

F&M BANK CORP  
Form 10-Q  
November 12, 2015

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION  
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2015.

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  
(State or Other Jurisdiction of  
Incorporation or Organization)

54-1280811  
(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, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting Company	<input checked="" type="checkbox"/>

(Do not check if a smaller reporting company)

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

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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 12, 2015
Common Stock, par value - \$5	3,284,654 shares

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## F &amp; M BANK CORP.

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Part I Financial Information  
Item 1 Financial Statements

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

	Three Months Ended September 30,	
	2015	2014
Interest income		
Interest and fees from loans held for investment	\$7,086	\$6,665
Interest and fees from loans held for sale	295	164
Interest from federal funds sold	4	7
Interest from investment securities	66	37
Total interest income	7,451	6,873
Interest expense		
Interest from demand deposits	112	165
Interest from savings accounts	64	31
Interest from time deposits over \$100,000	122	145
Interest from other time deposits	228	273
Total interest from deposits	526	614
Interest from short-term debt	24	2
Interest from long-term debt	172	292
Total interest expense	722	908
Net interest income	6,729	5,965
Provision for loan losses	-	750
Net interest income after provision for loan losses	6,729	5,215
Noninterest income		
Service charges	257	275
Insurance and other commissions	260	202
Other	352	400
Income from bank owned life insurance	119	118
Total noninterest income	988	995
Noninterest expense		
Salaries	1,974	1,767
Employee benefits	555	514
Occupancy expense	164	150
Equipment expense	166	160
FDIC insurance assessment	132	180
Other	1,503	1,152
Total noninterest expense	4,494	3,923
Income before income taxes	3,223	2,287
Income tax expense	994	726

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Consolidated net income – F&M Bank Corp.	2,229	1,561
Net income - Noncontrolling interest (income) loss	(39 )	8
Net Income – F & M Bank Corp	\$2,190	\$1,569
Dividends paid on preferred stock	128	-
Net income available to common stockholders	\$2,062	\$1,569
Per share data		
Net income available to common stockholders- basic	\$.63	\$.48
Net income available to common stockholders– diluted	\$.59	.48
Cash dividends	\$.18	\$.17
Weighted average common shares outstanding – basic	3,291,133	3,289,743
Weighted average common shares outstanding - diluted	3,735,533	3,289,743

See accompanying notes to Unaudited Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
Interest income		
Interest and fees from loans held for investment	\$20,813	\$19,443
Interest and fees from loans held for sale	808	228
Interest from federal funds sold	12	31
Interest from investment securities	202	136
Total interest income	21,835	19,838
Interest expense		
Interest from demand deposits	426	501
Interest from savings accounts	134	88
Interest from time deposits over \$100,000	367	453
Interest from other time deposits	700	857
Total interest from deposits	1,627	1,899
Interest from short-term debt	54	6
Interest from long-term debt	424	872
Total interest expense	2,105	2,777
Net interest income	19,730	17,061
Provision for loan losses	300	2,250
Net interest income after provision for loan losses	19,430	14,811
Noninterest income		
Service charges	719	786
Insurance and other commissions	770	378
Other	1,037	1,192
Income from bank owned life insurance	354	349
Total noninterest income	2,880	2,705
Noninterest expense		
Salaries	5,667	5,114
Employee benefits	1,718	1,491
Occupancy expense	504	465
Equipment expense	480	442
FDIC insurance assessment	522	540
OREO expenses/losses	516	-
Other	3,965	3,410
Total noninterest expense	13,372	11,462
Income before income taxes	8,938	6,054
Income tax expense	2,586	1,844
Consolidated net income – F&M Bank Corp.	6,352	4,210

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Net income - Noncontrolling interest (income) loss	(115	)	26
Net Income – F & M Bank Corp	\$6,237		\$4,236
Dividend paid/accumulated on preferred stock	383		-
Net income available to common stockholders	\$5,854		\$4,236
Per share data			
Net income available to common stockholders- basic	\$1.78		\$1.38
Net income available to common stockholders– diluted	\$1.67		1.38
Cash dividends	\$.54		\$.51
Weighted average common shares outstanding - basic	3,292,709		3,061,432
Weighted average common shares outstanding – diluted	3,737,109		3,061,432

