Salaries		1,279		1,213
Employee benefits		396		390
Occupancy expense		145		152
Equipment expense		147		153
Intangible amortization		69		69
Other		757		729
Total Noninterest Expense		2,793		2,706
Income before Income Taxes		1,514		1,593
Income Taxes		428		468
Net Income	$	1,086	$	1,125
Per Share Data				
Net Income	$	.47	$	.48
Cash Dividends	$	.23	$	.22
Weighted Average Shares Outstanding		2,314,827		2,356,867

The accompanying notes are an integral part of these statements.

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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)

	Nine Months Ended September 30, 2008	Nine Months Ended September 30, 2007
Interest Income		
Interest and fees on loans held for investment	$ 17,315	$ 16,895
Interest and fees on loans held for sale	185	22
Interest on federal funds sold	46	177
Interest on interest bearing deposits	99	64
Dividends on equity securities	400	357
Interest on debt securities	734	912
Total Interest Income	18,779	18,427
Interest Expense		
Interest on demand deposits	567	875
Interest on savings accounts	222	253
Interest on time deposits over $100,000	1,345	1,650
Interest on time deposits	3,797	4,219
Total interest on deposits	5,931	6,997
Interest on short-term debt	402	368
Interest on long-term debt	1,389	925
Total Interest Expense	7,722	8,290
Net Interest Income	11,057	10,137
Provision for Loan Losses	385	180
Net Interest Income after Provision for Loan Losses	10,672	9,957
Noninterest Income		
Service charges	1,007	873
Insurance and other commissions	223	290
Other	923	931
Income on bank owned life insurance	242	219
Security gains (losses)	(343)	238
Total Noninterest Income	2,052	2,551

Noninterest Expense		
Salaries	3,773	3,516
Employee benefits	1,122	1,151
Occupancy expense	422	444
Equipment expense	413	480
Intangible amortization	207	207
Other	2,270	2,039
Total Noninterest Expense	8,207	7,837
Income before Income Taxes	4,517	4,671
Income Taxes	1,283	1,320
Net Income	$ 3,234	$ 3,351
Per Share Data		
Net Income	$ 1.39	$ 1.42
Cash Dividends	$ .67	$ .63
Weighted Average Shares Outstanding	2,327,735	2,364,248

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)

	September 30, 2008 (Unaudited)	December 31, 2007 (Audited)
ASSETS		
Cash and due from banks	$ 4,718	$ 8,705
Interest bearing deposits in banks	2,735	3,132
Fed funds sold	9,405	
Securities held to maturity (note 2)	109	109
Securities available for sale (note 2)	24,991	30,214
Other investments	7,914	6,291
Loans held for investment (note 3)	381,791	317,179
Less allowance for loan losses (note 4)	(1,820)	(1,702)
Net Loans Held for Investment	379,971	315,477
Bank premises and equipment	7,488	7,221
Interest receivable	1,885	1,932
Deposit intangible	667	874
Goodwill	2,639	2,639
Bank owned life insurance (note 5)	6,229	6,005
Other assets	3,761	4,128
Total Assets	$ 452,512	$ 386,727
LIABILITIES		
Deposits		
Noninterest bearing demand	$ 50,549	$ 49,755
Interest bearing		
Demand	35,290	25,196
Money Market	24,264	30,393
Savings deposits	32,457	28,214
Time deposits over $100,000	57,594	44,512
Time deposits	123,188	120,490
Total Deposits	323,342	298,560
Short-term debt	20,746	12,743
Long-term debt	63,786	29,714
Accrued expenses	6,364	6,545
Total Liabilities	414,238	347,562

STOCKHOLDERS EQUITY

Common stock, $5 par value, 2,298,367 and 2,343,890 issued and outstanding, in 2008 and 2007, respectively		11,492		11,720
Retained earnings		28,457		28,409
Accumulated other comprehensive income (loss)		(1,675)		(964)
Total Stockholders Equity		38,274		39,165
Total Liabilities and Stockholders Equity	$	452,512	$	386,727

The accompanying notes are an integral part of these statements.

