F&M BANK CORP
Form 10-Q
November 14, 2017

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

[X] Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2017.

[ ] 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 No

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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 10, 2017
Common Stock, par value - $5	3,269,052 shares

F & M BANK CORP.

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Certifications

Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
Consolidated Balance Sheets
(dollars in thousands, except share and per share data)

	September 30, 2017 (Unaudited)	December 31, 2016*
Assets		
Cash and due from banks	$8,801	$7,755
Money market funds	945	674
Federal funds sold	-	7,926
Cash and cash equivalents	9,746	16,355
Securities:		
Held to maturity – fair value of $125 in 2017 and 2016	125	125
Available for sale	22,682	24,783
Other investments	13,600	14,567
Loans held for sale	58,177	62,735
Loans held for investment	619,960	591,636
Less: allowance for loan losses	(6,942)	(7,543)
Net loans held for investment	613,018	584,093
Other real estate owned	2,148	2,076
Bank premises and equipment, net	12,716	10,340
Interest receivable	1,845	1,785
Goodwill	3,113	2,670
Bank owned life insurance	13,841	13,513
Other assets	12,674	11,847
Total assets	$763,685	$744,889
Liabilities		
Deposits:		
Noninterest bearing	$156,922	$146,617
Interest bearing	405,458	390,468
Total deposits	562,380	537,085
Short-term debt	42,128	40,000
Accrued liabilities	17,181	16,885
Long-term debt	50,840	64,237
Total liabilities	672,529	658,207

Stockholders' Equity		
Preferred Stock $5 par value, 400,000 shares authorized, 324,150 and 327,350 Issued and outstanding for September 30, 2017 and December 31, 2016, respectively	7,529	7,609
Common stock, $5 par value, 6,000,000 shares authorized, 3,268,956 and 3,270,315 shares issued and outstanding for September 30, 2017 and December 31, 2016, respectively	16,345	16,352
Additional paid in capital – common stock	10,621	10,684
Retained earnings	59,233	54,509
Noncontrolling interest in consolidated subsidiaries	594	693
Accumulated other comprehensive loss	(3,166)	(3,165)
Total stockholders' equity	91,156	86,682
Total liabilities and stockholders' equity	$763,685	$744,889

*2016 Derived from audited consolidated financial statements.

See notes to unaudited consolidated financial statements.

F & M BANK CORP.
Consolidated Statements of Income
(dollars in thousands)
(Unaudited)

	Three Months Ended	
	September 30,	
Interest and Dividend income	2017	2016
Interest and fees on loans held for investment	$8,221	7,542
Interest and fees on loans held for sale	329	550
Interest from money market funds and federal funds sold	41	11
Interest on debt securities – taxable	97	112
Total interest and dividend income	8,688	8,215
Interest expense		
Interest on deposits	698	609
Interest from short-term debt	14	9
Interest from long-term debt	318	352
Total interest expense	1,030	970
Net interest income	7,658	7,245
Provision for Loan Losses	-	-
Net Interest Income After Provision for Loan Losses	7,658	7,245
Noninterest income		
Service charges on deposit accounts	359	336
Investment services and insurance income, net	169	112
Mortgage banking income, net	861	694
Title insurance income	247	-
Income on bank owned life insurance	112	119
Low income housing partnership losses	(201)	(183)
ATM and check card fees	353	328
Other operating income	245	129
Total noninterest income	2,145	1,535
Noninterest expense		
Salaries	3,194	2,471
Employee benefits	689	699
Occupancy expense	281	215
Equipment expense	224	183
FDIC insurance assessment	20	113

Other real estate owned, net	(4)	19
Marketing expense	147	128
Legal and professional fees	78	100
ATM and check card fees	183	184
Telecommunication and data processing expense	370	309
Directors fees	117	46
Bank franchise tax	167	170
Other operating expenses	793	823
Total noninterest expense	6,259	5,460
Income before income taxes	3,544	3,320
Income tax expense	946	654
Net Income	2,598	2,666
Net income attributable to noncontrolling interest	48	64
Net Income attributable to F & M Bank Corp.	$2,550	$2,602
Dividends paid/accumulated on preferred stock	103	128
Net income available to common stockholders	$2,447	$2,474

Per Common Share Data

Net income – basic	$.75	$.75
Net income – diluted	.70	$.70
Cash dividends on common stock	$.24	$.20
Weighted average common shares outstanding – basic	3,270,969	3,286,756
Weighted average common shares outstanding – diluted	3,632,607	3,731,156

See notes to unaudited consolidated financial statements.

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F & M BANK CORP.
Consolidated Statements of Income
(dollars in thousands)
(Unaudited)

	Nine Months Ended	
	September 30,	
Interest and Dividend income	2017	2016
Interest and fees on loans held for investment	$23,830	$22,064
Interest and fees on loans held for sale	774	1,451
Interest from money market funds and federal funds sold	116	25
Interest on debt securities – taxable	234	253
Total interest and dividend income	24,954	23,793
Interest expense		
Total interest on deposits	1,947	1,757
Interest from short-term debt	46	35
Interest from long-term debt	868	853
Total interest expense	2,861	2,645
Net interest income	22,093	21,148
Provision for Loan Losses	-	-
Net Interest Income After Provision for Loan Losses	22,093	21,148
Noninterest income		
Service charges on deposit accounts	1,010	842
Investment services and insurance income	530	317
Mortgage banking income, net	1,974	1,891
Title insurance income	668	-
Income on bank owned life insurance	336	356
Low income housing partnership losses	(587)	(548)
ATM and check card fees	1,034	1,020
Gain on prepayment of long-term debt	504	-
Loss on sale of other investments	(42)	-
Other operating income	513	238
Total noninterest income	5,940	4,116
Noninterest expense		
Salaries	8,502	7,161
Employee benefits	2,467	2,113
Occupancy expense	776	643
Equipment expense	613	569

FDIC insurance assessment	200	338
Other real estate owned, net	22	72
Marketing expense	404	396
Legal and professional fees	253	293
ATM and check card fees	529	518
Telecommunication and data processing expense	1,045	861
Directors fees	360	254
Bank franchise tax	491	480
Other operating expenses	2,464	2,176
Total noninterest expense	18,126	15,874
Income before income taxes	9,907	9,390
Income tax expense	2,633	2,187
Net Income	7,274	7,203
Net income attributable to noncontrolling interest	51	154
Net Income attributable to F & M Bank Corp.	$7,223	$7,049
Dividends paid/accumulated on preferred stock	312	382
Net income available to common stockholders	$6,911	$6,667

Per Common Share Data

Net income – basic	$2.11	$2.03
Net income – diluted	1.99	$1.89
Cash dividends on common stock	$.69	$.58
Weighted average common shares outstanding – basic	3,271,863	3,286,165
Weighted average common shares outstanding – diluted	3,634,856	3,730,565

See notes to unaudited consolidated financial statements.

