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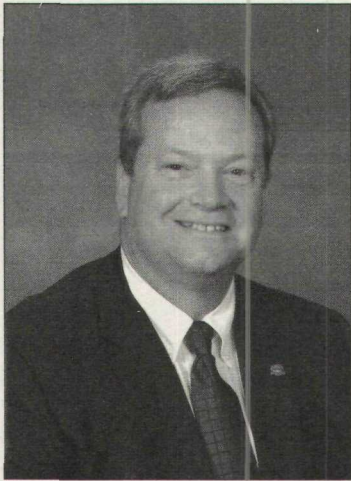
1908-2008
100th
ANNIVERSARY

F&M BANK CORP.



2007
ANNUAL REPORT

Filings Services
April 8, 2008
SNL Financial, LC
1-800-969-4121



Dear Stockholder:

We have now entered our 100th year for Farmers & Merchants Bank and I think it is appropriate to take a moment to reflect on how significant an achievement this is. In 1908 there were no computers, cell phones, televisions or radios that are now an afterthought in today's world. Automobiles and planes were just starting to be built and used. Yet a group of farmers and merchants in the Timberville area had the vision and drive to start a bank which would grow and prosper for more than 100 years. We should all be proud of our accomplishments and also thankful for the guidance provided by not only our founding fathers, but for the very loyal employees, management, directors and shareholders throughout the years. Management's goal is to continue this guidance and vision so that Farmers & Merchants will be celebrating its 200th anniversary in the year 2108.

With that thought in mind, I am pleased to present the financial results for Farmers & Merchants Bank and F & M Bank Corp.

Net income for 2007 was \$4.453 million or a decrease slightly of \$76,000 (1.68%) over the prior year 2006. Earnings per share decreased from \$1.90 to \$1.89. Both our Return on Average Assets and Return on Average Equity at 1.17% and 11.53% were down, but still in line with our Peer Group. Loans Held for Investment increased by \$7.719 million (2.5%) to \$317.180 million. Deposits increased by \$9.038 million (3.1%) to \$298.560 million.

Credit quality remained good with charge offs at .11% of Loans Held for Investment in 2007; however this was an increase from .04% in 2006. Charge-offs in 2006 were the lowest in a number of years. The increase for 2007 was primarily related to one account in the medical field. Toward the end of last year and early 2008 the economy slowed, especially in the housing sector. Therefore, we have increased our monthly Allowance for Loan Loss contribution to help offset any potential increase in charge-offs because of the slowing economy.

Nonperforming assets increased to 1.11% of total assets, which is higher than it has been in the last few years. This increase is primarily related to two accounts, both of which are secured with real estate and are in the process of collection. I anticipate that both will be collected in the second quarter of 2008. Management has reviewed the balance of 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 .54% of Loans Held for Investment, which is below our bank peer group; however, we feel it is adequate to cover any potential losses.

Dividends increased from \$.82 to \$.86 per share, an increase of 4.88%. In 2007 we paid out 45.60% of our earnings in dividends. This was a slight increase over 2006 and was the highest payout over the previous five years. Over the past few months we have seen financial stocks in general well below their highs in 2007, however F & M Bank Corp's stock price has held up well. We closed on December 31, 2007 at \$31.05 with a high in 2007 of \$33.95.

The new branches opened in 2006 showed significant growth in 2007. The Crossroads branch had an increase in loans of over \$20 million and all three showed good deposit growth. As these branches continue to mature they will contribute significantly to the bottom line.

For 2008 we have a number of new products and services, two of which have already been launched. Platinum Rewards is a new checking account which pays a CD like rate to our customers and should also increase both our deposits and non interest income. We have also added ID Safe Choice to our Platinum checking accounts. This product helps to prevent identify theft for our customers, which unfortunately has become a large problem in today's society. Internally we are installing Branch Capture for processing of checks. Rather than having a courier pick up the daily work from a branch, it will be sent electronically to Timberville for processing. Later in the year we will also have Remote Capture, which will allow primarily business customers to process their deposit at their location and electronically send it to the bank. Both of these products have significant efficiency savings. Document Imaging is another product we are considering.

