F&M BANK CORP
Form 10-Q
May 15, 2015

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 March 31, 2015.

o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-13273

F & M BANK CORP.

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

P. O. Box 1111
Timberville, Virginia 22853
(Address of Principal Executive Offices) (Zip Code)

(540) 896-8941
(Registrant's Telephone Number, Including Area Code)

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

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 x No o

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

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

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

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 May 14, 2015
Common Stock, par value - $5	3,294,005 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
Consolidated Statements of Income
(In Thousands of Dollars Except per Share Amounts)
(Unaudited)

	Three Months Ended March 31,	
Interest income	2015	2014
Interest and fees on loans held for investment	$6,772	$6,226
Interest and fees on loans held for sale	191	15
Interest on federal funds sold	5	12
Interest on debt securities	43	38
Total interest income	7,011	6,291
Interest expense		
Interest on demand deposits	157	167
Interest on savings accounts	33	28
Interest on time deposits over $100,000	123	158
Interest on other time deposits	241	304
Total interest on deposits	554	657
Interest on short-term debt	11	2
Interest on long-term debt	120	291
Total interest expense	685	950
Net interest income	6,326	5,341
Provision for loan losses	300	750
Net interest income after provision for loan losses	6,026	4,591
Noninterest income		
Service charges	226	257
Insurance and other commissions	235	22
Other	323	381
Income on bank owned life insurance	118	116
Total noninterest income	902	776
Noninterest expense		
Salaries	1,818	1,655
Employee benefits	624	520
Occupancy expense	178	160
Equipment expense	163	144
FDIC insurance assessment	192	180
Other	1,407	1,079
Total noninterest expense	4,382	3,738
Income before income taxes	2,546	1,629

Income tax expense	649	476
Consolidated net income – F & M Bank Corp.	1,897	1,153
Net income - Noncontrolling interest (income) loss	(26)	30
Net Income – F & M Bank Corp	$1,871	$1,183
Dividends paid/accumulated on preferred stock	128	-
Net income available to common stockholders	$1,743	$1,183
Per share data		
Net income – basic	$.53	$.46
Net income – diluted	.50	.46
Cash dividends	$.18	$.17
Weighted average shares outstanding – basic	3,292,646	2,598,639
Weighted average shares outstanding – diluted	3,737,046	2,598,639

See notes to unaudited consolidated financial statements

F & M BANK CORP.
Consolidated Statements of Comprehensive Income
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Net Income:		
Net Income – F & M Bank Corp	$1,871	$1,183
Net Income (loss) attributable to noncontrolling interest	26	(30)
Total Net Income:	1,897	1,153
Unrealized holding gains (losses) on available-for-sale securities:	24	18
Tax Expense (benefit)	8	6
Unrealized holding gain (loss), net of tax	16	12
Total other comprehensive income	16	12
Comprehensive income	$1,913	$1,165

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Consolidated Balance Sheets
(In Thousands of Dollars Except per Share Amounts)

	March 31, 2015 (Unaudited)	December 31, 2014 (Audited)
Assets		
Cash and due from banks	$6,708	$6,241
Money market funds	816	911
Federal funds sold	-	16,051
Cash and cash equivalents	7,524	23,203
Securities:		
Held to maturity – fair value of $125 in 2015 and 2014	125	125
Available for sale	13,308	13,215
Other investments	10,983	8,964
Loans held for sale	59,226	13,382
Loans held for investment	526,649	518,202
Less allowance for loan losses	(8,938)	(8,725)
Net loans held for investment	517,711	509,477
Other real estate owned	2,769	3,507
Bank premises and equipment, net	6,844	6,458
Interest receivable	1,622	1,675
Goodwill	2,670	2,670
Bank owned life insurance	12,696	12,581
Other assets	9,842	10,051
Total assets	$645,320	$605,308
Liabilities		
Deposits:		
Noninterest bearing	$118,644	$112,198
Interest bearing:		
Demand	95,219	93,694
Money market accounts	27,126	25,900
Savings	66,727	64,249
Time deposits over $100,000	62,112	79,813
All other time deposits	113,599	115,651
Total deposits	483,427	491,505
Short-term debt	45,763	14,358
Accrued liabilities	12,238	11,772
Long-term debt	24,750	9,875
Total liabilities	566,178	527,510
Stockholders' Equity		
Preferred Stock $5 par value, 400,000 shares authorized, issued and outstanding for 2015 and 2014	9,425	9,425

Common stock, $5 par value, 6,000,000 shares authorized,		
3,293,909 and 3,287,470 shares issued and outstanding		
for 2015 and 2014, respectively	16,470	16,459
Additional paid in capital – common stock	11,291	11,260
Retained earnings	43,832	42,554
Noncontrolling interest	434	426
Accumulated other comprehensive loss	(2,310)	(2,326)
Total stockholders’ equity	79,142	77,798
Total liabilities and stockholders’ equity	$645,320	$605,308

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Consolidated Statements of Cash Flows
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities		
Net income	$1,871	$1,183
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	172	148
Amortization of security premiums, net	37	24
Loans held for sale originated	(16,849)	(7,222)
Sale of loans held for sale originated	13,306	8,629
Provision for loan losses	300	750
(Increase) Decrease in interest receivable	53	(15)
Increase in other assets	(258)	(356)
Increase in accrued expenses	932	55
Amortization of limited partnership investments	157	152
Income from life insurance investment	(118)	(116)
(Gain) loss on Other Real Estate Owned	232	(1)
Net adjustments	(2,036)	2 048
Net cash provided by (used in) operating activities	(165)	3,231
Cash flows from investing activities		
Purchase of investments available for sale	(6,324)	(4,108)
Proceeds from maturity of investments available for sale	4,045	23,009
Net increase in loans held for investment	(8,308)	(9,009)
Net increase in loans held for sale participations	(42,300)	(3,181)
Proceeds from the sale of other real estate owned	279	401
Purchase of property and equipment	(558)	(137)
Net cash provided by (used in) investing activities	(53,166)	6,975
Cash flows from financing activities		
Net change in demand and savings deposits	11,676	9,895
Net change in time deposits	(19,753)	(2,500)
Net change in short-term debt	31,405	274
Cash dividends paid	(593)	(427)
Proceeds from issuance of common stock	42	12,026
Proceeds from issuance of long-term debt	15,000	-
Repayment of long-term debt	(125)	-
Net cash provided by financing activities	37,652	19,268
Net Increase (decrease) in Cash and Cash Equivalents	(15,679)	29,474
Cash and cash equivalents, beginning of period	23,203	6,545
Cash and cash equivalents, end of period	$7,524	$36,019
Supplemental disclosure		

