

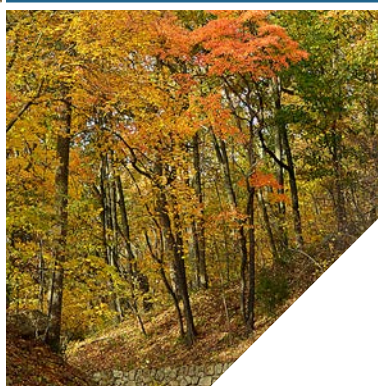
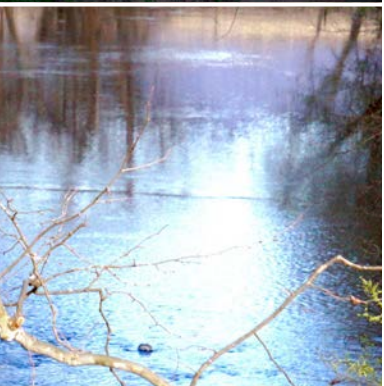
F&M Bank Corp.

2016

ANNUAL REPORT



DEAN WITHERS
PRESIDENT AND CEO





DEAR FELLOW SHAREHOLDERS

F&M Bank Corp. continues to perform at a high level. For year ending 2016 we achieved our third consecutive year of record earnings of \$9.567 million. This was an increase of \$1.15 million (13.66%) over 2015.

Factors leading to the increase in net income were a \$47.6 million increase in Loans Held for Investment and a stable Net Interest Margin of 4.34%. Our Loans Held for Sale program operated at a high level in 2016 due to the improving real estate market across the country.

VBS Mortgage had an excellent year with over 500 loans closed and record earnings as well. I will note that these excellent earnings were achieved while at the same time absorbing the costs of opening three new branches in the last two years. Even with the new branches our Efficiency Ratio dropped to 58.79%, which compares very favorably to our peers.

Deposit growth accelerated in the second half of 2016 resulting in an increase of \$42.4 million for the year.

We have started several new deposit products based around referrals from our customer base. This program has been very successful and hopefully will continue to provide good deposit growth in the future.

Non-performing assets declined \$1.9 million (21.5%) from 2015, reflecting our improving economy. Our Return on Average Assets was 1.34%, which compares favorably to our peers and is again reflective of our record earnings. Your stock price improved throughout the year and we increased dividends for the year from \$.73 to \$.80 (9.6%).

In 2016, we opened our 12th branch in Grottoes, VA, and began construction on our 13th branch in Staunton, which will open in early April. These branches will supplement the two branches we opened in 2015 in Staunton and Craigsville to further strengthen our southern market growth.

We also have two other branch projects in process. The first is located just southeast of Harrisonburg on the new

connector road, and is scheduled to open mid-year. It will ultimately replace our current Port Road branch.