See accompanying notes to Unaudited Consolidated Financial Statements



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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2015	2014	2015	2014
Net Income:				
Net Income – F & M Bank Corp	\$6,237	\$4,236	\$2,190	\$1,569
Net Income (loss) attributable to noncontrolling interest	115	(26 )	39	(8 )
Consolidated net income	6,352	4,210	2,229	1,561
Other comprehensive income:				
Unrealized holding gains on available-for-sale securities	44	20	21	25
Tax effect	(15 )	(7 )	(7 )	(9 )
Unrealized holding gain, net of tax	29	13	14	16
Total other comprehensive income	29	13	14	16
Comprehensive income	\$6,381	\$4,223	\$2,243	\$1,577

See accompanying notes to Unaudited Consolidated Financial Statements

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

	September 30, 2015 (Unaudited)	December 31, 2014 (Audited)
<b>Assets</b>		
Cash and due from banks	\$6,420	\$6,241
Money market funds	490	911
Federal funds sold	-	16,051
Cash and cash equivalents	6,910	23,203
<b>Securities:</b>		
Held to maturity – fair value of \$125 in 2015 and \$125 in 2014	125	125
Available for sale	13,173	13,215
Other investments	10,845	8,964
Loans held for sale	55,482	13,382
Loans held for investment	540,415	518,202
Less: allowance for loan losses	(8,870 )	(8,725 )
Net loans held for investment	531,545	509,477
Other real estate owned	2,462	3,507
Bank premises and equipment, net	7,369	6,458
Interest receivable	1,655	1,675
Goodwill	2,670	2,670
Bank owned life insurance	12,928	12,581
Other assets	10,937	10,051
<b>Total assets</b>	<b>\$656,101</b>	<b>\$605,308</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest bearing	\$126,299	\$112,198
<b>Interest bearing:</b>		
Demand	75,316	93,694
Money market accounts	26,581	25,900
Savings	86,093	64,249
Time deposits over \$100,000	61,089	79,813
All other time deposits	108,439	115,651
<b>Total deposits</b>	<b>483,817</b>	<b>491,505</b>
Short-term debt	38,239	14,358
Accrued liabilities	13,314	11,772
Long-term debt	38,893	9,875
<b>Total liabilities</b>	<b>574,263</b>	<b>527,510</b>
<b>Stockholders' Equity</b>		
Preferred Stock \$5 par value, 400,000 shares authorized, issued and outstanding	9,425	9,425
Common stock, \$5 par value, 6,000,000 shares authorized, 3,284,513 and		

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3,287,470 shares issued and outstanding	16,423	16,459
Additional paid in capital – common stock	11,135	11,260
Retained earnings	46,629	42,554
Noncontrolling interest	524	426
Accumulated other comprehensive loss	(2,298 )	(2,326 )
Total stockholders' equity	81,838	77,798
Total liabilities and stockholders' equity	\$ 656,101	\$ 605,308

See accompanying notes to Unaudited Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
Cash flows from operating activities		
Net income	\$6,237	\$4,236
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	525	449
Amortization of security premiums, net	109	61
Origination of loans held for sale	(56,301 )	(41,385 )
Sale of loans originated and held for sale	55,298	39,799
Provision for loan losses	300	2,250
(Increase) Decrease in interest receivable	20	(38 )
Increase in other assets	(916 )	(2,492 )
Increase (decrease) in accrued expenses	1,660	(65 )
Amortization of limited partnership investments	470	456
Income from bank owned life insurance	(354 )	(348 )
Loss on Other Real Estate Owned	511	43
Net adjustments	1,322	(1,270 )
Net cash provided by operating activities	7,559	2,966
Cash flows from investing activities		
Purchase of investments available for sale	(10,540 )	(8,614 )
Proceeds from maturity of investments available for sale	8,167	27,323
Purchase of investments held to maturity	-	(125 )
Proceeds from maturity of investments held to maturity	-	106
Net increase in loans held for investment	(22,195 )	(10,740 )
Net increase in participation loans held for sale	(41,098 )	(32,376 )
Proceeds from the sale of other real estate owned	361	779
Purchase of property and equipment	(1,435 )	(391 )
Net cash used in investing activities	(66,740 )	(24,038 )
Cash flows from financing activities		
Increase in demand and savings deposits	18,248	22,845
Decrease in time deposits	(25,936 )	646
Increase in short-term debt	23,881	361
Cash dividends paid	(2,161 )	(1,545 )
Proceeds from issuance of common stock	99	12,080
Repurchase of common stock	(261 )	-
Proceeds from long-term debt	30,000	10,000
Repayment of long-term debt	(982 )	(6,500 )
Net cash provided by financing activities	42,888	37,887
Net (Decrease) Increase in Cash and Cash Equivalents	(16,293 )	16,815
Cash and cash equivalents, beginning of period	23,203	6,545