Cash paid for:		
Interest expense	$701	$981
Income taxes	-	-
Transfers from loans to Other Real Estate Owned	-	397
Noncash exchange of other real estate owned	(227)	(188)

See notes to unaudited consolidated financial statements

F & M BANK CORP.
Consolidated Statements of Changes in Stockholders' Equity
(In Thousands of Dollars)
(Unaudited)

	Three Months Ended March 31, 2015	2014
Balance, beginning of period	$77,798	$54,141
Comprehensive income		
Net income – F & M Bank Corp	1,871	1,183
Net income (loss) attributable to noncontrolling interest	26	(30)
Net change in unrealized appreciation on securities available for sale, net of taxes	16	12
Total comprehensive income	1,913	1,165
Minority Interest Capital Distributions	(18)	(37)
Issuance of common stock	42	12,026
Dividends declared	(593)	(427)
Balance, end of period	$79,142	$66,868

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 1. Accounting Principles

The consolidated financial statements include the accounts of F & M Bank Corp. and its subsidiaries (the "Company"). Significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements conform to accounting principles generally accepted in the United States of America and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of March 31, 2015 and the results of operations for the quarters ended March 31, 2015 and 2014. The notes included herein should be read in conjunction with the notes to financial statements included in the 2014 annual report to shareholders of F & M Bank Corp.

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

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and gains or losses on certain derivative contracts, are reported as a separate component of the equity section of the balance sheet. Such items, along with operating net income, are components of comprehensive income.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Loans Held for Investment

Loans are carried on the balance sheet net of any unearned interest and the allowance for loan losses. Interest income on loans is determined using the effective interest method on the daily amount of principal outstanding except where serious doubt exists as to collectability of the loan, in which case the accrual of income is discontinued.

Loans Held for Sale

These loans consist of fixed rate loans made through its subsidiary, VBS Mortgage and loans purchased from NorthPointe Bank, Grand Rapids, MI.

Allowance for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management's determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 1. Accounting Principles, continued

Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Nonaccrual Loans

Loans are placed on nonaccrual status when they become ninety days or more past due, unless there is an expectation that the loan will either be brought current or paid in full in a reasonable period of time.

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 by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that 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:

	For the quarter ended March 31, 2015
Earnings Available to Common Stockholders:	
Net Income	$1,870,551
Preferred Stock Dividends	127,500
Net Income Available to Common Stockholders	$1,743,051

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

	Quarter ending March 31, 2015		
	Income	Shares	Per Share Amounts
Basic EPS	$1,743,051	3,292,646	$.53
Effect of Dilutive Securities:			
Convertible Preferred Stock	127,500	444,400	(0.03)
Diluted EPS	$1,870,551	3,737,046	$.50

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F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 2. Investment Securities

Investment securities available for sale are carried in the consolidated balance sheets at their approximate market value, amortized cost and unrealized gains and losses at March 31, 2015 and December 31, 2014 are reflected in the table below. The amortized costs of investment securities held to maturity are carried in the consolidated balance sheets and their approximate market values at March 31, 2015 and December 31, 2014 are as follows:

	2015		2014	
	Cost	Market Value	Cost	Market Value
Securities held to maturity				
U. S. Treasury and agency obligations	$125	$125	$ 125	$125
Total	$125	$125	$ 125	$125

	March 31, 2015			
		Unrealized		Market
	Cost	Gains	Losses	Value
Securities available for sale				
U. S. Treasuries	$4,023	$16	$-	$4,039
Government sponsored enterprises	8,157	12	16	8,153
Mortgage-backed securities	964	17	-	981
Marketable equities	135	-	-	135
Total	$13,279	$45	$16	$13,308

	December 31, 2014			
		Unrealized		Market
	Cost	Gains	Losses	Value
Securities available for sale				
U. S. Treasuries	$4,026	$-	$6	$4,020
Government sponsored enterprises	8,039	9	10	8,038
Mortgage-backed securities	1,011	11	-	1,022
Marketable equities	135	-	-	135
Total	$13,211	$20	$16	$13,215

The amortized cost and fair value of securities at March 31, 2015, 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 Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$-	$-	$-	$-
Due after one year through five years	125	125	12,180	12,192
Due after five years	-	-	1,099	1,116

Total	$125	$125	$13,279	$13,308

There were no gains and losses on sales of securities in the first quarter of 2015 or 2014. There were also no securities with an other than temporary impairment.

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 2. Investment Securities, continued

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at March 31, 2015 and December 31, 2014 were as follows (dollars in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2015						
Government sponsored Enterprises	$2,128	$(1)	$1,984	$(15)	$4,112	$(16)
Total	$2,128	$(1)	$1,984	$(15)	$4,112	$(16)
December 31, 2014						
U. S. Treasuries	$4,020	$(6)	$-	$-	$4,020	$(6)
Government sponsored Enterprises	2,004	(2)	1,991	(8)	3,995	(10)
Total	$6,024	$(8)	$1,991	$(8)	$8,015	$(16)

Other investments, which consist of stock of correspondent banks and investments in low income housing projects, increased since December 31, 2014. This increase is due to FHLB stock purchases during the first quarter and an increase in the Federal Reserve Bank Stock holding requirement.