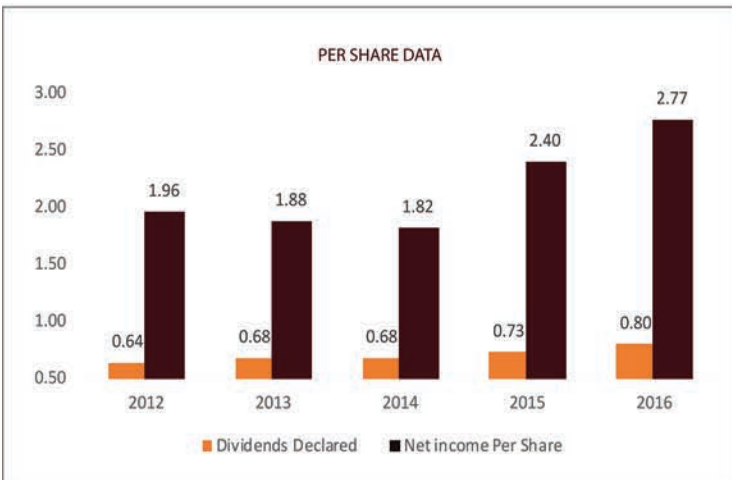
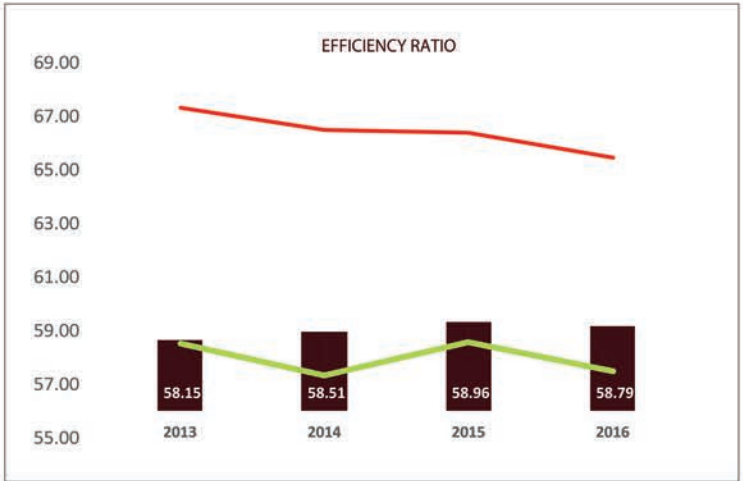
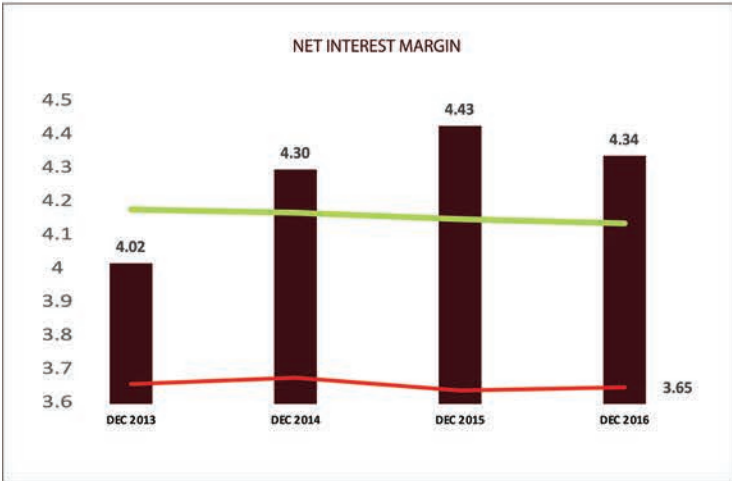
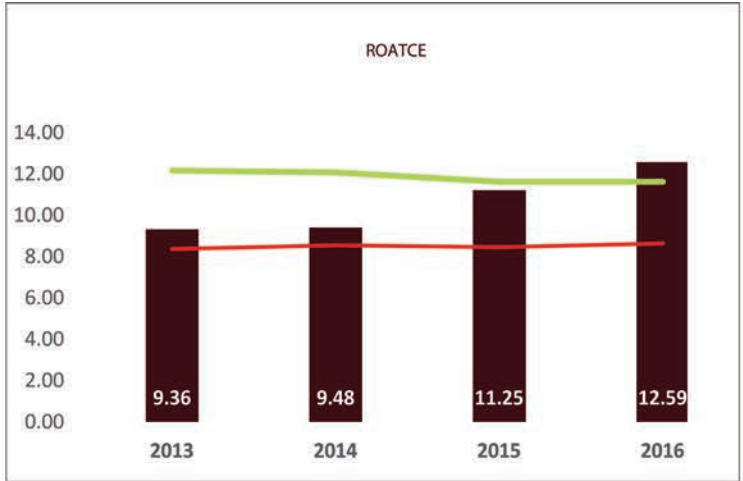
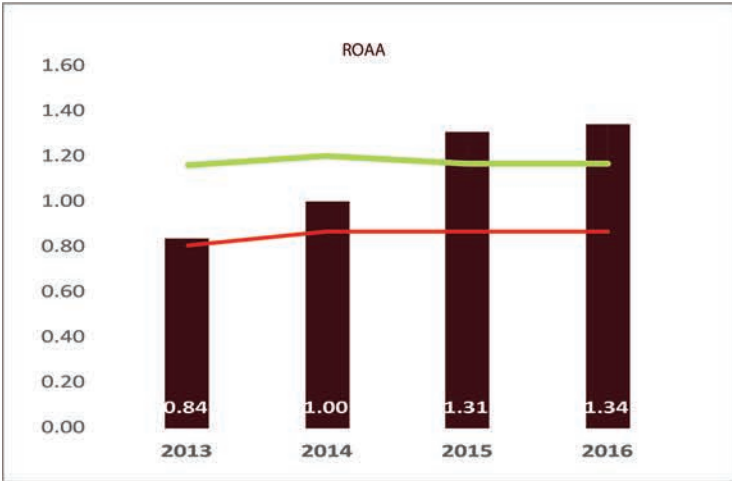
A new Timberville branch is also under construction on Rt. 211 across from the new Walmart. We will be relocating the current Timberville branch which is now housed in corporate headquarters building. The current Timberville location will be converted to corporate and operations offices only.

