ANNUAL REPORT

2019

F&M Bank Corp.

01 WELCOME

AN INTRODUCTION BY F&M BANK PRESIDENT & CEO MARK HANNA

Dear Stockholder,

We are pleased to share our 2019 financial performance which includes earnings for the year of $4.613 million. While our financial performance fell short of our lofty expectations, we accomplished several key strategic initiatives in the past year to position F&M for future success. Those include significantly growing core deposits, reducing our non-performing assets, and enhancing deposit product technology.

As you review our financial performance, it is important to note that our 2019 earnings were negatively impacted by $7.4 million in additional loan loss provisioning related to disposing of problem credits and changes in the methodology. Additionally, the Bank incurred several non-recurring expenses related to dealer deferred cost amortization, pension costs and severance benefits.

Despite a very challenging environment to grow core deposits to fund our asset growth, total deposits increased over $50 million for the year. And, while asset quality has negatively weighed on earnings, F&M made great progress in addressing our problem assets and reducing our non-performing assets 43% from $12.648 million (1.62%) at 12/31/18 to just $7.217 million (0.89%) at 12/31/19. Additionally, 2019 saw F&M Mortgage and VS Title make significant contributions to our financial success as both organizations achieved significant growth and notable profitability.

With our improving asset quality and the growth of core deposit relationships, we are excited about the opportunities that lie ahead. Going forward, we aim to grow and succeed as a dynamic, high-performing financial institution focused on serving the needs of the communities in the Shenandoah Valley.

Mark C. Hanna
President & CEO

GROWTH 02

EXPANSION AND DEPOSIT GROWTH

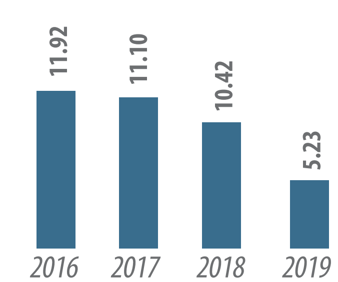
2019 was a year of deposit growth for F&M Bank. Total deposits increased $50.4 million, fueled by the extremely competitive 1.79% APY Money Market special. The promotion brought new deposits into branches thus giving F&M Bank associates the opportunity to cross-sell additional products and services.

Deposits were also an area of focus for commercial lenders. The business development team re-committed to gaining deposit relationships while working through the loan process with new and existing clients.

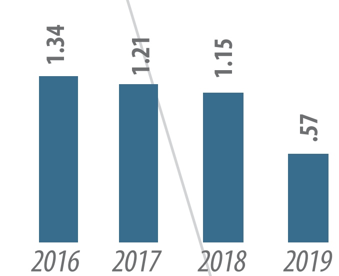
F&M Bank extended its presence in the Augusta County market, opening its 14th branch location in Stuarts Draft. During the month of August, branch opening was promoted through four weeks of giveaways all leading up to a grand opening ceremony co-hosted by the Greater Augusta Regional Chamber of Commerce.

FINANCIALS

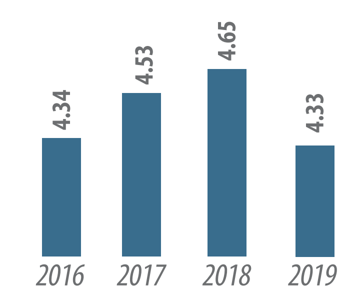
FINANCIAL HIGHLIGHTS OF 2019



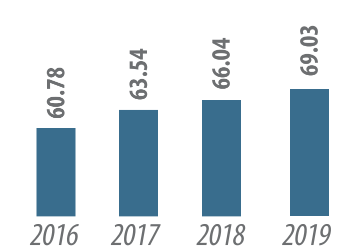
ROATCE



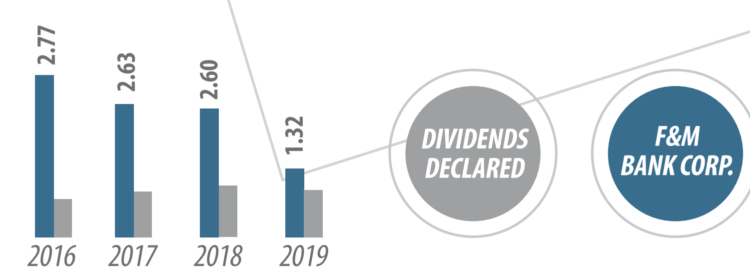
ROAA



NET INTEREST MARGIN



EFFICIENCY RATIO
2018 includes reclass of subsidiary income



PER SHARE DATA

03 AGRICULTURAL

AND RURAL PROGRAMS

F&M Bank was founded in 1908 as a local venture to serve the financial needs of both farmers and merchants. Going back to its roots, F&M Bank renewed its commitment to agriculture in 2019. The first step was hiring Paul Eberly, Senior Vice President and Agricultural & Rural Programs Leader. The Agricultural Division, consisting of Paul Eberly, Jordan Dean, Tom Campbell and Matt Hill, put boots on the ground and have been actively involved in the community making farm visits and attending agriculture-centered events.

