

F&M Bank Corp. 2015 Annual Report



F&M Bank Corp.





Dear Fellow Shareholders



DEAN WITHERS
PRESIDENT AND CEO

Year 2015 was our second year of record earnings for F & M Bank Corp. Net income totaled \$8.417 million which was an increase of \$2.615 million (45%) over year 2014. This increase was attributed to a number of factors.

First, Loans Held for Investments slowed some but still increased \$25.852 million to \$544.054 million. Second, the Net Interest Margin on these loan increased to 4.43%. Third, Loans Held for Sale averaged \$36.286 million and ended the year at \$57.805 million. Fourth, we were able to reduce our Provision for Loan Losses to \$300 thousand, down from \$2.250 million in 2014. The \$300 thousand funding was during the first quarter of 2015. As you can see it was a great year for the Bank.

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 1.15% to .98%

and Charge offs dropped to .04% from .33%). 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 \$3.165 million to \$494.670 million.

All of this was accomplished while keeping our Efficiency Ratio below 60% at 58.96%. For more financial information, please review the enclosed 10K.

Last year was also a year of expansion. In the middle part of the year we opened our first full service branch in the City of Staunton/Augusta County market at North Augusta Street on the north end of Staunton. Also, at the end of the year we opened our second branch in the Town of Craigsville in the southwest part of Augusta County. Both of these new branches have been well received.

Very shortly we will be breaking ground on a third branch which will be located close to the corner of Route 250 and Lifecore Drive near Fishersville. Our current Loan Production Office will be incorporated into this new branch along with our Augusta County staff from VBS Mortgage.

We also continue to expand our suite of products to meet the changing needs of our customers. Some of our new products are highlighted in this Annual Report. I encourage everyone to review these products and visit or

call one of our branches to discuss them further. We have always, and will continue, to stay ahead of the curve on new technology for new products and ways to help us operate more efficiently.

As we have throughout our history we continue to stay involved in our communities by contributions to local charities, civic groups, fire departments, rescue squads, and schools. We also are involved with financial literacy in our school system from elementary schools to high schools.

I am proud to be associated with an organization that cares about its communities, employees, directors and shareholders. I hope that you feel the same way as I do. I encourage everyone to recommend us to all of your friends, family, coworkers and neighbors.

Thank you for being a part of F&M Bank Corp.

Dean W. Withers

2015 Financial Figures

 F&M BANK CORP.
 PEER*

*DATA FROM: UNIFORM BANK
PERFORMANCE REPORT - PEER GROUP 3

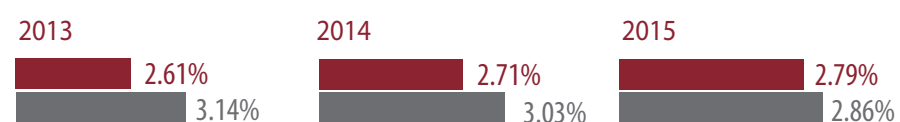
NET INCOME (AS A % OF AVERAGE ASSETS)



NET INTEREST INCOME (AS A % OF AVERAGE ASSETS)



OVERHEAD EXPENSE (AS A % OF AVERAGE ASSETS)



NET LOAN LOSSES (AS A % OF LOANS HELD FOR INVESTMENT)



ALLOWANCE FOR LOAN LOSSES (AS A % OF TOTAL LOANS)



NON-PERFORMING LOANS + OREO (AS A % OF LOANS + OREO)



FMBM Moves to Top-Tier Marketplace



F&M Bank Corp. was pleased to begin trading on the OTCQX marketplace, offered by the OTC (Open, Transparent, Connected) Markets Group, on May 6, 2015. The OTCQX is the company's top-tier marketplace serving public organizations that are not listed on a major exchange.

"The old bulletin board we were on really didn't have any true listing requirements. Any stock could trade there," said Chief Administrative Officer Neil Hayslett. "QX does have a minimum required trading price, market capital, revenues. To traders of stock, that shows a higher level of financial strength."

Companies on the QX marketplace also must be audited, he said, something that wasn't required for QB stocks. QX has become the marketplace for dozens of regional and community banks across the U.S.; enough that the company has created OTCQX for Banks, an index to highlight those companies and allow them to be benchmarked against each other.

Hayslett said Bank executives also talked with NASDAQ and NYSE MKT, the former American Stock Exchange.

The move to QX, Hayslett said, should increase the chance that industry market makers — companies or people who quote buy and sale prices for stocks — put in a bid or ask for F&M stock, which should result in less volatility in the stock price. Being part of a market with stronger financial requirements also is expected to give investors more confidence to buy the bank's stock, raising interest in it.

