

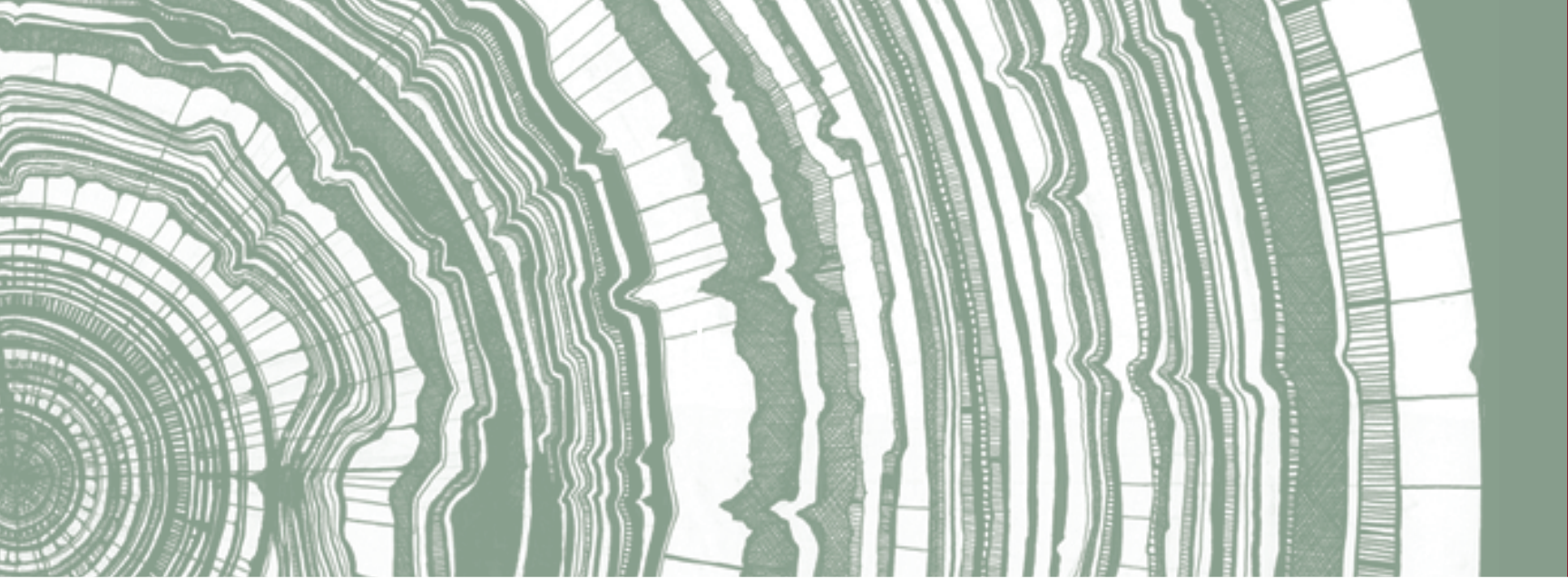
F&M BANK CORP.  
**2014**  
ANNUAL REPORT

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F&M Bank Corp.





**1908**  
F&M Bank  
incorporates  
in Timberville

**1956**  
Chairman  
Lawrence  
Hoover, Sr.  
announces  
Bank growth  
to \$5 million  
at the annual  
shareholders'  
meeting

**1973**  
Second Bank  
branch opens  
in Elkton

**1979**  
Third branch  
opens in  
Broadway

**1983**  
State  
Corporation  
Commission  
approves holding  
company, F&M Bank  
Corp. for the Bank,  
and TEB Life  
Insurance Company

**1995**  
New branch  
opens in  
Bridgewater

**2001**  
F&M purchases  
Woodstock  
and Edinburg  
branches  
from First Union

**2006**  
Two branches  
open in  
Harrisonburg,  
and one branch  
opens  
in Luray

**2008**  
F&M  
purchases a  
70% majority  
interest in VBS  
Mortgage in  
Harrisonburg

**2012**  
F&M opens loan  
production office  
in Fishersville,  
and an  
automotive  
dealer finance  
division in  
Harrisonburg

**2014**  
Bank  
announces  
record  
earnings  
following  
separate  
preferred and  
common stock  
offerings; plans  
begin for two  
new Staunton  
branches



# DEAR FELLOW SHAREHOLDERS,



**DEAN WITHERS**  
PRESIDENT AND CEO

The year 2014 was a record year of earnings for F & M Bank Corp. Net income totaled \$5.802 million, which was an increase of \$1.086 million over year 2013 earnings of \$4.716 million. This increase was attributed to a number of factors. First, Loans Held for Investment increased \$39.749 million to \$518.202 million. Second, the Net Interest Margin on these loans increased to 4.30%. Third, we were able to reduce our Provision for Loan Losses to \$2.250 million, down from \$3.775 million in 2013.