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Cash and cash equivalents, end of period	\$6,910	\$23,360
Supplemental disclosure		
Cash paid for:		
Interest expense	\$2,126	\$2,745
Income taxes	1,500	1,300
Transfers from loans to Other Real Estate Owned	155	2,930
Noncash exchange of other real estate owned	(328 )	(780 )

See accompanying notes to Unaudited Consolidated Financial Statements

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

	Nine Months Ended September 30,	
	2015	2014
Balance, beginning of period	\$77,798	\$54,141
<b>Comprehensive income</b>		
Net income – F & M Bank Corp	6,237	4,236
Net income attributable to noncontrolling interest	115	(26 )
Net change in unrealized appreciation on securities available for sale, net of taxes	29	13
Total comprehensive income	6,381	4,223
<b>Minority interest capital distributions</b>		
Minority interest capital distributions	(18 )	15
Issuance of common stock	99	12,080
Repurchase of common stock	(261 )	-
Dividends paid	(2,161 )	(1,545 )
Balance, end of period	\$81,838	\$68,914

See accompanying notes to Unaudited Consolidated Financial Statements

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

Note 1. Summary of significant accounting policies

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 September 30, 2015 and the results of operations for the quarters and nine month periods ended September 30, 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 &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 1. Summary of significant accounting policies, 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 common share ("EPS") for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements. Basic common EPS is computed by dividing net income by the weighted average number of common shares outstanding. Diluted common 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 Nine months ended September 30, 2015	For the Quarter ended September 30, 2015	For the Nine months ended September 30, 2014	For the Quarter ended September 30, 2014
Earnings available to common stockholders:				
Net income	\$6,351,521	\$2,229,213	\$4,210,028	\$1,561,179
Minority interest	115,397	39,273	26,300	8,208
Preferred stock dividends	382,500	127,500	-	-

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Net income available to common stockholders	\$5,853,624	\$2,062,440	\$4,236,328	\$1,569,387
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F & M BANK CORP.  
Notes to (unaudited) Consolidated Financial Statements

## Note 1. Summary of significant accounting policies, continued

## Earnings per Share, continued

The following table shows the effect of dilutive preferred stock conversion on the Company's earnings per share for the periods indicated. Preferred stock was not issued at September 30, 2014 therefore there is no prior year data presented.

	Nine months ended September 30, 2015			Quarter ended September 30, 2015		
	Income	Shares	Per Share	Income	Shares	Per Share
Basic common EPS	\$5,853,624	3,292,709	\$1.78	\$2,062,440	3,291,133	\$0.63
Effect of dilutive securities:						
Convertible preferred stock	382,500	444,400	(0.08 )	127,500	444,400	(0.04 )
Diluted common EPS	\$6,236,124	3,737,109	\$1.67	\$2,189,940	3,735,533	\$0.59

## 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 September 30, 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 September 30, 2015 and December 31, 2014 are as follows (in thousands):

	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

	Cost	September 30, 2015		Market Value
		Unrealized Gains	Unrealized Losses	
Securities available for sale				
U. S. Treasury	\$4,018	\$29	\$-	\$4,047
Government sponsored enterprises	8,115	10	6	8,119
Mortgage-backed securities	858	14	-	872
Corporate equities	135	-	-	135
Total	\$13,126	\$53	\$6	\$13,173

	Cost	December 31, 2014		Market Value
		Unrealized Gains	Unrealized Losses	
Securities available for sale				
U. S. Treasury	\$4,026	\$-	\$6	\$4,020
Government sponsored enterprises	8,039	9	10	8,038
Mortgage-backed securities	1,011	11	-	1,022

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Corporate equities	135	-	-	135
Total	\$13,211	\$20	\$16	\$13,215

## F &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 2. Investment Securities, continued

The amortized cost and fair value of securities at September 30, 2015, by contractual maturity are shown below (in thousands). 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	\$125	\$125	\$-	\$-
Due after one year through five years	-	-	12,133	12,166
Due after five years	-	-	993	1,007
Total	\$125	\$125	\$13,126	\$13,173

There were no gains and losses on sales of securities in the third quarter or nine month period ended September 30 of 2015 or 2014. There were also no securities with an other than temporary impairment.

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 September 30, 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
September 30, 2015						
U. S. Treasury	\$-	\$-	\$-	\$-	\$-	\$-
Government sponsored Enterprises	4,013	(6 )	-	-	4,013	(6 )
Total	\$4,013	\$(6 )	\$-	\$-	\$4,013	\$(6 )
December 31, 2014						
U. S. Treasury	\$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 repurchases which were partially offset with an increase in the Federal Reserve Bank Stock holding requirement.