I would like to thank the entire F & M Bank family for their hard work and dedication this past year. Without our team effort, we could not accomplish the record year that we had. I am proud of our accomplishments, but also proud to support and be a part of the communities in which we live and work.

F & M has a proud history for more than a century and will continue to have a proud history for many years to come.

Dean W. Withers

2016 FINANCIAL FIGURES



LEGEND

- F&M BANK CORP.
- PEER MEDIAN
- PEER TOP 20%

*Peer statistics from the December 31, 2016 Uniform Bank Performance Report, Peer Group 3.



BOARD APPOINTS FIRST FEMALE CHAIR

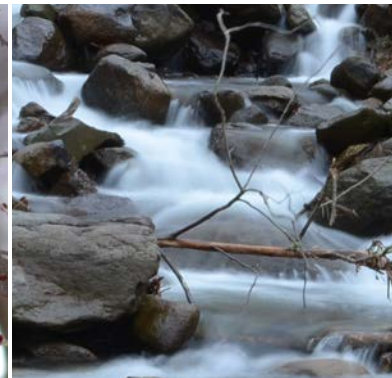
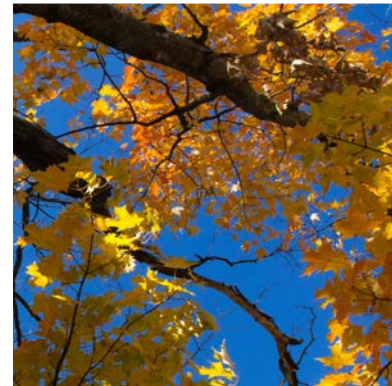
On December 22, 2016, Thomas L. Cline retired as Chairman of the Board of Directors of F&M Bank Corp. after 25 years of service to the company.

The Board of Directors appointed Ellen R. Fitzwater as its new Chair. Ms. Fitzwater has served as a director of the Company for the past 17 years.

In addition to the philosophy Ellen lives by (quoted right), she states, "I appreciate the Board's confidence in electing me as chair and will do my best to fulfill the responsibilities of the position."

Pictured above: "Passing of the gavel" from Tom Cline (right) to newly elected chair Ellen Fitzwater.

**"GROW THROUGH
YOUR EXPERIENCES,
MEET LIFE HONESTLY
AND COURAGEOUSLY,
HAVE PATIENCE, TRUST
GOD, AND YOUR
CHARACTER WILL BE
REFLECTED IN YOUR
LIFE'S ACHIEVEMENTS."**





CONTINUED GROWTH AND DEVELOPMENT

BONUS REWARDS KEEPS MOMENTUM

F&M's account referral program continues to be a big success for acquiring deposits. This program brings in new accounts through both employee and customer referrals and offers a points incentive redeemable for merchandise, gift cards, travel, or the option to donate rewards points to charities in need.