The loan increase came primarily from the continued success of our Indirect Dealer Division and our Loan Production Office in Augusta County. The Indirect Dealer Division also was the driver for the increase in the Net Interest Margin. We were able to reduce our Provision for Loan Losses through the continued improvement in our Credit Quality (Nonperforming Loans to Total Assets dropped from 2.28% to 1.15% and Charge Offs dropped to .33% from .78%). With continued improvement in the economy, all of these factors should improve further in the future. We were also successful in improving our total deposits, which increased by \$27.356 million to \$491.505 million.

All of this was accomplished while keeping our Efficiency Ratio below 60% at 58.51%. For more financial information, please review the enclosed 10K. With the improved earnings, we were able to increase our first quarter 2015 dividend to \$.18 per share.

Based on our most recent stock price of \$20.95 this would be an annualized return of 3.44%. This return is above average for banks in our peer group.

We continue to be involved with our communities, through donations to charitable organizations, being members and Board members of civic organizations, holding shred days, etc. I don't think any other bank in our area does as much as we do to support our communities. We are also involved with financial literacy in our local schools. We provide classroom programs for elementary through high schools along with our staff helping to teach in classrooms when asked.

I want to thank all of our staff, who worked very hard this past year to make all of this happen. I also want to thank you our shareholders for the support you have provided through the years.

We hope to see you at our annual shareholders' meeting in May.

*Dean W. Withers*

# 2014

## FINANCIAL FIGURES

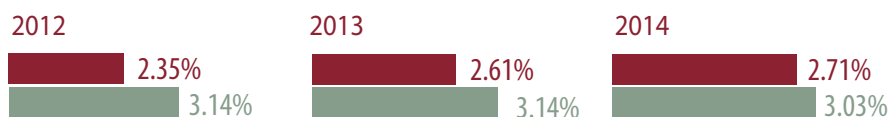
### NET INCOME (AS A % OF TOTAL ASSETS)



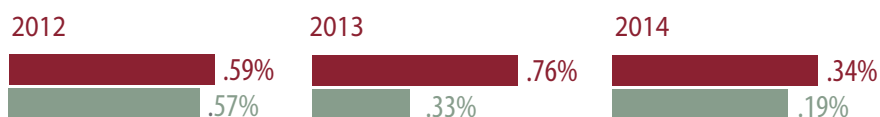
### NET INTEREST INCOME (AS A % OF TOTAL ASSETS)



### 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)





## YEAR IN REVIEW

### CONTINUAL GROWTH

F&M Bank announced record earnings for 2014. Our fourth quarter earnings increased 32.26% versus prior year, to \$1.566 million and full year earnings of \$5.802 million increased \$1.086 million, or 23.03%.

The significant increase in earnings is due primarily to a very strong net interest margin of 4.30% for the full year.

Loan demand continued at a robust pace in the fourth quarter, as the total portfolio increased \$11.3 million for the quarter and \$39.7 million for the full year, with most of the growth derived from our Dealer Finance Division and our Fishersville Loan Production Offices.

Non-performing loans now equal 1.35% of the loan portfolio vs. 2.63% at year end 2013. On a nominal basis, non-performing loans have decreased \$5.6 million (44.6%) compared to the prior period.

On January 22, 2015, our Board of Directors declared a fourth quarter dividend of \$0.18 per share, which is an increase of \$.01 per share or a 5.88% increase.

### CAPITAL RAISE AND PREFERRED STOCK

In 2014, we announced the successful completion of a private placement of FMBM common stock and successful completion of two capital raises offering up to \$10 million of mandatorily convertible preferred stock.