## Note 3. Loans Held for Investment

Loans outstanding at September 30, 2015 and December 31, 2014 are summarized as follows

	2015	2014
Construction/Land Development	\$68,597	\$67,181
Farmland	12,739	12,507
Real Estate	165,324	162,249

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Multi-Family	11,949	11,775
Commercial Real Estate	127,197	122,305
Home Equity – closed end	9,270	9,394
Home Equity – open end	55,202	52,182
Commercial & Industrial – Non-Real Estate	27,545	28,161
Consumer	7,979	9,110
Dealer Finance	52,032	40,633
Credit Cards	2,581	2,705
Total	\$540,415	\$518,202

## F &amp; 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):

September 30, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$3,307	\$3,445	\$-	\$4,349	\$110
Farmland	-	-	-	-	-
Real Estate	1,051	1,051	-	543	43
Multi-Family	-	-	-	-	-
Commercial Real Estate	322	322	-	1,162	13
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	1,559	1,559	-	1,281	82
Commercial & Industrial – Non-Real Estate	183	183	-	189	9
Consumer	19	19	-	4	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	2
	6,441	6,579		7,528	259
Impaired loans with a valuation allowance					
Construction/Land Development	12,258	12,258	2,063	13,074	220
Farmland	-	-	-	-	-
Real Estate	753	753	52	817	43
Multi-Family	-	-	-	-	-
Commercial Real Estate	895	895	24	925	3
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	1,649	1,649	47	330	58
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	40	40	11	32	3
	15,595	15,595	2,197	15,178	327
Total impaired loans	\$22,036	\$22,174	\$2,197	\$22,706	\$586

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

## F &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 3. Loans Held for Investment, continued

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	-	-	-	72	-
Home Equity – open end	-	-	-	40	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	14,840	16,613	1,617	14,186	435
Total impaired loans	\$22,962	\$25,455	\$1,617	\$22,986	\$825



## F &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 4. Allowance for Loan Losses

A summary of the allowance for loan losses follows (in thousands):

For the nine months ended September 30, 2015	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	\$83	\$471	\$5,154	\$2,063	\$3,091
Farmland	102	-	-	(15 )	87	-	87
Real Estate	623	25	-	(112 )	486	51	435
Multi-Family	95	-	-	(13 )	82	-	82
Commercial Real Estate							
Estate	126	-	47	(78 )	95	24	71
Home Equity – closed end							
	188	26	6	(8 )	160	-	160
Home Equity – open end							
	154	51	-	82	185	48	137
Commercial & Industrial –							
Non-Real Estate	1,014	-	60	(246 )	828	-	828
Consumer	214	23	23	(9 )	205	-	205
Dealer Finance	1,336	111	20	232	1,477	11	1,466
Credit Cards	135	56	36	(4 )	111	-	111
<b>Total</b>	<b>\$8,725</b>	<b>\$430</b>	<b>\$275</b>	<b>\$300</b>	<b>\$8,870</b>	<b>\$2,197</b>	<b>\$6,673</b>

For the year ended December 31, 2014	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							
Estate	777	-	108	(759 )	126	47	79
Home Equity – closed end							
	157	-	-	31	188	-	188
Home Equity – open end							
	476	80	-	(242 )	154	-	154
Commercial & Industrial –							
	1,464	385	356	(421 )	1,014	-	1,014

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Non-Real Estate

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 &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 4. Allowance for Loan Losses, continued

	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
September 30, 2015			
Construction/Land Development	\$68,597	\$ 15,565	\$ 53,032
Farmland	12,739	-	12,739
Real Estate	165,324	1,804	163,520
Multi-Family	11,949	-	11,949
Commercial Real Estate	127,197	1,217	125,980
Home Equity – closed end	9,270	-	9,270
Home Equity –open end	55,202	3,208	51,994
Commercial & Industrial – Non-Real Estate	27,545	183	27,362
Consumer	7,979	19	7,960
Dealer Finance	52,032	40	51,992
Credit Cards	2,581	-	2,581
	\$540,415	\$ 22,036	\$ 518,379
<b>Total</b>			

## Recorded Investment in Loan Receivables (in thousands)

	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
December 31, 2014			
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
	\$518,202	\$ 22,962	\$ 495,240
<b>Total</b>			

