F&M BANK CORP
Form 10-Q
August 15, 2016

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

FORM 10-Q

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

For the quarterly period ended June 30, 2016.

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

Commission File Number: 000-13273

F & M BANK CORP.

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

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

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

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

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

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 [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting Company [X]

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

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 12, 2016
Common Stock, par value - $5	3,287,665 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

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

	Three Months Ended	
	June 30,	
Interest income	2016	2015
Interest and fees on loans held for investment	$7,337	$6,955
Interest and fees on loans held for sale	518	322
Interest on federal funds sold and bank deposits	6	3
Interest on debt securities	70	93
Total interest income	7,931	7,373
Interest expense		
Interest on demand deposits	126	157
Interest on savings accounts	108	37
Interest on time deposits over $100,000	127	122
Interest on other time deposits	230	231
Total interest on deposits	591	547
Interest on borrowed funds	271	151
Total interest expense	862	698
Net interest income	7,069	6,675
Provision for loan losses	-	-
Net interest income after provision for loan losses	7,069	6,675
Noninterest income		
Service charges on deposit accounts	272	236
Insurance and other commissions	405	275
Other operating income	373	519
Income on bank owned life insurance	118	117
Low income housing partnership losses	(182)	(157)
Total noninterest income	986	990
Noninterest expense		
Salaries	2,080	1,875
Employee benefits	602	539
Occupancy expense	180	162
Equipment expense	170	151

FDIC insurance assessment	112	198
Other	1,628	1,571
Total noninterest expense	4,772	4,496
Income before income taxes	3,283	3,169
Income tax expense	839	943
Consolidated net income – F & M Bank Corp.	2,444	2,226
Net income - Noncontrolling interest income	86	50
Net Income – F & M Bank Corp	$2,358	$2,176
Dividends paid on preferred stock	127	127
Net income available to common stockholders	$2,231	$2,049
Per share data		
Net income – basic	$.68	$.62
Net income – diluted	.63	.58
Cash dividends	$.20	$.18
Weighted average common shares outstanding – basic	3,286,459	3,294,365
Weighted average common shares outstanding – diluted	3,730,859	3,738,765

See notes to unaudited consolidated financial statements

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Part I Financial Information
Item 1 Financial Statements

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

	Six Months Ended	
	June 30,	
Interest income	2016	2015
Interest and fees on loans held for investment	$14,522	$13,727
Interest and fees on loans held for sale	890	513
Interest on federal funds sold and bank deposits	14	8
Interest on debt securities	139	136
Total interest income	15,565	14,384
Interest expense		
Interest on demand deposits	245	314
Interest on savings accounts	208	70
Interest on time deposits over $100,000	246	245
Interest on other time deposits	450	472
Total interest on deposits	1,149	1,101
Interest on borrowed funds	527	252
Total interest expense	1,676	1,383
Net interest income	13,889	13,001
Provision for loan losses	-	300
Net interest income after provision for loan losses	13,889	12,701
Noninterest income		
Service charges on deposit accounts	506	462
Insurance and other commissions	505	510
Other operating income	802	999
Income on bank owned life insurance	237	235
Low income housing partnership losses	(365)	(314)
Total noninterest income	1,685	1,892
Noninterest expense		
Salaries	4,163	3,693
Employee benefits	1,299	1,163
Occupancy expense	368	340
Equipment expense	354	314
FDIC insurance assessment	225	390

Other	3,095	2,978
Total noninterest expense	9,504	8,878
Income before income taxes	6,070	5,715
Income tax expense	1,532	1,592
Consolidated net income – F & M Bank Corp.	4,538	4,123
Net income - Noncontrolling interest income	90	76
Net Income – F & M Bank Corp	$4,448	$4,047
Dividends paid/accumulated on preferred stock	255	255
Net income available to common stockholders	$4,193	$3,792
Per share data		
Net income – basic	$1.28	$1.15
Net income – diluted	1.19	1.08
Cash dividends	$.39	$.36
Weighted average shares outstanding – basic	3,285,867	3,293,510
Weighted average shares outstanding – diluted	3,730,267	3,737,910

See notes to unaudited consolidated financial statements

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

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2016	2015	2016	2015
Net Income:				
Net Income – F & M Bank Corp	$4,448	$4,047	$2,358	$2,176
Net Income attributable to noncontrolling interest	90	76	86	50
Consolidated net income	4 538	4 123	2,444	2,226
Other comprehensive income (loss):				
Change in unrealized holding gains (losses) on available-for-sale securities	37	23	8	(1)
Tax effect	(12)	(8)	(3)	-
Change in unrealized holding gain (loss), net of tax	25	15	5	(1)
Total other comprehensive income (loss)	25	15	5	(1)
Comprehensive income	$4,563	$4,138	$2,449	$2,225

See notes to unaudited consolidated financial statements

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

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
Assets		
Cash and due from banks	$7,316	$6,923
Money market funds	1,275	1,596
Cash and cash equivalents	8,591	8,519
Securities:		
Held to maturity – fair value of $125 in 2016 and 2015	125	125
Available for sale	10,938	13,047
Other investments	13,888	12,157
Loans held for sale	97,211	57,806
Loans held for investment	565,999	544,053
Less: allowance for loan losses	(8,068)	(8,781)
Net loans held for investment	557,931	535,272
Other real estate owned	2,499	2,128
Bank premises and equipment, net	9,214	7,542
Interest receivable	1,851	1,709
Goodwill	2,670	2,670
Bank owned life insurance	13,278	13,046
Deferred tax asset	1,377	1,640
Other assets	10,465	9,696
Total assets	$730,038	$665,357
Liabilities		
Deposits:		
Noninterest bearing	$133,494	$134,787
Interest bearing:		
Demand	83,324	81,492
Money market accounts	28,242	26,968
Savings	99,737	90,383
Time deposits over $100,000	50,019	53,625
All other time deposits	109,895	107,415
Total deposits	504,711	494,670
Short-term borrowings	59,418	24,954