Note 3. Loans Held for Investment

	2015	2014
Construction/Land Development	$67,419	$67,181
Farmland	13,092	12,507
Real Estate	163,821	162,249
Multi-Family	12,215	11,775
Commercial Real Estate	123,028	122,305
Home Equity – closed end	9,479	9,394
Home Equity – open end	52,669	52,182
Commercial & Industrial – Non-Real Estate	29,110	28,161
Consumer	8,478	9,110
Dealer Finance	44,791	40,633
Credit Cards	2,547	2,705
Total	$526,649	$518,202

Loans outstanding at March 31, 2015 and December 31, 2014 are summarized as follows:

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 3. Loans Held for Investment, continued

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

March 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	$4,228	$4,365	$-	$5,376	$49
Farmland	-	-	-	-	-
Real Estate	139	139	-	104	4
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,148	1,148	-	1,510	13
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	1,649	1,649	-	660	42
Commercial & Industrial – Non-Real Estate	189	189	-	225	2
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	7,353	7,490		7,875	110
Impaired loans with a valuation allowance					
Construction/Land Development	12,957	12,957	1,840	12,705	78
Farmland	-	-	-	-	-
Real Estate	920	920	98	943	17
Multi-Family	-	-	-	-	-
Commercial Real Estate	896	896	26	985	1
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	-	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	61	61	16	12	2
	14,834	14,834	1,980	14,639	98
Total impaired loans	$22,187	$22,324	$1,980	$22,514	$208

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 3. Loans Held for Investment, continued

The Recorded Investment is defined as the principal balance less principal payments and charge-offs.

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	$4,982	$5,402	$-	$5,412	$251
Farmland	-	-	-	1,163	-
Real Estate	141	141	-	85	5
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,159	1,459	-	1,450	66
Home Equity – closed end	-	-	-	123	-
Home Equity – open end	1,649	1,649	-	330	57
Commercial & Industrial – Non-Real Estate	191	191	-	237	11
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	8,122	8,842		8,800	390
Impaired loans with a valuation allowance					
Construction/Land Development	12,976	14,749	1,469	12,056	326
Farmland	-	-	-	-	-
Real Estate	926	926	101	988	105
Multi-Family	-	-	-	-	-
Commercial Real Estate	938	938	47	1,030	4
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	-	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	14,840	16,613	1,617	14,074	435
Total impaired loans	$22,962	$25,455	$1,617	$22,874	$825

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 4. Allowance for Loan Losses

A summary of the allowance for loan losses follows:

March 31, 2015 (in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,738	$138	$80	$350	$5,030	$1,840	$3,190
Farmland	102	-	-	-	102	-	102
Real Estate	623	-	-	(34)	589	98	491
Multi-Family	95	-	-	-	95	-	95
Commercial Real Estate	126	-	22	(47)	101	26	75
Home Equity – closed end	188	10	-	-	178	-	178
Home Equity – open end	154	23	-	16	147	-	147
Commercial & Industrial – Non-Real Estate	1,014	-	53	(103)	964	-	964
Consumer	214	12	9	18	229	-	229
Dealer Finance	1,336	50	2	95	1,383	16	1,367
Credit Cards	135	28	8	5	120	-	120
Total	$8,725	$261	$174	$300	$8,938	$1,980	$6,958

December 31, 2014 (in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,007	$1,611	$223	$2,119	$4,738	$1,469	$3,269
Farmland	(2)	-	-	104	102	-	102
Real Estate	400	208	-	431	623	101	522
Multi-Family	-	-	-	95	95	-	95
Commercial Real Estate	777	-	108	(759)	126	47	79
Home Equity – closed end	157	-	-	31	188	-	188
	476	80	-	(242)	154	-	154

Home Equity – open end							
Commercial & Industrial – Non-Real Estate	1,464	385	356	(424)	1,014	-	1,014
Consumer	156	33	33	58	214	-	214
Dealer Finance	628	107	6	809	1,336	-	1,336
Credit Cards	121	46	35	25	135	-	135
Total	$8,184	$2,470	$761	$2,250	$8,725	$1,617	$7,108

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

March 31, 2015	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$67,419	$ 17,185	$ 50,234
Farmland	13,092	-	13,092
Real Estate	163,821	1,059	162,762
Multi-Family	12,215	-	12,215
Commercial Real Estate	123,028	2,044	120,984
Home Equity – closed end	9,479	-	9,479
Home Equity –open end	52,669	1,649	51,020
Commercial & Industrial – Non-Real Estate	29,110	189	28,921
Consumer	8,478	-	8,478
Dealer Finance	44,791	61	44,730
Credit Cards	2,547	-	2,547
Total	$526,649	$ 22,187	$ 504,462

Recorded Investment in Loan Receivables (in thousands)

December 31, 2014	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$67,181	$ 17,958	$ 49,223
Farmland	12,507	-	12,507
Real Estate	162,249	1,067	161,182
Multi-Family	11,775	-	11,775
Commercial Real Estate	122,305	2,097	120,208
Home Equity – closed end	9,394	-	9,394
Home Equity –open end	52,182	1,649	50,533
Commercial & Industrial – Non-Real Estate	28,161	191	27,970
Consumer	9,110	-	9,110
Dealer Finance	40,633		40,633
Credit Cards	2,705	-	2,705
Total	$518,202	$ 22,962	$ 495,240

Aging of Past Due Loans Receivable (in thousands) as of March 31, 2015

March 31, 2015	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable
	$266	$-	$ -	$ 4,500	$4,766	$62,653	$67,419

Construction/Land Development							
Farmland	41	-	-	-	41	13,051	13,092
Real Estate	3,813	301	23	1,282	5,419	158,402	163,821
Multi-Family	-	-	-	-	-	12,215	12,215
Commercial Real Estate	219	377	-	1,080	1,676	121,352	123,028
Home Equity – closed end	12	65	-	-	77	9,402	9,479
Home Equity – open end	230	106	-	121	457	52,212	52,669
Commercial & Industrial – Non-Real Estate	66	27	-	-	93	29,017	29,110
Consumer	268	31	4	4	307	8,171	8,478
Dealer Finance	433	80	78	83	674	44,117	44,791
Credit Cards	3	5	-	-	8	2,539	2,547
Total	$5,351	$992	$ 105	$ 7,070	$13,518	$513,131	$526,649

