



F&M Bank Corp.

2012 ANNUAL REPORT



– Reaching Out –

Finding Ways To Connect To Our Community

President's Letter



Dear Stockholder:

I am pleased to report that 2012 was our third consecutive year of earnings improvement. Net income totaled \$4.901 million compared to \$4.688 million in 2011, \$3.741 million in 2010 and \$1.954 million in 2009. The improved earnings were primarily the result of our improving net interest income, which increased to \$20.931 million, compared to \$19.961 million in 2011. The combined improvement of \$970 thousand in our interest income was the result of our interest expense declining \$1.425 million, while our interest income only declined \$455 thousand. While in recent years, many banks have been struggling with a shrinking net interest margin, we have been fortunate to enjoy three consecutive years of improved margins. Our net interest margin for 2012 rose to 3.95% as compared to 3.87%, 3.77% and 3.70% in 2011, 2010 and 2009, respectively. This improvement is primarily the result of balance sheet leverage, meaning that we have a higher

percentage of our balance sheet invested in higher yielding and longer term loans, as opposed lower yielding, shorter term assets, such as investments and federal funds sold.

As a result of the improved earnings, the Board of Directors voted recently to increase the quarterly dividend from \$.16 to \$.17, a 6.25% increase. With this increase, and at our recent stock price of \$17.04 per share, the annual dividend yield is approximately 3.99%. This continues to be a very attractive dividend yield in the current interest rate environment. When I wrote the annual report letter in March of 2012, our stock price was \$14.60. Combining the price change and the dividends paid in the last four quarters, results in an annual return in excess of 21%.

While the price is not as high as we would like for it to be, we have made significant improvements compared to our lowest price approximately two years ago of \$11.75. As is typical in recent economic cycles, community bank stocks tend to go down in price more slowly than large banks, but also tend to recover more slowly than those same large banks. While there are some limited exceptions, generally large banks have not returned to their pre-recessions highs. Given that community banks tend to trade only hundreds or thousands of shares per day, it is unlikely that they (we) will reach pre-recession stock price levels until the large banks that trade hundreds of thousands or millions of shares per day reach their pre-recession peak.

Stockholder's equity continues to increase through the earnings that we retain and through shares issued as part of our dividend reinvestment program. If you don't already participate in the dividend reinvestment program, I urge you to consider this easy, no-cost way of increasing your ownership in our Company. Stockholder's equity has increased to \$49.384 million, as compared to \$46.180 million and \$42.229 million in 2011 and 2010, respectively. Capital growth is vital to our ability to continue expanding our Company through opening new offices and growing our market share in our existing locations.

As I stated in our earnings press release in late January, economic activity in our markets appears to be picking up. We've seen an improvement in recent loan demand. This improved demand crosses multiple business lines, as we are seeing good growth in our Dealer Finance Division, strong interest in our new Fishersville Loan Production Office and improved loan demand in our established markets. In support of our increased loan demand, we also grew our deposit base almost \$18 million in 2012, from \$435.9 million to \$453.8 million. We believe that the increased loan demand and deposit growth are signs that customers continue to seek a combination of good products, fair pricing and friendly, local service.

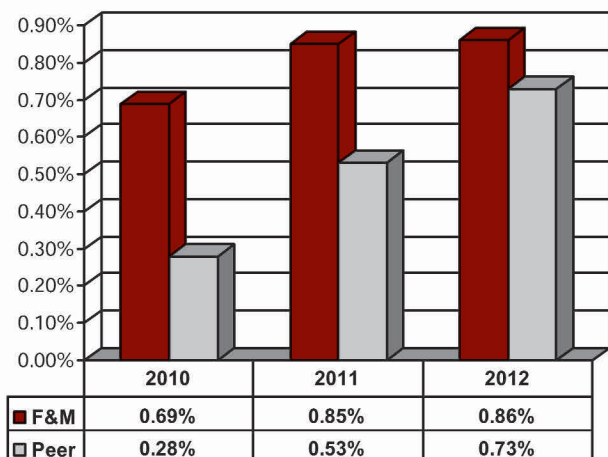
I hope everyone can attend the stockholders meeting in May. We thank you for your support and look forward to being able to fellowship together and answer any questions you may have.

A handwritten signature in black ink that reads "Dean W. Withers". The signature is written in a cursive, slightly slanted style.