Accrued liabilities	13,731	14,622
Long-term borrowings	66,196	48,161
Total liabilities	644,056	582,407
Stockholders' Equity		
Preferred Stock $5 par value, 400,000 shares authorized, issued and outstanding For June 30, 2016 and December 31, 2015, respectively	9,425	9,425
Common stock, $5 par value, 6,000,000 shares authorized, 3,287,521 and 3,293,909 shares issued and outstanding For June 30, 2016 and December 31, 2015, respectively	16,438	16,427
Additional paid in capital – common stock	11,188	11,149
Retained earnings	50,997	48,056
Noncontrolling interest	589	573
Accumulated other comprehensive loss	(2,655)	(2,680)
Total stockholders' equity	85,982	82,950
Total liabilities and stockholders' equity	$730,038	$665,357

See notes to unaudited consolidated financial statements

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

	Six Months Ended June 30,	
	2016	2015
Cash flows from operating activities		
Net income	$4,448	$4,047
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	401	348
Amortization of security premiums, net	78	70
Origination of loans held for sale originated	(42,630)	(36,299)
Sale of loans held for sale	37,276	33,356
Provision for loan losses	-	300
Decrease (increase) in interest receivable	(142)	11
Increase in other assets	(423)	(763)
Increase (decrease) in accrued expenses	(965)	735
Amortization of limited partnership investments	365	314
Income from life insurance investment	(237)	(235)
Loss on Other Real Estate Owned	13	506
Net adjustments	(6,264)	(1,657)
Net cash provided by (used in) operating activities	(1,816)	2,390
Cash flows from investing activities		
Purchase of investments available for sale	(4,109)	(10,346)
Proceeds from maturity of investments available for sale	4,081	8,111
Net increase in loans held for investment	(23,250)	(14,487)
Net increase in loans held for sale participations	(34,051)	(39,437)
Proceeds from the sale of other real estate owned	207	328
Purchase of property and equipment	(2,073)	(982)
Net cash used in investing activities	(59,195)	(56,813)
Cash flows from financing activities		
Net change in demand and savings deposits	11,167	12,165
Net change in time deposits	(1,126)	(20,898)
Net change in short-term debt	34,463	33,729
Cash dividends paid	(1,506)	(1,440)
Proceeds from issuance of common stock	81	70
Proceeds from issuance of long-term debt	20,000	15,000
Repurchase of common stock	(32)	(31)
Repayment of long-term debt	(1,964)	(554)

Net cash provided by financing activities	61,083	38,039
Net increase (decrease) in Cash and Cash Equivalents	72	(16,384)
Cash and cash equivalents, beginning of period	8,519	23,203
Cash and cash equivalents, end of period	$8,591	$6,819
Supplemental disclosure		
Cash paid for:		
Interest expense	$1,675	$710
Income taxes	1,300	1,000
Transfer from loans to other real estate owned	592	-
Noncash exchange of other real estate owned	-	(227)

See notes to unaudited consolidated financial statements

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

	Six Months Ended June 30,	
	2016	2015
Balance, beginning of period	$82,950	$77,798
Comprehensive income		
Net income – F & M Bank Corp	4,448	4,047
Net income attributable to noncontrolling interest	90	76
Other comprehensive income	25	15
Total comprehensive income	4,563	4,138
Minority interest capital distributions	(74)	(18)
Issuance of common stock	81	70
Repurchase of common stock	(32)	(31)
Dividends paid	(1,506)	(1,440)
Balance, end of period	$85,982	$80,517

See notes to unaudited consolidated financial statements

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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 June 30, 2016 and the results of operations for the three and six months ended June 30, 2016 and 2015. The notes included herein should be read in conjunction with the notes to financial statements included in the 2015 annual report to shareholders of F & M Bank Corp.

Note 1 to the 2015 Annual Report on Form 10-K filed with the SEC contains a description of the accounting policies followed by the Company and discussion of recent accounting pronouncements. The following paragraphs update that information as necessary.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments were effective for the Company on January 1, 2016, and did not have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. The amendments were expected to result in the deconsolidation of many entities. The amendments were effective for the Company on January 1, 2016. The adoption of these amendments did not have a material effect on the Company's financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company's fiscal year-end. The amendments were effective for the Company on January 1, 2016. The Company's adoption of these amendments did not 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.
In August 2015, the FASB issued amendments to the Interest topic of the Accounting Standards Codification to clarify the SEC staff's position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for [fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

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

Note 1. Accounting Principles, continued

In February 2016, the FASB issued new guidance on accounting for leases, which generally requires all leases to be recognized in the statement of financial position. The provisions of this guidance are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. These provisions are to be applied using a modified retrospective approach. The Company is evaluating the effect that this new guidance will have on our consolidated financial statements, but does not expect it will have a material effect on its financial statements.

