

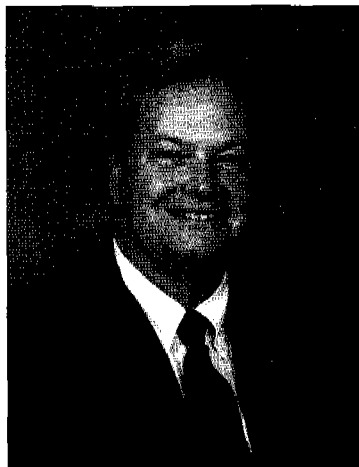
COMERICA

Filings Services
April 11, 2007
SNL Financial, LC
1-800-969-4121

The strength of our tree. . .

continues to grow branches.

Annual Report 2006



Dear Stockholder,

I am pleased to present the operating results for F & M Bank Corp for the year 2006. Although net income was good, it is a slight decrease from the previous year. This was due to a number of factors.

First, the flat yield curve, meaning both short and long term rates were basically the same, began to put pressure on the net interest margin in the second half of the year. Also, the competition for deposit dollars from both financial and non financial institutions required us to pay premium rates for deposits, putting further pressure on our net interest margin. Furthermore, due to the interest rate environment, we did not have income from our Loan Participation program which had generated significant returns in previous years. Net income from this program was \$130,000.00 in 2005. Net Income was also negatively affected by an approximately \$60,000 tax adjustment related to goodwill from our purchase of the Edinburg and Woodstock branches in 2001.

Lastly, the opening of two completely new branches and the relocation of the Plaza branch to the new Crossroads location increased our operating expenses significantly. Although the new branches are not yet at the breakeven point, they have shown good deposit growth, which has been used to support loan growth overall. As is typical with new branches, the majority of the deposits are in CDs which have a higher cost. As the branches mature, we should be able to add more DDA and Savings accounts which will bring down the cost of deposits. Also, as their loans increase, they will become profitable.

Net income for 2006 was \$4.529 million or a decrease of \$251,000 (5.25%) over the prior year 2005. Earnings per share decreased from \$1.99 to \$1.90. Both our Return on Average Assets and Return on Average Equity at 1.26% and 12.13% were down, but still in line with our Peer Group. Loans Held for Investment increased by \$32.063 million (11.6%) to \$309.461 million. Deposits also increased significantly by \$22.212 million (8.3%) to \$289.522 million. The difference between the loan growth and deposit growth was financed by an increase in our borrowings from the Federal Home Loan Bank.

Credit quality remained good with charge offs dropping to .04% of Loans Held for Investment in 2006 from .07% in 2005. Nonperforming assets increased to .58% of total assets which is more in line with our five year average. Management has reviewed the nonperforming loans and determined that they are primarily secured with real estate with little potential for losses. The Allowance for Loan Losses remained relatively steady at .58% of Loans Held for Investment, which is below our bank peer group; however, we feel it is adequate based on our excellent history of loan losses.

Dividends increased from \$.78 to \$.82 per share, an increase of 5.13%. In 2006 we paid out 43.12% of our earnings in dividends. Our stock price hit \$30.00 per share in 2006, up from a low of \$24.15 per share in 2005. Since the end of the year it has increased to a high of \$33.00 per share.

As mentioned above, we opened two new branches in 2006. One is located on Port Republic Road in Harrisonburg and the other is located in the East Luray Shopping Center in Luray. We have had good deposit growth in these branches and we are beginning to see new loan growth. Also, we have now closed the Elkton Plaza branch and our Mortgage and Investment Services that were located in Harrisonburg. Both of these operations are now located in the new Crossroads Branch located on Route 33 just east of Harrisonburg. If you have not stopped by these new locations, I would encourage you to do so to get to know the staff and look over the facilities.

As we approach our upcoming 100 year anniversary next year, we are starting to make plans for celebration. We have just about put the finishing touches on a history which should be available in the fall of this year. I want to thank Julian Fisher, Larry Hoover and Nancy Bondurant Jones for their work in putting this historic book together.

When you put together an Annual Report, you tend to concentrate on facts and figures, but I want to recognize what I consider to be the Bank's greatest assets and that is our employees. In 2006 we had a number of individuals who had employment milestones of twenty plus years with the Bank. They are listed later on in this report. When you see them, thank them for their dedication to Farmers & Merchants Bank and our customers.