F & M BANK CORP.
Consolidated Statements of Comprehensive Income
(dollars in thousands)
(Unaudited)

	Nine Months Ended		Three Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Net Income:				
Net Income – F & M Bank Corp	$7,223	$7,049	$2,550	$2,602
Net income attributable to noncontrolling interest	51	154	48	64
Total Net Income:	7,274	7,203	2,598	2,666
Unrealized holding gains (losses) on available-for-sale securities	(2)	32	-	(6)
Tax Effect	1	(10)	-	2
Unrealized holding gain (loss), net of tax	(1)	22	-	(4)
Total other comprehensive income (loss)	(1)	22	-	(4)
Comprehensive income	$7,273	$7,225	$2,598	$2,662

See notes to unaudited consolidated financial statements.

F & M BANK CORP.
Condensed Consolidated Statements of Changes in Stockholders' Equity
(dollars in thousands)
(Unaudited)

	Nine Months Ended	
	September 30,	
	2017	2016
Balance, beginning of period	$86,682	$82,950
Comprehensive income		
Net income – F & M Bank Corp	7,223	7,049
Net income (loss) attributable to noncontrolling interest	51	154
Other comprehensive income (loss)	(1)	22
Total comprehensive income	7,273	7,225
Minority interest capital distributions	(149)	(74)
Issuance of common stock	150	132
Repurchase of common stock	(199)	(421)
Repurchase of preferred stock	(101)	-
Dividends paid	(2,500)	(2,287)
Balance, end of period	$91,156	$87,525

See notes to unaudited consolidated financial statements.

F & M BANK CORP.
Consolidated Statements of Cash Flows
(dollars in thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2017	2016
Cash flows from operating activities		
Net income	$7,223	$7,049
Reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	660	602
Amortization of securities	2	105
Proceeds from loans held for sale originated	61,310	65,553
Loans held for sale originated	(59,250)	(66,706)
Gain on sale of loans held for sale originated	(1,876)	(2,075)
Gain on prepayment of long-term debt	(504)	-
Increase in interest receivable	(60)	29
Increase in other assets	(336)	(66)
Decrease in accrued liabilities	(422)	(1,167)
Amortization of limited partnership investments	587	548
Income from life insurance investment	(336)	(356)
Loss on sale of other investments	42	-
Loss on sale and valuation adjustments for other real estate owned	-	20
Net cash provided by (used in) operating activities	7,040	3,536
Cash flows from investing activities		
Purchase of investments available for sale and other investments	(61,432)	(26,109)
Purchase of title insurance company	(304)	-
Proceeds from maturity of investments available for sale	63,811	12,175
Proceeds from the sale of investments	55	-
Net increase in loans held for investment	(29,070)	(35,837)
Net decrease (increase) in loans held for sale participations	4,373	(22,131)
Other real estate improvements	(7)	
Proceeds from the sale of other real estate owned	80	623
Net purchase of property and equipment	(3,036)	(2,403)
Net cash used in investing activities	(25,530)	(73,682)
Cash flows from financing activities		
Net change in deposits	25,295	33,154
Net change in short-term debt	2,128	26,275
Dividends paid in cash	(2,500)	(2,287)
Proceeds from issuance of common stock	150	132

Proceeds from issuance of long-term debt	-	20,000
Repurchase of preferred stock	(101)	-
Repurchase of common stock	(199)	(421)
Repayments of long-term debt	(12,892)	(3,070)
Net cash provided by financing activities	11,881	73,783
Net (decrease) increase in Cash and Cash Equivalents	(6,609)	3,637
Cash and cash equivalents, beginning of period	16,355	8,519
Cash and cash equivalents, end of period	$9,746	$12,156
Supplemental Cash Flow information:		
Cash paid for:		
Interest	$2,850	$2,633
Taxes	3,495	2,300
Supplemental non-cash disclosures:		
Transfer from loans to other real estate owned	145	592
Change in unrealized gain (loss) on securities available for sale	(2)	-

See notes to unaudited consolidated financial statements.

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Note 1.
Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying unaudited consolidated financial statements include the accounts of Farmers & Merchants Bank, TEB Life Insurance Company, Farmers & Merchants Financial Services, Inc., VBS Mortgage, LLC, (net of noncontrolling interest) and VSTitle, LLC (net of noncontrolling interest) and were prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for the interim financial information and with the instructions to Form 10-Q adopted by the Securities and Exchange Commission ("SEC"). Accordingly, these financial statements do not include all of the information and footnotes required by U. S. GAAP for complete financial statements. Operating results for the three and nine months ended September 30, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. These interim consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016 (the "2016 Form 10-K").

The accompanying unaudited consolidated financial statements include the accounts of the Company, the Bank and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

F & M Bank Corp. (the "Company"), through its subsidiary Farmers & Merchants Bank (the "Bank"), operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services. As a state chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Reserve Bank. The Bank provides services to customers primarily located in Rockingham, Shenandoah, Page and Augusta Counties in Virginia. Services are provided at thirteen branch offices and a Dealer Finance Division. The Company offers insurance, mortgage lending, title insurance and financial services through its subsidiaries, TEB Life Insurance, Inc., Farmers & Merchants Financial Services, Inc (FMFS), VBS Mortgage, LLC (VBS), and VSTitle, LLC (VST). The Company purchased a majority interest VSTitle, a title company headquartered in Harrisonburg, VA with offices in Harrisonburg, Fishersville and Charlottesville, VA on January 1, 2017.