In March 2016, the FASB amended the Liabilities topic of the Accounting Standards Codification to address the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments 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.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments 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.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments 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.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

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

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

Note 1. Accounting Principles, continued

Earnings per Share

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

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

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

	For the Six months ended	For the Quarter ended	For the Six months ended	For the Quarter ended
In thousands of dollars	June 30, 2016	June 30, 2016	June 30, 2015	June 30, 2015
Earnings available to common stockholders:				
Net income	$4,538	$2,444	$4,123	$2,226
Minority interest	90	86	76	50
Preferred stock dividends	255	127	255	127
Net income available to common stockholders	$4,193	$2,231	$3,792	$2,049

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

	Six months ended 6/30/2016			Six months ended 6/30/2015		
	Income	Shares	Per Share Amounts	Income	Shares	Per Share Amounts
Basic EPS	$4,192,677	3,285,867	$1.28	$3,792,184	3,293,510	$1.15

Effect of Dilutive Securities:						
Convertible Preferred Stock	255,000	444,400	(0.09)	255,500	444,400	(0.07)
Diluted EPS	$4,447,677	3,730,267	$1.19	$4,047,184	3,737,910	$1.08

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

Note 2. Investment Securities

Investment securities available for sale are carried in the consolidated balance sheets at their approximate market value, amortized cost and unrealized gains and losses at June 30, 2016 and December 31, 2015 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 June 30, 2016 and December 31, 2015 are as follows:

	June 30, 2016		December 31, 2015	
		Market		Market
(in thousands)	Cost	Value	Cost	Value
Securities held to maturity				
U. S. Treasury and agency obligations	$125	$125	$125	$125
Total	$125	$125	$125	$125

	June 30, 2016			
		Unrealized		Market
	Cost	Gains	Losses	Value
Securities available for sale				
U. S. Treasuries	$4,011	$23	$-	$4,034
Government sponsored enterprises	6,023	10	8	6,025
Mortgage-backed securities	727	17	-	744
Marketable equities	135	-	-	135
Total	$10,896	$50	$8	$10,938

December 31, 2015

	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities available for sale				
U. S. Treasuries	$4,015	$6	$-	$4,021
Government sponsored enterprises	8,081	4	11	8,074
Mortgage-backed securities	811	6	-	817
Marketable equities	135	-	-	135
Total	$13,042	$16	$11	$13,047

The amortized cost and fair value of securities at June 30, 2016, 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	
(in thousands)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$125	$125	$4,011	$4,019
Due after one year through five years	-	-	6,023	6,040
Due after five years	-	-	862	879
Total	$125	$125	$10,896	$10.938

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

Note 2. Investment Securities, continued

There were no gains and losses on sales of securities in the second quarter of 2016 or 2015. 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 June 30, 2016 and December 31, 2015 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
June 30, 2016						
Government sponsored Enterprises	$6,000	$(8)	$-	$-	$6,000	$(8)
Total	$6,000	$(8)	$-	$-	$6,000	$(8)
December 31, 2015						
Government sponsored Enterprises	$6,056	$(11)	$-	$-	$6,056	$(11)
Total	$6,056	$(11)	$-	$-	$6,056	$(11)

Other investments, which consist of stock of correspondent banks and investments in low income housing projects, increased since December 31, 2015. This increase is due to FHLB stock purchases during the six months of 2016.

Note 3. Loans Held for Investment

Loans outstanding at June 30, 2016 and December 31, 2015 are summarized as follows (in thousands):

	2016	2015
Construction/Land Development	$76,017	$69,759
Farmland	12,867	13,378
Real Estate	169,140	166,587
Multi-Family	6,607	7,559
Commercial Real Estate	134,172	128,032
Home Equity – closed end	11,093	9,135

Home Equity – open end	56,359	56,599
Commercial & Industrial – Non-Real Estate	29,186	27,954
Consumer	7,945	8,219
Dealer Finance	59,947	54,086
Credit Cards	2,666	2,745
Total	$565,999	$544,053

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

Note 3. Loans Held for Investment, continued

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

	June 30, 2016			December 31, 2015		
		Unpaid			Unpaid	
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
Impaired loans without a valuation allowance:						
Construction/Land Development	$1,091	$1,091	$-	$1,361	$1,499	$-
Farmland	-	-	-	-	-	-
Real Estate	782	782	-	1,097	1,097	-
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	-	-	-	307	307	-
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	1,582	1,582	-	1,159	1,159	-
Commercial & Industrial – Non-Real Estate	175	175	-	181	181	-
Consumer	-	-	-	18	18	-
Credit cards	-	-	-	-	-	-
Dealer Finance	25	25	-	4	4	-
	3,655	3,655		4,127	4,265	
Impaired loans with a valuation allowance						
Construction/Land Development	10,022	10,022	1,775	11,534	11,534	2,373
Farmland	-	-	-	-	-	-
Real Estate	1,218	1,218	227	324	324	238
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	961	961	63	890	890	18
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	1,408	1,408	587	1,414	1,414	269
Commercial & Industrial – Non-Real Estate	27	27	27	-	-	-
Consumer	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Dealer Finance	86	86	23	68	68	17
	13,722	13,722	2,702	14,230	14,230	2,915

Total impaired loans	$17,377	$17,377	$2,702	$18,357	$18,495	$2,915

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

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

Note 3. Loans Held for Investment, continued

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2016		2015		2016		2015	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:								
Construction/Land Development	$1,164	$(7)	$3,883	$43	$2,135	$17	$4,678	$92
Farmland	-	-	-	-	-	-	-	-
Real Estate	784	9	690	32	991	20	342	36
Multi-Family	-	-	-	-	-	-	-	-
Commercial Real Estate	203	-	1,142	17	434	2	1,445	30
Home Equity – closed end	-	-	-	-	-	-	-	-
Home Equity – open end	1,582	-	1,598	30	1,486	35	969	72
Commercial & Industrial – Non-Real Estate	177	3	188	4	181	6	207	6
Consumer and credit cards	9	-	-	-	11	-	-	-
Dealer Finance	16	1	-	-	6	2	-	-
	3,935	6	7,501	126	5,244	82	7,641	236
Impaired loans with a valuation allowance:								
Construction/Land Development	10,337	47	12,940	174	$11,478	$100	13,142	$191
Farmland	-	-	-	-	-	-	-	-
Real Estate	1,221	10	746	17	818	26	850	18
Multi-Family	-	-	-	-	-	-	-	-