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

	Nine Months Ended September 30, 2008	2007
Cash Flows from Operating Activities:		
Net income	$ 3,234	$ 3,351
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	468	535
Gain on sale of property and equipment		(69)
Amortization (accretion) of security premiums (discounts)	(29)	(96)
Net (increase) decrease in loans held for sale		
Provision for loan losses	385	180
Intangible amortization	207	207
(Increase) decrease in interest receivable	47	85
(Increase) decrease in other assets	641	(118)
Increase in accrued expenses	(606)	414
(Gain) loss on security transactions	343	(238)
Amortization of limited partnership investments	335	477
Income from life insurance investment	(223)	(219)
Net Adjustments	1,568	1,158
Net Cash Provided by Operating Activities	4,802	4,509
Cash Flows from Investing Activities:		
Purchase of investments held to maturity		(108)
Purchase of investments available for sale	(19,449)	(17,229)
Proceeds from sales of investments available for sale	20,393	2,095
Proceeds from maturity of investments available for sale	1,010	14,160
Proceeds from maturity of investments held to maturity		110
Net increase in loans held for investment	(64,879)	(250)
Purchase of property and equipment	(734)	(16)
Change in federal funds sold	(9,405)	(5,011)
Purchase of investment in life insurance		
Net (increase) decrease in interest bearing bank deposits	397	138
Net Cash Used in Investing Activities	(72,667)	(6,111)
Cash Flows from Financing Activities:		
Net change in demand and savings deposits	9,003	6,245
Net change in time deposits	15,780	4,594
Net change in short-term debt	10,935	894
Cash dividends paid	(1,561)	(1,495)
Repurchase of common stock	(1,536)	(781)
Change in federal funds purchased	(2,932)	(2,562)

Proceeds of long-term debt	42,000	5,000
Proceeds from issuance of common stock	118	10
Repayment of long-term debt	(7,929)	(8,640)
Net Cash Provided (Used) by Financing Activities	63,878	3,265
Net Decrease (Increase) in Cash and Cash Equivalents	(3,987)	1,663
Cash and Cash Equivalents, Beginning of Period	8,705	6,247
Cash and Cash Equivalents, End of Period	$ 4,718	$ 7,910
Supplemental Disclosure		
Cash paid for:		
Interest expense	$ 7,952	$ 8,122
Income taxes	700	925

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)

	Nine Months Ended September 30,	
	2008	**2007**
Balance, beginning of period, as previously stated	$ 39,165	$ 38,105
Cumulative effect of initial adoption of FAS 106`	(428)	
Balance, beginning of period, restated	$ 38,737	$ 38,105
Comprehensive Income		
Net income	3,234	3,351
Net change in unrealized appreciation on securities available for sale, net of taxes	(710)	(413)
Total comprehensive income	2,524	2,938
Repurchase of common stock	(1,536)	(781)
Common stock sold	118	10
Dividends declared	(1,569)	(1,514)
Balance, end of period	$ 38,274	$ 38,758

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 September 30, 2008 and the results of operations for the nine month periods ended September 30, 2008 and September 30, 2007. The notes included herein should be read in conjunction with the notes to financial statements included in the 2007 annual report to stockholders of the F & M Bank Corp.

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

NOTE 2 INVESTMENT SECURITIES:

The amounts at which investment securities are carried in the consolidated balance sheets and their approximate market values at September 30, 2008 and December 31, 2007 are as follows:

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

	2008		2007	
	Market Value	Cost	Market Value	Cost
Securities Available for Sale				
Government sponsored enterprises	$ 10,174	$ 9,979	$ 16,459	$ 16,283
Equity securities	4,565	6,382	5,411	5,402
Mortgage-backed securities	8,897	8,842	5,668	6,620
Corporate Bonds	1,231	1,617	2,426	2,617
Municipals	124	125	250	250
Total	$ 24,991	$ 26,945	$ 30,214	$ 31,172

F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENT

NOTE 3 LOANS HELD FOR INVESTMENT:

Loans outstanding at September 30, 2008 and December 31, 2007 are summarized as follows:

	2008	2007
Real Estate		
Construction	$ 68,942	$ 51,301
Residential	160,427	143,248
Commercial and agricultural	131,385	101,749
Installment loans to individuals	19,042	18,772
Credit cards	1,900	1,800
Other	95	309
Total	$ 381,791	$ 317,179

NOTE 4 ALLOWANCE FOR LOAN LOSSES:

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2008	2007	2008	2007
Balance, beginning of period	$ 1,703	$ 1,791	$ 1,707	$ 1,898
Provisions charged to operating expenses	385	180	120	60
Net (charge-offs) recoveries:				
Loan recoveries	59	53	18	13
Loan charge-offs	(327)	(199)	(25)	(146)
Total Net Charge-Offs *	(268)	(146)	(7)	(133)
Balance, End of Period	$ 1,820	$ 1,825	$ 1,820	$ 1,825

* Components of Net Charge-Offs

Real Estate	1			
Commercial	(260)	(98)		(100)
Installment	(9)	(48)	(7)	(33)
Total	$ (268)	$ (146)	$ (7)	$ (133)

NOTE 5 EMPLOYEE BENEFIT PLAN

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The following is a summary of net periodic pension costs for the nine-month periods ended September 30, 2008 and 2007.

