

F&M BANK CORP
Form 10-Q
November 13, 2013

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, 2013.

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	(I.R.S.
Jurisdiction	Employer
of	
Incorporation	Identification
or	No.)
Organization)	

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)

Edgar Filing: F&M BANK CORP - Form 10-Q

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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
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 8, 2013
Common Stock, par value - \$5	2,510,267 shares

F & M BANK CORP.

Index

	Page
Part I Financial Information	
Item 1. Financial Statements	3
Consolidated Statements of Income – Three Months Ended September 30, 2013 and 2012	3
Consolidated Statements of Income – Nine Months Ended September 30, 2013 and 2012	4
Consolidated Statements of Comprehensive Income – Nine Months And Three Months Ended September 30, 2013 and 2012	5
Consolidated Balance Sheets – September 30, 2013 and December 31, 2012	6
Consolidated Statements of Cash Flows – Nine Months Ended September 30, 2013 and 2012	7
Consolidated Statements of Changes in Stockholders’ Equity – Nine Months Ended September 30, 2013 and 2012	8
Notes to Consolidated Financial Statements	9
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	26
Item 3. Quantitative and Qualitative Disclosures About Market Risk	36
Item 4. Controls and Procedures	36
Part II Other Information	37
Item 1. Legal Proceedings	37
Item 1a. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37
Item 3. Defaults Upon Senior Securities	37
Item 4. Mine Safety Disclosures	37
Item 5. Other Information	37
Item 6. Exhibits	37

Signatures 38

Certifications

2

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 September 30,	
	2013	2012
Interest income		
Interest and fees on loans held for investment	\$6,320	\$ 6,454
Interest and fees on loans held for sale	80	531
Interest on federal funds sold	17	3
Interest on interest bearing deposits	2	1
Interest on debt securities	39	37
Total interest income	6,458	7,026
Interest expense		
Interest on demand deposits	198	290
Interest on savings accounts	29	47
Interest on time deposits over \$100,000	197	225
Interest on other time deposits	378	502
Total interest on deposits	802	1,064
Interest on short-term debt	3	15
Interest on long-term debt	389	494
Total interest expense	1,194	1,573
Net interest income	5,264	5,453
Provision for loan losses	1,000	900
Net interest income after provision for loan losses	4,264	4,553
Noninterest income		
Service charges	307	290
Insurance and other commissions	235	236
Other	387	360
Income on bank owned life insurance	128	146
Total noninterest income	1,057	1,032
Noninterest expense		
Salaries	1,670	1,448
Employee benefits	521	496
Occupancy expense	148	149
Equipment expense	134	131
FDIC insurance assessment	180	174
Other	1,009	1,066
Total noninterest expense	3,662	3,464

Edgar Filing: F&M BANK CORP - Form 10-Q

Income before income taxes	1,659	2,121
Income tax expense	445	702
Consolidated net income	1,214	1,419
Net income - Noncontrolling interest	(31)	(37)
Net Income – F & M Bank Corp	\$1,183	\$ 1,382
Per share data		
Net income (basic and dilutive)	\$.47	\$.56
Cash dividends	\$.17	.16
Weighted average shares outstanding	2,503,509	2,497,142

See notes to unaudited consolidated financial statements

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)

	Nine Months Ended September 30,	
	2013	2012
Interest income		
Interest and fees on loans held for investment	\$ 18,763	\$ 18,941
Interest and fees on loans held for sale	623	1,127
Interest on federal funds sold	36	22
Interest on interest bearing deposits	4	4
Interest on debt securities	140	147
Total interest income	19,566	20,241
Interest expense		
Interest on demand deposits	608	954
Interest on savings accounts	91	149
Interest on time deposits over \$100,000	601	683
Interest on other time deposits	1,203	1,559
Total interest on deposits	2,503	3,345
Interest on short-term debt	22	26
Interest on long-term debt	1,175	1,521
Total interest expense	3,700	4,892
Net interest income	15,866	15,349
Provision for loan losses	3,025	2,700
Net interest income after provision for loan losses	12,841	12,649
Noninterest income		
Service charges	845	865
Insurance and other commissions	704	585
Other	1,163	970
Income on bank owned life insurance	380	335
Total noninterest income	3,092	2,755
Noninterest expense		
Salaries	4,858	4,326
Employee benefits	1,631	1,470
Occupancy expense	468	418
Equipment expense	404	417
FDIC insurance assessment	546	536
Other	2,923	2,862
Total noninterest expense	10,830	10,029

Edgar Filing: F&M BANK CORP - Form 10-Q

Income before income taxes	5,103	5,375
Income tax expense	1,465	1,630
Consolidated net income	3,638	3,745
Net income - Noncontrolling interest	(106)	(88)
Net Income – F & M Bank Corp	\$3,532	\$3,657
Per share data		
Net income (basic and dilutive)	\$1.41	1.47
Cash dividends	\$.51	.48
Weighted average shares outstanding	2,501,990	2,495,461

See 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,	
	2013	2012	2013	2012
Net Income:				
Net Income – F & M Bank Corp	\$3,532	\$3,657	\$1,183	\$1,382
Net Income attributable to noncontrolling interest	106	88	31	37
	3,638	3,745	1,214	1,419
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities	(60)	39	52	22
Reclassification adjustment for (gains) losses realized in income	-	-	-	-
Net unrealized gains (losses)	(60)	39	52	22
Tax effect	(20)	13	18	7
Unrealized holding gain (loss), net of tax	(40)	26	34	15
Total other comprehensive income (loss)	(40)	26	34	15
Comprehensive income	\$3,598	\$3,771	\$1,248	\$1,434