Basis of Presentation

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, goodwill, other than temporary impairment, pension accounting and the valuation of foreclosed real estate.

Reclassification

Certain reclassifications have been made to prior period amounts to conform to current period presentation. None of these reclassifications are considered material and have no impact on net income.

Note 1.
Summary of Significant Accounting Policies, continued

Earnings per Share

Accounting guidance specifies the computation, presentation and disclosure requirements for earnings per share ("EPS") for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. In calculating diluted EPS net income is used as the numerator and the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued. The dilutive effect of conversion of preferred stock is reflected in the diluted earnings per share calculation.

Net income available to common stockholders represents consolidated net income adjusted for preferred dividends declared.

The following table provides a reconciliation of net income to net income available to common stockholders for the periods presented:

(dollars in thousands)	For the Nine months ended	For the Three months Ended	For the Nine months ended	For the Three months ended
	September 30, 2017	September 30, 2017	September 30, 2016	September 30, 2016
Earnings available to common stockholders:				
Net income	$7,274	$2,598	$7,203	$2,666
Noncontrolling interest income (loss)	51	48	154	64
Preferred stock dividends	312	103	382	128
Net income available to common stockholders	$6,911	$2,447	$6,667	$2,474

The following table shows the effect of dilutive preferred stock conversion on the Company's earnings per share for the periods indicated:

	Nine months ended September 30, 2017			Nine months ended September 30, 2016		
	Income	Shares	Per Share Amounts	Income	Shares	Per Share Amounts

Basic EPS	$6,911	3,271,863	$2.11	$6,667	3,286,165	$2.03
Effect of Dilutive Securities:						
Convertible Preferred Stock	312	362,993	(0.12)	382	444,400	(0.14)
Diluted EPS	$7,223	3,634,856	$1.99	$7,049	3,730,565	$1.89

	Three months ended September 30, 2017			Three months ended September 30, 2016		
	Income	Shares	Per Share Amounts	Income	Shares	Per Share Amounts
Basic EPS	$2,447	3,270,969	$.75	$2,474	3,286,756	$.75
Effect of Dilutive Securities:						
Convertible Preferred Stock	103	361,638	(0.05)	128	444,400	(0.05)
Diluted EPS	$2,550	3,632,607	$.70	$2,602	3,731,156	$.70

Note 2.
Investment Securities

Investment securities available for sale are carried in the consolidated balance sheets at their approximate fair value. Investment securities held to maturity are carried in the consolidated balance sheets at their amortized cost at September 30, 2017 and December 31, 2016 are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2017				
U. S. Treasuries	$125	$-	$-	$125
December 31, 2016				
U. S. Treasuries	$125	$-	$-	$125

The amortized cost and fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2017				
U. S. Treasuries	$22,001	$-	$3	$21,998
Mortgage-backed obligations of federal agencies	539	10	-	549
Equity securities	135	-	-	135
Total Securities Available for Sale	$22,675	$10	$3	$22,682
December 31, 2016				
U. S. Treasuries	$24,005	$9	$-	$24,014
Mortgage-backed obligations of federal agencies	634	-	-	634
Equity securities	135	-	-	135
Total Securities Available for Sale	$24,774	$9	$-	$24,783

Note 2.
Investment Securities, continued

The amortized cost and fair value of securities at September 30, 2017, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
	Amortized	Fair	Amortized	Fair
(dollars in thousands)	Cost	Value	Cost	Value
Due in one year or less	$-	$-	$22,001	$21,998
Due after one year through five years	125	125	-	-
Due after five years	-	-	539	549
Due after ten years	-	-	135	135
Total	$125	$125	$22,675	$22,682

There were no gains or losses on sales of available for sale securities in the three month or nine month periods ended September 30, 2017 or 2016. There were also no securities with other than temporary impairment.

In the three months ended September 30, 2017, the treasury securities were in an unrealized loss position. There were no securities in an unrealized loss positions for more than twelve months as of September 30, 2017.

Other investments consist of investments in nineteen low-income housing and historic equity partnerships (carrying basis of $7,607,198), stock in the Federal Home Loan Bank (carrying basis $4,523,700) and various other investments (carrying basis $1,469,572). The interests in low-income housing and historic equity partnerships have limited transferability and the interests in the other stocks are restricted as to sales. The fair values of these securities are estimated to approximate their carrying value as of September 30, 2017. At September 30, 2017, the Company was committed to invest an additional $4,231,047 in nine low-income housing limited partnerships. These funds will be paid as requested by the general partner to complete the projects. This additional investment has been reflected in the above carrying basis and in accrued liabilities on the consolidated balance sheet. During the first quarter of 2017, both Farmers & Merchants Financial Services and VBS Mortgage ended their relationship with Bankers Title Virginia resulting in a consolidated loss of $41,914.

Note 3.
Loans

(dollars in thousands)	2017	2016
Construction/Land Development	$74,313	$76,172
Farmland	15,578	12,901
Real Estate	177,786	172,758

Multi-Family	8,504	7,605
Commercial Real Estate	155,510	150,061
Home Equity – closed end	11,189	11,453
Home Equity – open end	55,461	54,420
Commercial & Industrial – Non-Real Estate	38,050	31,306
Consumer	7,328	6,643
Dealer Finance	73,567	65,495
Credit Cards	2,674	2,822
Total	$619,960	$591,636

Loans held for investment outstanding at September 30, 2017 and December 31, 2016 are summarized as follows:

The Company has pledged loans held for investment as collateral for borrowings with the Federal Home Loan Bank of Atlanta totaling $213,184,000 and $199,401,000 as of September 30, 2017 and December 31, 2016, respectively. The Company maintains a blanket lien on its entire residential real estate portfolio and certain commercial and home equity loans.