	2008	2007
Service cost	$ 241,785	$ 237,590

Interest cost	192,162	178,419
Expected return on plan assets	(282,534)	(205,651)
Amortization of net obligation at transition		7,616
Amortization of prior service cost	(3,975)	(3,975)
Amortization of net (gain) or loss	8,841	34,144
Net periodic benefit cost	$ 156,279	$ 248,143

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F & M BANK CORP.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 FAIR VALUE

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

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

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

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

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

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

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

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

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

September 30, 2008	Total	Level 1	Level 2	Level 3
Investment securities available-for-sale	$ 24,991	$ 4,565	$ 20,426	
Total assets at fair value	$ 24,991	$ 4,565	$ 20,426	
Total liabilities at fair value				

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

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

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. On November 3, 2008 the Bank closed on the acquisition of a majority interest in VBS Mortgage (VBS).

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

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

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

Forward-Looking Statements

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

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

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

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

Critical Accounting Policies

General

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

Allowance for Loan Losses

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

Goodwill and Intangibles

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

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

Securities Impairment

The Company evaluates each of its investments in securities, debt and equity, under guidelines contained in SFAS 115, *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 third quarter of 2008 was $1,086,000 or $.47 per share, compared to $1,125,000 or $.48 per share in the third quarter of 2007, a decrease of 3.5%. Core operating earnings, (exclusive of securities transactions and non-recurring tax credits) totaled $1,292,000 in 2008 and $1,074,000 in 2007, an increase of 20.4%. During the third quarter of 2008, noninterest income, exclusive of securities transactions and a 2007 gain from the sale of real estate, decreased 1.9% and noninterest expense increased 3.2% during the same period.

Results of Operations

The 2008 year to date tax equivalent net interest margin increased $964,000 or 9.4% compared to the same period in 2007. The yield on earning assets decreased .59%, while the cost of funds decreased .63% compared to the same period in 2007. In response to the economic slowdown, the Federal Reserve s Federal Open Market Committee (FOMC) began lowering short-term interest rate in September 2007. Through September 30, 2008, the FOMC had lowered the Federal Funds Rate on seven separate occasions by a total of 3.25%.

The Interest Sensitivity Analysis on page 19 indicates the Company is in a liability sensitive position in the one year time horizon (2.50%). This is an improvement compared to the same period in 2007 when the liability sensitive position was (9.17%). During this time period the bank has made a significant shift toward the use of more variable rate assets and liabilities, which has led to the improvement in the interest sensitivity position. This shift has place the Company in a better position to react to changes in short-term rates. The rapid asset and liability repricing precipitated by the FOMC actions and slowing economy, has resulted in a .07% decrease in the net interest margin for the first nine months of 2008 as compared to the same period in 2007.

A schedule of the net interest margin for 2008 and 2007 can be found in Table I on page 18.

Noninterest income, exclusive of securities transactions, increased $82,000 or 3.5% through September 30, 2008. Items contributing to the increase include a $134,000 increase in service charge income, and a $23,000 increase in bank owned life insurance income. These increases were offset with a $42,000 decrease in earnings from FMFS (title, property and casualty insurance commissions and brokerage commissions) and the fact that there was a $69,000 gain on the sale of assets in 2007.

Noninterest expense increased $370,000 in 2008. The increase is primarily the result of a $228,000 increase in salaries and benefits expense (4.9%). The increase in salaries and benefits includes normal salary increases, staff additions, and an increase in the cost of group insurance of 3.4%. Exclusive of personnel expenses, other noninterest expenses increased at an annualized rate of 4.5% in 2008 compared to 2007. Areas that increased include a $61,000 increase in advertising and special promotions expense, a $63,000 increase in FDIC assessment expense, a $31,000 increase in legal and professional expense, and a $30,000 increase in other taxes. Advertising and special promotions expense increased due to the celebration of the Bank s 100th anniversary and promotion of a new checking product. The FDIC assessment increased due to an expiration of credits during the year.