## Aging of Past Due Loans Receivable (in thousands) as of September 30, 2015

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Non-Accrual Loans	Total Past Due	Total Loan Receivable
September 30, 2015						

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Construction/Land Development	\$254	\$2,030	\$ -	\$ 4,761	\$7,045	\$61,552	\$68,597
Farmland	-	-	-	-	-	12,739	12,739
Real Estate	2,954	1,118	62	1,066	5,200	160,124	165,324
Multi-Family	-	-	-	-	-	11,949	11,949
Commercial Real Estate	315	-	-	-	315	126,882	127,197
Home Equity – closed end	42	4	-	-	46	9,224	9,270
Home Equity – open end	520	224	30	41	815	54,387	55,202
Commercial & Industrial – Non-Real Estate	33	59	-	75	167	27,378	27,545
Consumer	44	15	-	-	59	7,920	7,979
Dealer Finance	706	286	-	349	1,341	50,691	52,032
Credit Cards	36	8	2	-	46	2,535	2,581
Total	\$4,904	\$3,744	\$ 94	\$ 6,292	\$15,034	\$525,381	\$540,415

## F &amp; 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

	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
December 31, 2014							
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 SEPTEMBER 30, 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	\$ -	\$ 342	\$ 8,053	\$ 31,514	\$ 8,538	\$ 5,757	\$ 14,393	\$ -	\$ 68,597
Farmland	66	-	1,936	3,688	4,968	2,081	-	-	12,739
Real Estate	-	1,028	56,568	72,890	23,131	8,297	3,410	-	165,324
Multi-Family	-	410	3,974	3,078	4,487	-	-	-	11,949
Commercial Real Estate	-	1,721	27,312	69,002	20,126	7,733	1,303	-	127,197
Home Equity – closed end	-	-	3,675	3,772	1,682	123	18	-	9,270

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Home Equity – open end	-	1,713	14,955	29,700	4,400	399	4,035	-	55,202
Commercial & Industrial (Non-Real Estate)	523	75	6,941	17,304	2,130	461	111	-	27,545
<b>Total</b>	<b>\$ 589</b>	<b>\$ 5,289</b>	<b>\$123,414</b>	<b>\$ 230,948</b>	<b>\$ 69,462</b>	<b>\$ 24,851</b>	<b>\$ 23,270</b>	<b>\$ -</b>	<b>\$ 477,823</b>

Consumer Credit Exposure  
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	\$2,579	\$59,662
Non performing	2	349
<b>Total</b>	<b>\$2,581</b>	<b>\$60,011</b>

## F &amp; 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 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.



F & M BANK CORP.

Notes to (unaudited) Consolidated Financial Statements

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 &amp; 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 nine month and three month periods ended September 30, 2015 and 2014.

	Nine Months Ended		Three Months Ended	
	September 30, 2015	September 30, 2014	September 30, 2015	September 30, 2014
Service cost	\$486,251	\$375,771	\$162,084	\$125,257
Interest cost	308,208	283,281	102,736	94,427
Expected return on plan assets	(629,114 )	(523,689 )	(209,705 )	(174,563 )
Amortization of net obligation at transition	-	-	-	-
Amortization of prior service cost	(11,427 )	(11,427 )	(3,809 )	(3,809 )
Amortization of net (gain) or loss	135,482	27,084	45,161	9,028
Net periodic pension cost	\$289,400	\$151,020	\$96,467	\$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. Treasury, 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 &amp; 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 September 30, 2014 and December 31, 2013, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at September 30, 2015	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	\$ 13,398	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55 %
Other Real Estate Owned	\$ 2,462	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 &amp; 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 (in thousands).

September 30, 2015	Total	Level 1	Level 2	Level 3
U.S. Treasury Securities	\$4,047	\$-	\$4,047	
Government sponsored enterprises	8,119	-	8,119	-
Mortgage-backed securities	872	-	872	-
Marketable equities	135	-	135	-
Investment securities available for sale	\$13,173	\$-	\$13,173	\$-
<b>Total assets at fair value</b>	<b>\$13,173</b>	<b>\$-</b>	<b>\$13,173</b>	<b>\$-</b>
<b>Total liabilities at fair value</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Derivative financial instruments at fair value</b>	<b>\$34</b>	<b>\$-</b>	<b>\$34</b>	<b>\$-</b>