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

Aging of Past Due Loans Receivable (in thousands) as of December 31, 2014

December 31, 2014	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable
Construction/Land Development	$205	$166	$ -	$ 4,508	$4,879	$62,302	$67,181
Farmland	-	-	-	-	-	12,507	12,507
Real Estate	5,085	635	-	973	6,693	155,556	162,249
Multi-Family	-	-	-	-	-	11,775	11,775
Commercial Real Estate	747	-	-	1,165	1,912	120,393	122,305
Home Equity – closed end	162	15	-	10	187	9,207	9,394
Home Equity – open end	730	25	-	143	898	51,284	52,182
Commercial & Industrial – Non-Real Estate	-	-	-	14	14	28,147	28,161
Consumer	290	9	-	-	299	8,811	9,110
Dealer Finance	696	189	-	161	1,046	39,587	40,633
Credit Cards	36	-	1	-	37	2,668	2,705
Total	$7,951	$1,039	$ 1	$ 6,974	$15,965	$502,237	$518,202

CREDIT QUALITY INDICATORS (in thousands)
AS OF MARCH 31, 2015
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	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	$-	$163	$7,326	$ 25,796	$ 9,532	$6,566	$ 18,036	$-	$67,419
Farmland	67	-	1,647	4,038	5,234	-	2,106	-	13,092
Real Estate	-	620	56,584	72,896	23,236	6,626	3,859	-	163,821
Multi-Family	-	449	4,102	3,132	4,532		-	-	12,215
Commercial Real Estate	-	1,636	21,547	65,775	22,328	9,287	2,455	-	123,028

Home Equity – closed end	-	-	3,952	3,400	1,889	143	95	-	9,479
Home Equity – open end	-	1,498	12,992	29,261	4,515	1,837	2,566	-	52,669
Commercial & Industrial (Non-Real Estate)	620	94	6,333	17,159	4,083	754	67	-	29,110
Total	$687	$4,460	$114,483	$ 221,457	$ 75,349	$25,213	$ 29,184	$-	$470,833

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,547	$53,100
Non performing	-	169
Total	$2,547	$53,269

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

CREDIT QUALITY INDICATORS (in thousands)
AS OF DECEMBER 31, 2014
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	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	$-	$165	$8,460	$ 24,227	$ 9,605	$3,815	$ 20,909	$-	$67,181
Farmland	68	-	1,640	3,451	5,228	-	2,120	-	12,507
Real Estate	-	629	60,290	66,464	23,934	7,083	3,849	-	162,249
Multi-Family	-	468	4,145	2,183	4,979	-	-	-	11,775
Commercial Real Estate	-	1,687	22,800	65,653	19,058	10,571	2,536	-	122,305
Home Equity – closed end	-	-	4,327	3,090	1,812	154	11	-	9,394
Home Equity – open end	-	1,555	13,433	28,425	4,309	1,936	2,524	-	52,182
Commercial & Industrial (Non-Real Estate)	643	74	4,692	18,039	3,948	735	30	-	28,161
Total	$711	$4,578	$119,787	$ 211,532	$ 72,873	$24,294	$ 31,979	$-	$465,754

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,704	$49,582
Non performing	1	161
Total	$2,705	$49,743

Description of 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 by 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.

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.

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 5. Employee Benefit Plan

The Bank has a qualified noncontributory defined benefit pension plan that covers substantially all of its employees. The benefits are primarily based on years of service and earnings. The Bank contributed $750,000 to the plan in the first quarter of 2015 and does not anticipate additional contributions for the 2015 plan year. The following is a summary of net periodic pension costs for the three-month periods ended March 31, 2015 and 2014.

	Three Months Ended	
	March 31, 2015	March 31, 2014
Service cost	$162,083	$125,257
Interest cost	102,736	94,427
Expected return on plan assets	(209,704)	(174,563)
Amortization of net obligation at transition	-	-
Amortization of prior service cost	(3,809)	(3,809)
Amortization of net loss	45,160	9,028
Net periodic pension cost	$96,466	$50,340

Note 6. Fair Value

Accounting Standards Codification (ASC) 820, defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

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

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

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

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

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

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 6. Fair Value, continued

Impaired Loans: ASC 820 applies to loans measured for impairment using the practical expedients permitted by ASC 310 including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at the lower of carrying amount or fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 820.

Derivative Financial Instruments: The equity derivative contracts are purchased as part of our Indexed Certificate of Deposit (ICD) program and are an offset of an asset and liability. ICD values are measured on the S&P 500 Index.

For level 3 assets and liabilities measured at fair value on a recurring basis or non-recurring basis as of March 31, 2015 and December 31, 2014 and significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at March 31, 2015	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 12,855	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%
Other Real Estate Owned	$ 2,769	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%

	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 13,223	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55
Other Real Estate Owned	$ 3,507	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 6. Fair Value, continued

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

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

March 31, 2015	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$4,039	$-	$4,039	$-
Government sponsored enterprises	8,153	-	8,153	-
Mortgage-backed obligations of federal agencies	981	-	981	-
Marketable Equities	135	-	135	-
Investment securities available for sale	13,308	-	13,308	-
Total assets at fair value	$13,308	$-	$13,308	$-
Total liabilities at fair value	$-	$-	$-	$-
Derivative financial instruments at fair value	$33	$-	$33	$-

December 31, 2014	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$4,020	$-	$4,020	$-
Government sponsored enterprises	8,038	-	8,038	-
Mortgage-backed obligations of federal agencies	1,022	-	1,022	-
Marketable Equities	135	-	135	-
Investment securities available for sale	13,215	-	13,215	-
Total assets at fair value	$13,215	$-	$13,215	$-
Total liabilities at fair value	$-	$-	$-	$-
Derivative financial instruments at fair value	$33	$-	$33	$-

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 6. Fair Value, continued

Assets and Liabilities Recorded at Fair Value on a Non-recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis. The Company has determined that Other Real Estate Owned and Impaired Loans are Level 3.