FMBM sold through a private placement 774,231 shares of our common stock at a price of \$16.50 per share. F&M Bank engaged investment banking firms FIG Partners, L.L.C. and Compass Point Research & Trading, LLC to act as placement agents to assist with the private placement. The net proceeds of the private placement in total were approximately \$12.0 million.

The Bank intends to use the net proceeds of this offering for general corporate purposes, including organic growth, market expansion into Augusta County, to pay off subordinated debt, and for possible future acquisitions.

### F&M BONUS REWARDS

In 2013, the Bank began a partnership with Velocity Solutions to develop F&M Bonus Rewards, a referral program that earns customers points for the purchase of tangible goods, travel experiences, and gift cards.

Since its inception, the Bonus Rewards program has been enthusiastically adopted by account holders, resulting in 671 new referred accounts.

### NATIONAL RECOGNITION

F&M Bank received national recognition from three banking publications for ranking 113 of the top 200 banks in the U.S. for 3-year Return on Average Equity; 63rd of the Top 100 Banks for loan production; and as one of the top 50 community banks - one of only two in Virginia - for social media efforts.





## **BANK OFFICE SPOTLIGHT**

### **VBS MORTGAGE**

VBS Mortgage, located in Harrisonburg, VA, opened for business in 1999 and was acquired by F&M, with a 70 percent invested interest, in 2008. VBS operates under the direction of its President, Kevin Russell and VP, Terri Dart.

VBS Mortgage has committed to the personalized service and accommodation of its clients' entire home financing needs. VBS makes this possible with a knowledgeable and driven sales team; by providing in-house processing and underwriting; and offering the most competitive products and rates available

VBS Mortgage acquired a Spanish-speaking lender in 2014 and continues to grow in the Harrisonburg and surrounding markets, with additional service opportunities in Maryland and North Carolina.

### **FISHERSVILLE LOAN OFFICE**

On October 1, 2012, F&M Bank opened a loan production office in Fishersville, VA. This office is currently staffed with a team of two Business Development/Commercial Loan Officers, J.T. Bishop and Gary Davenport, as well as Office Manager Barbara Bartley.

Future plans include acquiring one or more mortgage lenders in cooperation with our affiliate VBS Mortgage. As the Bank's loan office and courier service can only provide limited service in the vibrant, and growing Augusta County market, plans for two full-service branches are also currently underway with target opening dates of June 2015 and early 2016, respectively.

### **DEALER FINANCE DIVISION**

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 throughout the existing geographic footprint of F&M Bank.

Since its opening, the office has operated under the helm of Greg Berkshire, Ryan May and Brenda Sayre, three officers with extensive experience in banking and dealer financing.

In 2014, additional staff member Jessica Fletcher came onboard to assist the office's growing production.

Approximately forty dealers are currently contracted with the Dealer Finance Division to originate loans on behalf of the Bank.

# COMMUNITY BANK DIFFERENCE



Bank and VBS employees spend the day volunteering with United Way at Our Community Place.



Aaron Green, Commercial Lender, gives students a tour during VBA's Bank Day.

## GIVING BACK

All nine F&M branches hosted events in 2014 such as customer appreciation days, "family fun" days, and document shredding events for the community.

Outside of working hours, employees also reported volunteering nearly 1,500 hours in the community with organizations like United Way; Big Brothers, Big Sisters; Rotary; small business development centers; Lions' Clubs; chambers of commerce; little league; and other non-profit organizations near and dear to their hearts.

## VBA BANK DAY

The third Tuesday in March was declared Bank Day in Virginia by the Virginia General Assembly in 1991. On this day, Virginia high school seniors spend a day in banks across the Commonwealth shadowing a banker in their daily duties.

The purpose of this experience is for the students to learn about banking, financial services, and the vital role banks play in their communities.

After Bank Day concludes, students are then tasked with writing an essay about their experience. Seven scholarships (six regional and one statewide) are awarded on the basis of these essays.

F&M was one of 25 banks across Virginia that hosted area seniors, where students interviewed employees and received a "behind the scenes" look at operations.

We were pleased to learn that Broadway High School senior Maddie White won the \$2,000 regional scholarship for her essay about F&M Bank.

