



F&M BANK CORP.

2010 ANNUAL REPORT



**PLANT THE SEED FOR
OUR FUTURE TOGETHER**

PRESIDENT'S LETTER



Dear Stockholder:

For 2010 we showed significant earnings improvement over 2009. This was in spite of a continued difficult time period due to the weak economy. The real estate market, which is a large driver of our economy, continued to be sluggish with foreclosures dominating the market, which in turn depressed prices and hurt consumer confidence. Unemployment stabilized locally but still remained higher than normal.

The weak economy was also reflected in our Nonperforming Loans ratio which increased to 3.06% of Total Assets. We continue to work with our problem accounts to lessen the risk to the Bank and at the same time give our customers a chance to work through their problems. Net Charge offs for the year were .53%, which are slightly less than 2009. Our charge offs continue to run at approximately one half of our national peer group over the course of 2009 and 2010.

As stated above, Net Income for 2010 was \$3.741M which was an increase of \$1.787M. This increase was attributed to a significant improvement in our Securities Portfolio, which reflected a Security Gain of \$349,000 versus a loss (OTTI) of \$1.754 million in 2009. Bank Only earnings also increased due to an improvement in our Net Interest Margin and a \$10.7M increase in Loans Held for Investment. Our FDIC Assessments stabilized somewhat; however, there was still some increase over 2009. We continued to beef up our contribution to the Allowance for Loan Losses, which ended the year at 1.30% of Loans versus .88% at 2009 year end. We felt this was prudent in light of the increase in Nonperforming Loans and the continued weakness in the economy. Hopefully, in the future with some economic improvement, we can reduce our Allowance contributions which will improve earnings further.

Total Assets actually dropped slightly; however, Shareholder Equity increased to \$42M, which was an increase of \$3.227M over year end 2009. Book Value per share increased to \$18.31 compared to \$16.99 at the end of 2009. All of our Capital Ratios remain well above the levels to be considered Well Capitalized by our Regulators. The issuance of our Subordinated Notes throughout late 2009 and 2010 improved our Total Risk Based Capital Ratio to 13.51% (10% is considered Well Capitalized) at year end and the funds received from our recent Rights Offering will further improve both our Tier 1 ratio and also our Total Risk Based Ratio. This puts us in an excellent position to take advantage of growth potential going forward as we come out of the economic recession.

For more detail regarding our financial performance in 2010, I encourage you to review the enclosed 10K.

Last year was not a time for significant growth in Assets, as reflected above with Total Assets remaining level. It was a time to continue expanding relationships with our existing customers by providing products they needed with excellent customer service. We have stayed up to date with new technology, such as Online Banking, Facebook, etc. We are in the process of replacing a few of our older ATMs, which will have more up to date features. This helps us to attract the younger generations, who are our future; however, we are finding more and more of the mature generations using this technology as well. We also have not forgotten the individuals who prefer a more face to face approach. We have also taken advantage of new technology available on the operational side, which makes us more efficient. Our Efficiency Ratio of 57.23% remained under our goal of 60% and is significantly lower than our national peer group.

Even though the last couple of years have been tough for financial institutions, F & M Bank Corp. has fared pretty well, especially compared to most of our peers. I attribute this to the hard work and dedication of our staff who are the backbone of our organization. I also want to thank you the shareholders for your confidence in us. I realize your stock price has dropped off in the last year; however, the future is bright. Nothing in life is guaranteed, but with our stock trading at historic lows, I feel F & M Bank Corp. is a good investment for long term gain.

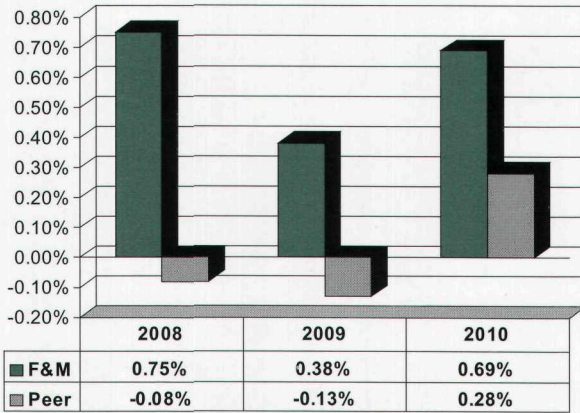
I hope everyone can attend the shareholder meeting in May where we can fellowship and answer any questions you may have.

A handwritten signature in black ink that reads "Dean W. Withers". The signature is written in a cursive, slightly slanted style.