See notes to unaudited consolidated financial statements

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

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
Assets		
Cash and due from banks	\$6,964	\$7,961
Money market funds	773	1,036
Federal funds sold	24,464	-
Cash and cash equivalents	32,201	8,997
Interest bearing deposits in banks	248	248
Securities:		
Held to maturity – fair value of \$107 in 2013 and 2012	107	107
Available for sale	8,305	8,678
Other investments	8,491	10,022
Loans held for sale	2,777	77,207
Loans held for investment	479,212	465,819
Less allowance for loan losses	(8,339)	(8,154)
Net loans held for investment	470,873	457,665
Other real estate owned	2,369	2,884
Bank premises and equipment, net	6,377	6,445
Interest receivable	1,515	1,702
Goodwill	2,670	2,670
Bank owned life insurance	12,005	11,662
Other assets	8,212	8,617
Total assets	\$556,150	\$596,904
Liabilities		
Deposits:		
Noninterest bearing	\$91,060	\$84,749
Interest bearing:		
Demand	95,054	95,368
Money market accounts	24,033	24,559
Savings	54,831	47,602
Time deposits over \$100,000	69,408	68,585
All other time deposits	127,382	132,933
Total deposits	461,768	453,796
Short-term debt	3,480	34,597
Accrued liabilities	12,297	11,222
Subordinated debt	10,191	10,191
Long-term debt	16,678	37,714
Total liabilities	504,414	547,520
Stockholders' Equity		

Edgar Filing: F&M BANK CORP - Form 10-Q

Common stock, \$5 par value, 6,000,000 shares authorized, 2,504,207 and 2,497,988 shares issued and outstanding in 2013 and 2012, respectively	12,521	12,498
Retained earnings	41,240	38,927
Noncontrolling interest	417	362
Accumulated other comprehensive loss	(2,442)	(2,403)
Total stockholders' equity	51,736	49,384
Total liabilities and stockholders' equity	\$556,150	\$596,904

See 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,	
	2013	2012
Cash flows from operating activities		
Net income	\$3,532	\$3,657
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Depreciation	433	453
Amortization of security premiums, net	28	63
Net decrease (increase) in loans held for sale	74,430	(10,874)
Provision for loan losses	3,025	2,700
(Increase) decrease in interest receivable	188	98
(Increase) decrease in other assets	702	1,798
Decrease (increase) in accrued expenses	888	(1,928)
Amortization of limited partnership investments	438	394
Income from bank owned life insurance investment	(380)	(335)
Other real estate owned valuation adjustments	-	295
(Gain) loss on other real estate owned	(4)	(66)
Net adjustments	79,748	(7,402)
Net cash provided by (used in) operating activities	83,280	(3,745)
Cash flows from investing activities		
Purchase of investments available for sale	(7,067)	(16,196)
Proceeds from maturity of investments available for sale	8,446	17,989
Net increase in loans held for investment	(16,239)	(9,054)
Proceeds from the sale of other real estate owned	525	1,941
Purchase of property and equipment	(365)	(527)
Net decrease in interest bearing bank deposits	-	677
Purchase of bank owned life insurance	-	(4,064)
Net cash used in investing activities	(14,700)	(9,234)
Cash flows from financing activities		
Net change in demand and savings deposits	12,700	11,162
Net change in time deposits	(4,728)	(1,652)
Net change in short-term debt	(31,117)	17,152
Cash dividends paid	(1,277)	(1,198)
Proceeds from issuance of common stock	82	82
Repayment of long-term debt	(21,036)	(8,964)
Net cash used in financing activities	(45,376)	16,582
Net increase in cash and cash equivalents	23,204	3,603
Cash and cash equivalents, beginning of period	8,997	8,994

Edgar Filing: F&M BANK CORP - Form 10-Q

Cash and cash equivalents, end of period	\$32,201	\$12,597
Supplemental disclosure		
Cash paid for:		
Interest expense	\$2,600	\$4,727
Income taxes	800	1,200
Transfers from loans to other real estate owned	416	2,058
Other real estate owned sold and financed	409	

See notes to unaudited consolidated financial statements

7

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

	Nine Months Ended September 30,	
	2013	2012
Balance, beginning of period	\$49,384	\$46,180
Comprehensive income		
Net income – F & M Bank Corp	3,532	3,657
Net income attributable to noncontrolling interest	106	88
Net change in unrealized appreciation on securities available for sale, net of taxes	(40)	26
Total comprehensive income	3,598	3,771
Minority Interest Contributed Capital (Distributions)		
Issuance of common stock	82	82
Dividends declared	(1,277)	(1,198)
Balance, end of period	\$51,736	\$48,835

See notes to unaudited consolidated financial statements

F & M BANK CORP.
Notes to Unaudited Consolidated Financial Statements

Note 1. Accounting Principles

The unaudited 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 unaudited 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, 2013 and the results of operations for the quarters and nine-month periods ended September 30, 2013 and 2012. The notes included herein should be read in conjunction with the notes to financial statements included in the 2012 annual report to stockholders 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

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.

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.

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, 2013 and December 31, 2012 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, 2013 and December 31, 2012 are as follows:

	2013		2012	
	Cost	Market Value	Cost	Market Value
Securities held to maturity				
U. S. Treasury and agency obligations	\$ 107	\$ 107	\$ 107	\$ 107
Total	\$ 107	\$ 107	\$ 107	\$ 107

	September 30, 2013			
	Cost	Unrealized Gains	Losses	Market Value
Securities available for sale				
Government sponsored enterprises	\$ 7,064	\$ 11	\$ 13	\$ 7,062
Mortgage-backed securities	1,244	-	1	1,243
Total	\$ 8,308	\$ 11	\$ 14	\$ 8,305

December 31, 2012

Edgar Filing: F&M BANK CORP - Form 10-Q

	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities available for sale				
Government sponsored enterprises	\$7,012	\$19	\$-	\$7,031
Mortgage-backed securities	1,609	38	-	1,647
Total	\$8,621	\$57	\$-	\$8,678

10

F & 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, 2013, 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	\$107	\$107	\$2,000	\$2,000
Due after one year through five years	-	-	6,308	6,305
Due after five years	-	-	-	-
Total	\$107	\$107	\$8,308	\$8,305

There were no gains and losses on sales of debt and equity securities in the nine months of 2013 or 2012.