March 31, 2015	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$2,769	-	-	$2,769
		-	-	
Construction/Land Development	11,117	-	-	11,117
Farmland	-	-	-	-
Real Estate	822	-	-	822
Multi-Family	-	-	-	-
Commercial Real Estate	870	-	-	870
Home Equity – closed end	-	-	-	-
Home Equity – open end	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	45	-	-	45
Impaired loans	12,854	-	-	12,854
Total assets at fair value	$15,623	$-	$-	$15,623
Total liabilities at fair value	$-	$-	$-	$-

December 31, 2014	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$3,507	-	-	$3,507
		-	-	
Construction/Land Development	11,507	-	-	11,507
Farmland	-	-	-	-
Real Estate	825	-	-	825
Multi-Family	-	-	-	-
Commercial Real Estate	891	-	-	891
Home Equity – closed end	-	-	-	-
Home Equity – open end	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	-	-	-	-
Impaired loans	13,223	-	-	13,223
Total assets at fair value	$16,730	-	$-	$16,730

Total liabilities at fair value	$-	$-	$-	$-

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F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 7. Disclosures About Fair Value of Financial Instruments

ASC 825 "Financial Instruments" defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank's financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments as of March 31, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates the fair value, which would be Level 1; inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. All financial instruments below are considered Level 2; inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

	March 31, 2015		December 31, 2014	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial Assets				
Loans	$550,793	$526,649	$551,338	$518,202
Financial Liabilities				
Time deposits	176,779	175,711	196,826	195,464
Long-term debt	24,739	24,750	9,862	9,875

The carrying value of cash and cash equivalents, other investments, deposits with no stated maturities, short-term borrowings, and accrued interest approximate fair value. The fair value of securities was calculated using the most recent transaction price or a pricing model, which takes into consideration maturity, yields and quality. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments entered into as of the end of each respective period shown above.

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 figure into the environmental factors associated with the allowance. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance calculation. Additionally, specific reserves may be established on restructured loans evaluated individually.

During the three months ended March 31, 2015, there were three loan modifications that were considered to be troubled debt restructurings. 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.

	March 31, 2015	
	Pre-Modification Outstanding	Post-Modification Outstanding

	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Consumer	3	45	45
Total	3	$ 45	$ 45

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 8. Troubled Debt Restructuring, continued

During the quarter ended March 31, 2015, two real estate loans (outstanding recorded investment of $1,040,000) that had been restructured in the previous 12 months, were in default or were on nonaccrual status. A restructured loan is considered in default when it becomes 90 days past due.

During the three months ended, March 31, 2014, there were no loan modifications that were considered to be troubled debt restructurings. There were also no troubled debt restructurings from the previous twelve months that went into default in the first quarter of 2014. A restructured loan is considered in default when it becomes 90 days past due.

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

F & M Bank Corp. (Company) incorporated in Virginia in 1983, is a one-bank holding company pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, which provides financial services through its wholly-owned subsidiary Farmers & Merchants Bank (Bank). TEB Life Insurance Company (TEB) and Farmers & Merchants Financial Services (FMFS) are wholly-owned subsidiaries of the Bank. The Bank also holds a majority ownership in VBS Mortgage LLC (VBS).

The Bank is a full service commercial bank offering a wide range of banking and financial services through its nine branch offices as well as its loan production offices located in Penn Laird, VA (which specializes in providing automobile financing through a network of automobile dealers) and in Fishersville, VA. TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides title insurance, brokerage services and property/casualty insurance to customers of the Bank. VBS originates conventional and government sponsored mortgages through their offices in Harrisonburg and Woodstock, VA.

The Company’s primary trade area services customers in Rockingham County, Shenandoah County, Page County and Augusta County.

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

Forward-Looking Statements

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

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

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

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

Critical Accounting Policies

General

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

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450 “Contingencies”, which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC 310 “Receivables”, which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. For further discussion refer to page 30 in the Management Discussion and Analysis.

Goodwill and Intangibles

ASC 805 “Business Combinations” and ASC 350 “Intangibles” require that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. ASC 350 prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of ASC 350 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets will be subject to at least an annual impairment review and more frequently if certain impairment indicators are in evidence. ASC 350 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

Securities Impairment

For a complete discussion of securities impairment see Note 2 of the Notes to Consolidated Financial Statements.

Overview

Net income for the three months ended March 31, 2015 was $1,871,000 or $.53 per share, compared to $1,183,000 or $.46 in the same period in 2014, an increase of 58.16%. During the three months ended March 31, 2015, noninterest income increased 16.24% and noninterest expense increased 17.23% during the same period. Net income from Bank operations adjusted for income from Parent activities is as follows:

In thousands	2015	2014

Net Income from Bank Operations	$1,770	$1,136
Income from Parent Company Activities	101	47
Net Income for the three months ended March 31	$1,871	$1,183

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

Results of Operations

As shown in Table I on page 34, the 2015 year to date tax equivalent net interest income increased $997,000 or 18.60% compared to the same period in 2014. The tax equivalent adjustment to net interest income totaled $32,000 for the quarter. The yield on earning assets increased .04%, while the cost of funds decreased .29% compared to the same period in 2014.

Year to date, the combination of the increase in yield on assets and the decrease in cost of funds coupled with changes in balance sheet leverage has resulted in the net interest margin increasing to 4.46%, an increase of 30 basis points when compared to the same period in 2013. A schedule of the net interest margin for the three month periods ended March 31, 2015 and 2014 can be found in Table I on page 34.