Commercial Real Estate	965	14	888	2	919	28	952	2
Home Equity – closed end	-	-	-	-	-	-	-	-
Home Equity – open end	1,407	9	-	-	1,175	19	-	-
Commercial & Industrial – Non-Real Estate	27	1	-	-	11	1	-	-
Consumer and credit card	-	-	-	-	-	-	-	-
Dealer Finance	82	1	62	1	59	3	25	3
	14,039	82	14,636	116	14,460	177	14,969	214
Total Impaired Loans	$17,974	$88	$22,137	$242	$19,704	$259	$22,610	$450

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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:

June 30, 2016 (in thousands)	12/31/15 Balance	Charge-offs	Recoveries	Provision	6/30/16 Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,442	$294	$1	$(767)	$3,382	$1,775	$1,607
Farmland	95	-	-	(57)	38	-	38
Real Estate	806	23	4	244	1,031	227	804
Multi-Family	71	-	-	(47)	24	-	24
Commercial Real Estate	445	18	87	190	704	63	641
Home Equity – closed end	174	1	-	(6)	167	-	167
Home Equity – open end	634	2	106	225	963	587	376
Commercial & Industrial – Non-Real Estate	1,055	246	3	(19)	793	27	766
Consumer	108	6	12	16	130	-	130
Dealer Finance	836	385	57	256	764	23	741
Credit Cards	115	32	24	(35)	72	-	72
Total	$8,781	$1,007	$294	$-	$8,068	$2,702	$5,366

December 31, 2015 (in thousands)	12/31/14 Balance	Charge-offs	Recoveries	Provision	12/31/15 Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,738	$156	$85	$(225)	$4,442	$2,373	$2,069
Farmland	-	-	-	95	95	-	95
Real Estate	623	25	37	171	806	238	568
Multi-Family	-	-	-	71	71	-	71
Commercial Real Estate	126	-	65	254	445	18	427
	188	26	6	6	174	-	174

Home Equity – closed end							
Home Equity – open end	154	51	-	531	634	269	365
Commercial & Industrial – Non-Real Estate	1,211	-	62	(218)	1,055	-	1,055
Consumer	214	32	32	(106)	108	-	108
Dealer Finance	1,336	251	24	(273)	836	17	819
Credit Cards	135	60	46	(6)	115	-	115
Total	$8,725	$601	$357	$300	$8,781	$2,915	$5,866

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

Note 4. Allowance for Loan Losses, continued

Recorded Investment in Loan Receivables (in thousands)

June 30, 2016	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$76,017	$11,113	$64,904
Farmland	12,867	-	12,867
Real Estate	169,140	2,000	167,140
Multi-Family	6,607	-	6,607
Commercial Real Estate	134,172	961	133,211
Home Equity – closed end	11,093	-	11,093
Home Equity –open end	56,359	2,990	53,369
Commercial & Industrial – Non-Real Estate	29,186	202	28,984
Consumer	7,945	-	7,945
Dealer Finance	59,947	111	59,836
Credit Cards	2,666	-	2,666
Total	$565,999	$17,377	$548,622

December 31, 2015	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$69,759	$12,895	$56,864
Farmland	13,378	-	13,378
Real Estate	166,587	1,421	165,167
Multi-Family	7,559	-	7,559
Commercial Real Estate	128,032	1,197	126,835
Home Equity – closed end	9,135	-	9,135
Home Equity –open end	56,599	2,573	54,026
Commercial & Industrial – Non-Real Estate	27,954	181	27,773
Consumer	8,219	18	8,201
Dealer Finance	54,086	72	54,013
Credit Cards	2,745	-	2,745
Total	$544,053	$18,357	$525,696

Aging of Past Due Loans Receivable (in thousands) as of June 30, 2016

	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

June 30, 2016

Construction/Land Development	$50	$-	$-	$4,356	$4,406	$71,611	$76,017
Farmland	-	-	-	-	-	12,867	12,867
Real Estate	1,815	722	-	636	3,173	165,967	169,140
Multi-Family	-	-	-	-	-	6,607	6,607
Commercial Real Estate	168	-	-	-	168	134,004	134,172
Home Equity – closed end	10	-	-	3	13	11,080	11,093
Home Equity – open end	635	1,508	-	237	2,380	53,979	56,359
Commercial & Industrial – Non- Real Estate	131	6	-	81	218	28,968	29,186
Consumer	73	12	1	-	86	7,859	7,945
Dealer Finance	687	205	131	100	1,123	58,824	59,947
Credit Card	12	7	-	-	19	2,647	2,666
Total	$3,581	$2,460	$132	$5,413	$11,586	$554,413	$565,999

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, 2015

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable
December 31, 2015							
Construction/Land Development	$104	$-	$-	$4,688	$4,792	$64,967	$69,759
Farmland	-	-	-	-	-	13,378	13,378
Real Estate	2,684	1,332	272	1,010	5,298	161,289	166,587
Multi-Family	-	-	-	-	-	7,559	7,559
Commercial Real Estate	340	241	-	-	581	127,451	128,032
Home Equity – closed end	41	7	-	-	48	9,087	9,135
Home Equity – open end	918	46	107	40	1,111	55,488	56,599
Commercial & Industrial – Non- Real Estate	114	3	25	109	251	27,703	27,954
Consumer	120	10	-	-	130	8,089	8,219
Dealer Finance	905	183	152	108	1,348	52,738	54,086
Credit Cards	10	13	15	-	38	2,707	2,745
Total	$5,236	$1,835	$571	$5,955	$13,597	$530,456	$544,053

The following tables represent the corporate credit exposure by presenting the loan portfolio by the following credit quality indicators (loan grades):

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

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

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

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

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.