To assist with agriculture referrals, Paul Eberly established an agriculture community board. This group of knowledgeable, established industry professionals meet quarterly with the Division.

PAUL EBERLY

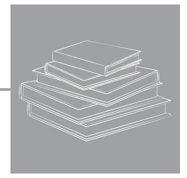
MATT HILL

JORDAN DEAN

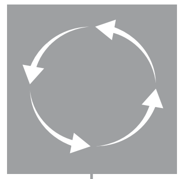
TOM CAMPBELL

$27M+

THE BANK HAD STRONG GROWTH IN THE AGRICULTURAL SECTOR IN 2019, WITH NEW LOANS ORIGINATED DIRECTLY TO FARMERS OR OTHER AGRICULTURAL ENTERPRISES TOTALING OVER $27M.

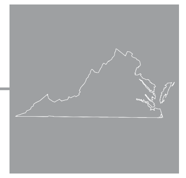


VOLUNTEERED DURING AGRICULTURE LITERACY WEEK READING BOOKS ABOUT THE INDUSTRY TO LOCAL ELEMENTARY STUDENTS IN ROCKINGHAM AND SHENANDOAH COUNTIES.



DEVELOPED AGRICULTURE SWEEP PROGRAM ALLOWING CUSTOMERS TO SWEEP FUNDS BETWEEN AN OPERATING ACCOUNT, LINE OF CREDIT AND INTEREST SAVINGS.

F&M'S GEOGRAPHIC FOOTPRINT ENCOMPASSES 4 OF THE 5 TOP PRODUCING AGRICULTURAL MARKETS IN VIRGINIA.



05 COMMUNITY

OUR LOCAL PROMISE

One of F&M Bank's core values is community – to make the communities we serve better. In 2019, our dedication to community was illustrated through our commitment to education, philanthropy and volunteerism.

One of the organization's greatest wins during the year was being selected as the regionally exclusive Affinity Banking Partner of the James Madison University Alumni Association. In addition to serving as the preferred financial institution, F&M Bank is an engaged and responsive Purple Partner, with active participation at various events on campus. F&M Bank associates are excited to continue involvement with current students, alumni, and faculty and staff of JMU through special promotions, engagement opportunities, educational events and more.

F&M Bank continues to support the community through donations and sponsorships. Through the F&M Bank Community Fund managed by area Community Foundations, F&M Bank distributed $30K in grants to various nonprofits. The bank continues to sponsor and attend numerous nonprofit galas, little league teams and events, county fairs, community festivals and more.

33 AREA SENIOR CITIZENS ADOPTED IN DECEMBER FOR THE SANTA TO A SENIOR DRIVE.

2019 NAMED CORPORATE PHILANTHROPIST BY THE ASSOCIATION OF FUNDRAISING PROFESSIONALS SHENANDOAH CHAPTER.

44 COMMUNITY EVENTS SUPPORTED BY F&M BANK'S SOLAR POWERED MOBILE ATM SERVICE.

$5,500 RAISED BY EMPLOYEES FOR AREA NONPROFITS THROUGH OUR "DRESS DOWN" FRIDAYS.

39 LOCAL STUDENTS LEARNED ABOUT COMMUNITY BANKING AS PART OF BANK DAY SCHOLARSHIP PROGRAM INITIATIVE.

2019 PLATINUM SPONSORS OF THE HARRISONBURG-ROCKINGHAM GREAT COMMUNITY GIVE.

07 COMMERCIAL

BUILDING COMMERCIAL RELATIONSHIPS

Building commercial relationships was a strategic goal for F&M Bank in 2019. Current employees Sarah Prusak and Mary Pavlovskaya transitioned to become the business deposit services team in an effort to increase commercial deposits. The marketing department worked alongside the business deposit services team to repackage and rebrand current treasury management tools and introduced the Business Solutions suite.

To boost awareness for locally owned businesses and to market to potential commercial customers, F&M Bank hosted its first "Local Business You Love" contest in August. Residents in the bank's market area were asked to nominate their favorite local businesses on social media to win a $10,000 grand prize. The top 10 businesses with the most nominations were then invited to a reception at the Capital Ale House in Harrisonburg to celebrate the winner announcement.

From the 3,400 public nominations, three businesses emerged in close competition. In addition to the top prize award of $10,000, President Mark Hanna surprised guests with a $1,500 award for second place and a $1,000 award for third runner up.

