



## 2005 ANNUAL REPORT

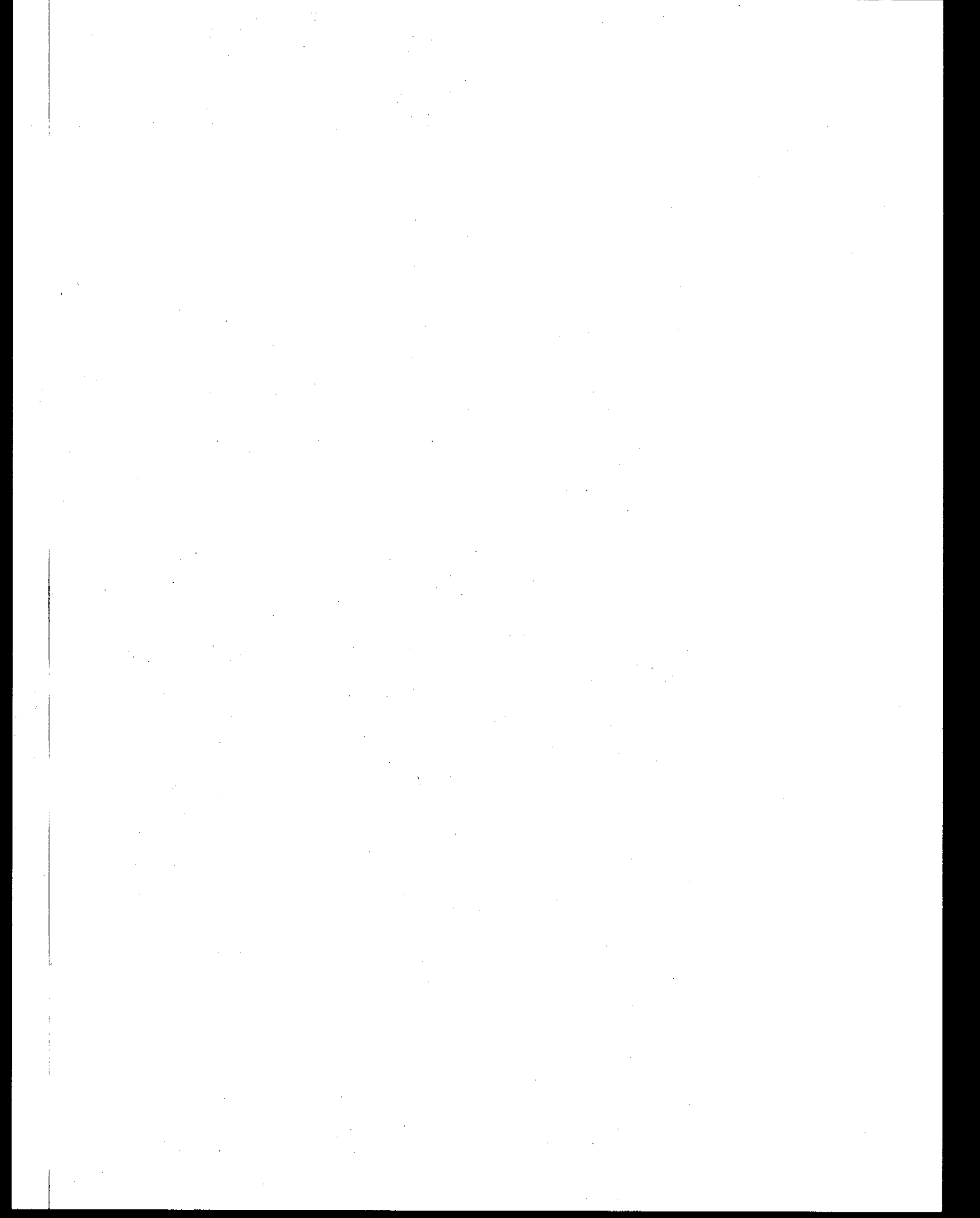


Filings Services  
April 11, 2006  
SNL Financial, LC  
1-800-969-4121

# F&M Bank Corp.

*The Bank Holding Company For:*

Farmers & Merchants Bank  
TEB Life Insurance Company





*The primary mission of Farmers & Merchants Bank  
is to be a strong, independent community banking organization  
that provides a reasonable return to our shareholders, quality  
service to our customers and communities and a rewarding and  
challenging workplace for our employees.*