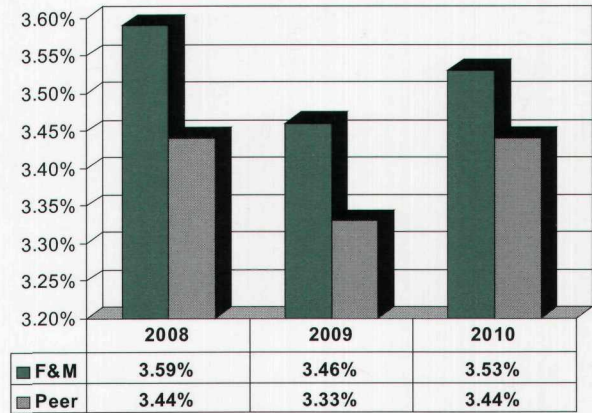
Dean W. Withers
President/CEO

THREE YEAR SUMMARY OF SELECTED FINANCIAL CHARTS

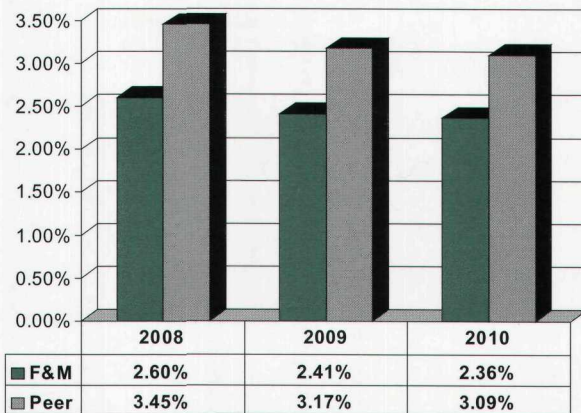
Net Income (As a % of total assets)



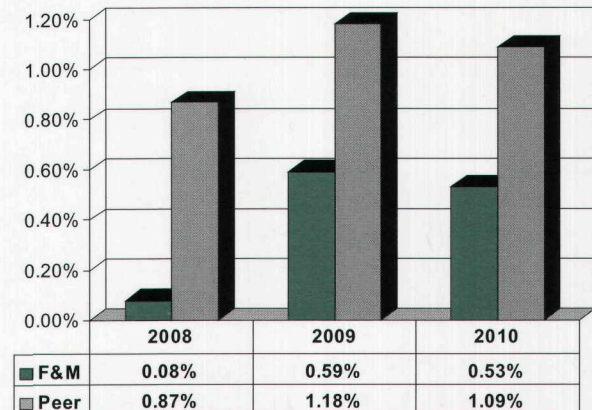
Net Interest Income (As a % of total assets)



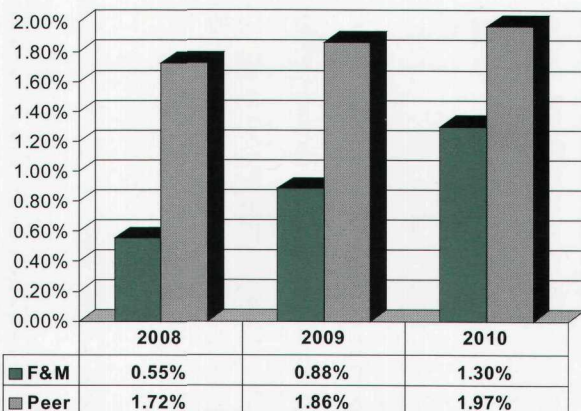
Overhead Expense (As a % of total assets)



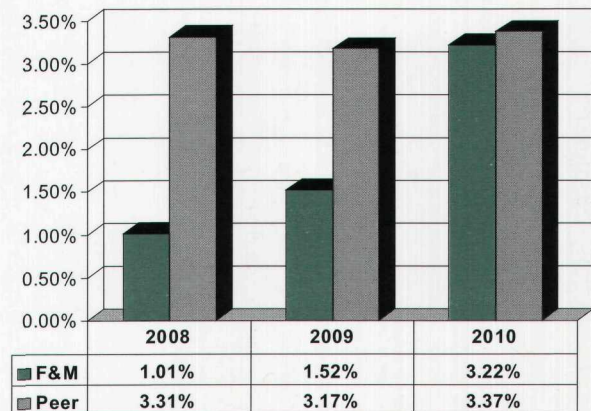
Net Loan Losses (As a % of average loans held for investment)



Allowance For Loan Losses (As a % of total loans)



Non-Performing Assets (As a % of total assets)



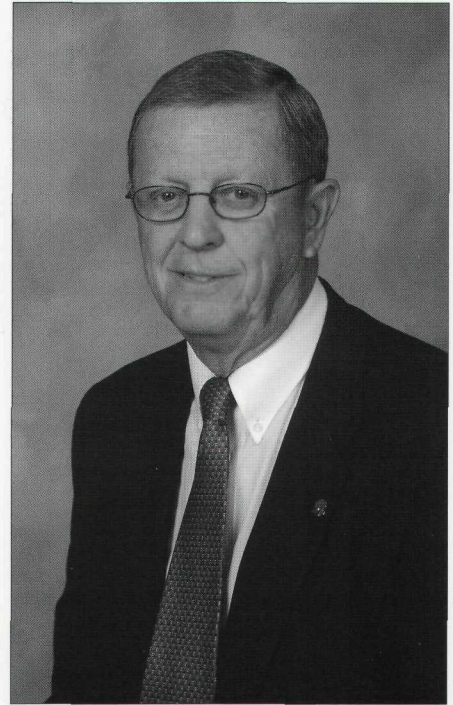
RETIRED

On September 23, 2010, Julian D. Fisher retired as Chairman of the Board of Directors of Farmers & Merchants Bank and F&M Bank Corp. upon reaching the bank's mandatory retirement age.