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 securities	1,022	-	1,022	-
Marketable equities	135	-	135	-
Investment securities available for sale	13,215	-	13,215	-
<b>Total assets at fair value</b>	<b>13,215</b>	<b>-</b>	<b>13,215</b>	<b>-</b>
<b>Total liabilities at fair value</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>	<b>\$-</b>
<b>Derivative financial instruments at fair value</b>	<b>\$33</b>	<b>\$-</b>	<b>\$33</b>	<b>\$-</b>

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

September 30, 2015	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	\$2,462	-	-	\$2,462
Construction/Land Development	10,195	-	-	10,195
Farmland	-	-	-	-
Real Estate	702	-	-	702
Multi-Family	-	-	-	-
Commercial Real Estate	871	-	-	871
Home Equity – closed end	-	-	-	-
Home Equity – open end	1,601	-	-	1,601
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	29	-	-	29
Total Impaired loans	13,398	-	-	13,398
Total assets at fair value	\$15,860	\$-	\$-	\$15,860
Total liabilities at fair value	\$-	\$-	\$-	\$-

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

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	-	-	-	-
Total Impaired loans	13,223	-	-	13,223
Total assets at fair value	\$16,730	-	\$-	\$16,730
Total liabilities at fair value	\$-	\$-	\$-	\$-



## F &amp; 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 September 30, 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 above and below are considered Level 2 with the exception of impaired loans of \$13,398,000 and \$13,223,000 at September 30, 2015 and December 31, 2014, respectively, which are considered level 3. 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 (in thousands).

	September 30, 2015		December 31, 2014	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
<b>Financial Assets</b>				
Loans, gross	\$568,774	\$540,415	\$551,338	\$518,202
<b>Financial Liabilities</b>				
Time deposits	\$170,548	\$169,528	196,826	195,464
Long-term debt	\$39,610	\$38,893	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.

In the nine months ended September 30, 2015, there were fifteen 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.

Troubled Debt Restructurings	Nine months ended September 30, 2015	
	Pre-Modification Outstanding	Post-Modification Outstanding



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	Number of Contracts	Recorded Investment	Recorded Investment
Commercial	1	\$ 978	\$ 978
Real Estate	5	3,342	3,342
Home Equity	5	1,648	1,648
Consumer	4	40	40
Total	15	\$ 6,008	\$ 6,008

## F &amp; M BANK CORP.

## Notes to (unaudited) Consolidated Financial Statements

## Note 8. Troubled Debt Restructuring, continued

During the quarter ended September 30, 2015, there were seven loan modifications that were considered to be troubled debt restructurings.

	Three Months ended September 30, 2015		
		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Commercial	1	\$ 978	\$ 978
Real Estate	1	612	\$ 612
Home Equity	5	1,648	1,648
Total	7	\$ 3,238	\$ 3,238

There were no troubled debt restructurings from the previous twelve months that went into default in 2015. A restructured loan is considered in default when it becomes 90 days past due.

In the nine months ended September 30, 2014, there were three (one loan during quarter ended September 30, 2014) 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.

	Nine months ended September 30, 2014		
		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Commercial		\$ -	\$ -
Real Estate	2	181	181
Home Equity		-	-
Credit Cards		-	-
Consumer	1	23	23
Total		\$ 204	\$ 204

There were no troubled debt restructurings from the previous twelve months that went into default in 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 ten 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 31 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 nine months ended September 30, 2015 was \$6,237,000 or \$1.78 per share, compared to \$4,236,000 or \$1.38 in the same period in 2014, an increase of 47.24%. Noninterest income increased 6.47% and noninterest expense increased 16.66% during the same period. Net income from Bank operations adjusted for income or loss from Parent activities is as follows:

In thousands	2015	2014
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Net Income from Bank Operations	\$6,090	\$4,141
Income from Parent Company Activities	147	95
Net Income for the nine months ended September 30	\$6,237	\$4,236

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 35, the 2015 year to date tax equivalent net interest income increased \$2,660,000 or 15.52% compared to the same period in 2014. Third quarter tax equivalent net interest income increased \$735,000 or 12.26% compared to September 30, 2014. The tax equivalent adjustment to net interest income totaled \$65,000 for the quarter. The year to date yield on earning assets decreased .02%, while the cost of funds decreased .27% compared to the same period in 2014. The cost of long term debt decreased due to the redemption of the subordinated debt agreements and reduced cost of FHLB advances, this was the primary driver of the reduction of cost of funds.

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 4.45%, an increase of .16% when compared to the same period in 2014. Third quarter net interest margin increased to 4.41%, an increase of .05% when compared to September 30, 2014. A schedule of the net interest margin for the nine month and three month periods ended September 30, 2015 and 2014 can be found in Table I on page 35.