Securities Impairment

The Company follows the guidance in ASC 320-10 and Staff Accounting Bulletin (SAB) Topic 5M, Other Than Temporary Impairment in evaluating if these impairments are temporary or other than temporary in nature. This determination is made on an investment by investment basis and includes all available evidence at the time of the determination including the following:

- The length of time of impairment;
- The extent of the impairment relative to the cost of the investment;
- Recent volatility in the market value of the investment;
- The financial condition and near-term prospects of the issuer, including any specific events which may impair the earnings potential of the issuer; or
- The intent and ability of the Company to hold its investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following description provides our policies/procedures for the evaluation for Other Than Temporary Impairment (OTTI):

We begin our evaluation using a default position that OTTI has occurred and then use all available evidence to determine whether prospects for the individual security are sufficient to support temporary impairment at the date of the SEC filing. This evaluation will be conducted at each filing date.

For purposes of determining OTTI, the security value recovery period will be projected for a maximum of a two year holding period. This will be the maximum; a shorter period may be used when there are particular conditions related to the individual security which make recovery unlikely.

The primary focus in determining whether a security is OTTI, and projecting potential recovery, is the prospects for the individual security, rather than broad market indices. All available evidentiary material is considered, including the Company's public filings with the SEC, press releases, analyst reports, etc.

F & M BANK CORP.

Notes to Unaudited Consolidated Financial Statements

Note 2. Investment Securities, continued

Securities Impairment continued

Secondary consideration is given to historic returns, but only to the extent that this evidence is instructive in determining whether the individual security has shown a history of outperforming (or underperforming) the market (or industry) in prior economic cycles. These factors are only considered when the declines in value are not limited to the individual security, but were prevalent over the broader market. This measure is considered to aid in determining whether OTTI should be recognized earlier, rather than later (i.e. a security which underperforms relative to the industry or market will result in early recognition of OTTI). In no event will OTTI recognition be delayed beyond the two year projection period.

OTTI may be recognized as early as quarter 1, regardless of holding period projections, when there are specific factors relative to the security which make recovery unlikely. These factors could include evidence contained in the aforementioned SEC filings, press releases, analyst reports, but may also be based on the severity of the impairment.

Situations where a security has declined in value more rapidly than the industry (or market), absent strong evidence supporting prospects for recovery, will result in OTTI being recognized in quarter 1 or quarter 2 rather than continuing to evaluate the security over several quarters, based on holding period projections.

Declines determined to be other than temporary are charged to operations; there were no OTTI charges in the first nine months of 2013 or 2012.

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, 2013 and December 31, 2012 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, 2013						
Government sponsored enterprises						
	\$3,230	\$(13)	\$-	\$-	\$3,230	\$(13)
Mortgage-back Securities	1,243	(1)	-	-	1,243	(1)
Total	\$4,473	\$(14)	\$-	\$-	\$4,473	\$(14)
December 31, 2012						
Government sponsored enterprises						
	\$2,000	\$(.5)	\$-	\$-	\$2,000	\$(.5)
Total	\$2,000	\$(.5)	\$-	\$-	\$2,000	\$(.5)

Other investments, which consist of stock of correspondent banks and investments in low income housing projects, decreased since December 31, 2012. This decrease is due to FHLB stock repurchases and amortization of low income housing projects during the 2013.

F & M BANK CORP.

Notes to Unaudited Consolidated Financial Statements

Note 3. Loans Held for Investment

Loans outstanding at September 30, 2013 and December 31, 2012 are summarized as follows:

	2013	2012
Construction/Land Development	\$68,803	\$71,251
Farmland	13,063	12,259
Residential Real Estate	152,024	144,066
Multi-Family	10,385	9,357
Commercial Real Estate	118,987	123,819
Home Equity – closed end	10,684	10,984
Home Equity – open end	48,875	49,762
Commercial & Industrial – Non-Real Estate	24,529	25,110
Consumer	12,561	12,698
Credit cards	2,493	2,788
Dealer Finance	16,808	3,725
Total	\$479,212	\$465,819

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

September 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$6,974	\$6,974	\$-	\$4,938	\$190
Farmland	1,474	1,474	-	1,183	54
Residential Real Estate	1,145	1,145	-	1,149	32
Multi-Family	-	-	-	-	-
Commercial Real Estate	620	620	-	472	13
Home Equity – closed end	490	490	-	254	19
Home Equity – open end	100	100	-	65	3
Commercial & Industrial – Non-Real Estate	34	34	-	39	-
Consumer	2	2	-	40	1
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
Impaired loans with a valuation allowance					
Construction/Land Development	8,412	8,412	1,545	11,339	83
Farmland	-	-	-	-	-
Residential Real Estate	487	487	93	1,004	22
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,038	1,038	293	978	-
Home Equity – closed end	350	350	91	469	-
Home Equity – open end	-	-	-	73	-
Commercial & Industrial – Non-Real Estate	-	-	-	356	1
Consumer	-	-	-	3	-
Credit cards	-	-	-	-	-

