



F&M Bank



F&M Bank Corp. 2013 Annual Report



Dean Withers President & CEO

Dear Fellow Shareholders,

For 2013 we had net income of \$4.716 million compared to \$4.901 million for 2012. The difference was attributed to a decrease in the Loans Held for Sale from \$77.207 million to \$3.804 million. With interest rates rising in the secondary market throughout the year, and fewer individuals refinancing to get lower rates, the number of loans and income we received from the Loans Held for Sale category was significantly lower in 2013 versus 2012. Real estate values increased some and the overall economy continued to improve. Both of these factors should lead to improved earnings in the future. Deposits increased \$10.353 million (to \$464.149 million) and Loans Held for Investment increased \$12.634 million (to \$478.453 million). Our Net Interest Margin increased from 3.92% to 4.02%. We continue to offer a very competitive mix of deposit products including Internet banking, free online bill pay, and mobile deposit features. We also are competitive with our loan products and are able to process the applications quicker than our mega bank competitors.

We now have a full year's performance from our Augusta County Loan Production office and our Indirect Dealer Division. I am happy to report that both are performing above our budgeted expectations. Total loans at year end for both divisions were approximately \$37 million.

Nonperforming Loans as a percentage of Assets remained stable at 2.75%. This is still higher than we would like for it to be. We continue to work diligently to collect these balances; however, the ratio seems to stay relatively the same. Charge offs also remained higher than we like at .78%. With an improving economy, we can hopefully get both ratios back to normal levels.

We also continued to pay a good return through dividends to our shareholders. At the current price of \$17.21 and a dividend of \$.68 the return is 3.95%. Stockholder Equity increased from \$46.180 million to \$54.141 million and Book Value increased to \$21.56. We are working hard to increase the visibility of our stock to the investment community. Hopefully, more brokers will see the value in our stock and recommend it as an investment opportunity to their clients.

I encourage everyone to review the enclosed 10K for details regarding our financial performance for 2013. We are certainly available for questions if there is an area that you don't understand.

We remain in our eyes the Premier Community Bank in our markets and I hope you agree. Your staff and management are committed to remaining so, and to improving upon what we have accomplished over our 105 year history.

I hope to see everyone at the annual meeting in May.

Dean W. Withers



One of our favorite banks is Farmers & Merchants. We started our relationship three or four years ago with F&M Bank because they have always been a great contributor to the community and we are always looking for great banking relationships.

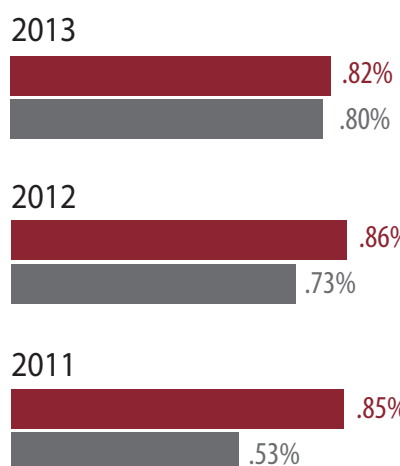
We are able to talk with them about our needs and they listen to us, they are flexible enough to understand our different needs, and they are able to address them.

- Frank Root
Countryside Service Company

Financial Figures

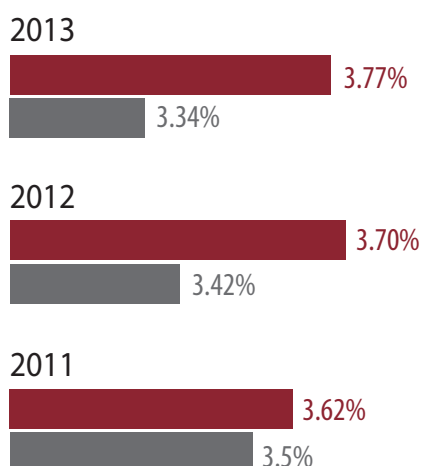
Net Income

(as a % of total assets)



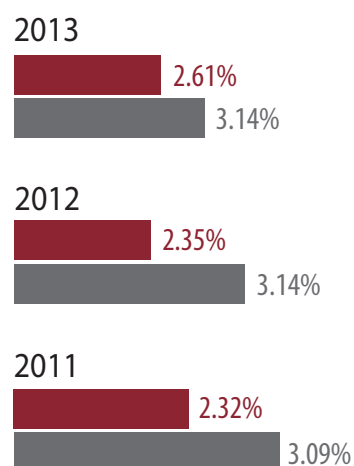
Net Interest Income

(as a % of total assets)