The Interest Sensitivity Analysis contained in Table II on page 36 indicates the Company is in an asset sensitive position in the one year time horizon. This would indicate that in a rising rate environment net interest income and net interest margin would increase as a result of assets repricing faster than liabilities. 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 39.88% of rate sensitive assets and 40.22% of rate sensitive liabilities are subject to repricing within one year. Liquid assets have been used to pay off maturing long term FHLB borrowings, which when coupled with depositors reluctance to tie up funds at historically low rates has resulted in the decrease in the positive GAP position in the one year time period.

Noninterest income increased \$175,000 or 6.47% for the nine month period ended September 30, 2015. The increase is primarily due to an increase in insurance and other commissions from the bank subsidiaries. The noninterest income for the quarter ended September 30, 2015 decreased \$7,000 or .70% over the same period in 2014.

Noninterest expense increased \$1,910,000 for the nine month period ended September 30, 2015 as compared to 2014. Areas of expense increase were salary and benefits and losses related to other real estate owned. The Company's operating costs have always compared favorably to the peer group (Holding Companies with Consolidated Assets of \$500 million to \$1 billion) 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 growth in the loan portfolio.

Securities

The Company's securities portfolio serves several purposes. Portions of the portfolio are held to assist the Company with liquidity, 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 September 30, 2015, the market value of securities available for sale exceeded the cost by \$47,000. The portfolio is made up of primarily agency securities with an average portfolio life of just under 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 additional scheduled maturities in 2015.

In reviewing investments as of September 30, 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 \$540,415,000 increased \$22.2 million at September 30, 2015 compared to December 31, 2014. The dealer finance portfolio increased \$11.4 million, commercial real estate increased \$4.9 million, real estate increased \$3.1 million and open ended home equities increased \$3.0 million. These increases were offset by decreases in consumer loans of \$1.1 million.

Loans Held for Sale totaled 55,482,000 at September 30, 2015, an increase of \$42,100,000 compared to December 31, 2014. The secondary market loan originations have remained strong throughout 2015. Average balances and income from loans held for sale are detailed in the Table 1 on page 36.

Nonperforming loans include nonaccrual loans, loans 90 days or more past due and restructured loans. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Nonperforming loans totaled \$6,386,000 at September 30, 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 September 30, 2015, the Company holds \$2,462,000 of real estate which was acquired through foreclosure. This is a decrease of \$1,045,000 compared to December 31, 2013.

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

	September 30, 2015	December 31, 2014		
Nonaccrual Loans				
Real Estate	\$5,828	\$5,481		
Commercial	75	1,179		
Home Equity	41	153		
Other	348	161		
	6,292	6,974		
Loans past due 90 days or more (excluding nonaccrual)				
Real Estate	62	-		
Commercial	-	-		
Home Equity	30	-		
Other	2	1		
	94	1		
Total Nonperforming loans	\$6,386	\$6,975		
Restructured Loans current and performing:				
Real Estate	10,766	3,913		
Commercial	1,482	518		
Home Equity	1,649	290		
Other	34	22		
Nonperforming loans as a percentage of loans held for investment	1.18	%	1.35	%
Net loan losses to average loans outstanding (held for investment)	.03	%	.33	%

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Allowance for loan and lease losses to nonperforming loans	138.90	%	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. The Company will monitor the net losses for this division and adjust based on how the portfolio performs since the department was established in 2012. 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 \$8,870,000 at September 30, 2015 is equal to 1.64% 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 nine months of 2015. Net charge-offs year to date totaled \$155,000.

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 \$7,688,000 since December 31, 2014. Time deposits decreased \$25,936,000 during this period while demand deposits and savings deposits increased \$18,248,000. 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 \$12.1 million in CDARS funding, which is a decrease of \$18.0 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 September 30, 2015 there were \$30,000,000 in FHLB short-term borrowings, federal funds purchased totaled \$3,542,000 and commercial repurchase agreements totaled \$4,697,000. This compared to FHLB short term borrowings of \$10,000,000 and commercial repurchase agreements of \$3,423,000 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 \$982,000 of scheduled repayments and \$30,000,000 in additional borrowings during the nine months ended September 30, 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. As of September 30, 2015 total risk based capital and leverage ratios of 15.80% and 12.57%, 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 15.71% and 12.50%, 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 12.95% and 14.46%, 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 September 30, 2015, the Company had a cumulative Gap Rate Sensitivity Ratio of 11.21% 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 37.