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Dear Stockholder,

The year 2005 was an excellent year for F & M Bank Corp. We again had record earnings for the third straight year. Contributing significantly to the increase in earnings was an 11.4% increase in Loans Held for Investment and the rising interest rate environment. Securities Gains for 2005 were only \$71,000 versus \$532,000 in 2004, which makes the record earnings in 2005 even more remarkable. As you review this report, I hope you will share our enthusiasm for our accomplishments this past year. With three new branches, which I will discuss in more detail later, opening in 2006 I am excited about the growth potential for F & M in the future.

Net income for 2005 was \$4.780 million or an increase of \$430,000 (9.9%) over the prior year 2004. Earnings per share increased from \$1.80 to \$1.99. The increase in both net income and earnings per share can be attributed primarily to an increase in net interest income from our growth in loans held for investment of \$20.805 million. We did see a reduction in our loan participation program that contributed significantly to earnings in 2004. In 2005 this program contributed approximately \$135,000 to net earnings, but toward the end of the year we had very few loans in the program. This reduction was due to the rising short term rate environment. The secondary market mortgage originators have found cheaper funding options and, therefore, are not using the program. If short term rates decline, I would anticipate this program generating income in the future.

Credit quality remained good with charge offs dropping to .07% of Loans Held for Investment in 2005 from .09% in 2004. Average losses continue at less than one-half that of the Bank's peer group average, which have ranged between .13% and .26% over the last three years. Nonperforming assets decreased significantly to .20% of total assets which is well below our five year average. Management has reviewed the nonperforming loans, and determined that they are primarily secured by real estate with little potential for losses. The Allowance for Loan Losses remained steady at .60% of Loans Held for Investment, which is below our bank peer group; however, we feel it is adequate based on our excellent history of loan losses.

Dividends increased from \$.74 to \$.78 per share, an increase of 5.4%. In 2005 we paid out 38.70% of our earnings in dividends.

As I mentioned earlier, we hope to open three new branches in 2006. The construction of our Crossroads branch is moving along smoothly now after a few early delays. Our projected opening date is August 1st. At that time we will be closing our current office located in the Food Lion shopping center in Elkton. The building housing this branch does not allow us room for growth and expansion. Also on April 3rd, we will be opening a new branch in the Port Crossing shopping center on Port Republic Road in Harrisonburg. This will be our first branch within the city limits of Harrisonburg and should compliment the Crossroads branch. Both branches will be located on high traffic roads. We are also continuing with our Courier Service in Harrisonburg to pick up business deposits. This service has been well received by the Harrisonburg business community.

By the time this annual report is distributed, we hope to also have regulatory approval for the third branch which will be in Luray, Va. We feel that Luray and the surrounding Page County area fit our marketing plan and represent good areas for future growth. This office will be in a leased facility in the East Luray Shopping Center. Once all of these branches are operating, we will have nine full service branches, a mortgage department and an investment department.

As you review this annual report, I think you will agree with me that we had an excellent year in 2005. This is due to the excellent staff we have and the support of the stockholders and the communities that we serve. We are committed to continuing our efforts to provide quality customer service which will result in a good return on your investment.

Thanks again for your support through the years.