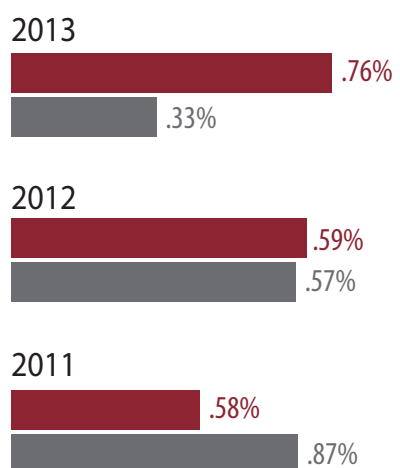
Overhead Expense

(as a % of total assets)



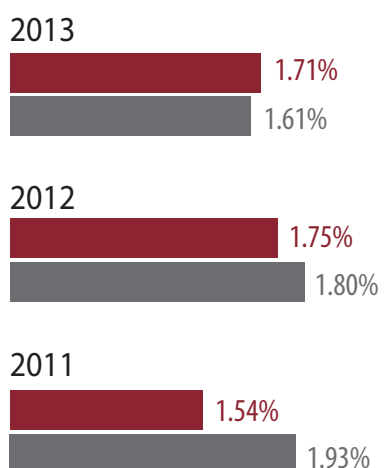
Net Loan Losses

(as a % of loans held for investment)



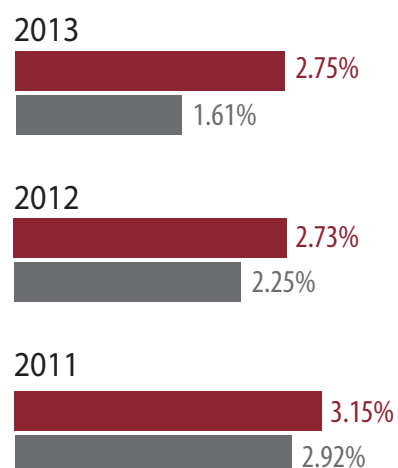
Allowance for Loan Losses

(as a % of total loans)



Non-Performing Assets

(as a % of total assets)





GIVING BACK

F&M employees continue to spend time volunteering and working together in our local communities. In 2013 nearly 50 employees visited schools with financial literacy programs such as Teach Children to Save, Everfi, and Cemark. Other bankers volunteered for special causes of their choice, recruited teams for Big Brothers Big Sisters' Bowl for Kids' Sake, or spent the day repairing homes and businesses with United Way's Day of Caring in Rockingham and Shenandoah Counties.

2013 Year in Review

EXPANSION AND GROWTH

The Dealer Finance Division in Harrisonburg and Fishersville's Loan Production Office produced significant volumes of new loans for F&M, ending the year with \$20.6 and \$16.7 million in loans outstanding, respectively. The Bank's Net Interest Margin also increased from 3.92% to 4.02% (every .01% is worth approximately \$52,000 of annualized earnings). In addition, funding of the Bank's Allowance for Loan Losses was reduced by \$425,000, with an outlook to continue this trend in 2014.

Shareholders received \$.68 per share in dividends, which represents a dividend payout ratio of approximately 4% based on a stock price just above \$17 per share.

In early November, five new F&M ATMs were installed at Rite-Aid Pharmacies in Staunton, Stuarts Draft, Verona, and Waynesboro, VA.

NEW REFERRAL PROGRAM

In early March, all 157 employees were involved in training and kicking off Velocity Referral Solutions, an invitation checking program, which has helped us grow our customer base substantially.

Through out the year, employees used creative themes and decorations in the branches as talking points to introduce customers to the program. Velocity helped F&M open 229 new accounts in 2013.

HELPING SMALL BUSINESS

In the City of Harrisonburg and the Counties of Augusta and Rockingham, Business Development officers partnered with affiliate, Bankers Insurance to host several healthcare reform bill symposiums that assisted small business owners with the new legislation.

ACTIVE IN THE COMMUNITY

All nine F&M branches hosted events for the community in 2013 such as customer appreciation days, identity theft protection and document shredding events in partnership with Cintas, and Kids' Days with unique themes and activities for school-age children.