As I mentioned before, this is our 100th year and we have a number of events planned, along with some items to commemorate this occasion. Our history book is now available and can be picked up at any of our branches. Be on the lookout for various events, etc. throughout the year.

I want to thank everyone for your support not only for the last year, but for your support over the last 100 years. Many of our current shareholders are descendants of shareholders from our earlier years, and I think that is the cornerstone of what sets us apart from many of our competitors today. The philosophy of our founding fathers to help our local communities grow is still very important to us today. Farmers & Merchants truly has "Stood the Test of Time".

Dean W Withers
President/CEO



FIVE YEAR SUMMARY OF SELECTED FINANCIAL DATA

(Dollars in thousands, except per share data)	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2003</u>
Income Statement Data:					
Interest and Dividend Income	\$ 24,635	\$ 22,526	\$ 19,878	\$ 16,804	\$ 16,683
Interest Expense	<u>11,043</u>	<u>9,091</u>	<u>6,998</u>	<u>5,396</u>	<u>6,010</u>
Net Interest Income	13,592	13,435	12,880	11,408	10,673
Provision for Loan Losses	<u>270</u>	<u>240</u>	<u>360</u>	<u>240</u>	<u>226</u>
Net Interest Income after Provision for Loan Losses	13,322	13,195	12,520	11,168	10,447
Noninterest Income	3,215	2,754	2,643	2,254	2,308
Securities Gains (Losses)	101	193	71	532	179
Noninterest Expenses	<u>10,532</u>	<u>9,688</u>	<u>8,608</u>	<u>7,741</u>	<u>7,256</u>
Income before Income Taxes	6,106	6,454	6,626	6,213	5,678
Income Tax Expense	<u>1,653</u>	<u>1,925</u>	<u>1,846</u>	<u>1,863</u>	<u>1,666</u>
Net Income	<u>\$ 4,453</u>	<u>\$ 4,529</u>	<u>\$ 4,780</u>	<u>\$ 4,350</u>	<u>\$ 4,012</u>
Per Share Data:					
Net Income	\$ 1.89	\$ 1.90	\$ 1.99	\$ 1.80	\$ 1.66
Dividends Declared	.86	.82	.78	.74	.70
Book Value	16.71	16.05	15.22	14.21	13.35
Balance Sheet Data:					
Assets	\$ 386,727	\$ 375,924	\$ 346,328	\$ 369,957	\$ 309,126
Loans Held for Investment	317,180	309,461	277,398	248,972	211,231
Loans Held for Sale	-	-	3,528	47,150	-
Securities	36,614	37,373	34,921	38,800	61,230
Deposits	298,560	289,522	267,310	246,505	240,715
Short-Term Debt	12,743	11,717	14,345	57,362	6,389
Long-Term Debt	29,714	29,247	22,808	26,462	24,784
Shareholders' Equity	39,165	38,105	36,567	34,260	32,319
Average Shares Outstanding	2,360	2,386	2,404	2,414	2,418
Financial Ratios:					
Return on Average Assets ¹	1.17%	1.26%	1.34%	1.31%	1.29%
Return on Average Equity ¹	11.53%	12.13%	13.56%	13.11%	13.13%
Net Interest Margin	3.94%	4.17%	4.01%	3.82%	3.82%
Efficiency Ratio ²	60.31%	57.45%	53.07%	54.02%	53.96%
Dividend Payout Ratio	45.60%	43.12%	38.70%	41.06%	42.17%
Capital and Credit Quality Ratios:					
Average Equity to Average Assets ¹	10.05%	10.36%	9.86%	10.00%	9.86%
Allowance for Loan Losses to Loans ³	.54%	.58%	.60%	.61%	.70%
Nonperforming Assets to Total Assets	1.11%	.58%	.20%	.63%	.52%
Net Charge-offs to Total Loans ³	.11%	.04%	.07%	.09%	.10%

¹ Ratios are primarily based on daily average balances.