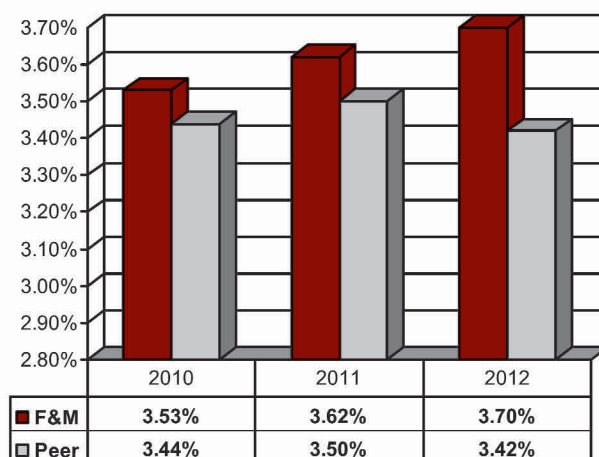
Dean W. Withers
President/CEO

Three Year Summary of Selected Financial Charts

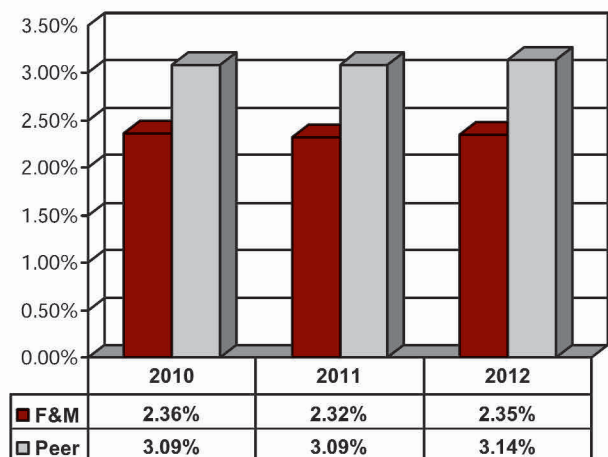
Net Income
(As a % of total assets)



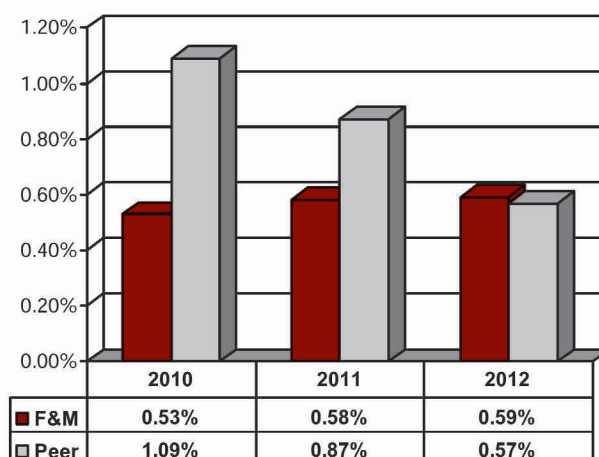
Net Interest Income
(As a % of total assets)



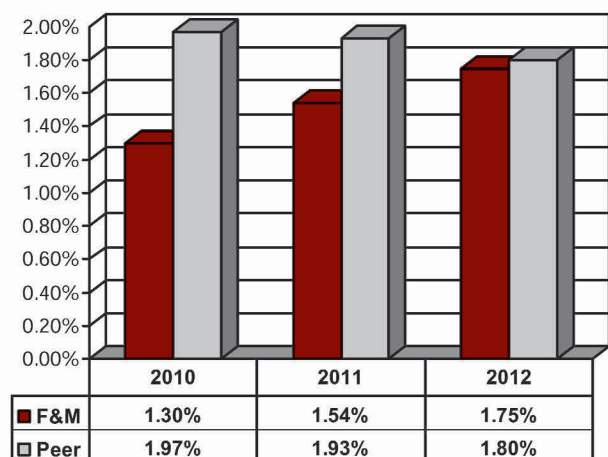
Overhead Expense
(As a % of total assets)