Note 3.
Loans, continued

	September 30, 2017			December 31, 2016		
		Unpaid			Unpaid	
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
Impaired loans without a valuation allowance:						
Construction/Land Development	$4,784	$5,140	$-	$3,296	$3,652	$-
Farmland	1,983	1,983	-	-	-	-
Real Estate	740	740	-	768	768	-
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	300	300	-	1,958	1,958	-
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	-	347	-	-	347	-
Commercial & Industrial – Non-Real Estate	162	162	-	170	170	-
Consumer	9	9	-	13	13	-
Credit cards	-	-	-	-	-	-
Dealer Finance	25	25	-	-	-	-
	8,003	8,706		6,205	6,908	
Impaired loans with a valuation allowance						
Construction/Land Development	5,619	5,619	2,054	6,592	6,592	1,853
Farmland	-	-	-	-	-	-
Real Estate	1,192	1,192	214	1,206	1,206	221
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	-	-	-	952	952	60
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	-	-	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Dealer Finance	48	48	12	87	87	20
	6,859	6,859	2,280	8,837	8,837	2,154
Total impaired loans	$14,862	$15,565	$2,280	$15,042	$15,745	$2,154

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

The Recorded Investment is defined as the original principal balance less principal payments, charge-offs and nonaccrual payments applied to principal.

Loans held for sale consists of loans originated by VBS Mortgage for sale in the secondary market, and the Bank's commitment to purchase residential mortgage loan participations from Northpointe Bank. The volume of loans purchased from Northpointe fluctuates due to a number of factors including changes in secondary market rates, which affects demand for mortgage loans; the number of participating banks involved in the program; the number of mortgage loan originators selling loans to the lead bank and the funding capabilities of the lead bank. Loans held for sale as of September 30, 2017 and December 31, 2016 were $58,177,450 and $62,734,803, respectively.

Note 3.
Loans Held for Investment, continued

The following is a summary of the average investment and interest income recognized for impaired loans (dollars in thousands):

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:								
Construction/Land Development	$5,414	$14	$2,649	$15	$4,870	$64	$2,009	$32
Farmland	1,921	-	-	-	1,900	-	-	-
Real Estate	743	8	778	8	746	25	860	28
Multi-Family	-	-	-	-	-	-	-	-
Commercial Real Estate	200	9	993	77	167	12	674	79
Home Equity – closed end	-	-	-	-	-	-	-	-
Home Equity – open end	347	-	964	(35)	347	-	1,167	8
Commercial & Industrial – Non-Real Estate	164	2	174	2	165	8	177	2
Consumer and credit cards	10	-	7	2	10	-	12	-
Dealer Finance	23	1	24	(1)	22	2	15	1
	8,822	34	5,589	68	8,227	111	4,914	150
Impaired loans with a valuation allowance:								
Construction/Land Development	$5,640	$75	$8,429	$112	$6,215	$215	$9,761	$212
Farmland	-	-	-	-	-	-	-	-
Real Estate	1,194	10	1,214	14	1,196	41	994	40
Multi-Family	-	-	-	-	-	-	-	-
Commercial Real Estate	-	-	958	14	-	-	944	42

Home Equity – closed end	-	-	-	-	-	-	-	-
Home Equity – open end	-	-	1,234	(5)	-	-	1,322	14
Commercial & Industrial – Non-Real Estate	-	-	14	(1)	-	-	14	-
Consumer and credit card	-	-	-	-	-	-	-	-
Dealer Finance	59	1	72	-	59	2	72	3
	6,893	86	11,921	134	7,470	258	13,107	311
Total Impaired Loans	$15,715	$120	$17,510	$202	$15,697	$369	$18,021	$461

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Note 3.
Loans, continued

The following table presents the aging of the recorded investment of past due loans (dollars in thousands) as of September 30, 2017 and December 31, 2016:

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loan Receivable	Non-Accrual Loans	Recorded Investment >90 days & accruing
September 30, 2017								
Construction/Land Development	$62	$1,692	$2,372	$4,126	$70,187	$74,313	$2,788	$-
Farmland	-	1,984	-	1,984	13,594	15,578	-	-
Real Estate	2,250	1,202	536	3,988	173,798	177,786	1,714	-
Multi-Family	-	-	-	-	8,504	8,504	-	-
Commercial Real Estate	840	287	-	1,127	154,383	155,510	-	-
Home Equity – closed end	273	5	-	278	10,911	11,189	-	-
Home Equity – open end	488	100	173	761	54,700	55,461	436	-
Commercial & Industrial – Non- Real Estate	264	110	481	855	37,195	38,050	481	-
Consumer	13	23	5	41	7,287	7,328	5	-
Dealer Finance	1,052	287	148	1,487	72,080	73,567	238	-
Credit Cards	16	16	-	32	2,642	2,674	-	-
Total	$5,258	$5,706	$3,715	$14,679	$605,281	$619,960	$5,662	$-

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days)	Total Past Due	Current	Total Loan Receivable	Non-Accrual Loans	Recorded Investment >90 days & accruing
December 31, 2016								
Construction/Land Development	$73	$101	$2,175	$2,349	$73,823	$76,172	$2,805	$-
Farmland	-	-	-	-	12,901	12,901	-	-
Real Estate	2,135	746	774	3,655	169,103	172,758	1,399	81
Multi-Family	-	-	-	-	7,605	7,605	-	-
	139	-	-	139	149,922	150,061	-	-

Commercial Real Estate								
Home Equity – closed end	101	-	32	133	11,320	11,453	32	-
Home Equity – open end	484	-	69	553	53,867	54,420	279	-
Commercial & Industrial – Non- Real Estate	313	5	-	318	30,988	31,306	70	-
Consumer	35	4	6	45	6,598	6,643	-	-
Dealer Finance	797	187	183	1,167	64,328	65,495	178	26
Credit Cards	18	4	-	22	2,800	2,822	-	-
Total	$4,095	$1,047	$3,239	$8,381	$583,255	$591,636	$4,763	$107

At September 30, 2017 and December 31, 2016, other real estate owned included $711,000 and $565,000 of foreclosed residential real estate. The Company has $93,000 of consumer mortgages for which foreclosure is in process at September 30, 2017 and $40,000 at December 31, 2016.

Nonaccrual loans at September 30, 2017 and September 30, 2016, would have earned approximately $109,000 and $54,000, respectively, in interest income had they been accruing loans.