The Interest Sensitivity Analysis contained in Table II on page 35 indicates the Company is in an asset sensitive position in the one year time horizon. As the notes to the table indicate, the data was based in part on assumptions as to when certain assets or liabilities would mature or reprice. Approximately 43.59% of rate sensitive assets and 40.75% of rate sensitive liabilities are subject to repricing within one year. Due to the relatively flat yield curve, management has kept deposit rates low. The growth in earning assets and the growth in noninterest bearing accounts has resulted in the decrease in the positive GAP position in the one year time period.

Noninterest income increased $126,000 or 16.24% for the three month period ended March 31, 2015. The increase is primarily due to an increase in insurance and other commissions due to VBS Mortgage income in 2015, which was a loss in 2014.

Noninterest expense increased $664,000 for the three month period ended March 31, 2015 as compared to 2014. Expense increased in the areas of salaries and benefits, pension, data processing, and OREO losses. As stated in the most recently available (December 31, 2014) Bank Holding Company Performance Report, the Company's and peer's (Holding Companies with Consolidated Assets of $500 million to $1billion) noninterest expenses averaged 2.71% and 3.03% of average assets, respectively. The Company's operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

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

Balance Sheet

Federal Funds Sold and Interest Bearing Bank Deposits

The Company’s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end were benchmarked at 0% to .25% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits. Combined balances in fed funds sold and interest bearing bank deposits have decreased since year end due to the growth in Loans Held for Sale.

Securities

The Company’s securities portfolio serves several purposes. Portions of the portfolio are held to assist the Company with asset liability management and as security for certain public funds and repurchase agreements.

The securities portfolio consists of investment securities commonly referred to as securities held to maturity and securities available for sale. Securities are classified as Held to Maturity investment securities when management has the intent and ability to hold the securities to maturity. Held to Maturity Investment securities are carried at amortized cost. Securities available for sale include securities that may be sold in response to general market fluctuations, liquidity needs and other similar factors. Securities available for sale are recorded at market value. Unrealized holding gains and losses on available for sale securities are excluded from earnings and reported (net of deferred income taxes) as a separate component of stockholders’ equity.

As of March 31, 2015, the market value of securities available for sale exceeded their cost by $29,000. The portfolio is made up of primarily agency securities with an average portfolio life of just over three years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. There are no securities scheduled to mature in 2015, however $4,000,000 is callable.

In reviewing investments as of March 31, 2015, there were no securities which met the definition for other than temporary impairment. Management continues to re-evaluate the portfolio for impairment on a quarterly basis.

Loan Portfolio

The Company operates in a predominately rural area that includes the counties of Rockingham, Page, Shenandoah and Augusta in the western portion of Virginia. The local economy benefits from a variety of businesses including agri-business, manufacturing, service businesses and several universities and colleges. The Bank is an active residential mortgage and residential construction lender and generally makes commercial loans to small and mid size businesses and farms within its primary service area.

Lending is geographically diversified within the service area. The only concentration within the portfolio is in construction and development lending. Management and the Board of Directors review this concentration and other potential areas of concentration quarterly.

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

Loans Held for Investment of $526,649,000 increased $8.4 million at March 31, 2015 compared to December 31, 2014. The dealer finance portfolio increased $4.1 million and the real estate portfolio increased $2.1 million. Increases in other loan categories totaled $2.2 million with consumer and credit cards being the only areas of decrease ($.79 million).

Loans Held for Sale totaled $59,226,000 at March 31, 2015, an increase of $45,844,000 compared to December 31, 2014. Secondary market loan originations are typically subject to seasonal fluctuations in the early part of the year. The first quarter was very strong for both VBS Mortgage and NorthPointe Bank.

Nonperforming loans include nonaccrual loans and loans 90 days or more past due. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Nonperforming loans totaled $7,175,000 at March 31, 2015 compared to $6,975,000 at December 31, 2014. Although the potential exists for loan losses, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of March 31, 2015, the Company holds $2,769,000 of real estate which was acquired through foreclosure. This is a decrease of $738,000 compared to December 31, 2014.

The following is a summary of information pertaining to risk elements and nonperforming loans (in thousands):

	March 31, 2015		December 31, 2014	
Nonaccrual Loans				
Real Estate	$5,783		$5,481	
Commercial	1,080		1,179	
Home Equity	120		153	
Other	87		161	
	7,070		6,974	
Loans past due 90 days or more (excluding nonaccrual)				
Real Estate	23		-	
Commercial	-		-	
Home Equity	-		-	
Other	82		1	
	105		1	
Total Nonperforming loans	$7,175		$6,975	
Restructured Loans:				
Real Estate	3,894		3,913	
Commercial	514		518	
Home Equity	290		290	
Other	21		22	
Nonperforming loans as a percentage of loans held for investment	1.36	%	1.35	%
Net Charge Offs to total loans held for investment	.07	%	.33	%

Allowance for loan and lease losses to nonperforming loans	124.57	%	125.09	%

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

Allowance for Loan Losses

The allowance for loan losses provides for the risk that borrowers will be unable to repay their obligations. The risk associated with real estate and installment notes to individuals is based upon employment, the local and national economies and consumer confidence. All of these affect the ability of borrowers to repay indebtedness. The risk associated with commercial lending is substantially based on the strength of the local and national economies.

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

In evaluating the portfolio, loans are segregated into loans with identified potential losses and pools of loans by type and a general allowance based on a variety of criteria. Loans with identified potential losses include examiner and bank classified loans. Classified relationships in excess of $500,000 and loans identified as Troubled Debt Restructurings are reviewed individually for impairment under ASC 310. A variety of factors are taken into account when reviewing these credits including borrower cash flow, payment history, fair value of collateral, company management, the industry in which the borrower is involved and economic factors. Loan relationships that are determined to have no impairment are placed back into the appropriate loan pool and reviewed under ASC 450.