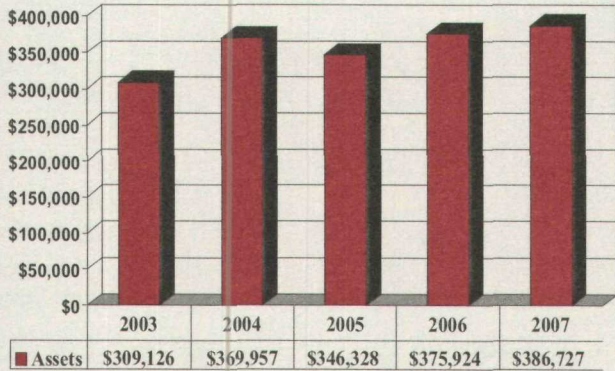
² The Efficiency Ratio equals noninterest expenses divided by the sum of tax equivalent net interest income and noninterest income. Noninterest expenses exclude intangible asset amortization. Noninterest income excludes gains (losses) on securities transactions.

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

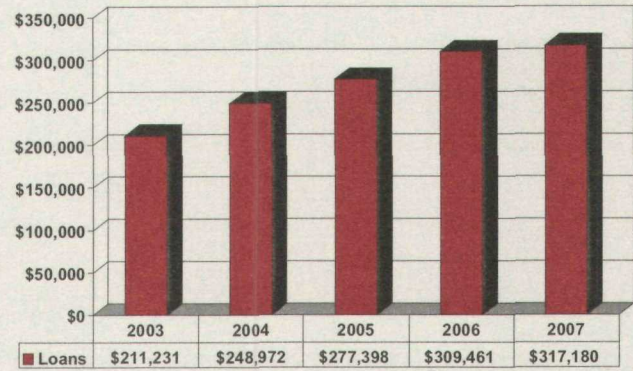


FIVE YEAR SUMMARY OF SELECTED FINANCIAL CHARTS

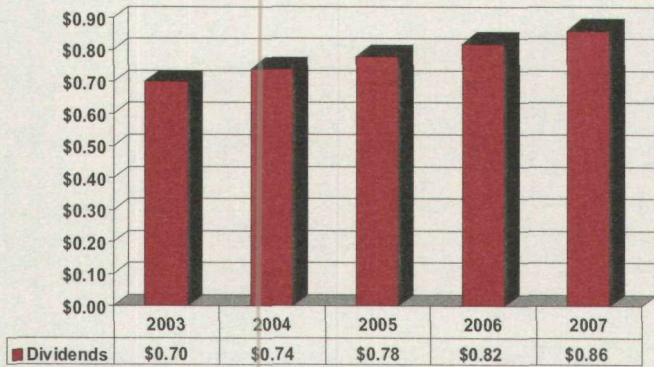
Balance Sheet: Total Assets



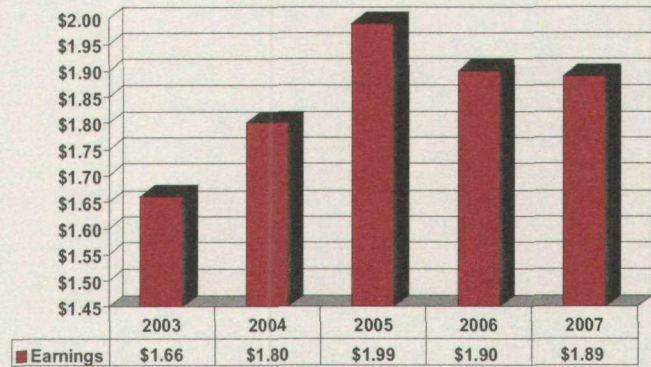
Balance Sheet: Loans Held For Investment