"At the end of the day, we felt like OTC-QX was still the best fit for us because that's where a lot of similarly sized community banks are located," said Hayslett. "If we don't have increased volume or tightening of our bid ask spreads, we could always look at moving to one of the other markets."

VIRTUAL INVESTORS CONFERENCES

In June 2015 and February 2016 three Bank executives, CEO and President Dean Withers, Chief Administrative Officer Neil Hayslett, and Chief Financial Officer Carrie Comer, joined a dozen other publicly traded banks for a real-time virtual investors' conference hosted by the OTC Markets Group. The Virtual Investors Conference is regularly held to introduce public companies to tens of thousands of active and engaged individual investors.

View upcoming conferences at:
virtualinvestorconferences.com

F&M BANK CORP. NAMED TO OTCQX® BEST 50 IN EARLY 2016

In early February 2016, the OTCQX® Marketplace named F&M Bank Corp. to its "Best 50" list, a ranking of the top 50 best performing U.S. and international companies traded on the OTCQX market. The ranking is calculated based on an equal weighting of one-year total return and average daily dollar volume growth in the previous calendar year. Companies in the 2016 OTCQX Best 50 were ranked based on their performance in 2015.

Dean Withers, President and CEO, commented, "We are extremely pleased to be named to the OTCQX Best 50 list for our 2015 performance. 2015 marked record earnings for F&M Bank Corp. for the second year in a row, with our 2015 performance being attributed to our very strong net interest margin, growth in earning assets and a reduction in the provision for loan losses."

The complete 2016 OTCQX Best 50 ranking report can be found at: web.otcmkt.com/otcq-best-50 or by visiting www.fmbankva.com.

Focus on New Communities



STAUNTON, VA

On June 15, 2015, F&M Bank opened its 10th branch at 2813 N. Augusta Street in Staunton.

Development of this branch was in line with the Bank's growth strategy that resulted from a record year for the Bank in 2014 and a record first quarter in 2015. The growth came following two capital raises; private placement of FMBM common stock; and a public offering of preferred FMBM stock.

The Staunton branch provides F&M with the opportunity to serve existing personal, commercial, and courier customers, and offers a stable, local banking solution to the Augusta County communities.

The North Augusta Street branch is staffed with universal employees, cross-trained in the variety of Bank services and products. The branch features a 24/7 access ATM, increased accessibility and convenience for its customers, and the full array of financial services offered through F&M Bank and its affiliates.

On July 22, 2015, the Greater Augusta Regional Chamber of Commerce hosted a Ribbon Cutting Ceremony at the branch that was widely attended by the Staunton community. In honor of the grand opening, the branch gave back to the community by donating \$1,000 to the Habitat for Humanity of Staunton, Augusta and Waynesboro.

Within one month of opening, the branch reached \$1 million in deposits, and word of F&M Bank's success in Staunton traveled through Augusta County.

CRAIGSVILLE, VA

With a population of 1,000 and no banking service, the town of Craigsville reached out to F&M in early July to discuss ATM options. Mayor Richard Fox had been pushing for two years to bring banking services back to Craigsville, but after speaking with 13 different banks, the same answer surfaced. The expense was too high, and the town was too small.

Being a small community bank, F&M seemed like a great fit for the Craigsville community.

Dean Withers, President, and Neil Hayslett, Chief Administrative Officer, met with the mayor on July 6, 2015, and decided the quickest solution for citizens of Craigsville was to install a mobile ATM. Residents of Craigsville and the surrounding area would no longer have to travel to conduct bank business.

The decision was made, and the mobile ATM would be placed at Town Center.

Looking Ahead

F&M Bank owns property near the new Sentara RMH Hospital Facility in Harrisonburg and anticipates opening a branch at this location by early 2017.

On July 24, 2015, the ATM and security system was installed. Just three weeks after the decision to go forward with the ATM, Farmers & Merchants Bank delivered. On July 27, 2015, the mayor and town clerk opened accounts for the town.

While 13 other banks dismissed offers to place an ATM in Craigsville, F&M staff pulled together as a team, and in three weeks, the ATM was installed and open for use. As time passed, it became clear that financial services were desperately needed in Craigsville, and F&M Bank made the decision to place permanent roots.

On December 14, 2015, F&M's 11th branch opened its doors, and for the first time in two years, the town of Craigsville was home to a bank. Much like Staunton, the branch was staffed with universal employees, cross-trained in the variety of Bank services and products. Residents of the town warmly welcomed F&M, and new accounts soon accumulated.

On January 14, 2016, the Greater Augusta Regional Chamber of Commerce held a Ribbon Cutting and Business After Hours at the new location. Approximately 75 people enjoyed food, door prizes, and networking with business leaders from Staunton, Waynesboro and Craigsville.