Note 4.
Allowance for Loan Losses

A summary of changes in the allowance for loan losses (dollars in thousands) for September 30, 2017 and December 31, 2016 is as follows:

September 30, 2017	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$3,381	$-	$-	$(213)	$3,168	$2,054	$1,114
Farmland	34	-	-	(4)	30	-	30
Real Estate	843	-	2	(105)	740	214	526
Multi-Family	23	-	-	(2)	21	-	21
Commercial Real Estate	705	-	11	(165)	551	-	551
Home Equity – closed end	75	8	25	(20)	72	-	72
Home Equity – open end	470	25	-	(85)	360	-	360
Commercial & Industrial – Non-Real Estate	586	31	66	(249)	372	-	372
Consumer	78	34	11	55	110	-	110
Dealer Finance	1,289	1,395	816	751	1,461	12	1,449
Credit Cards	59	69	30	37	57	-	57
Total	$7,543	$1,562	$961	$-	$6,942	$2,280	$4,662

December 31, 2016	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,442	$356	$7	$(712)	$3,381	$1,853	$1,528
Farmland	95	-	-	(61)	34	-	34
Real Estate	806	23	4	56	843	221	622
Multi-Family	71	-	-	(48)	23	-	23
Commercial Real Estate	445	19	135	144	705	-	705
Home Equity – closed end	174	8	-	(91)	75	-	75

Home Equity – open end	634	370	120	86	470	60	410
Commercial & Industrial – Non-Real Estate	1,055	293	267	(443)	586	-	586
Consumer	108	37	19	(12)	78	-	78
Dealer Finance	836	1,081	417	1,117	1,289	20	1,269
Credit Cards	115	74	54	(36)	59	-	59
Total	$8,781	$2,261	$1,023	$-	$7,543	$2,154	$5,389

Note 4.
Allowance for Loan Losses, continued

September 30, 2017	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$74,313	$10,403	$63,910
Farmland	15,578	1,983	13,595
Real Estate	177,786	1,932	175,854
Multi-Family	8,504	-	8,504
Commercial Real Estate	155,510	300	155,210
Home Equity – closed end	11,189	-	11,189
Home Equity –open end	55,461	-	55,461
Commercial & Industrial – Non-Real Estate	38,050	162	37,888
Consumer	7,328	9	7,319
Dealer Finance	73,567	73	73,494
Credit Cards	2,674	-	2,674
Total	$619,960	$14,862	$605,098

The following table presents the recorded investment in loans (dollars in thousands) based on impairment method as of September 30, 2017 and December 31, 2016:

December 31, 2016	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$76,172	$9,888	$66,284
Farmland	12,901	-	12,901
Real Estate	172,758	1,974	170,784
Multi-Family	7,605	-	7,605
Commercial Real Estate	150,061	2,910	147,151
Home Equity – closed end	11,453	-	11,453
Home Equity –open end	54,420	-	54,420
Commercial & Industrial – Non-Real Estate	31,306	170	31,136
Consumer	6,643	13	6,630
Dealer Finance	65,495	87	65,408
Credit Cards	2,822	-	2,822
Total	$591,636	$15,042	$576,594

Note 4.
Allowance for Loan Losses, continued

The following table shows the Company's loan portfolio broken down by internal loan grade (dollars in thousands) as of September 30, 2107 and December 31, 2016:

September 30, 2017	Grade 1 Minimal Risk	Grade 2 Modest Risk	Grade 3 Average Risk	Grade 4 Acceptable Risk	Grade 5 Marginally Acceptable	Grade 6 Watch	Grade 7 Substandard	Grade 8 Doubtful	Total
Construction/Land Development	$-	$730	$12,931	$36,673	$10,285	$4,989	$8,705	$-	$74,313
Farmland	64	333	3,897	4,459	4,348	494	1,983	-	15,578
Real Estate	-	1,404	53,245	95,135	19,963	5,285	2,754	-	177,786
Multi-Family	-	249	2,898	5,177	180	-	-	-	8,504
Commercial Real Estate	-	2,811	43,962	97,798	9,312	1,040	587	-	155,510
Home Equity – closed end	-	130	3,815	4,499	1,298	1,442	5	-	11,189
Home Equity – open end	84	2,612	16,619	31,730	3,771	142	503	-	55,461
Commercial & Industrial (Non-Real Estate)	277	1,460	15,039	19,061	1,368	322	523	-	38,050
Consumer (excluding dealer)	47	362	2,640	415	1,187	2,202	475	-	7,328
Total	$472	$10,091	$155,046	$294,947	$51,712	$15,916	$15,535	$-	$543,719

	Credit Cards	Dealer Finance
Performing	$2,674	$73,329
Non performing	-	238
Total	$2,674	$73,567

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Note 4.
Allowance for Loan Losses, continued

December 31, 2016	Grade 1 Minimal Risk	Grade 2 Modest Risk	Grade 3 Average Risk	Grade 4 Acceptable Risk	Grade 5 Marginally Acceptable	Grade 6 Watch	Grade 7 Substandard	Grade 8 Doubtful	Total
Construction/Land Development	$-	$1,478	$10,870	$43,863	$8,399	$2,473	$9,089	$-	$76,172
Farmland	65	-	3,073	3,456	4,446	1,861	-	-	12,901
Real Estate	-	1,149	62,168	74,242	28,266	4,680	2,253	-	172,758
Multi-Family	-	311	3,009	4,099	186	-	-	-	7,605
Commercial Real Estate	-	2,793	32,986	91,157	19,181	1,840	2,104	-	150,061
Home Equity – closed end	-	150	3,966	4,139	1,746	1,414	38	-	11,453
Home Equity – open end	124	1,724	16,415	30,974	4,547	125	511	-	54,420
Commercial & Industrial (Non-Real Estate)	1,375	1,267	6,827	19,530	2,198	39	70	-	31,306
Consumer (excluding dealer)	67	174	1,837	607	1,242	2,252	466	-	6,643
Total	$1,631	$9,046	$141,151	$272,065	$70,211	$14,684	$14,531	$-	$523,319

	Credit Cards	Dealer Finance
Performing	$2,822	$65,291
Non performing	-	204
Total	$2,822	$65,495

Description of internal loan grades:

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

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

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

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

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Note 4.
Allowance for Loan Losses, continued

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

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

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

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

Credit card and dealer finance loans are classified as performing or nonperforming. A loan is nonperforming when payments of principal and interest are past due 90 days or more.