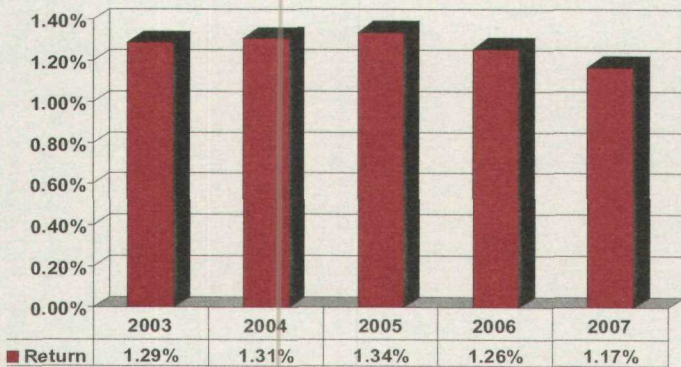
Dividends Per Share



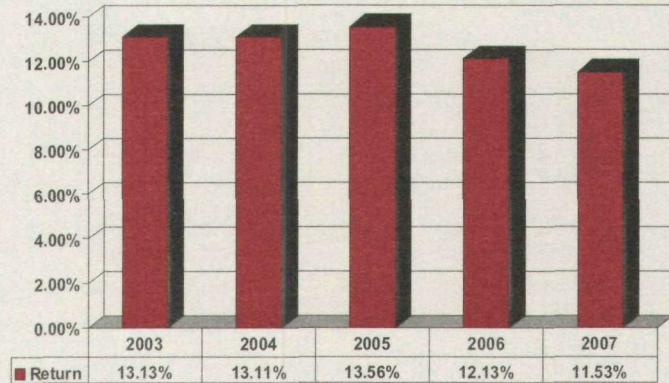
Earnings Per Share



Financial Ratios: Return on Average Assets



Financial Ratios: Return on Average Equity





INSIDE OUR FIRST 100 YEARS

- 1908 Model T is marketed
- Farmers & Merchants Bank opened for business on August 24
- 1909 Peary and Henson reach the North Pole
- 1st Annual Meeting-45 stockholders attended
- 1917-1919 World War I is fought
- 1929 Beginning of Great Depression
- Bank remained open & never registered a yearly loss
- 1935 Social Security Act
- 1941 Japanese attack Pearl Harbor
- 1953 Color television approved by FCC
- Present Timberville location opened
- 1956 Dow Jones Industrial closes above 500 for first time
- Bank @ \$5 million
- 1961-1963 Vietnam War
- 1963 John F. Kennedy assassinated
- 1965 Medicare and Medicaid enacted
- 1969 Neil Armstrong walks on moon
- 1973 Price of a barrel of oil increased from \$1.50 to \$11.56
- Elkton Branch opened
- 1979 ESPN has first broadcast
- Broadway Branch opened
- 1984 Macintosh personal computer released
- Holding Company formed
- 1990 Germany is re-united
- Elkton Plaza Branch opened
- 1991 First Gulf War
- 1992 World wide web used in homes for first time
- Bank reached \$100 million in assets
- 1995 First planet outside our own solar system is found
- Bridgewater Branch opened
- 1999 Y2K scare
- First female bank director
- 2001 Terrorist attacks on World Trade Center and Pentagon
- Purchased Edinburg & Woodstock Branches, Bank reached \$250 million in assets
- 2005 Hurricanes strike US including Katrina
- 2006 Pluto loses its status as planet
- Port Road Luray & Crossroads Branches opened

The world and the United States have experienced turmoil, catastrophe, heartbreak and accomplishments in the past 100 years. When Farmers & Merchants Bank began in 1908, most people still traveled by true horsepower. Since then automobiles and air planes have carried us to any place on Earth and rockets have carried us to the moon. When the bank was chartered, women didn't yet have the right to vote in all states and at the federal level, people suffered from polio, the radio and television hadn't been invented and there were only 46 states in the Union. We have truly stood the test of time.



NOTES FROM THE FIRST MEETING OF THE BOARD OF DIRECTORS

MARCH 11, 1908



Meeting of the board of Directors of the
Lumberville Bank held at Lumberville, March 11,
1908.

Meeting called to order by R. S. Bowers.

On motion W. C. Brown was elected temporary
Chairman and R. S. Bowers temporary Secy.

1) Roll call, Ten of the directors were
present and two were absent.

2) On motion it was decided to name the
Bank Farmers & Merchants Bank of
Lumberville.

3) On motion W. E. Fahney, W. A. Pence,
E. M. Munnicks, R. S. Bowers & D. S. Wampler
were elected as a committee to select a location
for the bank.

4) On motion it was decided that the
committee on location, secure the price,
on the locational thoughts of and report
at the next meeting.