The support from the town and residents of Craigsville was overwhelming, and as a token of appreciation, the branch donated \$1,000 to the Craigsville Food Bank. During the Business After Hours ceremony, Food Bank representatives were surprised with the donation as emotions flooded the branch.

FISHERSVILLE, VA

As F&M Bank expanded its presence in Augusta County in 2015, more growth is projected. The Bank plans to break ground in the spring of 2016 on a lot in Fishersville and a multi-use facility is scheduled to open later in the year. This branch will also house loan officers and representatives from our affiliate, VBS Mortgage. The Fishersville Branch will be home to a coffee bar and an outdoor patio, efforts to increase customer satisfaction and comfort level. The outdoor space will also provide extra room for events and public gatherings.

Looking ahead, F&M Bank also owns property near the new Sentara RMH Hospital Facility in Harrisonburg. The land is ready to be developed and a branch is expected to open by early 2017.

Reaching Our Consumers



Being a small, community bank, F&M realizes the importance of helping local businesses thrive and contributing positively to the local economy. In development of its programs in 2015, the Bank has continued to promote the “go local” initiative among its retail and commercial customers.

BUSINESS-TO-CONSUMER **KASASA**

The Kasasa product line was launched in May 2015 to replace Platinum Rewards. These free accounts are rewards based, and customers are able to choose how to be rewarded; either through high interest or cash back, if qualifications are met each month. However, if qualifications are not met, customers are not penalized. Kasasa Products give F&M Bank a competitive edge in the market, by allowing a small community bank the flexibility to offer “big bank rewards.”

F&M BONUS REWARDS

Combined with the roll-out of Kasasa, the Bonus Rewards Program has been a huge success for F&M Bank. Since the start of the program in March 2013, over 1,100 accounts have been opened. Employees are bringing in new accounts, and customers are also referring friends and family members, and in return, receiving points towards merchandise, gift cards, travel, or the option to donate rewards to charities in need.

BUSINESS-TO-BUSINESS **BANKING ON BUSINESS**

In late 2015, F&M Bank partnered with its local news station WHSV TV-3 to launch Banking on Business, a new program designed to highlight a different business each week with on-air and online advertising. The partnership with TV-3 supports local businesses by drastically cutting their cost of advertising, and it also allows the bank to make new connections and reach business owners in an entirely new way. F&M Bank also provides the on-air talent that is highly visible throughout the segment’s air-time.

F&M CONNECT

From the ideas of Business Development Officers, the Bank launched *Connect*, a customizable business package, free of charge, that is tailored for customers based on their qualifying loan or deposit balances.

We believe that business customers should have access to just the right mix of services to meet the needs of the business, regardless of size or industry. Service options include: remote deposit capture, cash management, and our door-to-door courier service.

PERKS @WORK

While new banking products and services were developed, F&M Bank also re-vamped existing products to make them more robust and desirable for business customers.

With the Perks @Work initiative, the Bank has partnered with area businesses to provide their employees local savings and discounts. If an employer enrolls in the Perks @Work program, its employees receive special saving with participating area merchants, plus unique banking benefits at F&M Bank.

COMMUNITY INVOLVEMENT

F&M Bank is dedicated to giving back to the communities that are served by each of its 11 branches. During the year, the Bank hosts a variety of free events as a way to thank our customers and show our appreciation. Each branch hosts either a Kid’s or Customer Appreciation Day, as well as a Shred Day, where customers are able to shred any sort of private or personal documentation at no charge. These events are all well-attended and well-liked by our customer base.

Financial literacy continues to be a strong focus of F&M Bank. Through our partnership with Everfi, over 900 high school students have been

reached with free financial education. Elementary students are also taught through our partnership with Cemark, which provides financial education through relatable lessons at the students’ skill levels.

Adult financial education is also important and emphasized at F&M Bank. The EverFi @Work program was specifically designed for today’s busy adult and focuses on the financial issues facing today’s consumer from overdraft protection and insurance, to mortgages, refinancing and saving for college. Customers are able to access this service free of charge. F&M Bank has focused on growing this program to reach more working adults. With the expansion of the Perks @Work program, free education will also be offered to our business customers and their employees.

While community involvement is promoted within the Bank, employees go above and beyond and volunteer their time and resources when they are off the clock.

Most, if not all, employees are involved in some sort of civic duty. In 2015, 2,280 volunteers hours were reported, and not all employees choose to disclose their volunteerism.

Bank employees also have the opportunity to donate to a different charity on monthly basis. On Fridays, employees are able to pay \$5 to wear denim with proceeds donated to local charities. In 2015, over \$11,000 was raised through the Casual Friday for Charity program.

TECHNOLOGY

Banking technology is constantly evolving, and at F&M Bank, we adapt to meet the needs of our online and mobile users. This past fall, we launched Person-to-Person Payments (P2P) and Apple Pay®, two convenient ways for customers to make payments.