1st Place - Pufferbellies Toys & Books, 568 votes
2nd Place - Overlook Farms & Produce LLC, 492 votes
3rd Place - Massanutten Produce LLC, 477 votes

SARAH PRUSAK

MARY PAVLOVSKAYA

LOCAL BUSINESS YOU LOVE CONTEST RECEIVED COVERAGE ON TV-3 NEWS, TV-3 SOCIAL MEDIA, AND NEWS RELEASE PUBLISHED IN THE DAILY NEWS RECORD

942 BUSINESS NOMINATIONS RECEIVED FOR 1ST ROUND OF LOCAL BUSINESS YOU LOVE CONTEST.

2,475 BUSINESS VOTES RECEIVED FOR 2ND ROUND OF LOCAL BUSINESS YOU LOVE CONTEST.

FACEBOOK ADVERTISING FOR THE LOCAL BUSINESS YOU LOVE CONTEST REACHED 17,379 PEOPLE, AND 3,227 PEOPLE ENGAGED WITH THE ADVERTISEMENT.

HOSTED THE LARGEST RECORDED ORGANIZED CORPORATE TAILGATE FOR COMMERCIAL CLIENTS IN JAMES MADISON UNIVERSITY HISTORY.

SOLUTIONS 10

A FOCUSED APPROACH ON INTEGRATED SOLUTIONS

F&M FINANCIAL SERVICES

The Wealth Management division experienced great success in 2019. Financial Advisors, Calan Jansen and Matt Robinson, were both ranked in the top 10% of Infinex Advisors nationwide. F&M Financial Services as a program is ranked 4th out of 33 banks in the same asset class.

Through partnership with Infinex Investments, Inc., Calan and Matt manage 2,700 investment accounts and guide clients through retirement planning, personal insurance and short-term financial goals to create a committed plan.

DEALER FINANCE DIVISION

The Dealer Finance Division of F&M Bank continues to perform at a superior level year after year. In 2019, the division originated $59.6M from 4,019 loans, an increase of 238 Dealer Finance Division loans from 2018.

F&M MORTGAGE

The combination of low interest rates and a hot housing market led to a record year for the bank's mortgage division. In 2019, F&M Mortgage closed 600 loans, generating $124M in loan volume compared to 465 loans and $91M in volume one year prior.

The division also established a community advisory board consisting of well-known realtors, builders and developers serving the Shenandoah Valley. This experienced team will be a valuable source of industry knowledge and referrals for F&M Mortgage in the 2020 calendar year.

VSTITLE

VSTitle experienced a year of growth in 2019. Offering real estate settlement services and title insurance, the division increased total revenue 16% from one year prior. The annual revenue goal for the year was $1.4M, but VSTitle finished the year at $1.5M. Closed transactions also increased 11%, from 1,049 in 2018 to 1,165 in 2019. To help manage the significant increase in business, VSTitle added 6 experienced staff members to the team throughout the year.

11K SOCIAL MEDIA FOLLOWERS.

6th BY ROAE (AMONG VIRGINIA BANKS) ON THE AMERICAN BANKER'S TOP 200 PUBLICLY TRADED COMMUNITY BANKS LIST.

#1 HELD THE TOP SPOT IN DEPOSIT SHARE IN THE HARRISONBURG-ROCKINGHAM COUNTY MARKET FOR A THIRD CONSECUTIVE YEAR.

2019 EDINBURG BRANCH RELOCATES TO STONEY CREEK BOULEVARD, ALLOWING CUSTOMERS A MORE SPACIOUS, CONTEMPORARY SETTING.

+30% NEW ORGANIC WEBSITE VISITORS FROM VIRGINIA INCREASED. REPRESENTING AN INCREASE OF OVER 13,000 NEW WEBSITE VISITORS.

2019 CORPORATE OFFICE COMPLETES ITS REMODEL FOLLOWING THE TIMBERVILLE BRANCH MOVE, CREATING ADDITIONAL OFFICE AND MEETING SPACE.

11

MILESTONES

OVER 110 YEARS OF WORKING TOGETHER

*Congratulations to **Jean Estep** on her retirement after 66 years of service. Jean joined F&M Bank in 1953 as a teller and worked her way through the ranks. In 1973 she was promoted to Assistant Cashier, Assistant Vice President in 1975, Vice President in 1978, and in 2008 she transitioned into an operations role within the bank's customer support center.*

***Chuck Foltz**, Senior Operations Officer, retired after 37 years of service.*
***Betty Bryant,** Senior Teller, retired after 15 years of service.*
***Cathy Lindamood**, Branch Manager, retired after 14 years of service.*
***Victoria Young**, Branch Specialist, retired after 13 years of service.*
***Vickie Shifflett**, Teller, retired after 6 years of service.*