Dean W. Withers  
President/CEO

## Five Year Summary of Selected Financial Data

(Dollars in thousands, except per share data)	2005	2004	2003	2002	2001
<b>Income Statement Data:</b>					
Interest and Dividend Income	\$ 19,878	\$ 16,804	\$ 16,683	\$ 17,846	\$ 17,681
Interest Expense	6,998	5,396	6,010	7,390	9,494
Net Interest Income	12,880	11,408	10,673	10,456	8,187
Provision for Loan Losses	360	240	226	387	204
Net Interest Income after Provision for Loan Losses	12,520	11,168	10,447	10,069	7,983
Noninterest Income	2,643	2,254	2,308	1,380	1,158
Securities Gains (Losses)	71	532	179	(182)	1,252
Noninterest Expenses	8,608	7,741	7,256	6,448	5,728
Income before Income Taxes	6,626	6,213	5,678	4,819	4,665
Income Tax Expense	1,846	1,863	1,666	1,315	1,435
Net Income	<u>\$ 4,780</u>	<u>\$ 4,350</u>	<u>\$ 4,012</u>	<u>\$ 3,504</u>	<u>\$ 3,230</u>
<b>Per Share Data:</b>					
Net Income	\$ 1.99	\$ 1.80	\$ 1.66	\$ 1.44	\$ 1.33
Dividends Declared	.78	.74	.70	.66	.63
Book Value	15.22	14.21	13.35	12.19	11.74
<b>Balance Sheet Data:</b>					
Assets	\$ 346,328	\$ 369,957	\$ 309,126	\$ 303,149	\$ 272,673
Loans Held for Investment	277,398	248,972	211,231	201,980	176,625
Loans Held for Sale	3,528	47,150	-	-	-
Securities	34,921	38,800	61,230	69,602	63,987
Deposits	267,310	246,505	240,715	228,284	208,279
Short-Term Debt	14,345	57,362	6,389	8,308	10,696
Long-Term Debt	22,808	26,462	24,784	32,312	20,983
Shareholders' Equity	36,567	34,260	32,319	29,541	28,597
Average Shares Outstanding	2,404	2,414	2,418	2,429	2,431
<b>Financial Ratios:</b>					
Return on Average Assets <sup>1</sup>	1.34%	1.31%	1.29%	1.21%	1.26 %
Return on Average Equity <sup>1</sup>	13.56%	13.11%	13.13%	12.12%	11.47 %
Net Interest Margin	3.95%	3.82%	3.82%	4.03%	3.52 %
Efficiency Ratio <sup>2</sup>	53.07%	54.02%	53.96%	51.28%	56.93 %
Dividend Payout Ratio	38.70%	41.06%	42.17%	45.72%	47.45 %
<b>Capital and Credit Quality Ratios:</b>					
Average Equity to Average Assets <sup>1</sup>	9.86%	10.00%	9.86%	9.98%	11.02 %
Allowance for Loan Losses to Loans <sup>3</sup>	.60%	.61%	.70%	.73%	.73 %
Nonperforming Assets to Total Assets	.20%	.63%	.52%	.86%	.40 %
Net Charge-offs to Total Loans <sup>3</sup>	.07%	.09%	.10%	.10%	.06 %

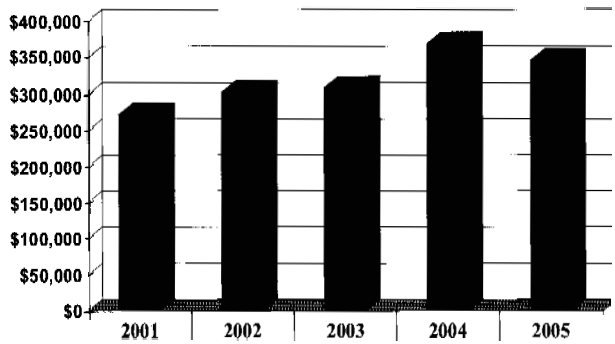
<sup>1</sup> Ratios are primarily based on daily average balances.

<sup>2</sup> The Efficiency Ratio equals noninterest expenses divided by the sum of tax equivalent net interest income and noninterest income. Noninterest expenses exclude intangible asset amortization. Noninterest income excludes gains (losses) on securities transactions.