Edgar Filing: F&M BANK CORP - Form 10-Q

Dealer Finance	-	-	-	-	-
Total impaired loans	\$21,126	\$21,126	\$2,022	\$22,362	\$418

13

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, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$5,743	\$5,743	\$-	\$1,493	\$279
Farmland	1,481	1,481	-	301	76
Residential Real Estate	-	-	-	2,561	-
Multi-Family	-	-	-	-	-
Commercial Real Estate	541	541	-	168	23
Home Equity – closed end	-	-	-	153	-
Home Equity – open end	-	-	-	274	-
Commercial & Industrial – Non-Real Estate	-	-	-	56	-
Consumer	-	-	-	135	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
Impaired loans with a valuation allowance					
Construction/Land Development	10,466	10,466	1,363	7,875	217
Farmland	-	-	-	-	-
Residential Real Estate	901	901	146	1,089	38
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,585	1,585	164	1,092	4
Home Equity – closed end	415	415	117	319	9
Home Equity – open end	250	250	9	193	19
Commercial & Industrial – Non-Real Estate	707	707	277	1,005	-
Consumer	2	2	-	13	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
Total impaired loans	\$22,091	\$22,091	\$2,146	\$16,727	\$665

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:

September 30, 2013 (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	\$2,771	\$1,679	\$40	\$1,815	\$2,947	\$1,545	\$1,402
Farmland	(2)	-	-	-	(2)	-	(2)
Residential Real Estate	924	110	-	116	930	93	837
Multi-Family	(37)	-	-	(5)	(42)	-	(42)
Commercial Real Estate	1,113	201	32	279	1,223	293	930
Home Equity – closed end	360	24	-	(11)	325	91	234
Home Equity – open end	659	68	29	(36)	584	-	584
Commercial & Industrial – Non-Real Estate	2,113	790	117	438	1,878	-	1,878
Consumer	51	116	11	107	53	-	53
Dealer Finance	72	10	-	263	325	-	325
Credit Cards	130	84	13	59	118	-	118
Unallocated	-	-	-	-	-	-	-
Total	\$8,154	\$3,082	\$242	\$3,025	\$8,339	\$2,022	\$6,317

December 31, 2012 (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	\$ 2,071	\$ 1,481	\$ 192	\$ 1,989	\$ 2,771	\$ 1,363	\$ 1,408
Farmland	145	-	3	(150)	(2)	-	(2)
Residential Real Estate	625	482	-	781	924	146	778
Multi-Family	92	-	-	(129)	(37)	-	(37)
Commercial Real Estate	2,285	424	48	(796)	1,113	164	949

Edgar Filing: F&M BANK CORP - Form 10-Q

Home Equity – closed end	91	69	-	338	360	117	243
Home Equity – open end	867	-	-	(208)	659	79	580
Commercial & Industrial –							
Non-Real Estate	457	776	62	2,370	2,113	277	1,836
Consumer	128	44	27	(60)	51	-	51
Dealer Finance	-	-	-	72	72	-	72
Credit Cards	176	71	32	(7)	130	-	130
Unallocated	-	-	-	-	-	-	-
Total	\$ 6,937	\$ 3,347	\$ 364	\$ 4,200	\$ 8,154	\$ 2,146	\$ 6,008

F & M BANK CORP.

Notes to Unaudited Consolidated Financial Statements

Note 4. Allowance for Loan Losses, continued

September 30, 2013	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	\$68,803	\$ 8,412	\$ 60,391
Farmland	13,063	-	13,063
Residential Real Estate	152,024	487	151,537
Multi-Family	10,385	-	10,385
Commercial Real Estate	118,987	1,038	117,949
Home Equity – closed end	10,684	350	10,334
Home Equity –open end	48,875	-	48,875
Commercial & Industrial – Non-Real Estate	24,529	-	24,529
Consumer	12,561	-	12,561
Dealer Finance	16,808	-	16,808
Credit Cards	2,493	-	2,493
	\$479,212	\$ 10,287	\$ 468,925
Total			
December 31, 2012	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	\$71,251	\$ 16,206	\$ 55,045
Farmland	12,259	1,481	10,778
Residential Real Estate	144,066	901	143,165
Multi-Family	9,357	-	9,357
Commercial Real Estate	123,819	2,128	121,691
Home Equity – closed end	10,984	415	10,569
Home Equity –open end	49,762	250	49,512
Commercial & Industrial – Non-Real Estate	25,110	708	24,402
Consumer	12,698	2	12,696
Dealer Finance	3,725	-	3,725
Credit Cards	2,788	-	2,788
	\$465,819	\$ 22,091	\$ 443,728
Total			

Aging of Past Due Loans Receivable (in thousands) as of September 30, 2013

30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable
------------------------	------------------------	----------------------------	----------------------	-------------------	---------	--------------------------

Edgar Filing: F&M BANK CORP - Form 10-Q

(excluding
non-accrual)

September 30,
2013

Construction/Land							
Development	\$2,639	\$78	\$ -	\$ 8,940	\$11,657	\$57,146	\$68,803
Farmland	-	170	-	-	170	12,893	13,063
Residential Real							
Estate	7,100	1,292	-	650	9,042	142,982	152,024
Multi-Family	-	-	-	-	-	10,385	10,385
Commercial Real							
Estate	1,013	-	-	1,863	2,876	116,111	118,987
Home Equity – closed end	-	-	10	229	239	10,445	10,684
Home Equity – open end	183	119	-	205	507	48,368	48,875
Commercial & Industrial – Non-							
Real Estate	6	34	-	409	449	24,080	24,529
Consumer	1,168	17	10	20	1,215	11,346	12,561
Dealer Finance	117	31	-	-	148	16,660	16,808
Credit Cards	17	26	2	-	45	2,448	2,493
Total	\$12,243	\$1,767	\$ 22	\$ 12,316	\$26,348	\$452,864	\$479,212