5
CAROLLEE HINKLE
HEAD TELLER

5
JOHN MEYER
INFORMATION SECURITY OFFICER

5
SHAINA PRICE
NEW ACCOUNTS SPECIALIST

5
JESSICA FLETCHER
LENDER

5
CARROLL CONLEY
COURIER

5
MATTHEW ROBINSON
INVESTMENT REP

5
LORI FLICK
LOAN PROCESSOR

5
MATTHEW BEAHM
COMMERCIAL RELATIONSHIP MANAGER

10
JASON TAYLOR
FACILITIES ASSISTANT

10
ROBIN LAYMAN
BRANCH SPECIALIST

10
TONJA PAINTER
OPERATIONS SPECIALIST

5
MARY GIRA
TELLER

10
AMANDA HENSLEY
NEW ACCOUNTS COORDINATOR

10
ROBERT SCOTT
COURIER

15
JUDY GETZ
OPERATIONS SPECIALIST

15
JOYCE SHIFLET
OPERATIONS SPECIALIST

15
DEAN WITHERS
DIRECTOR

35
CYNTHIA SHERMAN
SR. LOAN OPERATIONS OFFICER

25
FRANCES SHOWALTER
TELLER

25
MIKE PUGH
DIRECTOR

40
BRENDA SWARTZ
BRANCH MANAGER

40
KATHRYN SMITH
CUSTODIAN-BROADWAY

13

OUR VALUES

MISSION, VISION & VALUES

At F&M Bank, we create value in every service we offer and product we sell. We apply sound banking principles to encourage our local economy and strengthen our relationships. From comprehensive personal and commercial banking to loan options for individuals and businesses, our team is committed to building brighter futures in the community we call home.

OUR MISSION

F&M Bank will be a strong, independent financial organization committed to solid shareholder value, exceptional customer service, active community involvement and a fulfilling employee experience.

OUR VISION

Building our loyal customer base by developing lasting relationships in order to be the strongest bank in our communities.

OUR VALUES

Making the communities we serve better.
Providing flexible financial solutions.
Responding quickly to all requests and opportunities.
Bringing enthusiam and a positive attitude to our endeavors.
Adding fun into banking and our workplace!

BOARDS 16

COMMUNITY BOARDS FOR BUSINESS DEVELOPMENT

AUGUSTA COUNTY

ANGELA V. WHITESELL
Esquire, Vellines, Glick & Whitesell, P.C.

CAROLYN BRAGG
Retired
Augusta County Board of Supervisors

GREG SEE
General Manager
Ironwood Country Club

JEFF SLAVEN
Owner, Cattleman's Supply

LARRY HOWDYSHELL
Retired
Shenandoah Valley Electric Cooperative

RICHARD "DICKIE" BELL
Retired
VA 20th District House of Delegates

RICK WILLIAMS
President, R.G. Williams Insurance Agency, Inc. representing Rockingham Insurance

STEVE MCDONOUGH
Owner, McDonough Toyota

THOMAS WHITE
Vice President & CPA
White, Withers & Masencup

HARRISONBURG/ROCKINGHAM

ABBEY DOBES
Owner, Siren Song Marketing Group

ADAM SHIFFLETT
Co-owner, Brothers Craft Brewing

ANDY MYERS
General Manager, Dick Myers
Chrysler Dodge Jeep Ram

BRAYDON HOOVER
Director of Development & Annual Giving
Eastern Mennonite University

CHRISTIAN HERRICK
CEO, Randy's Do It Best Hardware

HANNAH HUTMAN
Partner & Creditor/Debtor Rights Attorney
Hoover Penrod, PLC

LINDSAY KING
Marketing Lecturer
James Madison University

BYARD LUEBBEN
Owner, Edge, ITM

MORGAN SLAVEN
Public Affairs
Shenandoah Valley Electric Cooperative

NICK LANGRIDGE
Vice President, University Advancement
James Madison University

QUINTON CALLAHAN
Partner, Business Law & Litigation Attorney
Clark & Bradshaw, P.C.

RENEE WHITMORE
Realtor & Associate Broker
Old Dominion Realty

AGRICULTURE

BETH BAZZLE
Owner, Mountain Valley Farm

BUFF SHOWALTER
Vice President, Poultry Specialties Inc.
Beef & Poultry Farmer

DOUG BERRY
Accountant, Specializing in Income Tax Preparation; Owner/Operator,
Wolf Run Farms, LLC

JARED BURNER
Vice President, Trio Farms, Inc.
Owner, Burner's Beef LLC

JOHN BOWMAN
Realtor/Auctioneer

LARRY POWELL
Owner/Operator, L P Solutions, Beef Farmer

LEWIS HORST
Agriculture Community Board Member

RICK REEVES
Agriculture Community Board Member

WILLIAM MEYERHOEFFER
Dairy Nutritionist

MORTGAGE

BERNARD HAMANN
Owner, Realtor & CMCA
Rocktown Realty

GARY CRUMMETT
Owner, Gary Crummett & Sons, LLC

JILL MCGLAUGHLIN
President, Classic Kitchen & Bath

JM MONGER
Owner, R.S. Monger & Sons Inc.