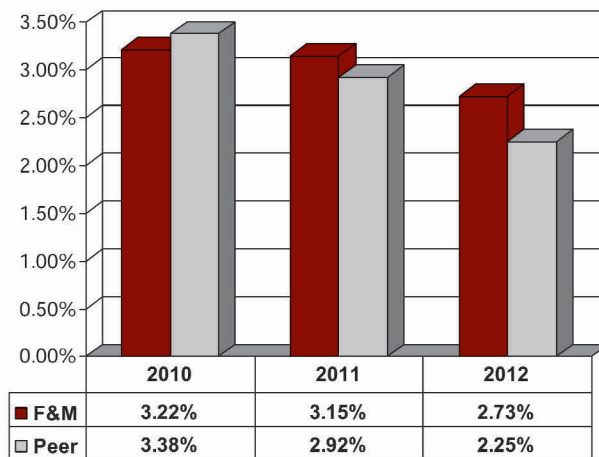
Net Loan Losses
(As a % of average loans held for investment)



Allowance For Loan Losses
(As a % of total loans)



Non-Performing Assets
(As a % of total assets)



Reaching Out – Finding Ways To Connect To Our Expanding Our Markets

Fall of 2012 saw F&M Bank expand into two new markets. One is a geographic move into Augusta County; the other is an outreach to a new customer segment with vehicle financing.

On October 1, 2012, F&M Bank opened a loan production office in Fishersville, VA. Two seasoned Augusta County bankers joined our staff to launch this new expansion. J.T. Bishop serves as our Business Development/Commercial Loan Officer and Gary Davenport makes loans for the bank and also mortgage loans for our affiliate VBS Mortgage.

Dean Withers, President and CEO, commented "We're excited to be expanding further into the Augusta County market. We previously only provided limited services to Augusta County through our courier service and the proximity of our branch office in Bridgewater, VA, which served portions of northern Augusta County. Fishersville is a vibrant and growing market within Augusta County and offers wonderful growth opportunities for our bank."



Fishersville Team: Gary Davenport and J.T. Bishop



Dealer Finance Team: Brenda Sayre, Greg Berkshire and Ryan May

On September 25, 2012, F&M Bank began operations of a loan production office in Penn Laird, VA which specializes in providing automobile financing through a network of automobile dealers. Dean Withers stated "We are fortunate to staff our new Dealer Finance Division with three officers that have extensive experience in Dealer Finance. This office is serving the automobile finance needs for customers of dealers throughout the existing geographic footprint of F&M Bank. Approximately thirty dealers have signed contracts with us to originate loans on behalf of F&M Bank. We will also continue to seek opportunities to add more dealers to our network." We welcome Greg Berkshire, Ryan May, and Brenda Sayre to the F&M staff in this new office.

"It is an exciting time for us as we continue to grow."



Fishersville Office

Finally, Withers noted, "We're gratified by the reception we are already receiving from the automobile dealers and commercial customers in these two new markets for F&M Bank. It is an exciting time for us as we continue to grow and expand on the community banking foundation that was first started by a group of enterprising farmers and merchants over 100 years ago."



"Cash donations to over 100 local charities (over \$62,000)"

Community

Community Support

"165 home purchases financed for a total of \$28,310,612 by VBS Mortgage"

Six of our branches hosted outdoor events for children during the summer and fall. There were games, activities, refreshments, and educational presentations for everyone in the family. These were true community events, and our bank lawns and parking lots were filled with neighbors enjoying the fun.



"Free community shredding provided at 9 branches"

"Hosted a Barn Dance for the 4H & FFA youth exhibitors at the Shenandoah County Fair"

F&M Bank did their part to fight childhood obesity and promote healthy activity among youth when we sponsored two Sports Clinics in 2012. Held at the football fields at East Rockingham High School and Stonewall Jackson High School, young athletes ages 6-12 were invited to apply. Five National Football League professionals, all members of the Gridiron Legacy, served as coaches for the kids and their parents. Gary Clark, a JMU alum and former Super Bowl-winning Redskin, led the many drills and provided lifetime athletic training advice.



"F&M Loans: 2,221 for \$186,733,726.43"

"Sponsorships and program ads for 86 local organizations and schools (over \$42,000)"

New Director Appointed



Larry Caplinger

Larry A Caplinger, a 40-year bank employee and Executive Vice President, was appointed to the Board of Directors in June 2012. Larry is a local native and has served in various positions at F&M over the years, currently as Chief Lending Officer.

Retired in 2012 – Thanks For All Your Service!



Brenda George

Brenda George has been serving customers in the new accounts area of the Timberville Office for the past 23 years. She began her career at Farmers & Merchants Bank in April, 1989 and retired December 31, 2012. During her career at the bank there have been many changes in the products the Bank offers

customers. Brenda has always met the challenges of the many changes and always provided exceptional customer service to her many loyal customers who will miss her.