Apple Pay is a mobile payment and digital wallet service by Apple Inc. that lets users make payments using compatible devices. Customers are able to pay for purchases with their F&M Bank debit and credit cards at hundreds of thousands of merchants accepting contactless payments. Once the card is loaded into Apple Pay, payments can be made easily from the screen of a phone.

Any customer with an F&M Bank debit card can send money via P2P Payments to anyone who has a debit

card or checking account at any financial institution. The transaction can be initiated on a PC via the internet, or on a smart phone. All one needs to know is either the person’s email address or cell phone number.

Regular day-to-day banking services are also made simple with our mobile banking app. With text banking, a customer can check balances or account history, or even transfer funds between accounts. Customers are also able to enroll in text alerts where balance information is delivered through an automated text sent daily. Even deposits can be made on the go using mobile deposit capture!

To keep customer information as secure as possible, the transition to EMV Chip Cards began in 2015. New Visa debit and credit cards that feature a small micro-chip embedded in every card began to be issued in early 2016. The chip stores information, performs processing, and adds an additional layer of security for customer protection. The chip generates a unique code with each transaction, making counterfeiting cards and duplicating transactions nearly impossible.

Thank You For Your Service



New Director Appointed in 2015

In October, F&M appointed Ray Burkholder as a new Director to represent Augusta County. Ray previously served on the Bank's Augusta County Advisory Board.

40 YEARS

Carolyn "CJ" Dove
Branch Manager, Timberville

25 YEARS

Donna O'Byrne
Investment Support, Crossroads

Betty Bare
Loan Operations, Timberville

20 YEARS

Alice Grow
Branch Specialist, Timberville

15 YEARS

Frances Foltz
Head Teller, Timberville

W. Brent Meadows
Collections Department, Elkton

Donna McKenzie
Proof Operator, Timberville

Chris Gunter
Branch Manager, Broadway

10 YEARS

Keith Deeds
Facilities

Dana Smith
Head Teller, Elkton

Al McDorman
Courier Service

Jonah Pence
Commercial Relationship Manager,
Crossroads



BRENDA L. SAYRE

Brenda Sayre of F&M Bank's Dealer Finance Division retired in October 2015 after working in banking for nearly 40 years.

Brenda held a great deal of experience in the dealer finance area and started working with F&M in September 2012.

We appreciate Brenda's time and dedication to F&M and wish her the very best!



ROBERT "BOB" MOORE

Bob Moore of our Edinburg branch retired in October 2015 after 18 years in banking.

Bob started with F&M when the First Union Branch was acquired. During his tenure, Bob worked in various roles including, teller, lender, loan operations manager, and CSR.

Join us in wishing Bob the very best in his retirement and new ventures!

OFFICERS

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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

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J.T. Bishop

Sylvia T. Bowman
Gary L. Davenport

Carolyn J. Dove
Melody (Ritchie) Emswiler

Sally H. Erickson
Aaron S. Green

Charles P. Harder
Henry E. Hawkins

Teresa D. Helmick
John E. Meyer

Kate S. Pascarella
Jonah J. Pence

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Robert R. Reedy, Jr.

Karen B. Rose
Kevin A. Russell

Cynthia A. Sherman
Gregory B. Spittler

Krista L. Suter

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Jacqueline D. Burner

Thomas L. Campbell
Kay T. Dean

Keith M. Deeds
Kathy L. Grubbs

Chris A. Gunter
Mary Ellen Harrison

Anthony W. Keyser
Glenna M. Lawhorn

Cathy M. Lindamood
Ryan A. May

W. Brent Meadows
Matthew Robinson

Sean D. Ryman
Natalie M. Strickler

Brenda Swartz

Barbara Bartley, Branch Officer

Sarah Berry, Branch Officer

Jonathan D. Lindsay, Branch Officer

DIRECTORS

Thomas L. Cline
Chairman of the Board,
F&M Bank Corp.

Dean W. Withers
President, Farmers & Merchants
Bank and F&M Bank Corp.

Larry A. Caplinger
EVP/Chief Lending Officer,
Farmers & Merchants Bank

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PLC-Attorneys

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Manager, Town of Edinburg

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Dodge-Jeep, Inc.

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President, Old Dominion Realty, Inc.;
VP, Colonial Appraisal Service, Inc

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President, Eddie Edwards Signs, Inc.

Ronald E. Wampler
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WWTDO Ohio Farms, LLC

Ray Burkholder
Owner, Balzer & Associates, Inc.

Branches & Offices

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Craigsville
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Edinburg
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540-984-4129

Elkton
127 West Rockingham Street
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INVESTOR INFORMATION

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