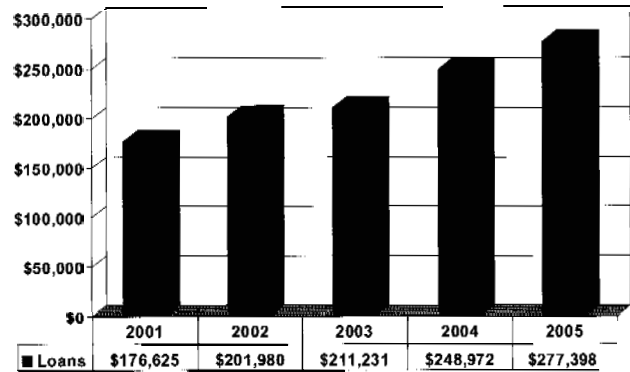
<sup>3</sup> Calculated based on Loans Held for Investment, excludes Loans Held for Sale.

## Five Year Summary of Selected Financial Charts

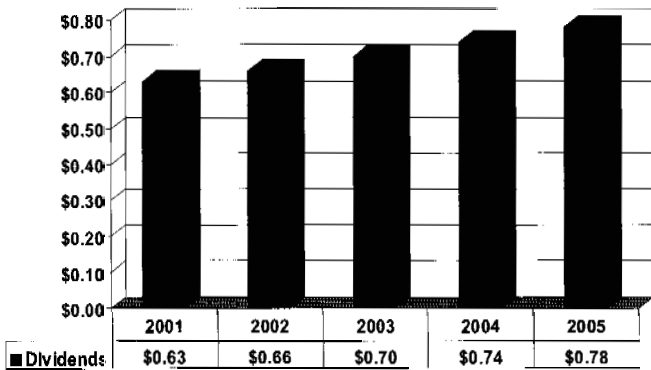
### Balance Sheet: Total Assets



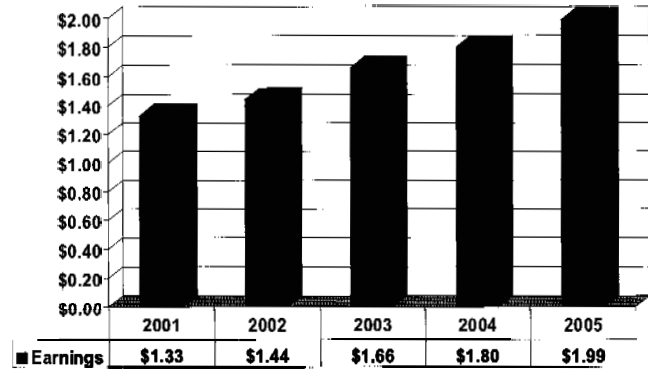
### Balance Sheet: Loans Held For Investment