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

Note 4. Allowance for Loan Losses, continued

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

CREDIT QUALITY INDICATORS
(in thousands)
AS OF JUNE 30, 2016
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	$-	$654	$11,682	$39,344	$11,622	$1,913	$10,802	$-	$76,017
Farmland	65	-	3,011	3,355	3,992	2,444	-	-	12,867
Real Estate	-	1,095	52,194	81,585	25,855	6,426	1,985	-	169,140
Multi-Family	-	352	3,082	2,982	191	-	-	-	6,607
Commercial Real Estate	-	1,911	26,049	76,480	23,451	3,490	2,791	-	134,172
Home Equity – closed end	-	-	3,502	4,119	2,026	1,443	3	-	11,093
Home Equity – open end	80	1,069	15,399	33,048	4,404	458	1,901	-	56,359
Commercial & Industrial (Non-Real Estate)	1,228	395	7,141	17,738	2,518	63	103	-	29,186
Total	$1,373	$5,476	$122,060	$258,651	$74,059	$16,237	$17,585	$-	$495,441

Consumer Credit Exposure

Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,666	$67,660
Non performing	-	232
Total	$2,666	$67,892

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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, 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	$-	$485	$8,410	$31,783	$14,260	$3,216	$11,605	$-	$69,759
Farmland	66	-	2,615	3,768	4,952	1,977	-	-	13,378
Real Estate	-	955	54,400	76,545	23,695	8,334	2,658	-	166,587
Multi-Family	-	391	3,925	3,046	197	-	-	-	7,559
Commercial Real Estate	-	2,087	25,889	74,337	20,271	4,149	1,299	-	128,032
Home Equity – closed end	-	-	3,549	3,792	1,661	114	19	-	9,135
Home Equity – open end	-	1,657	15,043	31,455	4,827	398	3,219	-	56,599
Commercial & Industrial (Non-Real Estate)	896	646	6,423	17,053	2,281	517	138	-	27,954
Total	$962	$6,221	$120,254	$241,779	$72,144	$18,705	$18,938	$-	$479,003

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,730	$62,046
Non performing	15	259
Total	$2,745	$62,305

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 will not make any contributions for the 2016 plan year. The following is a summary of net periodic pension costs for the three and six-month periods ended June 30, 2016 and 2015.

	Six Months Ended		Three Months Ended	
	June 30, 2016	June 30, 2015	June 30, 2016	June 30, 2015
Service cost	$315,936	$324,167	$157,968	$162,084
Interest cost	226,448	205,472	113,224	102,736
Expected return on plan assets	(427,208)	(419,409)	(213,604)	(209,705)
Amortization of net obligation at transition	-			
Amortization of prior service cost	(7,618)	(7,618)	(3,809)	(3,809)
Amortization of net (gain) or loss	111,572	90,321	55,786	45,161
Net periodic pension cost	$219,130	$192,933	$109,565	$96,467

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

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.

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.

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

Note 6. Fair Value, continued

For level 3 assets and liabilities measured at fair value on a recurring basis or non-recurring basis as of June 30, 2016 and December 31, 2015 and significant unobservable inputs used in the fair value measurements were as follows (in thousands):

	Fair Value at June 30, 2016	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 11,020	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%
Other Real Estate Owned	$ 2,499	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%

	Fair Value at December 31, 2015	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 11,315	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%
Other Real Estate Owned	$ 2,128	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55%

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.

June 30, 2016	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$4,034	$-	$4,034	$-
Government sponsored enterprises	6,025	-	6,025	-
Mortgage-backed obligations of federal agencies	744	-	744	-
Marketable Equities	135	-	135	-
Investment securities available for sale	$10,938	-	$10,938	-
Total assets at fair value	$10,938	$-	$10,938	$-
Total liabilities at fair value	$-	$-	$-	$-
Derivative financial instruments at fair value	$15	$-	$15	$-

December 31, 2015	Total	Level 1	Level 2	Level 3

U. S. Treasuries	$4,021	$-	$4,021	$-
Government sponsored enterprises	8,074	-	8,074	-
Mortgage-backed obligations of federal agencies	817	-	817	-
Marketable Equities	135	-	135	-
Investment securities available for sale	13,047	-	13,047	-
Total assets at fair value	$13,047	$-	$13,047	$-
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

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

June 30, 2016	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$2,499	-	-	$2,499
		-	-	
Construction/Land Development	8,247	-	-	8,247
Farmland	-	-	-	-
Real Estate	991	-	-	991
Multi-Family	-	-	-	-
Commercial Real Estate	898	-	-	898
Home Equity – closed end	-	-	-	-
Home Equity – open end	821	-	-	821
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	63	-	-	63
Impaired loans	11,020	-	-	11,020
Loans held for sale	97,211	-	97,211	-
Total assets at fair value	$110,730	$-	$97,211	$13,519
Total liabilities at fair value	$-	$-	$-	$-

December 31, 2015	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$2,128	-	-	$2,128
		-	-	
Construction/Land Development	9,161	-	-	9,161
Farmland	-	-	-	-
Real Estate	85	-	-	85
Multi-Family	-	-	-	-
Commercial Real Estate	872	-	-	872
Home Equity – closed end	-	-	-	-
Home Equity – open end	1,145	-	-	1,145
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	52	-	-	52

Impaired loans	11,315	-	-	11,315
Loans held for sale	57,806	-	57,806	-
Total assets at fair value	$71,249	-	$57,806	$13,443
Total liabilities at fair value	$-	$-	$-	$-

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

Note 7. Disclosures about Fair Value of Financial Instruments

ASC 825 “Financial Instruments” defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank’s financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company’s financial instruments as of June 30, 2016 and December 31, 2015.