JM SNELL
Executive Vice President, Valley Renovators, Inc.

NATALIE CAMPBELL
Real Estate Broker Associate
Old Dominion Realty

RONALD FLORES
Realtor, Funkhouser Real Estate Group

SCOTT WILLIAMS
Managing Partner
Crescent Development Group

OUR PEOPLE

OFFICERS AND DIRECTORS

DIRECTORS

MICHAEL PUGH
Board Chair, President, Old Dominion Realty, Inc; VP, Colonial Appraisal Service, Inc

DEAN WITHERS
Vice Board Chair

LARRY CAPLINGER
Retired EVP, F&M Bank

RAY BURKHOLDER
Owner, Balzer & Associates, Inc.

JOHN CRIST
Partner, Hoover Penrod, PLC-Attorneys

DANIEL HARSHMAN
Manager, Town of Edinburg

RICHARD MYERS
President, Dick Myers Chrysler Dodge Jeep Ram

CHRISTOPHER RUNION
President, Eddie Edwards Signs, Inc.

RONALD WAMPLER
Partner, Dove Ohio Farms, LLC and WWTD Ohio Farms, LLC

PETER WRAY
Principal Broker, Triangle Realtors

ANNE KEELER
Vice President for Finance and Treasurer Bridgewater College

OFFICERS

MARK HANNA
President & CEO

CARRIE COMER
EVP/Chief Financial Officer

STEPHANIE SHILLINGBURG
EVP/Chief Banking Officer

EDWARD STRUNK
EVP/Chief Credit Officer

BARTON BLACK
EVP/Chief Strategy & Risk Officer

JEFFREY LAM
SVP/Retail Loan Administrator

CYNTHIA SHERMAN
SVP/Loan Operations Manager

KEVIN RUSSELL
SVP/President F&M Mortgage

GREG BERKSHIRE
SVP/Dealer Finance Manager

J.T. BISHOP
SVP/Market Leader

MELODY EMSWILER
SVP/Director of HR

AARON GREEN
SVP/Market Leader

KATE PASCARELLA
SVP/Senior Credit Officer

KAREN ROSE
SVP/Deposit Operations

KRISTA SUTER
SVP/Senior Risk Officer

DALE SHOOP
President, VSTitle

VICE PRESIDENTS

DEBORAH ANDES
SARA BERRY
JACQUELINE BURNER
KAY DEAN
SARA BERRY
KEITH DEEDS
CAROLYN DOVE
PAUL EBERLY
CHRIS GUNTER
TERESA HELMICK
JOHN MEYER
KITTY PURCELL
SEAN RYMAN
GREGORY SPITLER
NATALIE STRICKLER-ALT
HOLLY THORNE

ASST. VICE PRESIDENTS

BARBARA BARTLEY
MATTHEW BEAHM
LEIGH BLEVINS
DONNA BROWN
THOMAS CAMPBELL
JOSEPH ERICKSON
KATHY GRUBBS
RENEE HARTLESS
CALAN JANSEN
ANTHONY KEYSER
GLENNA LAWHORN
RYAN MAY
CHARLES NESLER
SARAH PRUSAK
MATTHEW ROBINSON
BRENDA SWARTZ

BANK OFFICERS

MARY CAMPBELL
JOHN COFFMAN
JORDAN DEAN
KELSEY DEAN
SHARRIE HARRISON
DEBRA KOOGLER
ASHLEY LAM
JESSICA LUCE
ASHLEY MCCLURE
YVETTE MCCOY
DONNA O'BYRNE
ANGELA SMITH

LOCATIONS

F&M BANK BRANCHES AND OFFICES

BRANCHES

Bridgewater
100 Plaza Drive
540-828-6300

Broadway
126 Timber Way
540-896-7071

Craigsville
125 West Craig Street
540-997-4162

Edinburg
300 Stoney Creek Boulevard
540-984-4128

Elkton
127 West Rockingham Street
540-298-1251

Grottoes
200 Augusta Avenue
540-249-7237

Harrisonburg
80 Cross Keys Road
540-433-7575

2030 Legacy Lane
540-433-0112

Luray
700 East Main Street
540-743-1130

Staunton
2813 N. Augusta Street
540-213-8686

30 Gosnell Crossing
540-946-8160

Stuarts Draft
2782 Stuarts Draft Highway
540-609-2363

Timberville
165 New Market Road
540-896-1716

Woodstock
161 South Main Street
540-459-3707

OFFICES

Headquarters
205 South Main Street
Timberville, VA
540-896-8941
NMLS# 414464

F&M Mortgage
2040 Deyerle Avenue, Suite 207
Harrisonburg, VA
540-442-8583

19 Myers Corner Drive, Suite 105
Staunton, VA
540-446-8540

161 South Main Street
Woodstock, VA
540-459-3707

NMLS# 275173

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

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

1707 Jefferson Highway
Fishersville, VA
540-213-0419

154 Hansen Road
Charlottesville, VA
434-202-4336

INVESTOR INFORMATION

Transfer Agent for F&M Bank Corp. Stock (FMBM)
Broadridge Corporate Issuer Solutions
P.O. Box 1342
Brentwood, NY 11717
P: 844-318-0135
F: 215-553-5402
E: shareholder@broadridge.com
W: http://shareholder.broadridge.com/FMBM