Linda Jenkins

Linda Jenkins started her banking career in April, 1968 in the Bookkeeping Department. This department was later expanded to be called Operations and more recently Customer Support. Over the 44 years Linda has been with the Bank the department has been ever changing. The computer age changed almost every

aspect of Linda's responsibilities over the years. She has professionally embraced these changes and made customer service a priority. Linda retired from Farmers & Merchants Bank on December 14, 2012 and will be also missed by our customers and staff.

Employee Service Anniversaries



Larry Caplinger
40 Years



Chuck Foltz
30 Years



Lynette Wine
25 Years

Directors and Officers

DIRECTORS

THOMAS L. CLINE

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

Chairman of the Board, Truck & Equipment Corp.

Chairman of the Board, Mac Lease, Inc.

LARRY A. CAPLINGER

EVP/Chief Lending Officer, Farmers & Merchants Bank

JOHN N. CRIST

Partner, Hoover Penrod, PLC-Attorneys

ELLEN R. FITZWATER

Accounting Consultant and Partner, F & R Leasing, LLC

DANIEL J. HARSHMAN

Manager, Town of Edinburg

RICHARD S. MYERS

President, Dick Myers Chrysler-Dodge-Jeep, Inc.

MICHAEL W. PUGH

President, Old Dominion Realty, Inc.

President, Colonial Appraisal Service, Inc.

CHRISTOPHER S. RUNION

Owner & President, Eddie Edwards Signs, Inc.

RONALD E. WAMPLER

Partner, Dove Ohio Farms, LLC.

and WWTD Ohio Farms, LLC

DEAN W. WITHERS

President, Farmers & Merchants Bank

and F & M Bank Corp.

OFFICERS

Dean W. Withers, President & CEO

Larry A. Caplinger, EVP/Chief Lending
Officer & Secretary of Board

Neil W. Hayslett, EVP/Chief Financial Officer

Ellen C. Branner, SVP/Special Projects

Ralph C. Foltz, Jr., SVP/Operations

Jeffrey L. Lam, SVP/Retail Loan Administrator

Stephanie E. Shillingburg, SVP/Branch
Administration and Retail Services

Edward A. Strunk, SVP/Commercial Loan
Administrator

VICE PRESIDENTS

Deborah A. Andes

Curtis M. Arey

Anita C. Beckman

J. T. Bishop

Sylvia T. Bowman

Carrie A. Comer

Carolyn J. Dove

Sally H. Erickson

Joshua P. Hale

Charles P. Harder

Henry E. Hawkins

Teresa D. Helmick

Mary S. Prophet

Kitty H. Purcell

Robert R. Reedy, Jr.

Karen B. Rose

Kevin A. Russell &

President VBS Mortgage

Cynthia A. Sherman

Gregory B. Spittler

ASSISTANT VICE PRESIDENTS

Dustin Branner

Thomas L. Campbell

Aaron S. Green

Kathy L. Grubbs

Chris A. Gunter

Mary Ellen Harrison

Anthony W. Keyser

Cathy M. Lindamood

Kate Pascarella

Jonah J. Pence

Melody D. Ritchie

Sean Ryman

Krista L. Suter

Barbara W. Bartley,

Branch Officer

W. Brent Meadows,

Branch Officer

Natalie M. Strickler,

Branch Officer

Branches

Bridgewater
100 Plaza Drive
828-6300

Broadway
126 North Timber Way
896-7071

Edinburg
120 South Main Street
984-4128

Elkton
127 West Rockingham Street
298-1251

Harrisonburg
Crossroads
80 Cross Keys Road
433-7575

Harrisonburg
Port Road
1085 Port Republic Road
433-0112

Luray
700 East Main Street
743-1130

Timberville
205 South Main Street
896-8941

Woodstock
161 South Main Street
459-3707

Loan Production Offices

VBS Mortgage
2040 Deyerle Avenue, Ste 102
Harrisonburg
442-8583

Dealer Finance Department
4759 Spotswood Trail, Penn Laird
437-3480

Fishersville
Loan Production Office
1842 Jefferson Hwy
946-8160

www.FMBankVA.com

Investor Information:

FMBM

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Website: www.rtco.com