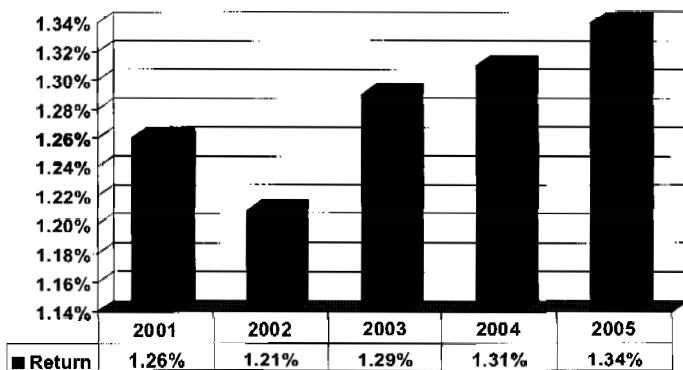
### Dividends Per Share



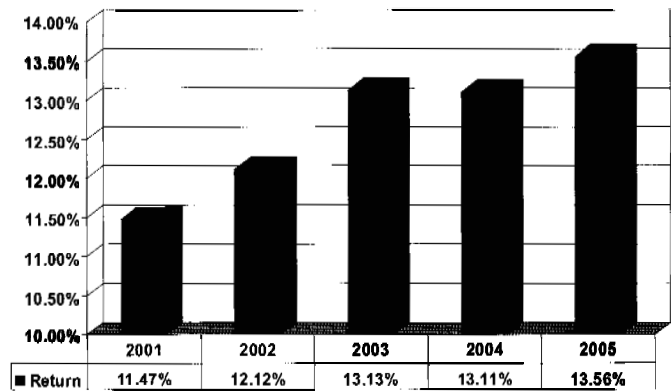
### Earnings Per Share



### Financial Ratios: Return on Average Assets



### Financial Ratios: Return on Average Equity





**Farmers & Merchants Bank Continues its  
Community Service Policy...**

*This time the beneficiaries were our neighbors to the  
South in Mississippi*

*See last page*





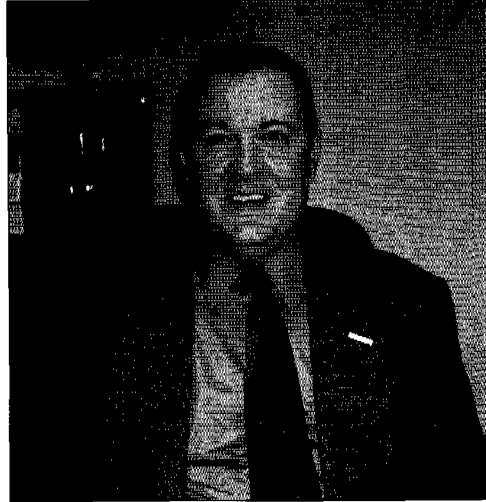
  
**Merchants Bank**  
*The Test Of Time!*

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Along with approximately 60 other Virginia community banks, our Bank has ownership in Bankers Insurance and can offer a variety of insurance products to our area.

## **Bankers Insurance, LLC**

Comprehensive insurance solutions for you, your business and your family



*Lee Shuler  
Harrisonburg Agent*

### **Representative Business Products**

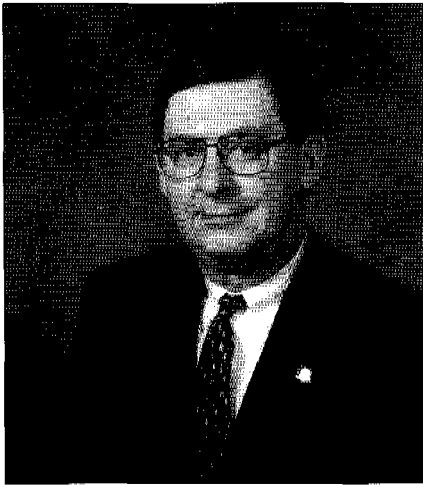
- Property Coverage  
Buildings, Business Personal Property,  
Computer Equipment, Property of Others
- General Liability Coverage  
Premises and Operations, Personal Injury,  
Fire Damage
- Workers' Compensation
- Professional Liability
- Health and Welfare  
Major Medical, Disability, Group Life,  
Dental, Retirement, Key Employee Life
- Surety Bonds

### **Representative Personal Products**

- Property and Casualty  
Homeowners, Automobiles and Boats
- Life  
Term, Whole, Universal
- Health  
Accident, Disability, Long-Term Care
- Personal Articles
- Personal Umbrella

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## Farmers & Merchants Financial Services



*Henry Hawkins*



*Mary Ellen Harrison*

### Helping our Customers Reach Their Financial Goals

Henry Hawkins and Mary Ellen Harrison, the investment consultants at Farmers & Merchants Financial Services, bring a wealth of experience to Farmers & Merchants Bank customers. They can tailor an investment strategy to fit comfortably with each customer's objectives. At Farmers & Merchants Bank, we want our customers to receive the same level of care they expect when banking with us. That's why we continue to offer all the financial capabilities found at other brokerage firms through our association with BI Investments, LLC.\*

### Annuity Representatives



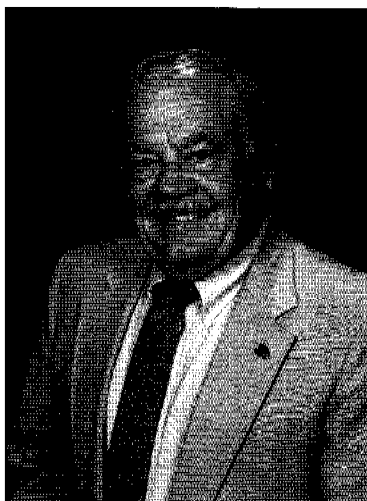
With customers becoming more educated about their financial needs, the Bank chose to work with BI Investments to license employees for fixed annuities. The employees pictured above successfully completed the licensing requirements needed to offer annuities to our customers. By licensing several employees in each branch, the Bank is able to compete with insurance companies and other investment companies to meet the customers' investment needs.