	June 30, 2016		December 31, 2015	
	Estimated Fair Value	Carrying Value	Estimated Fair Value	Carrying Value
Financial Assets				
Cash and cash equivalants	$8,591	$8,591	$8,591	$8,591
Loans	576,242	565,999	555,762	544,053
Loans held for sale	97,211	97,211	57,806	57,806
Interst receivable				
Investments	24,951	24,909	25,329	25,324
Financial Liabilities	1,851	1,851	1,851	1,851
Time deposits	161,270	159,914	162,524	161,040
Short-term debt	59,418	59,418	24,954	24,954
Long-term debt	66,891	66,196	48,565	48,161

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

Note 8. Troubled Debt Restructuring

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

During the six months ended June 30, 2016, there were six loan modification 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.

	Six Months ended June 30, 2016		
		Pre-Modification	Post-Modification
(in thousands)		Outstanding	Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$27	$27
Real Estate	2	143	143
Consumer	3	36	36
Total	6	$206	$206

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

Note 8. Troubled Debt Restructuring, continued

During the quarter ended June 30, 2016, there were five loans modifications that were considered to be troubled debt restructurings.

	Three Months ended June 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Commercial	1	$27	$27
Real Estate	2	143	143
Consumer	2	19	19
Total	5	$189	$189

At June 30, 2016, six loans that had been restructured in the previous 12 months, were in default or were on nonaccrual status. A restructured loan is considered in default when it becomes 90 days past due.

	June 30, 2016		
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate	5	$1,528	$1,528
Consumer	1	16	16
Total	6	$1,544	$1,544

During the six months ended June 30, 2015, there were eight 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.

	Six Months ended June 30, 2015		
		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Real Estate	4	$2,724	$2,724
Consumer	4	43	43
Total	8	$2,767	$2,767

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

	Three Months ended June 30, 2015		
		Pre-Modification Outstanding	Post-Modification Outstanding
	Number of Contracts	Recorded Investment	Recorded Investment
Troubled Debt Restructurings			
Real Estate	4	$2,724	$2,724
Consumer	1	6	6
Total	5	$2,730	$2,730

At June 30, 2015, one real estate loan (outstanding recorded investment of $95,000) that had been restructured in the previous 12 months, was in default or was on nonaccrual status. 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 eleven 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 six months ended June 30, 2016 was $4,448,000 or $1.28 per share, compared to $4,047,000 or $1.15 in the same period in 2015, an increase of 9.91%. During the six months ended June 30, 2016, noninterest income decreased 10.94% and noninterest expense increased 7.05% during the same period. Net income from Bank operations adjusted for income from Parent activities is as follows:

In thousands	2016	2015

Net Income from Bank Operations	$4,366	$3,912
Income from Parent Company Activities	82	135
Net Income for the six months ended June 30	$4,448	$4,047

During the three months ended June 30, 2016, net income was $2,231,000 or $.68 per share, compared to $2,049,000 or $.62 in the same period in 2015, an increase of 9.01%. In the three months ended June 30, 3016, noninterest income decreased .40% and noninterest expense increased 6.14%.

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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 36, the 2016 year to date tax equivalent net interest income increased $888,000 or 6.80% compared to the same period in 2015. The tax equivalent adjustment to net interest income totaled $65,000 for the six months. The yield on earning assets decreased .02%, while the cost of funds increased .09% compared to the same period in 2015.

The three months ended June 30, 2016 tax equivalent net interest income increased $395,000 or 5.89% compared to the same period in 2015. The tax equivalent adjustment to net interest income totaled $33,000 for the three months.

The combination of the decrease in yield on assets and the increase in cost of funds for the three and six month periods coupled with changes in balance sheet leverage has resulted in the net interest margin decreasing to 4.39%, a decrease of 7 basis points year to date when compared to the same period in 2015. The quarter to date net interest margin of 4.37% is a 9 basis points decrease from the sale period in 2015. A schedule of the net interest margin for the three and six month periods ended June 30, 2016 and 2015 can be found in Table I on page 37.

The Interest Sensitivity Analysis contained in Table II on page 37 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 44.97% of rate sensitive assets and 35.42% of rate sensitive liabilities are subject to repricing within one year. Due to the relatively flat yield curve, management has kept deposit rates low. The growth in earning assets and the growth in noninterest bearing accounts has resulted in the decrease in the positive GAP position in the one year time period.

Noninterest income decreased $207,000 or 10.90% for the six month period ended June 30, 2016. The decrease is primarily due to a decrease in Farmers and Merchants Financial Services income, a decrease in rental and merchant services income. The noninterest income for the three months ended June 30, 2016 decreased $4,000 or .40% over the same period in 2015.

Noninterest expense increased $626,000 for the six month period ended June 30, 2016 as compared to 2015. Expense increased in the areas of salaries and benefits (additions to staff at new branches), pension, and data processing. The noninterest expense for the three months ended June 30, 2016 increased $276,000 over the same period in 2015. As stated in the most recently available (June 30, 2016) Uniform Bank Performance Report, the Company’s and peer’s noninterest expenses averaged 2.78% and 2.84% of average assets, respectively. The Company’s operating costs have always compared favorably to the peer group due to an excellent asset to employee ratio and below average facilities costs.

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

Balance Sheet

Federal Funds Sold and Interest Bearing Bank Deposits

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

Securities

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

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

As of June 30, 2016, the market value of securities available for sale exceeded their cost by $42,000. The portfolio is made up of primarily agency securities with an average portfolio life of just over three years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. There are $4,000,000 in securities that will mature in 2016 and $2,000,000 that are callable.

In reviewing investments as of June 30, 2016, 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 Company has loan concentrations within the portfolio in construction and development lending as well as hotel/motel 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 $565,999,000 increased $21.9 million at June 30, 2016 compared to December 31, 2015. Construction and land development increased $6.2 million, dealer finance portfolio increased $5.9 million and the real estate portfolio increased $2.6 million. Increases in other loan categories totaled $1.1 million with decreases in farmland, multifamily, consumer and credit cards.