Since inception, customers and staff have referred 1,564 new deposits totaling \$5,339,855.72 (as of July 2016). The Lifetime Value of F&M Bank's Referred Checking Accounts is \$1,628, a 6.5 to 1 return on investment, with our average balance being the best in the nation with this program, according to Velocity Solutions.

PREMIUM DEBIT CARDS

In May of 2016, F&M Bank, in partnership with Velocity Solutions, launched a new Rewards-Based Program – My Rewards Premium Cards.

The premium debit cards offer customers card-level perks and benefits normally associated with a credit card. Benefits include: up to 5x the points towards rewards, cash back, emergency roadside assistance, short-term loans,

prescription savings, and more. Since its launch in May, 357 MRPC accounts have been opened.

NEW LOCATIONS

Coming off a record year, 2016 proved to be one of growth for F&M Bank.

On July 25, 2016, F&M Bank opened its 12th branch at 200 Augusta Avenue, Grottoes. The branch was strategically placed to bridge the gap between the existing branches in Rockingham and Augusta Counties. Branch employees are part of a new “universal banker” staffing approach. Cross-trained in nearly all F&M products and services, the branch staff can provide increased flexibility and efficiency to accommodate our customers’ busy lives.

All branch employees have an extensive background in banking and finance and are familiar with the Grottoes area.

On August 23, 2016, the Harrisonburg-Rockingham and Greater Augusta Regional Chambers of Commerce

hosted a joint grand opening celebration.

To spark a little friendly competition in an effort to fundraise, the chambers competed to see which members (Rockingham or Augusta) could raise the most money for their respective United Way. Overall, \$900 was raised during our event, which was well attended by both the Rockingham and Augusta County communities.

MAKING SOME MOVES

F&M Bank will be opening its 13th branch location in early April 2017 at 30 Gosnell Crossing, Staunton. The branch will be located at the intersection of Myers Corner and Route 250.

Myers Corner is a 139-acre mixed-use real estate development in the Staunton/Fishersville area of Augusta County. The new location brings a blend of modern and traditional banking. It will be technology focused with the same small town community bank feel.

The branch will be unveiling a new “Teller Island” that puts a modern spin on the traditional teller line and will allow our staff to assist customers in a more personal manner. All employees will be universal employees, assisting customers with all banking needs, from a simple teller transaction, all the way through the new account process.

F&M Bank will also be moving the Port Road and Timberville branches to new locations.

The bank purchased a lot at 2030 Legacy Lane in Harrisonburg, VA, in the Coffman’s Corner development. Coffman’s Corner is an 11 acre mixed-use development that will be comprised of destination retail, medical and professional offices. Coffman’s Corner is one of the last remaining prime parcels near the new \$300 million Rockingham Memorial Campus (RMH).

The development, by Cottonwood Commercial, has road frontage on both Port Republic Road and the Southeast Connector Road, which connects every commercial corridor in Harrisonburg.

This highly visible parcel is located directly across from RMH, which serves over 190,000 outpatients and 16,300 inpatients each year and has more than 2,400 employees. It is directly connected to 8,000+ Student Beds, JMU’s main campus (8,200 employees), and Interstate 81 within 2 miles via Port Republic Road. The location is currently under construction and is slated to open summer of 2017.

F&M Bank purchased the former Carilion Family Medicine building at 165 New Market Road and will be moving its in town retail banking operations to that location. The move will open up space at 205 S. Main St. which currently doubles as the Timberville branch and administrative offices. In addition to freeing up office space, the new location will

AT ITS CORE, BANKING IS NOT SIMPLY ABOUT PROFIT, BUT ABOUT PERSONAL RELATIONSHIPS

offer greater visibility and higher traffic counts, with Wal-Mart recently opening across the street. The Timberville location is projected to open fall of 2017.