5) It was moved and seconded that
Jno. S. Brown, S. H. Diver and
E. M. Munnicks, be elected as a
soliciting committee.

6) It was moved and seconded that
J. M. Andes, R. S. Bowers, and
E. M. Munnicks, be elected as a
committee to correspond with applicants
for cashierships.

7) On ballot Jno. S. Brown was
elected President of the bank and
E. M. Munnicks Vice President.

8) It was moved and seconded that the
minimum amt. of the charter be Ten
thousand dollars the maximum amt.
Twenty five thousand dollars. Subscription to
stop at Twenty thousand dollars.

9) It was moved and seconded that the
Chair appoint the following committees
1) Committee on Charter and subscription
2) Committee on Building 3) Committee on
Furniture and Fixtures.

10) The committee appointed on Charter,
was Jno. S. Brown, E. M. Munnicks, and
W. E. Fahney.

11) The committee on building was D. S. Wampler,
S. H. Diver, R. S. Bowers, W. C. Brown,
and W. E. Fahney.

12) The committee appointed on Furniture
and Fixtures was E. C. Jones, Jno. S. Brown,
and W. A. Pence.

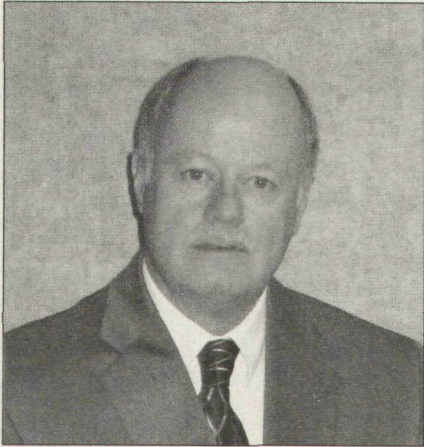
13) On motion W. P. Garber was elected
to take the place of J. Carson Miller,
on the board of directors.

14) On motion Geo. C. Lipe of
Harrisburg, was elected on the
board of directors.

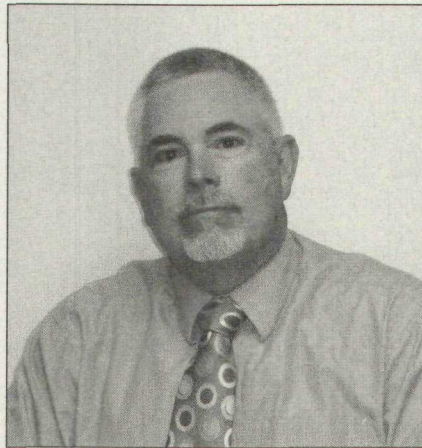
15) On motion the meeting adjourned
to meet Wednesday, Mar. 18th 1908,
at 12 o'clock P. M.



SERVICE ANNIVERSARIES



Larry Caplinger
35 Years



Ralph (Chuck) Foltz
25 Years



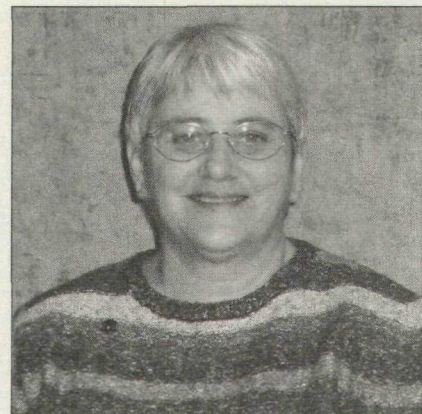
Lynette Wine
20 Years

RETIRED EMPLOYEES



Jean B. Coffman

Jean Coffman graduated from Broadway High and Dunsmore Business School. Prior to coming to work for the Bank, Jean worked at Aileen, Inc. She joined Farmers & Merchants Bank in June of 1986 as a part time teller, briefly working in the Broadway Office before transferring to Timberville. In February 1988, she changed to a full time teller in Timberville where she remained until her retirement the end of December 2007. Jean loves to travel and is very active in the Timberville Fire Department Auxiliary. Jean's family includes two sons and their families.