In total we have twenty employees with more than twenty years of service. This amounts to approximately 15% of our staff. The entire staff is what has made the bank successful for almost 100 years and will continue to make us successful in the future. So when you visit one of our branches, let the staff know how much they mean to our success and thank them for their service.

In summary, I think F & M Bank Corp. has a very bright future. We have a good network of branches and a staff that is committed to good customer service. I want to also thank you for the confidence and support that you have given us through the years.

Dean W Withers
President/CEO

FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	2006	2005	2004	2003	2002
Income Statement Data:					
Interest and Dividend Income	\$ 22,526	\$ 19,878	\$ 16,804	\$ 16,683	\$ 17,846
Interest Expense	9,091	6,998	5,396	6,010	7,390
Net Interest Income	13,435	12,880	11,408	10,673	10,456
Provision for Loan Losses	240	360	240	226	387
Net Interest Income after Provision for Loan Losses	13,195	12,520	11,168	10,447	10,069
Noninterest Income	2,754	2,643	2,254	2,308	1,380
Securities Gains (Losses)	193	71	532	179	(182)
Noninterest Expenses	9,688	8,608	7,741	7,256	6,448
Income before Income Taxes	6,454	6,626	6,213	5,678	4,819
Income Tax Expense	1,925	1,846	1,863	1,666	1,315
Net Income	4,529	\$ 4,780	\$ 4,350	\$ 4,012	\$ 3,504
Per Share Data:					
Net Income	1.90	\$ 1.99	\$ 1.80	\$ 1.66	\$ 1.44
Dividends Declared	.82	.78	.74	.70	.66
Book Value	16.05	15.22	14.21	13.35	12.19
Balance Sheet Data:					
Assets	\$ 375,924	\$ 346,328	\$ 369,957	\$ 309,126	\$ 303,149
Loans Held for Investment	309,461	277,398	248,972	211,231	201,980
Loans Held for Sale		3,528	47,150	-	-
Securities	37,373	34,921	38,800	61,230	69,602
Deposits	289,522	267,310	246,505	240,715	228,284
Short-Term Debt	11,717	14,345	57,362	6,389	8,308
Long-Term Debt	29,247	22,808	26,462	24,784	32,312
Shareholders' Equity	38,105	36,567	34,260	32,319	29,541
Average Shares Outstanding	2,386	2,404	2,414	2,418	2,429
Financial Ratios:					
Return on Average Assets ¹	1.26%	1.34%	1.31%	1.29%	1.21 %
Return on Average Equity ¹	12.13%	13.56%	13.11%	13.13%	12.12 %
Net Interest Margin	4.17%	3.95%	3.82%	3.82%	4.03 %
Efficiency Ratio ²	57.45%	53.07%	54.02%	53.96%	51.28 %
Dividend Payout Ratio	43.12%	38.70%	41.06%	42.17%	45.72 %
Capital and Credit Quality Ratios:					
Average Equity to Average Assets ¹	10.36%	9.86%	10.00%	9.86%	9.98 %
Allowance for Loan Losses to Loans ³	.58%	.60%	.61%	.70%	.73 %
Nonperforming Assets to Total Assets	.58%	.20%	.63%	.52%	.86 %
Net Charge-offs to Total Loans ³	.04%	.07%	.09%	.10%	.10 %

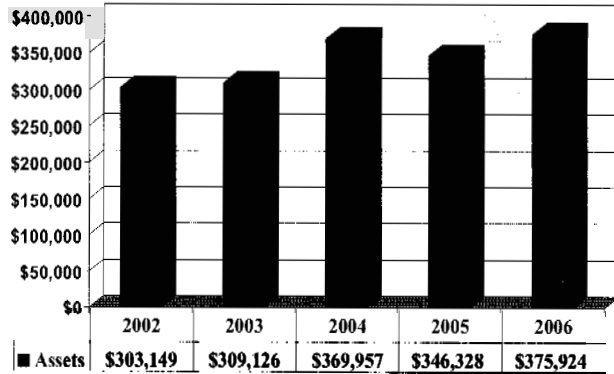
¹ Ratios are primarily based on daily average balances.

² The Efficiency Ratio equals noninterest expenses divided by the sum of tax equivalent net interest income and noninterest income. Noninterest expenses exclude intangible asset amortization. Noninterest income excludes gains (losses) on securities transactions.