F&M ACQUIRES VS TITLE

In early 2017, Valley Southern Title (DBA VS Title) was acquired by F&M Bank Corp. as the newest member of our corporate family.

VST is a successful 30+ year old real estate settlement and title insurance company headquartered in Harrisonburg, with offices in Fishersville and Charlottesville.

The acquisition allows F&M Bank to leverage the infrastructure that VS Title already has in place while growing referrals.

ACCESSIBILITY

Financial technology is necessary in today's environment to best meet the needs of our online and mobile customers.

Throughout 2016, F&M Bank worked to launch two new "fintech" products: a Treehouse Mobile App for our school-aged Treehouse Savings Club account holders, and "Squirrel", a friendly, branded personal financial management tool (PFM).

The Treehouse Mobile App is a screen-based addition to our Treehouse Savings Club, a youth savings account which helps children learn to save and handle their money at an early age. The app accomplishes the goals of the Treehouse Savings Account by offering an interactive environment for children to learn about financial management through games and activities. Children are also able to view their account savings.

Squirrel PFM offers customers a single-sign on snapshot of their finances within F&M's online banking portal. Working as an account aggregation tool, the platform provides a 360 degree view of spending and savings, with budgeting and expense tracking resources. Squirrel is scheduled to launch April of 2017.

In order to promote both the mobile app and PFM, the bank announced its new mascot, Sammy the Squirrel. The mascot (pictured right) will make appearances at branch and community events and parades.

IN OUR COMMUNITIES

F&M Bank is dedicated to giving back to the communities it serves. During the year, the bank hosts a variety of free events as a way to show customer appreciation. Each branch hosts a family friendly event as well as a document shredding event. Events are well attended, enjoyed by the community and provide interaction with non-customers.

Community involvement extends beyond business hours at F&M Bank. Most, if not all, employees are involved in some sort of civic duty. This includes sitting on boards, committee leadership, event volunteering, and financial contributions.

Bank employees also have the opportunity to give back through our "Casual Friday for Charity" program, where employees can donate \$5 each Friday to wear denim. The money is collected and donated back to a different nonprofit each month, voted on by staff. In 2016, over \$8,500 was raised by employees through the program.

PERKS AT WORK

F&M has partnered with local businesses in an effort to bring customers to the doors of local merchants, support Virginia's economy, and keep a few extra dollars in our customers' pockets.

F&M Bank promotes a different business monthly via its digital newsletter, blog posts, and its social media channels, resulting in new traffic frequenting small businesses.

As an added benefit of the partnership, an F&M banker conducts an informal presentation about the community banking difference, and the benefits of "going local" to the businesses' employees.



CALENDAR PHOTOGRAPHY CONTEST CONTINUES TO GROW

ANNUAL CALENDAR PHOTO CONTEST

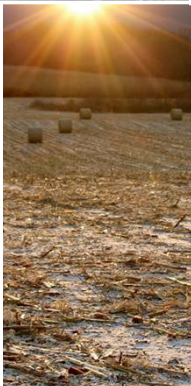
The imagery of the flora and fauna of the Shenandoah Valley contained within this annual report is courtesy of the talented amateur photographers living in our communities.

Each year F&M bank holds a calendar photo contest for dabbling photographers to showcase the beauty of the Shenandoah Valley.

In recent years, F&M bank asked its Facebook fans for help in the selection process. During the voting period, F&M receives an influx of social media shares and an increase in website visits. Other than printing, the cost of this campaign is minimal, resulting in positive ROI for this community engagement initiative.

The top 13 entries, as voted by the public, are awarded each November with a reception hosted after hours at one of our branch locations.

The winners receive an advance edition of the following year's calendar, a gift card, certificate and public mention.