Loans Held for Sale totaled $97,211,000 at June 30, 2016, an increase of $39,405,000 compared to December 31, 2015. Secondary market loan originations have been very strong for both VBS Mortgage and Northpointe Bank during the first six months of 2016.

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 $5,545,000 at June 30, 2016 compared to $6,526,000 at December 31, 2015. 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 June 30, 2016, the Company holds $2,499,000 of real estate which was acquired through foreclosure. This is an increase of $371,000 compared to December 31, 2015.

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

	June 30, 2016	December 31, 2015
Nonaccrual Loans		
Real Estate	$4,992	$5,698
Commercial	81	109
Home Equity	240	40
Other	100	108
	5,413	5,955
Loans past due 90 days or more (excluding nonaccrual)		
Real Estate	-	272
Commercial	-	25
Home Equity	-	107
Other	132	167
	132	571
Total Nonperforming loans	$5 545	$6,526
Restructured Loans current and performing:		
Real Estate	8,369	8,713
Commercial	1,164	1,463
Home Equity	-	1,414
Other	95	91

Nonperforming loans as a percentage of loans held for investment	.98%	1.20%
Net Charge Offs to total loans held for investment	.13%	.04%
Allowance for loan and lease losses to nonperforming loans	145.50%	134.55%

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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, unimpaired/nonclassified loans and classified loans. Loans with identified potential losses include examiner and bank classified loans. Relationships rated substandard and 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.

Classified loans are segmented by call report code, past due status and risk rating. Loss rates are assigned based on actual loss experience over the last five years, calculated quarterly and multiplied by a risk factor. Each classified loan segment is given an appropriate factor.

Loans that are unimpaired/nonclassified are categorized by call report code and an estimate is calculated based on actual loss experience over the last five years. Dealer finance loans utilize a loss rate based on the highest loss in the last five years due the growth in the portfolio and the age of the division. Six environmental factors are used to reflect other changes in the collectability of the portfolio not captured by the historical loss date (loan growth, unemployment, interest rates, changes in underwriting practices, local real estate industry conditions, and experience of lending staff). The Board approves the loan loss provision for each quarter based on this evaluation.

The allowance for loan losses of $8,068,000 at June 30, 2016 is equal to 1.43% of loans held for investment. This compares to an allowance of $8,781,000 (1.61%) at December 31, 2015. Based on the evaluation of the loan portfolio described above, management has not funded the allowance in the first six months of 2016. Net charge-offs year to date totaled $713,000.

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 increased $10,041,000 since December 31, 2015. Time deposits decreased $1,126,000 during this period while demand deposits and savings deposits increased $11,167,000. The increase in deposits can be attributed to growth in the new branches 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 $1.7 million in CDARS funding, which is a decrease of $3.8 million from December 31, 2015.

Short-term borrowings

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 June 30, 2016 there were $50,000,000 in FHLB short-term borrowings, federal funds purchased totaled $7,310,000 and commercial repurchase agreements totaled $2,108,000. This compared to FHLB short-term borrowings of $20,000,000, federal funds purchased of $959,000 and commercial repurchase agreements of $3,995,000 at December 31, 2015.

Long-term borrowings

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 $1,965,000 of scheduled repayments and $20,000,000 in additional borrowings during the quarter ended June 30, 2016.

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.

At June 30, 2016, Company’s total risk based capital and leverage ratios were 14.50% and 11.91%, respectively, as compared to year end of 15.38% and 12.18%, respectively. For the same period, Bank-only total risk based capital and leverage ratios were 14.20% and 11.64%, respectively, as compared to year end of 15.24% and 12.06%, respectively. Both the Company and the Bank are reporting common equity tier 1 capital ratios of 11.74% and 12.95%, respectively as compared to year end of 12.46% and 13.99%. The Bank also reported a Capital conservation buffer of 6.20% as of June 30, 2016. For both the Company and the Bank these ratios are in excess of regulatory minimums to be considered “well capitalized”.

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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. 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 (FHLB) that allows for secured borrowings.

The following table presents the available and outstanding balances of the Company’s lines of credit:

	June 30, 2016	
	Available Balance	Outstanding Balance
	(in thousands)	
Federal Funds Line - Community Bankers Bank	$15,000	$7,310
Federal Funds Line - Zions Bank	11,000	-
	$26,000	$7,310

The following table presents the borrowing capacity with the FHLB from pledged loans as of June 30, 2016:

	June 30, 2016
	(in thousands)
Borrowing capacity	$141,066
Outstanding borrowings	116,196
Total credit available	$24,870

The outstanding borrowings includes $50 million in short term borrowings that directly support the loans held for sale.

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 June 30, 2016, the Company had a cumulative Gap Rate Sensitivity Ratio of 18.91% 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 January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments were effective for the Company on January 1, 2016, and did not have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. The amendments were expected to result in the deconsolidation of many entities. The amendments were effective for the Company on January 1, 2016. The adoption of these amendments did not have a material effect on the Company’s financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company’s fiscal year-end. The amendments were effective for the Company on January 1, 2016. The Company’s adoption of these amendments did not 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.

In August 2015, the FASB issued amendments to the Interest topic of the Accounting Standards Codification to clarify the SEC staff’s position on presenting and measuring debt issuance costs incurred in connection with line-of-credit arrangements. The amendments were effective upon issuance. The Company does not expect these amendments to have a material effect on its financial statements

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for [fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB issued new guidance on accounting for leases, which generally requires all leases to be recognized in the statement of financial position. The provisions of this guidance are effective for reporting periods beginning after December 15, 2018; early adoption is permitted. These provisions are to be applied using a modified retrospective approach. The Company is evaluating the effect that this new guidance will have on our consolidated financial statements, but does not expect it will have a material effect on its financial statements.