Member FDIC
EQUAL HOUSING LENDER
NMLS# 414464 / NMLS# 275173

WWW.FMBANKVA.COM

FARMERSAND MERCHANTSBANK

FMBANKVA

FMGOLOCAL

DOWNLOAD APP FROM THE APP STORE OR GOOGLE PLAY

FMBANKVA

FARMERS-&-MERCHANTS-BANK-OF-VIRGINIA

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2019
Commission file number: 0-13273

F & M BANK CORP.

(Exact name of registrant as specified in its charter)

Virginia	**54-1280811**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

P. O. Box 1111, Timberville, Virginia 22853
(Address of principal executive offices) (Zip Code)

(540) 896-8941
(Registrant's telephone number including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None		

Securities registered pursuant to Section 12(g) of the Act:
Common Stock - $5 Par value per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Sarbanes Act. Yes [ ] No [x]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes [ ] No [x]

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [x] No [ ]

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes [X] No [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer ☐ Smaller reporting company ☒
Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes [ ] No [x]

The registrant's Common Stock is quoted on the OTC Market's OTCQX tier under the symbol FMBM. The aggregate market value of the 2,823,448 shares of Common Stock of the registrant issued and outstanding held by non-affiliates on June 30, 2019 was approximately $79,621,228 based on the closing sales price of $28.20 per share on that date. For purposes of this calculation, the term "affiliate" refers to all directors and executive officers of the registrant.

As of the close of business on March 11, 2020, there were 3,192,462 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Part III: Portions of the Proxy Statement for the Annual Meeting of Shareholders to be held on May 2, 2020 (the "Proxy Statement").

Table of Contents

PART I

Item 1. Business

General

F & M Bank Corp. (the "Company" or "we"), incorporated in Virginia in 1983, is a one bank holding company under the Bank Holding Company Act of 1956 that has elected to become a financial holding company. The Company owns 100% of the outstanding stock of its banking subsidiary, Farmers & Merchants Bank ("Bank") and a majority interest in VSTitle, LLC ("VST"). TEB Life Insurance Company ("TEB") and Farmers & Merchants Financial Services, Inc. ("FMFS") are wholly owned subsidiaries of the Bank. The Bank also holds a majority ownership in VBS Mortgage, LLC ("F&M Mortgage").

The Bank was chartered on April 15, 1908, as a state chartered bank under the laws of the Commonwealth of Virginia. TEB was incorporated on January 27, 1988, as a captive life insurance company under the laws of the State of Arizona. FMFS is a Virginia chartered corporation and was incorporated on February 25, 1993. F&M Mortgage was incorporated on May 11, 1999. The Bank purchased a majority interest in F&M Mortgage on November 3, 2008 and the Company purchased a majority interest in VST on January 1, 2017. F&M Mortgage owns the remaining minority interest in VST.

As a commercial bank, the Bank offers a wide range of banking services including commercial and individual demand and time deposit accounts, commercial and individual loans, internet and mobile banking, drive-in banking services, ATMs at all branch locations and several off-site locations, as well as a courier service for its commercial banking customers. TEB was organized to re-insure credit life and accident and health insurance currently being sold by the Bank in connection with its lending activities. FMFS was organized to write title insurance but now provides brokerage services, commercial and personal lines of insurance to customers of the Bank. F&M Mortgage originates conventional and government sponsored mortgages through their offices in Harrisonburg, Woodstock and Fishersville. VST provides title insurance and real estate settlement services through their offices in Harrisonburg, Fishersville and Charlottesville, Virginia.

The Bank makes various types of commercial and consumer loans and has a large portfolio of residential mortgages and indirect auto lending. The local economy is relatively diverse with strong employment in the agricultural, manufacturing, service and governmental sectors.

The Company's and the Bank's principal executive office is located at 205 South Main Street, Timberville, Virginia 22853, and its phone number is (540) 896-8941.

Filings with the SEC

The Company files annual, quarterly and other reports under the Securities Exchange Act of 1934 with the Securities and Exchange Commission ("SEC"). These reports are posted and are available at no cost on the Company's website, *www.FMBankVA.com*, as soon as reasonably practicable after the Company files such documents with the SEC. The Company's filings are also available through the SEC's website at *www.sec.gov*.