In June, the Elkton branch celebrated its 40th anniversary with a 1970s themed customer appreciation day and in July, the Timberville branch celebrated the 60th anniversary of both the branch and employee Jean Estep with a free BBQ lunch for customers.

KEEPING UP TO DATE

In response to the changing financial industry, F&M began developing a new website for launch in 2014. During this time, the Bank also updated its mobile banking applications for Apple and Android devices, and introduced Mobile Deposit Capture, giving customers additional banking options and convenience.

REFRESHING THE BRAND

The Farmers & Merchants Bank logo was redesigned and updated with negative space added to the tree base, while the canopy was also redefined to express growth. The former Farmers & Merchants' logo was evolved to accommodate the shortened moniker, F&M Bank, and more accurately represent the growing, Valley-based community bank.

ACCOLADES

F&M Bank received national recognition from three banking publications for being 81st of the top 200 banks in USA for Return on Equity, 14th of the top 50 banks for loan production, and one of the top 50 banks in social media efforts.

Employee Anniversaries

60 YEARS

Jean Estep
Customer Support

35 YEARS

Stephanie Shillingburg
Branch Administration

30 YEARS

Jeff Lam
Retail Loan Administrator

25 YEARS

Kathy Grubbs
Collections Manager

Anthony Keyser
Network Administrator

Kathy Sherman
Loan Department

Dick Myers
Director

20 YEARS

Dean Withers
President & CEO



Linda Jenkins

In special memory of Linda Jenkins, a former employee for 44 years, whom we lost in February 2014.

Thank you for your service



Sue Olson
VP, Marketing Director, Timberville



Ellen Branner
SVP, Special Projects, Timberville



Cindy Merica
Branch Specialist, Elkton

DIRECTORS

Thomas L. Cline

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

Larry A. Caplinger

EVP/Chief Lending Officer, Farmers & Merchants Bank

John N. Crist

Partner, Hoover Penrod, PLC-Attorneys

Ellen 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
Vice President, Colonial Appraisal Service, Inc

Christopher S. Runion

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 the Board

Neil W. Hayslett
EVP, Chief Administrative Officer

Carrie A. Comer
SVP, Chief Financial Officer

Stephanie E. Shillingburg
EVP, Retail Services

Ralph C. Foltz, Jr.
SVP/Operations

Jeffrey L. Lam
SVP/Retail Loan Administrator

Edward A. Strunk
SVP/Commercial Loan Administrator

Joshua P. Hale
SVP/Business Development Leader

VICE PRESIDENTS

Deborah A. Andes
Curtis M. Arey
Anita C. Beckman
Gregory T. Berkshire
J.T. Bishop
Sylvia T. Bowman
Gary L. Davenport
Carolyn J. Dove
Sally H. Erickson
Aaron S. Green
Charles P. Harder
Henry E. Hawkins
Teresa D. Helmick
Kate S. Pascarella
Mary S. Prophet
Kitty H. Purcell
Robert R. Reedy, Jr.
Karen B. Rose
Kevin A. Russell
President, VBS Mortgage
Brenda L. Sayre
Cynthia A. Sherman
Gregory B. Spitler
Krista L. Suter

ASSISTANT VICE PRESIDENTS

Dustin T. Branner
Jacqueline D. Burner
Thomas L. Campbell
Kay T. Dean
Keith M. Deeds
Kathy L. Grubbs
Chris A. Gunter
Mary Ellen Harrison
Anthony W. Keyser
Cathy M. Lindamood
Jonah J. Pence
Melody D. Ritchie
Sean D. Ryman
Natalie M. Strickler

Barbara Bartley, Branch Officer
W. Brent Meadows, Branch Officer

INVESTOR INFORMATION

Transfer Agent for F&M Bank Corp.
Stock (FMBM):

Registrar and Transfer Company
10 Commerce Drive
Cranford, NJ 07016-3572
Tel 1-800-368-5948
Email info@rtco.com
Web www.rtco.com

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 - Cross Keys
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

www.fmbankva.com

LOAN PRODUCTION OFFICES

VBS Mortgage
2040 Deyerle Avenue, Suite 102
Harrisonburg, VA
442-8583

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

Loan Production Office
1842 Jefferson Highway
Fishersville, VA
946-8160