Note 5.
Employee Benefit Plan

The Bank has a qualified noncontributory defined benefit pension plan which covers substantially all of its full-time employees hired before April 1, 2012. The benefits are primarily based on years of service and earnings. The Company uses December 31st as the measurement date for the defined benefit pension plan. The Bank does not expect to contribute to the pension plan in 2017.

The following is a summary of net periodic pension costs for the three and nine month periods ended September 30, 2017 and 2016:

(dollars in thousands)	Nine Months Ended		Three Months Ended	
	September 30, 2017	September 30, 2016	September 30, 2017	September 20, 2016
Service cost	$522	$474	$174	$158
Interest cost	365	340	122	113
Expected return on plan assets	(638)	(641)	(213)	(214)
Amortization of prior service cost	(11)	(11)	(4)	(4)
Amortization of net (gain) or loss	213	167	71	56
Net periodic pension cost	$451	$329	$150	$109

Note 6.
Fair Value

The fair value of a financial instrument is the current amount that would be exchanged between willing parties, other than in a forced liquidation. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques.

Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Accounting guidance for fair value excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

The Company records fair value adjustments to certain assets and liabilities and determines fair value disclosures utilizing a definition of fair value of assets and liabilities that states that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Additional considerations are involved to determine the fair value of financial assets in markets that are not active.

The Company uses a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

Note 6.
Fair Value, continued

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

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. The carrying value of restricted Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based upon the redemption provisions of each entity and is therefore excluded from the following table.

Derivatives

The Company’s derivatives are recorded at fair value based on third party vendor supplied information using discounted cash flow analysis from observable-market based inputs, which are considered Level 2 inputs.

The following tables present the balances of financial assets measured at fair value on a recurring basis as of September 30, 2017 and December 31, 2016 (dollars in thousands):

September 30, 2017	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$21,998	$21,998	$-	$-
Mortgage-backed obligations of federal agencies	549	-	549	-
Equity securities	135	-	135	-
Total securities available for sale	$22,682	$21,998	$684	-

December 31, 2016	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$24,014	$24,014	$-	$-
Mortgage-backed obligations of federal agencies	634	-	634	-
Equity securities	135	-	135	-
Total securities available for sale	$24,783	$24,014	$769	-

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans Held for Sale

Loans held for sale are short-term loans purchased at par for resale to investors at the par value of the loan and loans originated by VBS for sale in the secondary market. Loan participations are generally repurchased within 15 days. Loans originated for sale by VBS are recorded at lower of cost or market. No market adjustments were required at September 30, 2017 or December 31, 2016; therefore, loans held for sale were carried at cost. Because of the short-term nature and fixed repurchase price, the book value of these loans approximates fair value at September 30, 2017 and December 31, 2016.

Note 6.
Fair Value, continued

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Troubled debt restructurings are impaired loans. Impaired loans are measured at fair value on a nonrecurring basis. If an individually-evaluated impaired loan's balance exceeds fair value, the amount is allocated to the allowance for loan losses. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The fair value of an impaired loan and measurement of associated loss is based on one of three methods: the observable market price of the loan, the present value of projected cash flows, or the fair value of the collateral. The observable market price of a loan is categorized as a Level 1 input. The present value of projected cash flows method results in a Level 3 categorization because the calculation relies on the Company's judgment to determine projected cash flows, which are then discounted at the current rate of the loan, or the rate prior to modification if the loan is a troubled debt restructure.

Loans measured using the fair value of collateral method are categorized in Level 3. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Most collateral is real estate. The Company bases collateral method fair valuation upon the "as-is" value of independent appraisals or evaluations.

The value of real estate collateral is determined by an independent appraisal utilizing an income or market valuation approach. Appraisals conducted by an independent, licensed appraiser outside of the Company using observable market data is categorized as Level 3. The value of business equipment is based upon an outside appraisal (Level 3) if deemed significant, or the net book value on the applicable business' financial statements (Level 3) if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3).

As of September 30, 2017 and December 31, 2016, the fair value measurements for impaired loans with specific allocations were primarily based upon the fair value of the collateral.

The following table summarizes the Company's financial assets that were measured at fair value on a nonrecurring basis during the period (dollars in thousands):

September 30, 2017	Total	Level 1	Level 2	Level 3
Construction/Land Development	$3,565	-	-	$3,565
Real Estate	978	-	-	978
Dealer Finance	36	-	-	36
Impaired loans	$4,579	-	-	$4,579

December 31, 2016

	Total	Level 1	Level 2	Level 3

Construction/Land Development	$4,739	-	-	$4,739
Real Estate	985	-	-	985
Commercial Real Estate	892	-	-	892
Dealer Finance	67	-	-	67
Impaired loans	$6,683	-	-	$6,683

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Note 6.
Fair Value, continued

The following table presents information about Level 3 Fair Value Measurements for September 30, 2017:

	Fair Value at September 30, 2017	Valuation Technique	Significant Unobservable Inputs	Range
(dollars in thousands)				
Impaired Loans	$4,579	Discounted appraised value	Discount for selling costs and marketability	3%-19% (Average 5.1%)

The following table presents information about Level 3 Fair Value Measurements for December 31, 2016:

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Range
(dollars in thousands)				
Impaired Loans	$6,683	Discounted appraised value	Discount for selling costs and marketability	2%-50% (Average 4.7%)

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. Valuation of other real estate owned is determined using current appraisals from independent parties, a level two input. If current appraisals cannot be obtained prior to reporting dates, or if declines in value are identified after a recent appraisal is received, appraisal values are discounted, resulting in Level 3 estimates. If the Company markets the property with a realtor, estimated selling costs reduce the fair value, resulting in a valuation based on Level 3 inputs.

The Company markets other real estate owned both independently and with local realtors. Properties marketed by realtors are discounted by selling costs. Properties that the Company markets independently are not discounted by selling costs.