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 2.67% and 3.32% 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 2% 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.

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 September 30, 2008, the cost of securities available for sale exceeded their market value by $1,954,000. This includes decreases in value in the equity securities portfolio and corporate bonds held by the Company. 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 nine months of 2008. 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. Bond maturities for the remainder of 2008 total $1 million.

The Company s equity securities portfolio was $1,817,000 below cost at September 30, 2008. The portfolio has been impacted by the recent market volatility resulting from the slowing economy, sub-prime mortgage crisis and the financial sector crisis precipitated by the meltdown of large brokerage houses and banks. The decrease in the value of the equities portfolio is spread over a number of asset sectors including holdings in the financial sector. To minimize risk the Company holds a diversified portfolio of equity investments in a number of large, regional financial institutions and a variety of other predominantly blue-chip securities. Management continues to believe that these investments offer adequate current returns (dividends) and have the potential for future increases in value.

A review of these investments as of September 30, 2008, revealed several securities that were impaired as of quarter end resulting in a write down of securities for book purposes of $313,000, or $206,000 net of deferred tax. 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 multi-family residential properties. Management and the Board of Directors review these concentrations quarterly.

During the first nine months of 2008 the loan portfolio increased $64,612,000. The increase is concentrated primarily within the construction, residential and commercial loan portfolios. A portion of the increase is from loan participations purchased from a correspondent bank and from two de novo banks that have much lower legal lending limits. Several of the loan participations purchased from the correspondent bank are loans to other bank holding companies or insiders of these bank holding companies and these loans are secured by the stock of these bank holding companies or stock of the underlying subsidiary banks. The other participations purchased are primarily real estate based commercial loans secured by income producing 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 $3,689,000 at September 30, 2008 compared to $4,343,000 at December 31, 2007. Approximately 87% of these past due loans are secured by real estate. Management continues to believe that the bank is generally well secured and continues to actively work with its customers to effect payment. As of September 30, 2008, the Company does not hold any real estate which was acquired through foreclosure.

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

	September 30, 2008	December 31, 2007
Nonaccrual loans	$ 1,225,000	$ 1,758,000
Loans past due 90 days or more and still accruing interest	2,464,000	2,585,000
	$ 3,689,000	$ 4,343,000
As a percentage of loans held for investment	.97%	1.37%

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

Allowance for Loan Losses

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

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

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

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

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

The allowance for loan losses of $1,820,000 at September 30, 2008 is equal to .48% of loans held for investment. This compares to an allowance of $1,825,000 at September 30, 2007. Management has funded the allowance a total of $385,000 through September 30, 2008. Net charge-offs year to date total $268,000. This includes a $259,000 charge-off on one loan relationship in the medical field, and completes our anticipated losses associated with this borrower. Exclusive of this transaction, total charge-offs exceed recoveries by only $9,000 year to date.

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 $24,782,000 since December 31, 2007. Time deposits increased $15,780,000 during this period while demand deposits and savings deposits increased $9,002,000. Time deposits have increased primarily due to funds raised by publicizing rates on a national listing service whose subscribers include other banks and credit unions. Demand and savings deposits have increased primarily as a result of the new Platinum Rewards interest bearing checking account which the Bank began offering in March 2008.

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). With the commercial repos 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 for the real estate loan portfolio. The Company s subsidiary bank typically 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 $7,929,000 through September 30, 2008. Additional borrowings of $37 million were obtained to support the growth in the loan portfolio and to refinance short term debt at favorable longer term rates.

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

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 September 30, 2008, the Company s total risk based capital and total capital to total assets ratios were 10.71% and 7.97%, 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 third quarter dividend in 2008 of 4.55%.

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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 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 September 30, 2008, the Company had a cumulative Gap Rate Sensitivity Ratio of (.62%) 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, on page 19.

Stock Repurchase

On September 18, 2008, the Company s Board of Directors approved an increase in the number of shares of common stock that the Company can repurchase under the share repurchase program from 150,000 to 200,000 shares. Shares repurchased through September 30, 2008 total 153,140; of this amount, 49,474 shares were repurchased in 2008, at an average cost of $30.41 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).