## FINANCIAL EDUCATION

We know that the future of business and industry is in the hands of today's students, which is why F&M Bank has invested heavily in financial education programs like Everfi Financial Literacy, the American Bankers' Association's Teach Children to Save program, and Cemark Financial Education for high school and elementary school students. Through web-based learning modules; SOL-supporting curriculum; and classroom visits, F&M is working to empower future generations.



## GO LOCAL



As a member of the Independent Community Bankers of America (ICBA) Association, we proudly take part in the “Go Local” initiative, which contributes to a thriving local economy and gives consumers a hometown investment that they can be proud of.

The assets held at your community bank remain invested in our towns and contribute to our citizens’ quality of life, whether in the form of loans to residents who want to buy a home, or to small business owners looking to open a business, shop, or restaurant on Main Street.

As a small business ourselves, we only thrive when our customers and communities do the same. Looking out for the best interests of our neighbors has been ingrained in the way we conduct business since our own humble beginnings in 1908...

*After many townspeople witnessed family fortunes disappear following the devaluation of Confederate money at the close of the Civil War, not all Timberville residents were receptive to the concept of a new bank in town.*

*However, cautiously hopeful of a new government monetary system that would last, a few local businessmen led the way to promote an independent local bank in Timberville. With the times fostering an emerging concept of banking -- a convenient place near home to safely deposit, borrow or invest money somewhere other than in a sock or under a floorboard -- the trust of our communities and local customers helped F&M bank raise the \$10,000 capital needed to open its doors in 1908.*

Whether located in the small towns of the Shenandoah Valley, or in suburbs of larger cities, community banks improve America’s neighborhoods by funding nearly 60 percent of all small businesses under \$1 million, and by using local dollars to help families purchase a home, buy a car, finance college and build financial security.

By driving local economies and creating jobs where we live, community banks are an integral part of our financial system and play a key role in our nation’s economic recovery.

Excerpt courtesy of Nancy Bondurant Jones, author of *Banking on the Future: A 100-Year History of Farmers & Merchants Bank 1908-2008*.



## HELPING OUR NEIGHBORS



Bank President and CEO Dean Withers challenges the public to help the Salvation Army reach its winter 2014/2015 fundraising goals.

F&M Bank was honored to donate the first gift at the Salvation Army's Kettle Drive kickoff in November.

F&M Bank President and CEO, Dean Withers, contributed to the Drive's Kickoff event with a \$2,500 contribution. Mr. Withers, pictured (left), speaks about the Salvation Army's mission and challenges the gathering crowd to also help the organization reach its goal of \$160,000, which served thousands of our struggling neighbors this holiday season.



Customers and employees take pride in supporting their communities.

In August, Timberville branch employees started a food drive playfully titled, "Stuff the (Courier) Van" to benefit Hope Distributed CDC, a food pantry serving the Shenandoah Valley.

This food drive spurred ideas for other fundraising initiatives at our branches, which served several non-profit organizations within our geographic footprint.