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

Effect of Newly Issued Accounting Standards

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification (ASC), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance. Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. 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)

Average	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014			Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Balance <sup>2,4</sup>	Income/ Expense	Average Rates	Balance <sup>2,4</sup>	Income/ Expense	Average Rates <sup>5</sup>	Balance <sup>2,4</sup>	Income/ Expense	Average Rates	Balance <sup>2,4</sup>	Income/ Expense	Average Rates
Interest income												
Loans held for investment <sup>1,2</sup>	\$529,007	\$20,878	5.28 %	\$490,970	\$19,516	5.31 %	\$536,507	\$7,086	5.24 %	\$500,623	\$6,692	
Loans held for sale	39,813	808	2.71 %	8,684	228	3.51 %	42,335	295	2.76 %	18,718	164	
Federal funds sold	7,394	12	.22 %	19,392	31	.21 %	7,643	4	.21 %	11,743	7	
Interest bearing deposits	1,388	-	-	891	-	-	1,506	-	-	1,139	-	
Investments												
Taxable <sup>3</sup>	17,416	202	1.55 %	13,347	137	1.37 %	17,895	66	1.44 %	13,644	38	
Partially taxable	125	-	-	116	-	-	125	-	-	113	-	
Total earning assets	\$595,143	\$21,900	4.92 %	\$533,400	\$19,912	4.99 %	\$606,011	\$7,451	4.88 %	\$545,980	\$6,901	
Interest Expense												
Demand deposits	115,081	426	.49 %	117,542	501	.57 %	103,357	112	.43 %	114,996	165	
Savings	72,611	134	.25 %	58,940	88	.20 %	81,579	64	.31 %	61,910	31	
Time deposits	174,696	1,067	.82 %	195,282	1,309	.90 %	170,834	350	.81 %	193,883	416	
Short-term debt	34,198	54	.21 %	3,556	7	.26 %	37,404	24	.25 %	3,808	3	
Long-term debt	26,741	424	2.12 %	22,277	872	5.23 %	33,443	172	2.04 %	23,995	292	
Total interest bearing liabilities	\$423,327	\$2,105	.66 %	\$397,597	\$2,777	.93 %	\$426,617	\$722	.67 %	\$398,592	\$907	
Tax equivalent net interest income <sup>1</sup>		\$19,795			\$17,135			\$6,729			\$5,994	
			4.45 %			4.29 %			4.41 %			



Net interest  
margin

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1Interest income on loans includes loan fees.

2Loans held for investment include nonaccrual loans.

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

4Average 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

September 30, 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	\$26,732	\$13,510	\$125,786	\$13,402	\$-	\$179,430
Installment	3,560	826	43,285	12,340	-	60,011
Real estate loans for investments	93,922	45,922	155,369	3,180	-	298,393
Loans held for sale	55,481	-	-	-	-	55,481
Credit cards	2,581	-	-	-	-	2,581
Federal funds sold	-	-	-	-	-	-
Interest bearing bank deposits	490	-	-	-	-	490
Investment securities	125	-	12,166	872	135	13,298
<b>Total</b>	<b>\$182,891</b>	<b>\$60,258</b>	<b>\$336,606</b>	<b>\$29,794</b>	<b>\$135</b>	<b>\$609,684</b>
Sources of funds						
Interest bearing demand deposits	\$-	\$28,353	\$58,480	\$15,063	\$-	\$101,896
Savings deposits	-	17,218	51,656	17,219	-	86,093
Certificates of deposit						
\$100,000 and over	15,115	18,183	27,791	-	-	61,089
Other certificates of deposit	12,926	41,838	53,675	-	-	108,439
Short-term borrowings	38,239	-	-	-	-	38,239
Long-term borrowings	733	2,196	24,214	11,750	-	38,893
<b>Total</b>	<b>\$67,013</b>	<b>\$107,788</b>	<b>\$215,816</b>	<b>\$44,032</b>	<b>\$-</b>	<b>\$434,649</b>
Discrete Gap	\$115,878	\$(47,530)	\$120,790	\$(14,238)	\$135	\$175,035
Cumulative Gap	\$115,878	\$68,348	\$189,138	\$174,900	\$175,035	
Ratio of Cumulative Gap to Total Earning Assets	19.01	% 11.21	% 31.02	% 28.69	% 28.71	%

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of September 30, 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

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 Sarbanes-Oxley Act of 2002 (filed herewith).

101 The following materials from F&M Bank Corp.'s Quarterly Report on Form 10-Q for the period ended September 30, 2014, 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

November 12, 2015

Exhibit Index:

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