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, 2012

	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, 2012							
Construction/Land Development	\$1,173	\$598	\$ -	\$ 7,974	\$9,745	\$61,506	\$71,251
Farmland	1,524	-	-	-	1,524	10,735	12,259
Residential Real Estate	5,032	1,743	-	1,637	8,412	135,654	144,066
Multi-Family	-	-	-	-	-	9,357	9,357
Commercial Real Estate	3,238	124	-	1,823	5,185	118,634	123,819
Home Equity – closed end	199	163	-	196	558	10,426	10,984
Home Equity – open end	370	130	-	544	1,044	48,718	49,762
Commercial & Industrial – Non- Real Estate	635	5	-	1,091	1,731	23,379	25,110
Consumer	62	66	-	121	249	12,449	12,698
Dealer Finance	-	-	-	-	-	3,725	3,725
Credit Cards	10	13	-	-	23	2,765	2,788
Total	\$12,243	\$2,842	\$ -	\$ 13,386	\$28,471	\$437,348	\$465,819

F & M BANK CORP.

Notes to Unaudited Consolidated Financial Statements

CREDIT QUALITY INDICATORS (in thousands)

AS OF SEPTEMBER 30, 2013

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	\$-	\$816	\$2,879	\$ 23,113	\$ 12,094	\$7,837	\$ 22,064	\$-	\$68,803
Farmland	69	-	1,509	4,907	4,511	494	1,573	-	13,063
Residential Real Estate	-	501	69,358	48,844	18,196	8,508	6,617	-	152,024
Multi-Family	-	686	4,495	772	4,432	-	-	-	10,385
Commercial Real Estate	-	1,656	18,176	57,521	26,768	9,343	5,523	-	118,987
Home Equity – closed end	12	-	4,813	3,110	1,705	300	744	-	10,684
Home Equity – open end	-	1,463	14,604	27,179	4,609	397	623	-	48,875
Commercial & Industrial (Non-Real Estate)	432	40	3,821	15,738	3,458	529	511	-	24,529
Total	\$513	\$5,162	\$119,655	\$ 181,184	\$ 75,773	\$27,408	\$ 37,655	\$-	\$447,350

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	\$2,491	\$29,359
Non performing	2	10
Total	\$2,493	\$29,369

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, 2012
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	\$ -	\$ 831	\$ 4,400	\$ 16,616	\$ 15,783	\$ 9,013	\$ 24,608	\$ -	\$ 71,251
Farmland	70	-	1,544	4,327	4,214	524	1,580	-	12,259
Residential Real Estate	-	448	36,342	69,670	22,413	6,472	8,721	-	144,066
Multi-Family	-	632	2,185	1,815	4,725	-	-	-	9,357
Commercial Real Estate	-	2,033	18,663	56,624	28,650	4,910	12,939	-	123,819
Home Equity – closed end	-	-	2,280	6,198	1,268	530	708	-	10,984
Home Equity – open end	-	1,460	15,294	26,595	4,735	694	869	115	49,762
Commercial & Industrial (Non-Real Estate)	-	87	3,505	15,448	3,621	531	1,918	-	25,110
Total	\$ 70	\$ 5,491	\$ 84,213	\$ 197,293	\$ 85,409	\$ 22,674	\$ 51,343	\$ 115	\$ 446,608

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	\$2,788	\$16,404
Non performing	-	19
Total	\$2,788	\$16,423

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 & 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 2013 and does not anticipate additional contributions for the 2013 plan year. The following is a summary of net periodic pension costs for the nine-month and three-month periods ended September 30, 2013 and 2012.

	Nine Months Ended		Three Months Ended	
	September 30, 2013	September 30, 2012	September 30, 2013	September 30, 2012
Service cost	\$449,949	\$388,977	\$149,983	\$129,659
Interest cost	262,734	245,943	87,578	81,981
Expected return on plan assets	(477,060)	(405,051)	(159,020)	(135,017)
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	152,388	129,915	50,796	43,305
Net periodic pension cost	\$376,584	\$348,357	\$125,528	\$116,119

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

Loans Held for Sale: Loans held for sale are short-term loans purchased at par for resale to investors at the par value of the loan. These loans are generally repurchased within 15 days. Because of the short-term nature and fixed repurchased price, the book value of these loans approximates fair value.

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.

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.

September 30, 2013	Total	Level 1	Level 2	Level 3
Government sponsored enterprises	\$7,062	\$-	\$7,062	\$-
Mortgage-backed obligations of federal agencies	1,243	-	1,243	-
Investment securities available for sale	\$8,305	\$-	8,305	\$-
Total assets at fair value	\$8,305	\$-	\$8,305	\$-
Total liabilities at fair value	\$-	\$-	\$-	\$-
Derivative financial instruments at fair value	\$28	\$-	\$28	\$-

December 31, 2012	Total	Level 1	Level 2	Level 3
Government sponsored enterprises	\$7,031	\$-	\$7,031	\$-
Mortgage-backed obligations of federal agencies	1,647	-	1,647	-
Investment securities available for sale	8,678	-	8,678	-
Total assets at fair value	\$8,678	\$-	\$8,678	\$-
Total liabilities at fair value	\$-	\$-	\$-	\$-
Derivative financial instruments at fair value	\$15	\$-	\$15	\$-