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

Effect of Newly Issued Accounting Standards, continued

In March 2016, the FASB amended the Liabilities topic of the Accounting Standards Codification to address the current and potential future diversity in practice related to the derecognition of a prepaid stored-value product liability. The amendments will be effective for financial statements issued for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance using a modified retrospective transition method by means of a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year in which the guidance is effective to each period presented. The Company does not expect these amendments to have a material effect on its financial statements.

In March 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the implementation guidance on principal versus agent considerations and address how an entity should assess whether it is the principal or the agent in contracts that include three or more parties. The amendments 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.

In March 2016, the FASB issued guidance to simplify several aspects of the accounting for share-based payment award transactions including the income tax consequences, the classification of awards as either equity or liabilities, and the classification on the statement of cash flows. Additionally, the guidance simplifies two areas specific to entities other than public business entities allowing them apply a practical expedient to estimate the expected term for all awards with performance or service conditions that have certain characteristics and also allowing them to make a one-time election to switch from measuring all liability-classified awards at fair value to measuring them at intrinsic value. The amendments will be effective for the Company for annual periods beginning after December 15, 2016 and interim periods within those annual periods. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify the guidance related to identifying performance obligations and accounting for licenses of intellectual property. The amendments 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.

In May 2016, the FASB amended the Revenue from Contracts with Customers topic of the Accounting Standards Codification to clarify guidance related to collectability, noncash consideration, presentation of sales tax, and transition. The amendments 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.

In June 2016, the FASB issued guidance to change the accounting for credit losses and modify the impairment model for certain debt securities. The amendments will be effective for the Company for reporting periods beginning after December 15, 2019. The Company is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

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

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)

	Six Months Ended June 30, 2016			Six Months Ended June 30, 2015			Three Months Ended June 30, 2016			Three Months E June 30, 2015	
	Average Balance2,4	Income/ Expense	Average Rates	Average Balance2,4	Income/ Expense	Average Rates5	Average Balance2,4	Income/ Expense	Average Rates	Average Balance2,4	Inc Ex
Interest income											
Loans held for investment1,2	$555,532	$14,587	5.28%	$525,392	$13,792	5.29%	$560,509	$7,370	5.27%	$530,361	$6
Loans held for sale	59,210	890	3.02%	38,530	513	2.68%	68,511	518	3.03%	47,579	3
Federal funds sold	5,159	12	.47%	7,267	8	.22%	4,070	5	.49%	5,806	3
Interest bearing deposits	872	2	.46%	1,329	-	-	851	1	.47%	689	-
Investments											
Taxable 3	17,798	139	1.57%	17,555	136	1.56%	17,434	70	1.61%	18,090	9
Partially taxable	125	-	-	125	-	-	125	-	-	125	-
Total earning assets	$638,696	$15,630	4.92%	$590,198	$14,449	4.94%	$651,500	$7,964	4.90%	$602,650	$7
Interest Expense											
Demand deposits	109,842	245	.45%	119,914	314	.53%	112,131	126	.45%	117,483	1
Savings	95,299	208	.44%	68,053	70	.21%	97,741	108	.44%	69,756	3
Time deposits	162,265	695	.86%	176,659	717	.81%	162,894	356	.87%	170,122	3
Short-term debt	36,133	26	.14%	32,569	30	.19%	42,941	8	.07%	45,012	1
Long-term debt	47,497	501	2.12%	23,335	252	2.18%	47,546	263	2.22%	24,387	1
Total interest	$451,036	$1,676	.75%	$420,530	$1,383	.66%	$463,253	$862	.75%	$426,760	$6

bearing liabilities				
Tax equivalent net interest income 1	$13,954	$13,066	$7,102	$6
Net interest margin	4.39%	4.46%	4.37%	

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.

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TABLE II

F & M BANK CORP.
Interest Sensitivity Analysis

June 30, 2016
(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	$21,823	$27,382	$115,420	$18,207	$-	$182,832
Installment	3,820	1,290	49,756	13,026	-	67,892
Real estate loans for investments	93,407	50,886	156,057	12,259	-	312,609
Loans held for sale	97,211	-	-	-	-	97,211
Credit cards	2,666	-	-	-	-	2,666
Interest bearing bank deposits	1,275	-	-	-	-	1,275
Investment securities	4,019	-	6,165	744	135	11,063
Total	$224,221	$79,558	$327,398	$44,236	$135	$675,548
Sources of funds						
Interest bearing demand deposits	$-	$30,786	$64,115	$16,665	$-	$111,566
Savings deposits	-	19,948	59,842	19,947	-	99,737
Certificates of deposit $100,000 and over	3,378	11,440	35,201	-	-	50,019
Other certificates of deposit	18,685	27,916	63,294	-	-	109,895
Short-term borrowings	59,418	-	-	-	-	59,418
Long-term borrowings	1,107	3,322	39,714	22,053	-	66,196
Total	$82,588	$93,412	$262,166	$58,665	$-	$496,831
Discrete Gap	$141,633	$(13,854)	$65,232	$(14,429)	$135	$178,717
Cumulative Gap	$141,633	$127,779	$193,011	$178,582	$178,717	
Ratio of Cumulative Gap to Total Earning Assets	20.97%	18.91%	28.57%	26.44%	26.46%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of June 30, 2016. 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, 2015.

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 Sabanes-Oxley Act of 2002 (filed herewith).

101 The following materials from F&M Bank Corp.'s Quarterly Report on Form 10Q for the period ended June 30, 2016, 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.

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

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

August 15, 2016

Exhibit Index:

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