Employees

On December 31, 2019, the Bank had 173 full-time and part-time employees, including executive officers, loan and other banking officers, branch personnel, operations personnel and other support personnel. None of the Company's employees is represented by a union or covered under a collective bargaining agreement. Management of the Company considers their employee relations to be excellent. No one employee devotes full-time services to F & M Bank Corp.

Competition

The Bank's offices face strong competition from numerous other financial institutions. These other institutions include large national and regional banks, other community banks, nationally chartered savings banks, credit unions, consumer finance companies, mortgage companies, loan production offices, marketplace lenders and other financial technology firms, mutual funds and life insurance companies. Competition for loans and deposits is affected by a variety of factors including interest rates, types of products offered, the number and location of branch offices, marketing strategies and the reputation of the Bank within the communities served.

PART I, continued

Item 1. Business, continued

Regulation and Supervision

General. The operations of the Company and the Bank are subject to federal and state statutes, which apply to bank holding companies, financial holding companies and state member banks of the Federal Reserve System. The common stock of the Company is registered pursuant to and subject to the periodic reporting requirements of the Securities Exchange Act of 1934 (the "Exchange Act"). These include, but are not limited to, the filing of annual, quarterly, and other current reports with the SEC. As an Exchange Act reporting company, the Company is directly affected by the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley"). The Company believes it is in compliance with SEC and other rules and regulations implemented pursuant to Sarbanes-Oxley and intends to comply with any applicable rules and regulations implemented in the future.

The Company, as a bank holding company and a financial holding company, is subject to the provisions of the Bank Holding Company Act of 1956, as amended (the "Act") and is supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Act requires the Company to secure the prior approval of the Federal Reserve Board before the Company acquires ownership or control of more than 5% of the voting shares or substantially all of the assets of any institution, including another bank.

As a financial holding company, the Company is required to file with the Federal Reserve Board an annual report and such additional information as it may require pursuant to the Act. The Federal Reserve Board may also conduct examinations of F & M Bank Corp. and any or all of its subsidiaries. Under the Act and the regulations of the Federal Reserve Board, a bank holding company and its subsidiaries are prohibited from engaging in certain tie-in arrangements in connection with an extension of credit, provision of credit, sale or lease of property or furnishing of services.

The permitted activities of a bank holding company are limited to managing or controlling banks, furnishing services to or performing services for its subsidiaries, and engaging in other activities that the Federal Reserve Board determines by regulation or order to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. In addition, bank holding companies that qualify and elect to be financial holding companies, such as the Company, may engage in any activity, or acquire and retain the shares of a company engaged in any activity, that is either (i) financial in nature or incidental to such financial activity (as determined by the Federal Reserve Board in consultation with the Secretary of the Treasury) or (ii) complementary to a financial activity and does not pose a substantial risk to the safety and soundness of depository institutions or the financial system generally (as solely determined by the Federal Reserve Board). Activities that are financial in nature include but are not limited to securities underwriting and dealing, insurance underwriting, and making merchant banking investments. Since 1994, the Company has entered into agreements with the Virginia Community Development Corporation to purchase equity positions in several Low-Income Housing Funds; these funds provide housing for low-income individuals throughout Virginia. Approval of the Federal Reserve Board is necessary to engage in certain of the activities described above or to acquire interests engaging in these activities.

The Bank as a state member bank is supervised and regularly examined by the Virginia Bureau of Financial Institutions and the Federal Reserve Board; such supervision and examination by the Virginia Bureau of Financial Institutions and the Federal Reserve Board is intended primarily for the protection of depositors and not the stockholders of the Company.

Payment of Dividends. The Company is a legal entity, separate and distinct from its subsidiaries. A significant portion of the revenues of the Company result from dividends paid to it by the Bank. There are various legal limitations applicable to the payment of dividends by the Bank to the Company. Under the current regulatory guidelines, prior approval from the Federal Reserve Board is required if cash dividends declared in any given year exceed net income for that year, plus retained net profits of the two preceding years. A bank also may not declare a dividend out of or in excess of its net undivided profits without regulatory approval. The payment of dividends by the Bank or the Company may also be limited by other factors, such as requirements to maintain capital above regulatory guidelines.

Bank regulatory agencies have the authority to prohibit the Bank or the Company from engaging in an unsafe or unsound practice in conducting their businesses. The payment of dividends, depending on the financial condition of the Bank, or the Company, could be deemed to constitute such an unsafe or unsound practice. Based on the Bank's current financial condition, the Company does not expect that any of these laws will have any impact on its ability to obtain dividends from the Bank.

Regulation and Supervision, continued

The Company also is subject to regulatory restrictions on payment of dividends to its shareholders. Regulators have indicated that bank holding companies should generally pay dividends only if the organization's net income available to common shareholders over the past year has been sufficient to fully fund the dividends and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality, and overall financial condition. Further, a bank holding company should inform and consult with the Federal Reserve Board prior to declaring a dividend that exceeds earnings for the period (e.g., quarter) for which the dividend is being paid or that could result in a material adverse change to the organization's capital structure.