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, 2013	Total	Level 1	Level 2	Level 3
Loans Held for Sale	\$2,777	\$ -	\$ 2,777	\$ -
Other Real Estate Owned	2,369	-	-	2,369
		-	-	
Construction/Land Development	6,867	-	-	6,867
Farmland	-	-	-	-
Residential Real Estate	394	-	-	394
Multi-Family	-	-	-	-
Commercial Real Estate	745	-	-	745
Home Equity – closed end	259	-	-	259
Home Equity – open end	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	-	-	-	-
Total Impaired loans	8,265	-	-	8,265
		-	-	
Total assets at fair value	\$13,411	\$ -	\$ 2,777	\$ 10,634
		-	-	
Total liabilities at fair value	\$-	\$ -	\$ -	\$ -
		-	-	
		-	-	
December 31, 2012	Total	Level 1	Level 2	Level 3
Loans Held for Sale	\$77,207	\$-	\$77,207	\$-
Other Real Estate Owned	2,884	-	-	2,884
		-	-	
Construction/Land Development	9,100	-	-	9,100
Farmland	-	-	-	-
Residential Real Estate	756	-	-	756
Multi-Family	-	-	-	-
Commercial Real Estate	1,422	-	-	1,422
Home Equity – closed end	298	-	-	298
Home Equity – open end	171	-	-	171
Commercial & Industrial – Non-Real Estate	431	-	-	431
Consumer	2	-	-	2
Credit cards	-	-	-	-
Dealer Finance	-	-	-	-
Total Impaired loans	12,180	-	-	12,180
		-	-	
Total assets at fair value	\$92,271	\$-	\$77,207	\$15,064
		-	-	
Total liabilities at fair value	\$-	\$-	\$-	\$-

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 September 30, 2013 and December 31, 2012. 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.

	September 30, 2013		December 31, 2012	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial Assets				
Loans	\$510,244	\$479,212	\$488,164	\$465,819
Financial Liabilities				
Time deposits	\$198,678	\$196,790	\$203,539	\$201,518
Long-term debt	\$17,996	\$16,679	\$39,551	\$37,714

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.

F & M BANK CORP.

Notes to Unaudited Consolidated Financial Statements

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 nine months and quarter ended, September 30, 2013, there was one real estate loan modification that was considered to be troubled debt restructuring. The pre-modification and post-modification outstanding recorded investment of those loans was \$50,000. There were also no troubled debt restructurings from the previous twelve months that went into default in the nine months and quarter ended September 30, 2013. A restructured loan is considered in default when it becomes 90 days past due.

During the nine months and quarter ended, September 30, 2012, the Bank modified 2 real estate loans that were considered to be troubled debt restructurings. The pre-modification and post-modification outstanding recorded investment of those loans was \$492,000. There were no troubled debt restructurings from the preceding twelve months that went into default in the nine months and quarter ended September 30, 2012.

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.

F & M BANK CORP.

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.

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 Unaudited 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.

F & M BANK CORP.

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, 2013 was \$3,532,000 or \$1.41 per share, compared to \$3,657,000 or \$1.47 in the same period in 2012, a decrease of 3.42%. During the nine months ended September 30, 2013, noninterest income increased 12.22% and noninterest expense increased 7.99% during the same period. Net income from Bank operations adjusted for income or loss from Parent activities is as follows:

Edgar Filing: F&M BANK CORP - Form 10-Q

In thousands	2013	2012
Net Income from Bank Operations	\$ 3,442	\$ 3,774
Income or (loss) from Parent Company Activities	90	(117)
Net Income for the nine months ended September 30	\$ 3,532	\$ 3,657

27

F & M BANK CORP.

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

Core operating earnings, (exclusive of non-recurring tax adjustments and non-recurring historic rehabilitation credits related to the investment in low income housing projects) totaled \$3,464,000 in 2013 and \$3,575,000 in 2012, a decrease of 3.10%. Income from core operations decreased in 2013 primarily due to increase in noninterest expenses.. A reconciliation of core earnings follows:

In thousands	2013	2012
Net Income	\$3,532	\$3,657
Non-recurring Tax Items	(68)	(82)
Non-recurring Securities Transactions, net of tax	-	-
Core Earnings for the nine months ended September 30	\$3,464	\$3,575

Management and the Board of Directors use Core Earnings (a non-GAAP financial measure) in a variety of ways, including comparing various operating units (branches) to prior periods, establishing goals and incentive plans that are based on Core Earnings.

Results of Operations

As shown in Table I, the 2013 year to date tax equivalent net interest income increased \$517,000 or 3.35% compared to the same period in 2012. The yield on earning assets decreased .21%, while the cost of funds decreased .32% compared to the same period in 2012.

Year to date, the combination of the decrease in both 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 4.01%, an increase of .10% when compared to the same period in 2012. A schedule of the net interest margin for the nine month and three month periods ended September 30, 2013 and 2012 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 48.92% of rate sensitive assets and 38.64% of rate sensitive liabilities are subject to repricing within one year. Due to the relatively flat yield curve, management has continued to reduce deposit rates. Liquid assets have been used to pay off maturing FHLB borrowings which has resulted in the increase in the positive GAP position in the one year time period.

Noninterest income increased \$337,000 or 12.23% for the nine month period ended September 30, 2013. The increase is due to Insurance and Other Commissions income from the mortgage and investment subsidiaries, income derived from Bank Owned Life Insurance and the tax benefit of Low Income Housing credits.

Noninterest expense increased \$801,000 for the nine month period ended September 30, 2013 as compared to 2012. Salary and benefits expense increased \$693,000 (11.96%) through September 2013. This increase resulted primarily from additions to staff, as well as normal salary increases, health insurance and retirement plan expenses. Exclusive of personnel expenses, other noninterest expenses increased at a rate of 2.55% for the first nine months of 2013 as compared to 2012. The primary reasons for the increase in these expenses relates to increases in the audit and exam expenses, legal and professional expenses, and data processing expenses. Operating costs continue to compare very favorably to the peer group. As stated in the most recently available (June 30, 2013) Bank Holding Company

Performance Report, the Company's and peer's noninterest expenses averaged 2.52% and 3.12% 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.