\*Securities and Insurance Products: Not insured by FDIC or any Federal Government Agency, May lose value, Not a deposit of or guaranteed by the Bank or any Bank Affiliate

Securities and insurance offered through BI Investments, LLC, member NASD and SIPC. BI Investments is associated with Farmers & Merchants Bank. Farmers & Merchants Financial Services is an affiliate of Farmers & Merchants Bank.

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## Retired Director



*Robert L. Halterman*

On July 21, 2005, Robert L. Halterman retired as a director and Vice Chairman of Farmers & Merchants Bank and F & M Bank Corp. and it was also his 70th birthday. Bob served on the board for 25 years and contributed significantly to the success of the Bank over that time. A dinner was held for Bob at Spotswood Country Club, where he was awarded an engraved plaque and a framed resolution honoring his service. He is President of Virginia Classic Mustang, Inc. in Broadway and Partner in H & H Properties.

## Service Anniversaries



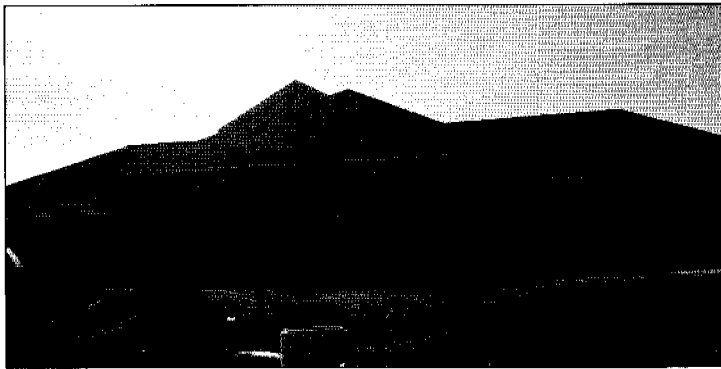
*Carolyn J. Dove*  
**30 years**



*Phyllis B. Delawder*  
**20 years**

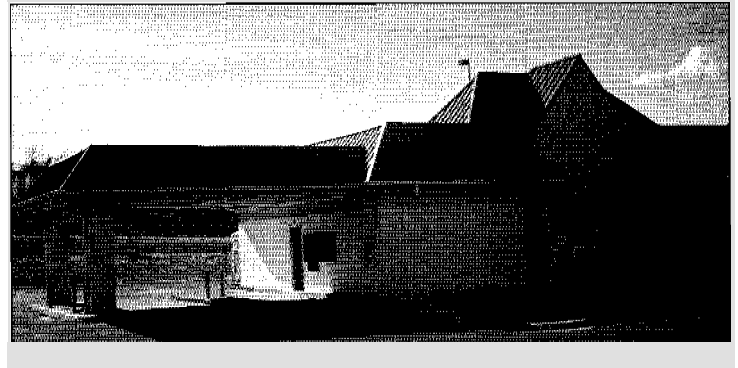
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# Farmers & Merchants Bank Offices Coming Soon



## Crossroads Farm

80 Cross Keys Road  
Harrisonburg, VA



## Port Road

1085 Port Republic Road  
Harrisonburg, VA

## Courier Service



Farmers & Merchants Bank Courier Van Service to Harrisonburg and surrounding areas began operations on July 11, 2005, with daily pick up of commercial deposits, offering safety and convenience to commercial customers. This is the first service of this type in the Harrisonburg area and is proving to be a great source of new business and a jump start for our new Crossroads branch. The custom van is equipped with a dual-control night deposit vault and security equipment.