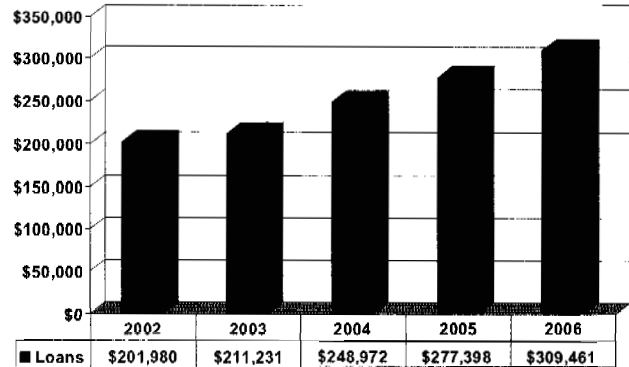
³ Calculated based on Loans Held for Investment, excludes Loans Held for Sale.

FIVE YEAR SUMMARY OF SELECTED FINANCIAL CHARTS

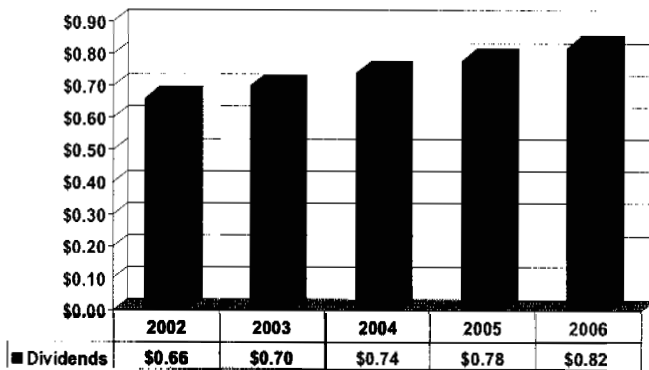
Balance Sheet: Total Assets



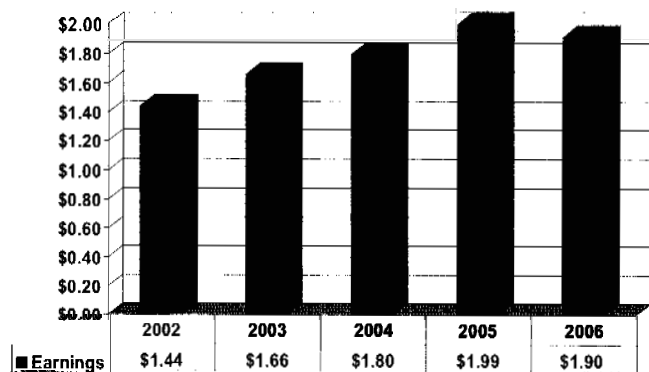
Balance Sheet: Loans Held For Investment



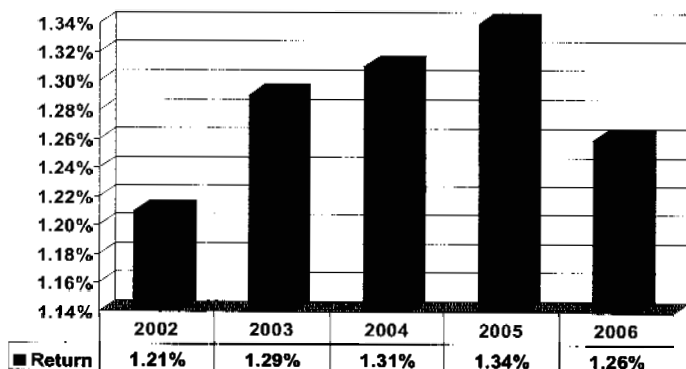
Dividends Per Share



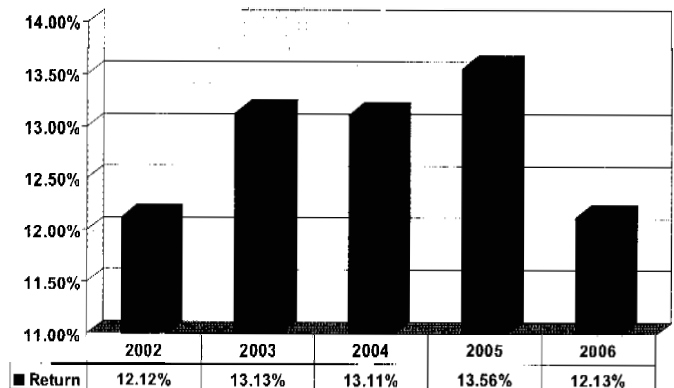
Earnings Per Share



Financial Ratios: Return on Average Assets



Financial Ratios: Return on Average Equity



RETIRED EMPLOYEE



Judy Mathias

On March 31, 2006, Judy Mathias retired from Farmers & Merchants Bank. Judy started her career in 1974 in loan accounting and progressed to an Assistant Vice President/Loan Officer when she retired. A dinner was held in her honor recognizing her thirty-two years of service helping Farmers & Merchants remain successful. She has since come back to work part time doing loan review during the winter months. During the warm summer months Judy has been enjoying her family, traveling and camping with her husband Wayne.