Loans that are not impaired are categorized by call report code and an estimate is calculated based on actual loss experience over the last two years. Dealer finance loans utilize a five year loss history due the growth in the portfolio and the age of the division. A general allowance for inherent losses has been established to reflect other unidentified losses within the portfolio. The general allowance is calculated using eight environmental factors (loan growth, unemployment, past due/criticized loans, interest rates, changes in underwriting practices, local real estate industry conditions, and experience of lending staff) with a range for worst and best case. The general allowance assists in managing recent changes in portfolio risk that may not be captured in individually impaired loans or in the homogeneous pools based on two year loss histories. The Board approves the loan loss provision for each quarter based on this evaluation. An effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $8,938,000 at March 31, 2015 is equal to 1.70% of loans held for investment. This compares to an allowance of $8,725,000 (1.68%) at December 31, 2014. Based on the evaluation of the loan portfolio described above, management has funded the allowance a total of $300,000 in the first three months of 2015. Net charge-offs year to date totaled $86,000.

The overall level of the allowance has been increasing for several years and now approximates the national peer group average. Based on historical losses, delinquency rates, collateral values of delinquent loans and a thorough review of the loan portfolio, management is of the opinion that the allowance for loan losses fairly states the estimated losses in the current portfolio.

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

Deposits and Other Borrowings

The Company's main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company's service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits have decreased $8,078,000 since December 31, 2014. Time deposits decreased $19,753,000 during this period while demand deposits and savings deposits increased $11,675,000. The decrease in certificates of deposits is a result of a decrease in core time deposits as well as a large CDARS (see below) customer that did not reinvest. The increase in demand deposits and savings deposits is a result of new account growth during the year. The Bank also participates in the CDARS program. CDARS (Certificate of Deposit Account Registry Service) is a program that allows the bank to accept customer deposits in excess of FDIC limits and through reciprocal agreements with other network participating banks by offering FDIC insurance up to as much as $50 million in deposits. The CDARS program also allows the Bank to purchase funds through its One-Way Buy program. At quarter end the Bank had a total of $13.3 million in CDARS funding, which is a decrease of $16.7 million over December 31, 2014.

Short-term debt

Short-term debt consists of federal funds purchased, daily rate credit obtained from the Federal Home Loan Bank (FHLB), short-term fixed rate FHLB borrowings and commercial repurchase agreements (repos). Commercial customers deposit operating funds into their checking account and by mutual agreement with the bank their excess funds are swept daily into the repurchase accounts. These accounts are not considered deposits and are not insured by the FDIC. The Bank pledges securities held in its investment portfolio as collateral for these short-term loans. Federal funds purchased are overnight borrowings obtained from the Bank’s primary correspondent bank to manage short-term liquidity needs. Borrowings from the FHLB have been used to finance loans held for sale and also to finance the increase in short-term residential and commercial construction loans. As of March 31, 2015 there were $40,000,000 in FHLB short-term borrowings, federal funds purchased totaled $1,370,000 and commercial repurchase agreements totaled $4,393,000. This compared to FHLB short-term borrowings of $10,000,000 and commercial repurchase agreements of $4,358,000 at December 31, 2014.

Long-term debt

Borrowings from the FHLB continue to be an important source of funding. The Company’s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund loan growth and also assist the Bank in matching the maturity of its fixed rate real estate loan portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. There were $125,000 of scheduled repayments and $15,000,000 in additional borrowings during the quarter ended March 31, 2015.

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

Capital

The Company successfully completed a private placement of common stock ($12 million) in March 2014 and a public offering of mandatorily convertible preferred stock in December 2014 ($10 million). The Company intends to use the proceeds from the common stock for general corporate purposes, including organic growth, new market expansion and possible future acquisitions. The Company used the proceeds from the preferred stock offering to redeem subordinated debt agreements.

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level.

March 31, 2015 the Company implemented the Basel III capital requirements, resulting in total risk based capital and leverage ratios of 15.68% and 12.75%, respectively, as compared to year end of 17.35% and 12.88%, respectively. For the same period, Bank-only total risk based capital and leverage ratios were 15.55% and 12.64%, respectively, as compared to year end of 17.12% and 12.70%, respectively. Both the Company and the Bank also began reporting common equity tier 1 capital ratios of 12.69% and 14.29%, respectively. For both the Company and the Bank these ratios are in excess of regulatory minimums to be considered “well capitalized”.

Liquidity

Liquidity is the ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments and loans maturing within one year. The Company's ability to obtain deposits and purchase funds at favorable rates determines its liquidity exposure. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

Additional sources of liquidity available to the Company include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates and the purchasing of federal funds. To further meet its liquidity needs, the Company’s subsidiary bank also maintains a line of credit with its primary correspondent financial institution. The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta that allows for secured borrowings.

Interest Rate Sensitivity

In conjunction with maintaining a satisfactory level of liquidity, management must also control the degree of interest rate risk assumed on the balance sheet. Managing this risk involves regular monitoring of interest sensitive assets relative to interest sensitive liabilities over specific time intervals. The Company monitors its interest rate sensitivity periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

As of March 31, 2015, the Company had a cumulative Gap Rate Sensitivity Ratio of 14.04% for the one year repricing period. This generally indicates that earnings would increase in an increasing interest rate environment as assets reprice more quickly than liabilities. However, in actual practice, this may not be the case as balance sheet leverage, funding needs and competitive factors within the market could dictate the need to raise deposit rates more quickly. Management constantly monitors the Company’s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, on page 35.

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

Effect of Newly Issued Accounting Standards

In January 2014, the FASB amended Receivables topic of the Accounting Standards Codification. The amendments are intended to resolve diversity in practice with respect to when a creditor should reclassify a collateralized consumer mortgage loan to other real estate owned (OREO). In addition, the amendments require a creditor reclassify a collateralized consumer mortgage loan to OREO upon obtaining legal title to the real estate collateral, or the borrower voluntarily conveying all interest in the real estate property to the lender to satisfy the loan through a deed in lieu of foreclosure or similar legal agreement. The amendments will be effective for the Company for annual periods beginning after December 15, 2014, with early implementation of the guidance permitted. In implementing this guidance, assets that are reclassified from real estate to loans are measured at the carrying value of the real estate at the date of adoption. Assets reclassified from loans to real estate are measured at the lower of the net amount of the loan receivable or the fair value of the real estate less costs to sell at the date of adoption. These amendments did not have a material effect on the Company’s financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material effect on the Company’s financial position, result of operations or cash flows.