F & M BANK CORP.

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 increased since year end.

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, 2013, the cost of securities available for sale exceeded their market value by \$3,000. The portfolio is made up of primarily agency securities with an average portfolio life of just over one year. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. There is \$37,000 of securities scheduled to mature in 2013.

In reviewing investments as of September 30, 2013, 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.

F & M BANK CORP.

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

Loans Held for Investment has increased \$13.4 million since December 31, 2012 to \$479,212,000. The dealer finance portfolio increased \$13.1 million and real estate loans increased \$8.0 million. These increases were offset by decreases in the majority of the other loan categories.

Loans Held for Sale totaled \$2,777,000 at September 30, 2013, a decrease of \$74.4 million compared to December 31, 2012. Secondary Market loan originations have declined considerably due to the increase in interest rates which has halted mortgage refinancing. The funds resulting from this decrease allowed the Company to repay FHLB short term borrowings and led to increased liquidity in the first nine months of 2013.

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 \$12,338,000 at September 30, 2013 compared to \$13,386,000 at December 31, 2012. Although loan losses will occur, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of September 30, 2013, the Company holds \$2,369,000 of real estate which was acquired through foreclosure. This is decrease of \$515,000 compared to December 31, 2012.

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

	September 30, 2013	December 31, 2012		
Nonaccrual Loans				
Real Estate	\$9,590	\$9,611		
Commercial	2,272	2,914		
Home Equity	434	740		
Other	20	121		
	12,316	13,386		
Loans past due 90 days or more (excluding nonaccrual)				
Real Estate	-	-		
Commercial	-	-		
Home Equity	10	-		
Other	12	-		
	22	-		
Total Nonperforming loans	\$12,338	\$13,386		
Nonperforming loans as a percentage of loans held for investment	2.57	%	2.87	%
Net Charge Offs to total loans held for investment	.59	%	.64	%
Allowance for loan and lease losses to nonperforming loans	67.59	%	60.91	%

F & M BANK CORP.

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 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.

For loans that are not impaired, the portfolio is segmented into multiple pools of homogenous loan types that do not exhibit any signs of weakness. Loss rates are assigned based on historical charge offs over the prior two year period. A general allowance for inherent losses (such as trends in past due/criticized loans, volume and terms of loans, changes in lending policies/procedures, experience of lending staff/management, local/national economic trends and credit concentrations) has been established to reflect other unidentified losses within the portfolio. 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 \$8,339,000 at September 30, 2013 is equal to 1.74% of loans held for investment. This compares to an allowance of \$8,154,000 (1.75%) at December 31, 2012. Based on the evaluation of the loan portfolio described above, management has funded the allowance a total of \$3,025,000 in the first nine months of 2013. Net charge-offs year to date totaled \$2,840,000.

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.

F & M BANK CORP.

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 increased \$7,972,000 since December 31, 2012. Time deposits decreased \$4,728,000 during this period while demand deposits and savings deposits increased \$12,700,000. The decrease in certificates of deposits is a result of a decrease in core time deposits. 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 \$6,950,000 in CDARS funding, which is a decrease of \$740,000 over December 31, 2012.

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, 2013 there were no FHLB short-term borrowings and commercial repurchase agreements totaled \$3,480,000.

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. Scheduled repayments totaled \$21,036,000 through September 30, 2013. There were no additional borrowings through September 30, 2013.

In August 2009, the Company began issuing subordinated debt agreements with local investors with terms of 7 to 10 years. Interest rates are fixed on the notes for the full term but vary by maturity. Rates range from 7.0% on the 7 year note to 8.05% on the 10 year note. As of September 30, 2013 the balance outstanding was \$10,191,000.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of September 30, 2013, the Company's total risk based capital and leverage ratios were 15.23% and 9.16%, respectively, increasing over year end from 13.98% and 8.29%, respectively. For the same period, Bank only total risk based capital and leverage ratios were 15.31% and 9.22%, respectively, increasing over year end from 14.10% and 8.36%, respectively. For both the Company and the Bank these ratios are in excess of regulatory minimums.

F & M BANK CORP.

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

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. Liquidity increased significantly in the first nine months as repayments of Loans Held for Sale were used to increase Federal Funds Sold and to repay FHLB debt. The decrease in Loans Held for Sale is a result a decline in mortgage refinancing due to the increase in interest rates. 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 lines of credit with its primary and secondary correspondent financial institutions. 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, 2013, the Company had a cumulative Gap Rate Sensitivity Ratio of 18.88% 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.

Effect of Newly Issued Accounting Standards

On July 18, 2013, the FASB issued guidance to eliminate the diversity in practice regarding presentation of unrecognized tax benefits in the statement of financial position. Under the clarified guidance, an unrecognized tax benefit, or a portion of an unrecognized tax benefit, will be presented in the financial statements as a reduction to a deferred tax asset unless certain criteria are met. The requirements should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. 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>).

F & M BANK CORP.