SERVICE ANNIVERSARIES



Sylvia Bowman
40 years



Mary Sue Fahrney
35 years



Mary Sue Prophet
35 years



Sheila Owen
30 years



Debbie Andes
20 years

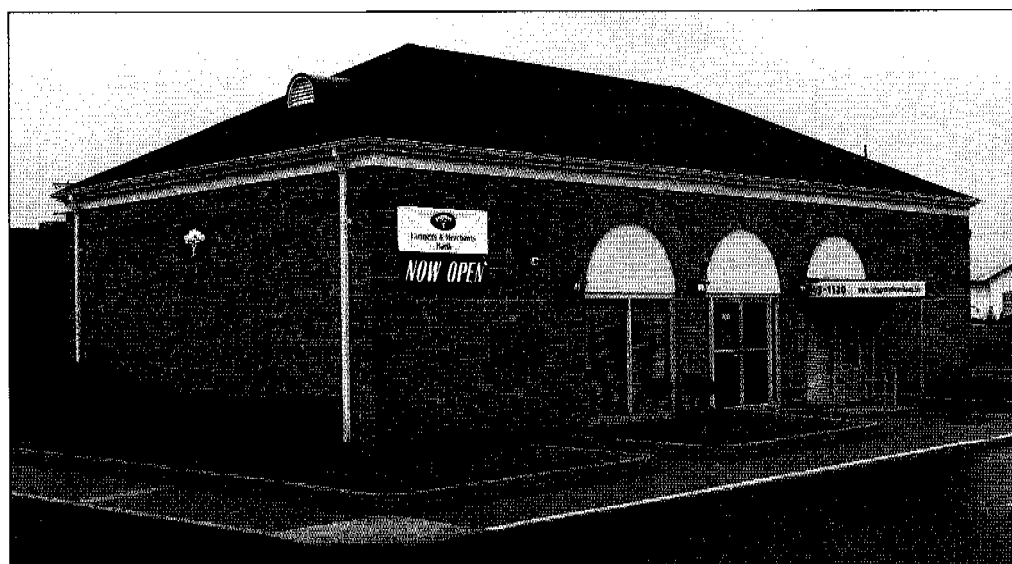


Jean Coffman
20 years

NEW BRANCHES, NEW MARKETS... OPEN FOR BUSINESS!



Port Road
April 3, 2006



Luray
July 10, 2006



Crossroads
August 28, 2006

DIRECTORS



Front row (left to right): Dean Withers, Ellen Fitzwater, Thomas Cline; Back row: Ronald Wampler, Julian Fisher, Richard Myers, Michael Pugh and John Crist; (Not pictured): Dan Harshman.

THOMAS L. CLINE

*President, Truck & Equipment Corp.
President, Mac Lease, Inc.*

JOHN N. CRIST

Partner, Hoover Penrod, PLC, Attorneys

JULIAN D. FISHER

*Chairman of the Board,
Farmers & Merchants Bank
and F & M Bank Corp.*

EILLEN R. FITZWATER

*Partner, Financial Manager,
F & R Leasing, L.L.C.*

DANIEL J. HARSHMAN

Manager, Town of Edinburg

RICHARD S. MYERS

President, Dick Myers Chevrolet-Pontiac

MICHAEL W. PUGH

*President, Old Dominion Realty, Inc.
President, Colonial Appraisal Service, Inc.*

RONALD E. WAMPLER

*Part-time Salesman for Dayton Equipment
Retired Farmer
Partner, Dove Ohio Farms, LLC.
and WWTD Ohio Farms, LLC*

DEAN W. WITHERS

*President, Farmers & Merchants Bank
and F & M Bank Corp.*

OFFICERS

Julian D. Fisher
Chairman of the Board

Neil W. Hayslett
Sr. Vice President and Chief Financial Officer

Thomas L. Cline
Vice Chairman of the Board

Ellen C. Branner
Sr. Vice President/Human Resources

Dean W. Withers
President and Chief Executive Officer

Stephanie E. Shillingburg
Sr. Vice President/Retail Services

Larry A. Caplinger
Sr. Vice President and Secretary of the Board

VICE PRESIDENTS

Curtis M. Arey
Sylvia T. Bowman
Carolyn J. Dove
Sally H. Erickson
Ralph C. Foltz, Jr.
Henry E. Hawkins
Jeffrey L. Lam
Susan K. Olson
Mary Sue Prophet
Kitty H. Purcell
Robert R. Reedy, Jr.