**IN A COMPLEX
WORLD, IT IS
CRUCIAL TO
EMPOWER
YOUTH WITH
MONEY SKILLS**

FINANCIAL EDUCATION

F&M Bank cares deeply about the communities it serves. We are proud to report that one of our organization's signature investments in the community is having a real and meaningful impact on the financial wellbeing of young people. Through a partnership with leading education technology company EverFi, we brought Everfi Financial Education to over 4,600 students in 12 local schools during the 2015-2016 school year. We are equipping students with critical money skills needed for a sound financial future.

F&M Bank also participates in several financial education programs offered by the Virginia Bankers Association. Through the "Teach Children to Save" program, employees visit local elementary schools and present age appropriate lessons to K-5th grade. The purpose of each presentation is enhance a child's understanding of making smart spending decisions. Students also learn the value of saving money and are encouraged to set up a saving strategy. In 2016, nine elementary school were visited, and over 900 students were reached with a saving lesson.

HENRY HAWKINS

Henry retired from F&M Financial Services in April 2016 after 14 years of service to the bank.



MARY ELLEN HARRISON

Mary Ellen retired in May 2016 after 18 years with F&M Financial Services.



THANK YOU FOR YOUR SERVICE

50 YEARS

Sylvia Bowman

30 YEARS

Deborah Andes
Jean Coffman

25 YEARS

Tom Cline (BOD)
Ronnie Wampler (BOD)

20 YEARS

Neil Hayslett

15 YEARS

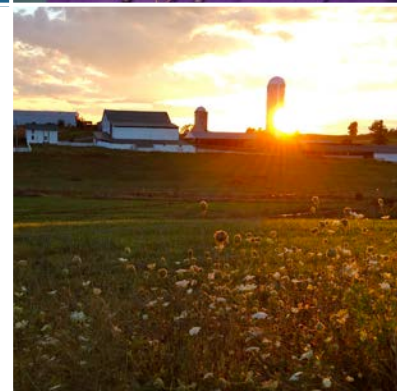
John Crist (BOD)
Dan Harshman (BOD)
Carrie Comer
Berlin Smith
Christy Trail
Alice Yates

10 YEARS

Barbara Bartley
Thomas Campbell
Yvette McCoy
Lawrence(LJ) Purcell
Cynthia Ramey
Edgar (Eddie) Reid
Ashley Riggleman
Natalie Strickler
Victoria Young

5 YEARS

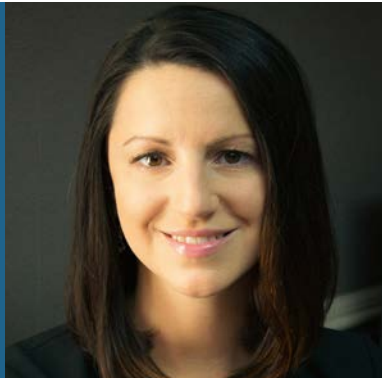
Tonya Branner
Melody Emswiler
Ashley Griffith
Ashley McClure
Emily Rhodes
Patricia Schimmel





MATT ROBINSON

Matt joined Farmers & Merchants Financial Services in 2016, most recently working for Modern Woodmen of America.



CALAN JANSEN

Calan also joined us in 2016, bringing with over 16 years of experience in financial services.

FARMERS & MERCHANTS FINANCIAL SERVICES

F&M Bank’s partnership with Infinex Investments, Inc. allows customers to plan their financial future with the local bank they know and trust. Matt Robinson and Calan Jansen closely work with our branch staff to assist customers in preparing a strategic financial plan that is tailored to meet their needs and expectations, taking into consideration the client’s comfort level in regard to risk.

The partnership continues to be successful as F&M Bank is ranked number 34 of 180 Infinex Banks nationwide.

Matt Robinson has been an Infinex Investment Representative with Farmers & Merchants since 2014, bringing with him over eight years of experience from Modern Woodmen of America.

Originally from Bridgewater, Matt graduated from Turner Ashby High School and Radford University; now calling Harrisonburg home with his wife of five years, Lindsay, and the couple’s daughter, Ada. When he is not working, Matt enjoys watching sports, being active with his church and supporting local organizations in the Shenandoah Valley. Matt worked alongside Henry as he transitioned into retirement.