The following table summarizes the Company's other real estate owned that were measured at fair value on a nonrecurring basis as of September 30, 2017 and December 31, 2016 (dollars in thousands).

September 30, 2017	Total	Level 1	Level 2	Level 3
Other real estate owned	$2,148	-	-	$2,148

December 31, 2016	Total	Level 1	Level 2	Level 3

Other real estate owned	$2,076	-	-	$2,076

The following table presents information about Level 3 Fair Value Measurements for September 30, 2017:

	Fair Value at September 30, 2017	Valuation Technique	Significant Unobservable Inputs	Range
(dollars in thousands)				
Other real estate owned	$2,148	Discounted appraised value	Discount for selling costs	5%-15% (Average 8%)

The following table presents information about Level 3 Fair Value Measurements for December 31, 2016:

	Fair Value at December 31, 2016	Valuation Technique	Significant Unobservable Inputs	Range
(dollars in thousands)				
Other real estate owned	$2,076	Discounted appraised value	Discount for selling costs	5%-15% (Average 8%)

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Cash and Cash Equivalents

The carrying amounts approximate fair value.

Note 6.
Fair Value, continued

Securities

The fair values of securities, excluding restricted stock, are determined by quoted market prices or dealer quotes. The fair value of certain state and municipal securities is not readily available through market sources other than dealer quotations, so fair value estimates are based on quoted market prices of similar instruments adjusted for differences between the quoted instruments and the instruments being valued. The carrying value of restricted securities and other investments approximates fair value and are therefore excluded from the following table.

Loans Held for Sale

Fair values of loans held for sale are based on commitments on hand from investors or prevailing market prices.

Loans Held for Investment

Fair values are estimated for portfolios of loans with similar financial characteristics. Loans are segregated by type such as commercial, real estate – commercial, real estate – construction, real estate – mortgage, credit card and other consumer loans. Each loan category is further segmented into fixed and adjustable rate interest terms and by performing and nonperforming categories.

The fair value of performing loans is calculated by discounting scheduled cash flows through the estimated maturity using estimated market discount rates that reflect the credit and interest rate risk inherent in the loan, as well as estimates for prepayments. The estimate of maturity is based on the Company’s historical experience with repayments for loan classification, modified, as required, by an estimate of the effect of economic conditions on lending.

Fair value for significant nonperforming loans is based on estimated cash flows which are discounted using a rate commensurate with the risk associated with the estimated cash flows. Assumptions regarding credit risk, cash flows and discount rates are determined within management’s judgment, using available market information and specific borrower information.

Bank-Owned Life Insurance

Bank-owned life insurance represents insurance policies on certain officers of the Company. The cash values of the policies are estimates using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates fair value.

Deposits

The fair value of demand and savings deposits is the amount payable on demand. The fair value of fixed maturity term deposits and certificates of deposit is estimated using the rates currently offered for deposits with similar remaining maturities.

Short-Term Debt

The carrying amounts of short-term debt maturing within 90 days approximate their fair values. Fair values of any other short-term debt are estimated using discounted cash flow analyses based on the current incremental borrowing rates for similar types of debt.

Long-Term Debt

The fair value of the Company’s long-term debt is estimated using discounted cash flow analyses based on the Company’s incremental borrowing rates for similar types of debt arrangements.

Accrued Interest

The carrying amounts of accrued interest approximate fair value.

Note 7. Disclosures About Fair Value of Financial Instruments

Fair Value Measurements at September 30, 2017 Using

(dollars in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at September 30, 2017
Assets:					
Cash and cash equivalents	$9,746	$9,746	$-	$-	$9,746
Securities	22,807	21,998	809	-	22,807
Loans held for sale	58,177	-	58,177	-	58,177
Loans held for investment, net	613,018	-	-	642,322	642,322
Interest receivable	1,845	-	1,845	-	1,845
Bank owned life insurance	13,841	-	13,841	-	13,841
Total	$719,434	$31,744	$74,672	$642,322	$762,338
Liabilities:					
Deposits	$562,380	$-	$398,229	$165,926	$564,155
Short-term debt	42,128	-	42,128	-	42,128
Long-term debt	50,840	-	-	50,943	50,943
Interest payable	239	-	239	-	239
Total	$655,587	$-	$440,596	$216,869	$657,465

The estimated fair values, and related carrying amounts (dollars in thousands), of the Company's financial instruments are as follows:

Fair Value Measurements at December 31, 2016 Using

(dollars in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2016
Assets:					
Cash and cash equivalents	$16,355	$16,355	$-	$-	$16,355

Securities	24,908	24,014	894	-	24,908
Loans held for sale	62,735	-	62,735	-	62,735
Loans held for investment, net	584,093	-	-	598,991	598,991
Interest receivable	1,785	-	1,785	-	1,785
Bank owned life insurance	13,513	-	13,513	-	13,513
Total	$703,389	$40,369	$78,927	$598,991	$718,287
Liabilities:					
Deposits	$537,085	$-	$379,857	$158,073	$537,930
Short-term debt	40,000	-	40,000	-	40,000
Long-term debt	64,237	-	-	63,945	63,945
Interest payable	228	-	228	-	228
Total	$641,550	$-	$420,085	$222,018	$642,103

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Note 8.
Troubled Debt Restructuring

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by adjusting the loan grades of such loans, which are considered in the qualitative factors within the allowance. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance for loan loss methodology. Additionally, specific reserves may be established on restructured loans which are evaluated individually for impairment.

During the nine months ended September 30, 2017, there was one loan modification that was considered to be troubled debt restructuring. This loan was modified during the three months ended June 30, 2017, there were no loan modifications that would be considered a troubled debt restructuring during the first or third quarters of 2017. Modifications may have included rate adjustments, revisions to amortization schedules, suspension of principal payments for a temporary period, re-advancing funds to be applied as payments to bring the loan(s) current, or any combination thereof.

	September 30, 2017		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment
Consumer	1	$18	$18
Total	1	$18	$18

At September 30, 2017, there was one loan restructured in the previous 12 months in default or on nonaccrual status. A restructured loan is considered in default when it becomes 90 days past due, or when a charge off or foreclosure occurs.