ASSISTANT VICE PRESIDENTS

Deborah A. Andes
Carrie A. Comer
Ellen M. Grataski
Kathy L. Grubbs
Joshua P. Hale
Mary Ellen Harrison
Teresa D. Helmick
Cathy M. Lindamood
Sheila F. Owen
Cindy A. Sherman
Jacqueline M. Shifflett
Darlene K. Sites
Deborah D. Vance

EMPLOYEES

Timberville Branch

Carolyn F. Berry
Thomas L. Campbell
Jean B. Coffman
Jeri C. Conner
Phyllis B. Delawder
Stacy A. Dove
Mary S. Fahrney
Brenda S. George
Sharrie L. Harrison
Pamela H. Mantz
Margo S. Miller
JoAnne H. Runion
Tina L. Weaver
R. Gail Whitmore

Elkton Branch

Carolyn L. Alexander
Crystal L. Breeden
Bonnie L. Dovel
W. Brent Meadows
Cynthia L. Merica
Donna G. O'Byrne
Michelle L. Printz
Dana S. Smith

Broadway Branch

Jacqueline M. Day
Chris A. Gunter
Sharon Y. Lantz
Carol L. Miller
Tamara K. Miller
Susan R. Mitchell
Eleanor C. Nicholson
Melody A. Priest
Carolyn S. Polk
Susan H. Seal
Frances L. Showalter
Berlin E. Smith
Kathryn V. Smith
G. Jean Whorten

Bridgewater Branch

Barbara W. Bartley
Betty I. Bryant
Alice L. Grow
Brian S. Harter
Kimberly D. Hubbard
Christina G. Humphries
Teresa L. Knicly
Anna M. Pavlovskaya
Elaine L. Tomlinson
Claire M. Wrenn

Edinburg Branch

Eleanor S. Bowman
J. Robert Moore
Carolyn L. Silvious
Brenda D. Swartz
Peggy R. Wakeman
Janet D. Ware

Woodstock Branch

Linda J. Bailey
Mary P. Mastrangelo
Judith L. Shumaker
Christy L. Trail

Crossroads Office

Kimberly A. Hammer
Sarah H. Irons
Teresa G. Lam
Jonah J. Pence
Sandra K. Robinette
Mendy N. Samuels
J. Paige Swecker
Robin M. Weaver
Victoria L. Wendt
Alice S. Yates

Port Road Branch

Janeea L. Garber
Ashley L. Huffman
Judith V. Lyles
Wanda R. Weaver
Natalie S. Wimer

Luray Branch

Beth R. Lucas
Cynthia E. Lyles
Cassandra N. Mauck
Yvette P. McCoy
Victoria L. Young

Administrative Offices

Susan E. Babkirk
Judy L. Custer
Keith M. Deeds
Karmen Derrow
Joseph M. Erickson
Jean Y. Estep
Frances Z. Foltz
Reata L. Harpine
Teri K. Hasley
Linda D. Jenkins
J. Whitney Keister
Anthony W. Keyser
Judith A. Mathias
Edmond A. McDorman
Donna M. McKenzie
Karen Y. Moyer
Lawrence J. Purcell
Edgar H. Reid, III
Kathy S. Sherman
Joyce R. Shiflet
Ronald W. Strickler
Krista Suter
Betty A. Turner
Lynette D. Wine
Amy Z. Wittig



Bridgewater
100 Plaza Drive
828-6300

Broadway
126 North Timber Way
896-7071

Edinburg
120 South Main Street
984-4128

Elkton
127 West Rockingham Street
298-1251

Harrisonburg
Crossroads
80 Cross Keys Road
433-7575

Harrisonburg
Port Road
1085 Port Republic Road
433-0112

Luray
700 East Main Street
743-1130

Timberville
205 South Main Street
896-8941

Woodstock
161 South Main Street
459-3707