TABLE I

Net Interest Margin Analysis
(on a fully taxable equivalent basis)
(Dollar Amounts in Thousands)

Average	Nine Months Ended September 30, 2013			Nine Months Ended September 30, 2012			Three Months Ended September 30, 2013			Three Months Ended September 30, 2012		
	Balance ^{2,4}	Income/ Expense	Average Rates	Balance ^{2,4}	Income/ Expense	Average Rates ⁵	Balance ^{2,4}	Income/ Expense	Average Rates ⁵	Balance ^{2,4}	Income/ Expense	Average Rates ⁵
Interest income												
Loans held for investment ^{1,2}	\$468,664	\$18,835	5.37%	\$455,588	\$19,011	5.56%	\$474,131	\$6,344	5.31%	\$455,269	\$6,482	5.51%
Loans held for sale	27,581	623	3.02%	42,376	1,127	3.55%	10,222	79	3.07%	65,292	531	3.51%
Federal funds sold	22,079	36	.22 %	13,454	22	.22 %	30,424	17	.22 %	4,763	3	.22 %
Interest bearing deposits	1,140	4	.47 %	1,336	4	.40 %	748	2	1.06%	1,061	1	1.06%
Investments												
Taxable ³	11,856	140	1.58%	12,804	147	1.53%	11,157	39	1.39%	11,698	37	1.39%
Partially taxable	107	-	-	108	1	1.23%	107	-	-	108	0	-
Total earning assets	\$531,427	\$19,638	4.94%	\$525,666	\$20,312	5.15%	\$526,789	\$6,481	4.88%	\$538,191	\$7,054	5.15%
Interest Expense												
Demand deposits	120,747	608	.67 %	121,754	954	1.04%	117,017	198	.67 %	118,818	290	1.04%
Savings	51,993	91	.23 %	44,440	149	.45 %	53,899	29	.21 %	46,275	47	.45 %
Time deposits	199,598	1,804	1.21%	204,279	2,242	1.46%	197,137	575	1.16%	203,394	727	1.46%
Short-term debt	7,098	22	.41 %	8,680	26	.40 %	3,378	3	.35 %	13,628	15	.41 %
Long-term debt	39,506	1,175	3.98%	54,879	1,521	3.69%	35,474	389	4.35%	60,773	494	3.69%
Total interest bearing liabilities	\$418,942	\$3,700	1.18%	\$434,032	\$4,892	1.50%	\$406,905	\$1,194	1.16%	\$442,888	\$1,573	1.50%
Tax equivalent net interest income ¹		\$15,937			\$15,420			\$5,287			\$5,481	

Net interest margin	4.01%	3.91%	3.98%
---------------------	-------	-------	-------

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.

F & M BANK CORP.

TABLE II

Interest Sensitivity Analysis

September 30, 2013
(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	Total
Uses of funds					
Loans					
Commercial	\$34,738	\$25,874	\$92,859	\$9,772	\$163,243
Installment	6,520	980	16,447	5,421	29,368
Real estate loans for investments	104,142	47,253	124,493	8,220	284,108
Loans held for sale	2,777	-	-	-	2,777
Credit cards	2,493	-	-	-	2,493
Federal funds sold	24,464	-	-	-	24,464
Interest bearing bank deposits	773	248	-	-	1,021
Investment securities	-	2,107	5,061	1,243	8,411
Total	\$175,907	\$76,462	\$238,860	\$24,656	\$515,885
Sources of funds					
Interest bearing demand deposits	\$-	\$31,027	\$69,049	\$19,011	\$119,087
Savings deposits	-	10,966	32,898	10,966	54,830
Certificates of deposit \$100,000 and over	10,954	16,960	35,475	-	63,389
Other certificates of deposit	22,764	47,121	63,516	-	133,401
Short-term borrowings	3,480	-	-	-	3,480
Long-term borrowings	9,179	2,500	8,638	6,553	26,870
Total	\$46,377	\$108,574	\$209,576	\$36,530	\$401,057
Discrete Gap	\$129,530	\$(32,112)	\$29,284	\$(11,874)	\$114,828
Cumulative Gap	\$129,530	\$97,418	\$126,702	\$114,828	
Ratio of Cumulative Gap to Total Earning Assets	25.11	% 18.88	% 24.56	% 22.26	%

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of September 30, 2013. 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.

F & M BANK CORP.

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 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.

We have established our disclosure controls and procedures to ensure that material information related to the Company is made known to our principal executive officers and principal financial officer on a regular basis, in particular during the periods in which our quarterly and annual reports are being prepared. These disclosure controls and procedures consist principally of communications between and among the Chief Executive Officer and the Chief Financial Officer, and the other executive officers of the Company and its subsidiaries to identify any new transactions, events, trends, contingencies or other matters that may be material to the Company's operations. 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)-14(e) of the Securities Exchange Act of 1934), have concluded that the Company's disclosure controls and procedures are adequate and effective for purposes of Rule 13(a)-14(e) and timely, alerting them to financial information relating to the Company required to be included in the Company's filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934.

Changes in Internal Controls

Due to the nature of the Company's business as stewards of assets of customers; internal controls are of the utmost importance. The Company has established procedures during the normal course of business to reasonably ensure that fraudulent activity of either a material amount to these results or in any amount is not occurring. In addition to these controls and review by executive officers, the Company retains the services of an internal auditor to complete regular audits, which examine the processes and procedures of the Company and the Bank to ensure that these processes are reasonably effective to prevent internal or external fraud and that the processes comply with relevant regulatory guidelines of all relevant banking authorities. The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company. There were no material changes to the internal controls of the Company.

Part II Other Information

Item 1. Legal Proceedings – Not Applicable

Item 1a. Risk Factors – Not Applicable

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds – Not Applicable

Item 3. Defaults Upon Senior Securities – Not Applicable

Item 4. Mine Safety Disclosures – Not Applicable

Item 5. Other Information – Not Applicable

Item 6. Exhibits

(a) Exhibits

3 i Restated Articles of Incorporation of F & M Bank Corp. as amended on 9/26/13.

3 ii Amended and Restated Bylaws of F & M Bank Corp. are incorporated by reference to Exhibits to F & M Bank Corp.'s Form 10K filed March 1, 2002.

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 Interactive Data File

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 14, 2013