TABLE 1

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

	Nine Months Ended September 30, 2008			Nine Months Ended September 30, 2007			Three Months Ended September 30, 2008			Three Months Ended September 30, 2007		
	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates	Average Balance	Income/ Expense	Rates
Rate related income												
Loans held for investment[1]	$ 343,996	$ 17,412	6.75%	$ 309,643	$ 16,961	7.30%	$ 370,276	$ 6,159	6.65%	$ 310,259	$ 5,747	7.41%
Loans held for sale	5,958	185	4.14%	396	22	7.41%	6,196	65	4.20%	1,176	22	7.48%
Federal funds sold	3,012	46	2.04%	4,722	177	5.00%	4,001	17	1.70%	7,211	89	4.94%
Bank deposits	2,712	99	4.87%	1,093	50	6.10%	2,058	24	4.66%	1,010	17	6.73%
Investments												
Taxable[3]	19,873	846	5.68%	23,491	1,000	5.68%	19,365	289	5.97%	23,766	351	5.91%
Partially taxable [2,3]	10,091	369	4.88%	7,049	347	6.56%	8,834	125	5.66%	6,764	118	6.98%
Tax exempt [2,3]	184	6	4.35%	300	10	4.44%	125	1	3.20%	250	3	4.80%
Total earning assets	385,826	18,963	6.55%	346,694	18,567	7.14%	410,855	6,680	6.50%	350,436	6,347	7.24%
Interest Expense												
Demand deposits	58,053	567	1.30%	51,997	875	2.24%	58,629	187	1.28%	54,250	315	2.32%
Savings	30,057	222	.98%	30,981	253	1.09%	31,921	77	.96%	30,028	83	1.11%
Time deposits	163,867	5,142	4.18%	168,561	5,869	4.64%	165,370	1,651	3.99%	170,732	2,028	4.75%
Short-term debt	24,007	402	2.23%	10,370	368	4.73%	38,992	216	2.22%	10,205	117	4.59%
Long-term debt	46,962	1,389	3.94%	27,246	925	4.53%	54,007	533	3.95%	26,280	312	4.75%
Total interest bearing	322,946	7,722	3.19%	289,155	8,290	3.82%	348,919	2,664	3.05%	291,495	2,855	3.92%

liabilities				
Net interest income [1]	$ 11,241	$ 10,277	$ 4,016	$ 3,492
Net yield on interest earning assets [1]	3.88%	3.95%	3.91%	3.99%

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TABLE II

F & M BANK CORP.
INTEREST SENSITIVITY ANALYSIS
September 30, 2008
(In Thousands of Dollars)

The following table presents the Company s interest sensitivity.

	0 - 3 Months	4 - 12 Months	1 - 5 Years	Over 5 Years	Not Classified	Total
Uses of Funds						
Loans						
Commercial	$ 84,091	$ 22,966	$ 84,055	$ 5,284	$	$ 196,396
Installment	8,646	1,006	10,416	2,354		22,422
Real estate for investments	38,023	20,868	86,840	15,342		161,073
Real estate for sale						
Credit cards	1,900					1,900
Federal funds sold	9,405					9,405
Interest bearing bank deposits	1,844	891				2,735
Investment securities	3,227	4,646	4,086	8,316	4,825	25,100
Total	147,136	50,377	185,397	31,296	4,825	419,031
Sources of Funds						
Interest bearing demand deposits		19,189	33,307	7,058		59,554
Savings deposits		6,492	19,474	6,491		32,457
Certificates of deposit $100,000 and over	8,536	32,536	16,522			57,594
Other certificates of deposit	27,303	61,668	34,217			123,188
Short-term borrowings	20,746					20,746
Long-term borrowings	6,202	17,428	39,977	179		63,786
Total	62,787	137,313	143,497	13,728		357,325
Discrete Gap	84,349	(86,936)	41,900	17,568	4,825	61,706
Cumulative Gap	84,349	(2,587)	39,313	56,881	61,706	
Ratio of Cumulative Gap to Total Earning Assets	20.13%	(.62)%	9.38%	13.57%	14.73%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of September 30, 2008. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4T. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

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

Changes in Internal Controls

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

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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, 2008.

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

Item 3. Defaults Upon Senior Securities Not Applicable

Item 4. Submission of Matters to a Vote of Security Holders 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 August 13, 2007.
3 ii	Amended and Restated Bylaws of F & M Bank Corp. are incorporated by reference to Exhibits to F & M Bank Corp. s Form 10K filed March 1, 2002.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
32	Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-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
Executive Vice President and Chief Financial Officer

November 14, 2008