# THANK YOU FOR YOUR SERVICE

## 35 YEARS

**Brenda Swartz**  
Assistant Branch Manager  
Edinburg Branch

**Kathryn Smith**  
Custodian  
Broadway Branch

## 30 YEARS

**Cindy Sherman**  
Commercial Relationship Manager  
and Loan Operations Manager  
Timberville Branch

## 20 YEARS

**Frances Showalter**  
Teller  
Broadway Branch

**Sally Erickson**  
Branch Manager  
Port Road Branch

**Mike Pugh**  
Board of Directors

## 15 YEARS

**Claire Wrenn**  
Teller  
Bridgewater Branch

**Ellen Fitzwater**  
Board of Directors



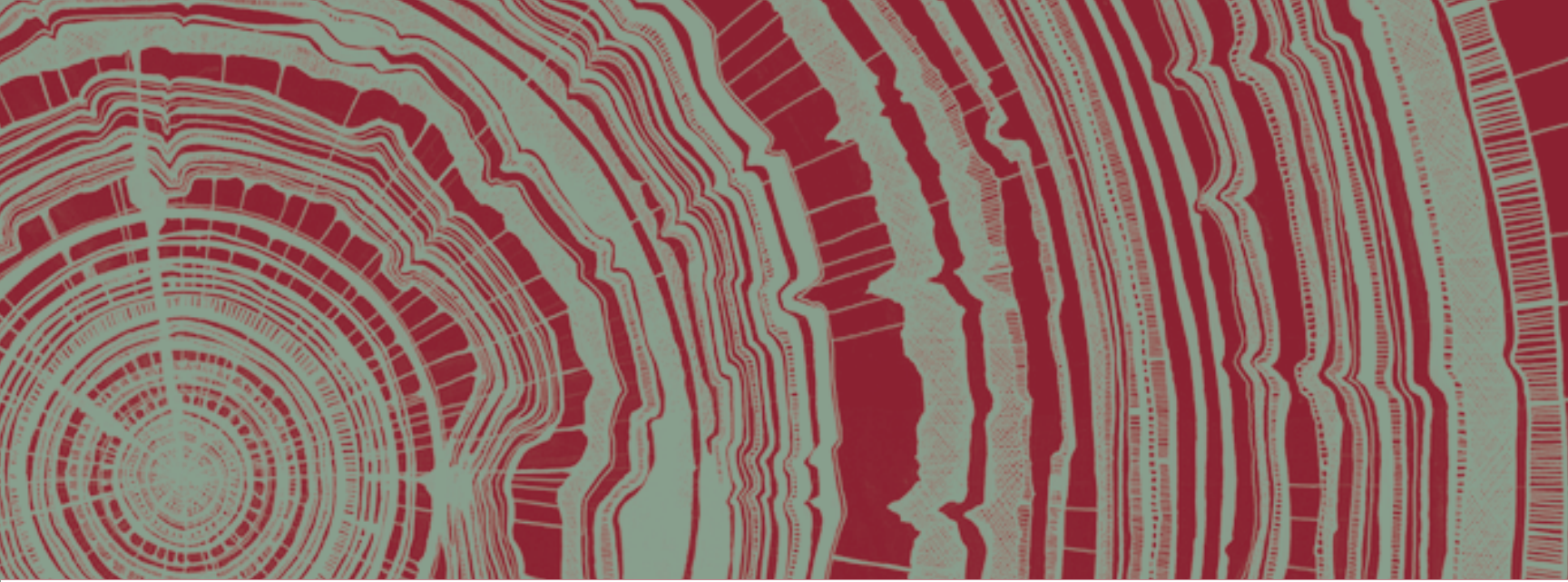
## MARY PROPHET

Mary joined F&M as a Teller in 1971 before moving into Bookkeeping and a variety of Customer Support roles. After 43 years as a team member, Mary retired in July 2014.



## LYNWOOD DOVEL (IN MEMORIAM)

Lynwood "Woody" Dovel joined the Elkton Branch as Branch Manager and Vice President in May 1974. Mr. Dovel retired as Senior Vice President in 1995, coming back to work in the Collections department briefly in 1998. Mr Dovel passed away in July 2014.



## 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

**Stephanie E. Shillingburg**  
EVP/Chief Retail Officer

**Carrie A. Comer**  
SVP/Chief Financial Officer

**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**  
**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**  
**W. Brent Meadows**  
**John E. Meyer**  
**Kate S. Pascarella**  
**Jonah J. Pence**  
**Kitty H. Purcell**  
**Robert R. Reedy, Jr.**  
**Melody Ritchie**  
**Karen B. Rose**  
**Kevin A. Russell**  
President, VBS Mortgage  
**Brenda L. Sayre**  
**Cynthia A. Sherman**  
**Gregory B. Spittler**  
**Krista L. Suter**

## ASSISTANT VICE PRESIDENTS

**Matthew Beahm**  
**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**  
**Ryan May**  
**Matthew Robinson**  
**Sean D. Ryman**  
**Natalie M. Strickler**  
**Brenda Swartz**  
  
**Barbara Bartley, Branch Officer**



# LOCATIONS

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## 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

**Staunton (coming soon!)**  
2813 N. Augusta Street

**Timberville**  
205 South Main Street  
896-8941

**Woodstock**  
161 South Main Street  
459-3707

[www.fmbankva.com](http://www.fmbankva.com)

## LOAN OFFICES

**VBS Mortgage**  
2040 Deyerle Avenue, Suite 102  
Harrisonburg, VA  
442-8583  
NMLS# 275173

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

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

## INVESTOR INFORMATION

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

Computershare  
P.O. Box 30170  
College Station, TX 77842

[www.computershare.com](http://www.computershare.com)  
1-800-368-5948