Matt continues to serve the City of Harrisonburg, Rockingham and Augusta County.

Calan Jansen joined the team in March of 2016 to step into Mary Ellen Harrison’s role as Mary Ellen planned for her retirement.

Calan joined Farmers & Merchants Financial Services with over 16 years’ experience in the industry. Calan provides investments services to customers in Broadway, Timberville, Shenandoah and Page County.

Raised in Shenandoah County, Calan resides in the area with her husband Burton of 17 years and her two daughters. Calan enjoys spending time with her family and is active with various organizations in Shenandoah and Northern Rockingham counties.



OFFICERS

Dean W. Withers
President & CEO

Larry A. Caplinger
EVP/Chief Lending Officer

Neil W. Hayslett
EVP/Chief Administrative Officer

Stephanie E. Shillingburg
EVP/Chief Banking 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

Anita C. Beckman
SVP/Branch Administrator

Cynthia A. Sherman
SVP/Loan Operations Manager

VICE PRESIDENTS

Deborah A. Andes
Gregory T. Berkshire

J.T. Bishop

Sylvia T. Bowman

Gary L. Davenport

Carolyn J. Dove

Melody Emswiler

Sally H. Erickson

Aaron S. Green

Charles P. Harder

Teresa D. Helmick

John E. Meyer

Kate S. Pascarella

Jonah J. Pence

Kitty H. Purcell

Robert R. Reedy, Jr.

Karen B. Rose

Kevin A. Russell

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

Calan Jansen

Glenna M. Lawhorn

Cathy M. Lindamood

Ryan A. May

W. Brent Meadows

Matthew Robinson

Sean D. Ryman

Natalie M. Strickler

Brenda Swartz

Holly Thorne

Barbara Bartley, Branch Officer

Sara Berry, Branch Officer

Jonathan D. Lindsay, Branch Officer

DIRECTORS

Ellen Fitzwater

Board Chair, F&M Bank Corp.,
Accounting Consultant and
Partner, F & R Leasing, LLC

Dean W. Withers

President, 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

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.;
VP, Colonial Appraisal Service, Inc

Christopher S. Runion

President, Eddie Edwards Signs, Inc.

Ronald E. Wampler

Partner, Dove Ohio Farms, LLC and
WWTDO Ohio Farms, LLC

Ray Burkholder

Owner, Balzer & Associates, Inc.

ON BRANCHING INTO GROTTOS

"We've talked about it off and on for years," said Neil Hayslett, "When BB&T and what was once StellarOne were there, we didn't feel like there was room for three banks."

That situation changed in August 2013 when BB&T left the town.



BRANCHES

Bridgewater
100 Plaza Drive
540-828-6300

Broadway
126 North Timber Way
540-896-7071

Craigsville
125 West Craig Street
540-997-4162

Edinburg
120 South Main Street
540-984-4129

Elkton
127 West Rockingham Street
540-298-1251

Grottoes
200 Augusta Avenue
540-249-7237

Harrisonburg
80 Cross Keys Road
540-433-7575
1085 Port Republic Road
540-433-0112

Luray
700 East Main Street
540-743-1130

Staunton
2813 N. Augusta Street
540-213-8686

30 Gosnell Crossing
(opening April 2017)

Timberville
205 South Main Street
540-896-8941

Woodstock
161 South Main Street
540-459-3707

OFFICES

VBS Mortgage
2040 Deyerle Avenue
Suite 102
Harrisonburg, VA
540-442-8583
NMLS# 275173






Dealer Finance Division
4759 Spotswood Trail
Penn Laird, VA
540-437-3480

Loan Production Office
1842 Jefferson Highway
Fishersville, VA
540-946-8160

VS Title Agency
410 Neff Avenue
Harrisonburg, VA
540-434-8571

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INVESTOR INFORMATION

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E: shareholder@broadridge.com
W: <http://shareholder.broadridge.com/>
FMBM

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