	September 30, 2017		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment

Real Estate	1	$67	$67
Total	1	$67	$67

During the nine months ended September 30, 2016, there were seven loan modifications that were considered to be troubled debt restructurings, however since then one has paid off and one was charged off.

	Nine Months ended September 30, 2016		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Real Estate	2	$142	$142
Consumer	3	33	33
Total	5	$175	$175

During the quarter ended September 30, 2016, there was one loan modification that was considered to be troubled debt restructuring.

	Three Months ended September 30, 2016		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Consumer	1	$6	$6
Total	1	$6	$6

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Note 9.
Accumulated Other Comprehensive Loss

The balances in accumulated other comprehensive loss are shown in the following tables for September 30, 2017 and 2016:

(dollars in thousands)	Unrealized Securities Gains (Losses)	Adjustments Related to Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 31, 2016	$6	$(3,171)	$(3,165)
Change in unrealized securities gains (losses), net of tax	(1)	-	(1)
Change in unfunded pension liability, net of tax	-	-	-
Balance at September 30, 2017	$5	$(3,171)	$(3,166)

(dollars in thousands)	Unrealized Securities Gains (Losses)	Adjustments Related to Pension Plan	Accumulated Other Comprehensive Loss
Balance at December 31, 2015	$3	$(2,683)	$(2,680)
Change in unrealized securities gains, net of tax	22	-	22
Change in unfunded pension liability, net of tax	-	-	-
Balance at September 30, 2016	$25	$(2,683)	$(2,658)

There were no reclassifications adjustments reported on the consolidated statements of income during the three or nine months periods ended September 30, 2017 or 2016.

Note 10.
Business Segments

The Company utilizes its subsidiaries to provide multiple business segments including retail banking, mortgage banking, title insurance services, investment services and credit life and accident and health insurance products related to lending. Revenues from retail banking operations consist primarily of interest earned on loans and investment securities and service charges on deposit accounts. Mortgage Banking operating revenues consist principally of gains on sales of loans in the secondary market, loan origination fee income and interest earned on mortgage loans held for sale. Revenues from title insurance services, investment services and insurance products consist of commissions on products provided. The following tables represent revenues and expenses by segment for the three and nine months ended September 30, 2017 and 2016.

Note 10.
Business Segments, continued

	Nine Months Ended September 30, 2017						
	F&M Bank	VBS Mortgage	TEB Life/FMFS	VS Title	Parent Only	Eliminations	F&M Bank Corp. Consolidated
Revenues:							
Interest Income	$24,815	$97	$112	$-	$-	$(70)	$24,954
Service charges on deposits	1,010	-	-	-	-	-	1,010
Investment services and insurance income	1	-	529	-	-	-	530
Mortgage banking income, net	-	1,974	-	-	-	-	1,974
Title insurance income	-	-	-	668	-	-	668
Income from bank owned life insurance	336	-	-	-	-	-	336
Low income housing partnership losses	(587)	-	-	-	-	-	(587)
ATM and check card fees	1,034	-	-	-	-	-	1,034
Gain on prepayment of long-term debt	504	-	-	-	-	-	504
Loss on investments	-	(40)	(2)	-	-	-	(42)
Other operating income	513	-	-	-	-	-	513
Total income	27,626	2,031	639	668	-	(70)	30,894
Expenses:							
Interest Expense	2,866	65	-	-	-	(70)	2,861
Provision for loan losses	-	-	-	-	-	-	-
Salary expense	6,781	1,035	341	345	-	-	8,502
Employee benefit expense	2,245	168	-	54	-	-	2,467
Occupancy expense	624	115	-	37	-	-	776
Equipment expense	551	39	-	23	-	-	613
FDIC insurance assessment	200	-	-	-	-	-	200
Other real estate owned, net	22	-	-	-	-	-	22
Marketing expense	352	42	6	4	-	-	404
Legal and professional fees	246	7	-	-	-	-	253
ATM and check card fees	526	3	-	-	-	-	529
Telecom and data processing expense	967	78	-	-	-	-	1,045

Directors fees	315	45	-	-	-	-	360
Bank franchise Tax	491	-	-	-	-	-	491
Other operating expenses	2,127	262	17	54	4	-	2,464
Total expense	18,313	1,859	364	517	4	(70)	20,987
Income tax expense (benefit)	2,603	-	83	-	(53)	-	2,633
Net income	$6,710	$172	$192	$151	$49	$-	$7,274
Net income attributable to noncontrolling interest	-	51	-	-	-	-	51
Net Income attributable to F & M Bank Corp.	$6,710	$121	$192	$151	$49	$-	$7,223
Total Assets	$750,048	$6,309	$6,644	$443	$91,362	$(91,121)	$763,685
Goodwill	$2,670	$103	$-	$-	$340	$-	$3,113

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Note 10.
Business Segments, continued

Three Months Ended September 30, 2017

	F&M Bank	VBS Mortgage	TEB Life/FMFS	VS Title	Parent Only	Eliminations	F&M Bank Corp. Consolidated
Revenues:							
Interest Income	$8,644	$32	$37	$-	$-	$(25)	$8,688
Service charges on deposits	359	-	-	-	-	-	359
Investment services and insurance income	-	-	169	-	-	-	169
Mortgage banking income, net	-	861	-	-	-	-	861
Title insurance income	-	-	-	247	-	-	247
Income from bank owned life insurance	113	-	-	-	-	-	113
Low income housing partnership losses	(201)	-	-	-	-	-	(201)
ATM and check card fees	352	-	-	-	-	-	352
Gain on prepayment of long-term debt	-	-	-	-	-	-	-
Loss on investments	-	-	-	-	-	-	-
Other operating income	246	-	-	-	-	-	246
Total income	9,513	893	206	247	-	(25)	10,834
Expenses:							
Interest Expense	1,032	24	-	-	-	(25)	1,031
Provision for loan losses	-	-	-	-	-	-	-
Salary expense	2,326	586	107	175	-	-	3,194
Employee benefit expense	722	1	-	(34)	-	-	689
Occupancy expense	221	48	-	12	-	-	281
Equipment expense	&#xA						