Julian had been with the bank since 1973 and joined the Board of Directors in 1990. He served as President of the bank for 13 years and Chairman of the Board for six years. During those years he has been both a friend and counselor to the customers and staff and has been instrumental in the growth of the bank.

Julian has been a vital member of the Broadway-Timberville community, being involved in the Timberville Lions Club and the Shriners organization, and is an active member of the First United Methodist Church.

A native of Wythe County, VA, he graduated from Virginia Polytechnic Institute. Julian resides in Broadway with his wife JoAnn, and after a busy career, they now enjoy traveling.



Julian D. Fisher

NEW CHAIRMAN NAMED



Thomas L. Cline

Thomas L. Cline, who has served on the bank's board since 1991 and as Vice Chairman since 2005, was elected Chairman at the board's September 23, 2010 meeting.

Tom, a Timberville native, is President of Truck & Equipment Corp. and Mac Lease, Inc. in Harrisonburg. He graduated from Broadway High School and National Business College. As an active member of Timberville Church of the Brethren, he serves on the church board and is a deacon. He also belongs to the Timberville Lions Club where he has served in a variety of offices including President. He and his wife Elaine live near Timberville. They have two children, Candee and Jason.

RUNION JOINS BOARD OF DIRECTORS



Christopher (Chris) S. Runion

On May 8, 2010 the Board of Directors of F&M Bank Corp appointed Christopher (Chris) S. Runion to the board of directors as a new member.

Chris is the owner and President of Eddie Edwards Signs, Inc. of Harrisonburg. He is an active community member, and serves on the Rockingham County Planning Commission, the Bridgewater Home Foundation board, and the Rockingham County Fair board. In the past he has served as President of the Harrisonburg Rotary Club and the Harrisonburg-Rockingham Chamber of Commerce and has been active in the Boy Scouts.

A native of Shenandoah County, Chris currently lives near Bridgewater with his wife Jennifer. They have two grown children and are members of the Bridgewater United Methodist Church.



Janet Ware

IN MEMORY

Janet Ware, an employee of our bank for seven years, passed away on January 1, 2011. She had retired from our bank on August 31, 2009 and was a New Market resident.

EMPLOYEE SERVICE ANNIVERSARIES



Carolyn J. Dove
Vice President
Manager - Timberville
35 Years



Betty T. Bare
Loan Operations
Timberville
20 Years



Donna O'Byrne
Investment Support
Crossroads
20 Years

DIRECTORS AND OFFICERS

DIRECTORS

THOMAS L. CLINE

Chairman of the Board, Farmers & Merchants Bank
and F & M Bank Corp.
President, Truck & Equipment Corp.
President, Mac Lease, Inc.

JOHN N. CRIST

Partner, Hoover Penrod, PLC-Attorneys

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.

CHRISTOPHER S. RUNION

Owner & President, Eddie Edwards Signs, Inc.

RONALD E. WAMPLER

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

DEAN W. WITHERS

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

OFFICERS

Dean W. Withers

President and CEO

Larry A. Caplinger

EVP, CLO & Secretary of Board

Neil W. Hayslett

EVP & CFO

Ellen C. Branner

SVP/Human Resources

Ralph C. Foltz, Jr.

SVP/Operations

Jeffrey L. Lam

SVP/Retail Loan Administrator

Stephanie E. Shillingburg

SVP/Branch Administration / Retail Services

VICE PRESIDENTS

Curtis M. Arey

Anita C. Beckman

Sylvia T. Bowman

Carrie A. Comer

Carolyn J. Dove

Sally H. Erickson

Joshua P. Hale

Charles P. Harder

Henry E. Hawkins

Susan K. Olson

Mary S. Prophet

Kitty H. Purcell

Robert R. Reedy, Jr.

Karen B. Rose

Kevin A. Russell &

President VBS Mortgage

Cynthia A. Sherman

Gregory B. Spitler

Edward A. Strunk

Deborah D. Vance

ASSISTANT VICE PRESIDENTS

Deborah A. Andes

Aaron S. Green

Kathy L. Grubbs

Mary Ellen Harrison

Teresa D. Helmick

Cathy M. Lindamood

Darlene K. Sites

Krista L. Suter

Robert E. Wimer II

Barbara W. Bartley, Branch Officer

Chris A. Gunter, Branch Officer

W. Brent Meadows, Branch Officer

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

VBS MORTGAGE
2040 DEYERLE AVENUE, STE 102
HARRISONBURG
442-8583

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