Margo S. Miller

Margo started her banking career in 1971 in the proof department and worked in the operations area of the bank until 1976 when she left to spend time with her family. She rejoined the bank from 1980 until 1984 as a part time teller. In April of 1992, Margo again returned as a full time teller. She continued in the teller area of the Timberville Office until her retirement in September, 2007. As senior teller, Margo was instrumental in training new tellers that joined the Bank.



IN MEMORY



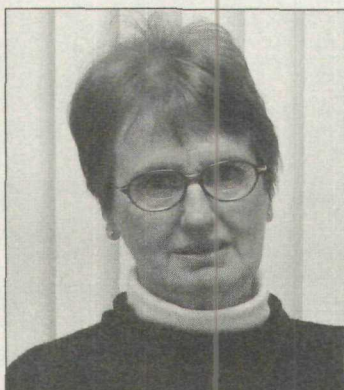
We lost a well-loved coworker when Sheila Denise Fulk Owen passed away February 9, 2008. She was Assistant Vice President and had made many contributions to our bank during her 31-year career here. After many years as the assistant manager in the Bookkeeping Department, she had most recently been the Branch Specialist at our new Port Republic Road office in Harrisonburg working directly with customers. Her husband, Greg Owen of Harrisonburg, survives.



Peggy Ann Wakeman passed away January 7, 2008. She was the much-loved drive-through teller at our branch in Edinburg, and had been serving bank customers there since 1974 when the bank was Farmers Bank. Farmers & Merchants purchased that branch office in 2001 and was fortunate to have Peggy join our bank family then. Peggy is survived by two sons and eight grandchildren.



When our bank first expanded to Elkton in 1973, Welty H. Hensley joined our Board of Directors; he passed away on January 3, 2008. He was an Elkton native, and after serving in the U.S. Navy became a successful automobile dealer in Elkton and later a Realtor. He was very active in the community, serving as Mayor for four years and leading many community initiatives in Elkton and Rockingham County. He also authored the book "A History of Elkton" in 2004. He retired from our Board in 1995. He is survived by his wife Alice, his son and grandchildren.



Mary Sue Fahrney, retired Assistant Vice President, passed away on Dec. 2, 2007. She began her career with the bank in 1971 and worked full time for 35 years in various capacities in the Timberville and Broadway offices. Earlier in her career she had taught school. Her husband, Merlin Fahrney, survives.



DIRECTORS AND OFFICERS

DIRECTORS

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.

ELLEN R. FITZWATER

Partner, Financial Manager, F & R Leasing, LLC

DANIEL J. HARSHMAN

Manager, Town of Edinburg

RICHARD S. MYERS

President, Dick Myers Automotive, Inc.

MICHAEL W. PUGH

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

RONALD E. WAMPLER

Outside sales-Dick Myers Automotive, Inc.
Partner, Dove Ohio Farms, LLC. and
WWTD Ohio Farms, LLC
Retired Farmer

DEAN W. WITHERS

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

OFFICERS

Julian D. Fisher

Chairman of the Board

Thomas L. Cline

Vice Chairman of the Board

Dean W. Withers

President and Chief Executive Officer

Larry A. Caplinger

Executive Vice President and
Secretary of the Board

Neil W. Hayslett

Executive Vice President and
Chief Financial Officer

Ellen C. Branner

Sr. Vice President/Human Resources

Stephanie E. Shillingburg

Sr. Vice President/Retail Services

Ralph C. Foltz, Jr.

Sr. Vice President/Operations

Curtis M. Arey

Sylvia T. Bowman

Carolyn J. Dove

Sally H. Erickson

Henry E. Hawkins

Jeffrey L. Lam

Deborah A. Andes

Carrie A. Comer

Kathy L. Grubbs

Joshua P. Hale

Mary Ellen Harrison

Teresa D. Helmick

Susan K. Olson

Mary Sue Prophet

Kitty H. Purcell

Robert R. Reedy, Jr.

Edward A. Strunk

Vice Presidents

Cathy M. Lindamood

Cynthia A. Sherman

Jacqueline M. Shifflett

Darlene K. Sites

Deborah D. Vance

Assistant Vice Presidents



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