FOR OUR CUSTOMERS' CONVENIENCE, WE ALSO PROVIDE ACCESS TO  
BANK SERVICES THROUGH:

### ATM Locations

#### 6 at Branch Locations

The following off site are cash dispensing only:  
4 in Food Lion Stores in Harrisonburg, VA  
Food Lion Store in Mt. Jackson, VA  
Bo's Interstate Shell, Edinburg, VA

### 24-Hour Access

#### Internet Banking at [www.farmersandmerchants.biz](http://www.farmersandmerchants.biz)

Telephone Banking 540-901-8733 or  
Toll Free 877-901-8733

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## Directors

THOMAS L. CLINE

*President, Truck & Equipment Corp.  
President, Mac Lease, Inc.*

JOHN N. CRIST

*Partner, Hoover Penrod, P.L.C, Attorneys*

JULIAN D. FISHER

*Chairman of the Board,  
Farmers & Merchants Bank  
and F & M Bank Corp.*

ELLEN R. FITZWATER

*Partner, Financial Manager,  
F & R Leasing, L.L.C.*

DANIEL J. HARSHMAN

*Manager, Town of Edinburg*

RICHARD S. MYERS

*President, Dick Myers Chevrolet-Pontiac*

MICHAEL W. PUGH

*President, Old Dominion Realty, Inc.  
President, Colonial Appraisal Service, Inc.*

RONALD E. WAMPLER

*Salesman, Dick Myers Chevrolet-Pontiac  
Retired Farmer  
Partner, Dove Ohio Farms, LLC.  
and WWTD Ohio Farms, LLC*

DEAN W. WITHERS

*President, Farmers & Merchants Bank  
and F & M Bank Corp.*

## Officers

Julian D. Fisher

*Chairman of the Board*

Thomas L. Cline

*Vice Chairman of the Board*

Dean W. Withers

*President and Chief Executive Officer*

Larry A. Caplinger

*Sr. Vice President and Secretary of the Board*

Neil W. Hayslett

*Sr. Vice President and Chief Financial Officer*

Ellen C. Branner

*Sr. Vice President/Human Resources*

Stephanic E. Shillingburg

*Sr. Vice President/Retail Services*

Curtis M. Arey

Sylvia T. Bowman

Carolyn J. Dove

Sally H. Erickson

Ralph C. Foltz, Jr.

Henry E. Hawkins

Gary L. Knott

Jeffrey L. Lam

Susan K. Olson

Mary Sue Prophet

Kitty H. Purcell

Robert R. Reedy, Jr.

*Vice Presidents*

Carrie A. Comer

Ellen M. Grataski

Kathy L. Grubbs

Joshua P. Hale

Mary Ellen Harrison

Teresa D. Helmick

Cathy M. Lindamood

Judith A. Mathias

Sheila F. Owen

Cindy A. Sherman

Jacqueline M. Shifflett

Darlene K. Sites

Deborah D. Vance

*Assistant Vice Presidents*

*(caption for centerspread)*

Farmers & Merchants Bank determined that it was important to be involved with the relief efforts in the South after the destruction caused by Hurricane Katrina. One of the ways the bank chose to help was by allowing employees one week off with pay to serve in the clean up and repair efforts. The bank also made monetary contributions for the purchase of supplies to be used in that area and made a donation to the American Red Cross immediately after the hurricane. So far Farmers & Merchants Bank employees have made two trips to Mississippi and at least one additional trip is being planned. The Bank would like to thank those employees who have donated their time and efforts in the clean up and also those who remained here in Virginia to cover for those who went.

### **Some of the jobs performed were:**

Replaced floor and paneling in one room of the home of a 70-year old woman and her 90-year old mother, replaced sheet rock, insulation etc. in homes, painted and installed plumbing and fixtures in two homes, removed damaged roof and replaced with new shingles, completely replaced rooms destroyed by hurricane, removed debris from homes, anticipate similar jobs in coming trip(s).

**Investments**

**Banking**

**Insurance**