Existence of Securities and Exchange Commission Web Site

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including F & M Bank Corp. and the address is (http: //www.sec.gov).

TABLE I

F & M BANK CORP.
Net Interest Margin Analysis
(on a fully taxable equivalent basis)
(Dollar Amounts in Thousands)

	Three Months Ended March 31, 2015				Three Months Ended March 31, 2014			
Average	Balance2,4	Income/ Expense	Average Rates		Balance2,4	Income/ Expense	Average Rates	
Interest income								
Loans held for investment1,2	$521,172	$6,803	5.29	%	$482,444	$6,245	5.25	%
Loans held for sale	29,381	192	2.65	%	1,663	15	3.66	%
Federal funds sold	8,744	5	.23	%	24,126	13	.22	%
Interest bearing deposits	1,975	-	-		694	-	-	
Investments								
Taxable 3	16,718	43	1.04	%	13,302	38	1.13	%
Partially taxable	125	-	-		106	-	-	
Total earning assets	$578,115	$7,043	4.94	%	$522,335	$6,311	4.90	%
Interest Expense								
Demand deposits	120,287	157	.53	%	119,567	167	.57	%
Savings	66,330	33	.20	%	56,211	28	.20	%
Time deposits	183,267	364	.81	%	198,932	462	.94	%
Short-term debt	19,985	11	.22	%	3,540	2	.23	%
Long-term debt	22,271	120	2.19	%	21,691	291	5.44	%
Total interest bearing liabilities	$412,140	$685	.67	%	$399,941	$950	.96	%
Tax equivalent net interest income 1		$6,358				$5,361		
Net interest margin			4.46	%			4.16	%

1 Interest income on loans includes loan fees.

2 Loans held for investment include nonaccrual loans.

3 An incremental income tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments and loans.

4 Average balance information is reflective of historical cost and has not been adjusted for changes in market value annualized.

TABLE II

F & M BANK CORP.
Interest Sensitivity Analysis

March 31, 2015
(In Thousands of Dollars)

The following table presents the Company's interest sensitivity.

	0 – 3 Months	4 – 12 Months	1 – 5 Years	Over 5 Years	Not Classified	Total
Uses of funds						
Loans						
Commercial	$27,046	$19,884	$117,088	$13,427	$-	$177,445
Installment	4,470	749	35,854	12,196	-	53,269
Real estate loans for investments	94,689	52,052	139,156	7,491	-	293,388
Loans held for sale	59,226	-	-	-	-	59,226
Credit cards	2,547	-	-	-	-	2,547
Federal funds sold	-	-	-	-	-	-
Interest bearing bank deposits	816	-	-	-	-	816
Investment securities	125	-	12,192	981	135	13,433
Total	$188,919	$72,685	$304,290	$34,095	$135	$600,124
Sources of funds						
Interest bearing demand deposits	$-	$32,607	$70,694	$19,044	$-	$122,345
Savings deposits	-	13,345	40,037	13,346	-	66,728
Certificates of deposit $100,000 and over	15,042	14,712	32,358	-	-	62,112
Other certificates of deposit	14,748	39,445	59,406	-	-	113,599
Short-term borrowings	45,763	-	-	-	-	45,763
Long-term borrowings	428	1,286	16,072	6,964	-	24,750
Total	$75,981	$101,395	$218,567	$39,354	$-	$435,297
Discrete Gap	$112,938	$(28,710)	$85,723	$(5,259)	$135	$164,827
Cumulative Gap	$112,938	$84,228	$169,951	$164,692	$164,827	
Ratio of Cumulative Gap to Total Earning Assets	18.82 %	14.04 %	28.32 %	27.44 %	27.47 %	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of March 31, 2015. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

. As required, we will evaluate the effectiveness of these disclosure controls and procedures on a quarterly basis, and most recently did so as of the end of the period covered by this report.

The Company’s Chief Executive Officer and Chief Financial Officer, based on their evaluation as of the end of the period covered by this quarterly report of the Company’s disclosure controls and procedures (as defined in Rule 13(a)-15(e) of the Act), have concluded that the Company’s disclosure controls and procedures are effective for purposes of Rule 13(a)-15(b).

Changes in Internal Controls

The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company. During the period covered by this report, there were no changes to the internal controls over financial reporting of the Company that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Part II Other Information

Item 1. Legal Proceedings
There are no material pending legal proceedings other than ordinary routine litigation incidental to its business, to which the Company is a party or of which the property of the Company is subject.

Item 1a. Risk Factors –
There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – None

Item 3. Defaults Upon Senior Securities – None

Item 4. Mine Safety Disclosures None

Item 5. Other Information – None

Item 6. Exhibits

(a) Exhibits

10.1 Form of Securities Purchase Agreement, dated March 20, 2014, by and among F & M Bank Corp. and the purchases thereto, incorporated herein by reference from Exhibit 10.1 to F&M Bank Corp.'s current report on Form 8-K filed March 21, 2014.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

32 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (filed herewith).

101 The following materials from F&M Bank Corp.'s Quarterly Report on Form 10Q for the period ended March 31, 2015, formatted in Extensible Business Reporting Language (XBRL), include: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) related notes (filed herewith).

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

F & M BANK CORP.

/s/ Dean W. Withers
Dean W. Withers
President and Chief Executive Officer

/s/ Carrie A. Comer
Carrie A. Comer
Senior Vice President and Chief
Financial Officer

May 15, 2015

Exhibit Index:

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