Capital Requirements. Effective January 1, 2015, the Federal Reserve, the Federal Deposit Insurance Company ("FDIC") and the Office of the Comptroller of the Currency ("OCC") adopted a new rule that substantially amended the regulatory risk-based capital rules applicable to us. The final rule implemented the "Basel III" regulatory capital reforms and changes required by the Dodd-Frank Act (see definition below). The final rule includes new minimum risk-based capital and leverage ratios and refines the definition of what constitutes "capital" for purposes of calculating these ratios. The minimum capital requirements currently applicable to the Bank are: (i) a new common equity Tier 1 ("CET1") capital ratio of 4.5%; (ii) a Tier 1 to risk-based assets capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. The final rule established a "capital conservation buffer" of 2.5% above the new regulatory minimum capital ratios, and when fully effective on January 1, 2019, results in the following minimum ratios: (a) a common equity Tier 1 capital ratio of 7.0%; (b) a Tier 1 to risk-based assets capital ratio of 8.5%; and (c) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations will establish a maximum percentage of eligible retained income that can be utilized for such activities.

The CETI and Tier 1 leverage ratio of the Bank as of December 31, 2019, were 13.30% and 10.89%, respectively, which are significantly above the minimum requirements. The guidelines also provide that banking organizations experiencing internal growth or making acquisitions will be expected to maintain strong capital positions substantially above the minimum supervisory levels, without significant reliance on intangible assets.

In December 2017, the Basel Committee published standards that it described as the finalization of the Basel III post-crisis regulatory reforms (the standards are commonly referred to as "Basel IV"). Among other things, these standards revise the Basel Committee's standardized approach for credit risk (including by recalibrating risk weights and introducing new capital requirements for certain "unconditionally cancellable commitments," such as unused credit card lines of credit) and provide a new standardized approach for operational risk capital. Under the proposed framework, these standards will generally be effective on January 1, 2022, with an aggregate output floor phasing-in through January 1, 2027. Under the current capital rules, operational risk capital requirements and a capital floor apply only to advanced approaches institutions, and not to the Company. The impact of Basel IV on the Company and the Bank will depend on the manner in which it is implemented by the federal bank regulatory agencies.

As directed by the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act"), the federal banking regulators in 2019 jointly issued a final rule that permits qualifying banks that have less than $10 billion in total consolidated assets to elect to be subject to a 9% "community bank leverage ratio." A qualifying bank that has chosen the proposed framework would not be required to calculate the existing risk-based and leverage capital requirements and would be considered to have met the capital ratio requirements to be "well capitalized" under prompt corrective action rules, provided it has a community bank leverage ratio greater than 9%.

Pursuant to the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement, qualifying bank holding companies with total consolidated assets of less than $3 billion, such as the Company, are not subject to consolidated regulatory capital requirements

PART I, continued

Item 1. Business, continued

Regulation and Supervision, continued

Source of Strength. Federal Reserve policy has historically required bank holding companies to act as a source of financial and managerial strength to their subsidiary banks. The Dodd-Frank Act codified this policy as a statutory requirement. Under this requirement, the Company is expected to commit resources to support the Bank, including at times when the Company may not be in a financial position to provide such resources. Any capital loans by a bank holding company to any of its subsidiary banks are subordinate in right of payment to depositors and to certain other indebtedness of such subsidiary banks. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a federal bank regulatory agency to maintain the capital of a subsidiary bank will be assumed by the bankruptcy trustee and entitled to priority of payment.

Safety and Soundness. There are a number of obligations and restrictions imposed on bank holding companies and their subsidiary banks by law and regulatory policy that are designed to minimize potential loss to the depositors of such depository institutions and the FDIC insurance fund in the event of a depository institution default. For example, under the Federal Deposit Insurance Corporation Improvement Act of 1991, to avoid receivership of an insured depository institution subsidiary, a bank holding company is required to guarantee the compliance of any subsidiary bank that may become "undercapitalized" with the terms of any capital restoration plan filed by such subsidiary with its appropriate federal bank regulatory agency up to the lesser of (i) an amount equal to 5% of the institution's total assets at the time the institution became undercapitalized or (ii) the amount that is necessary (or would have been necessary) to bring the institution into compliance with all applicable capital standards as of the time the institution fails to comply with such capital restoration plan. Under the Federal Deposit Insurance Act, the federal bank regulatory agencies have adopted guidelines prescribing safety and soundness standards. These guidelines establish general standards relating to internal controls and information systems, internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth and compensation, fees and benefits. In general, the guidelines require, among other things, appropriate systems and practices to identify and manage the risk and exposures specified in the guidelines.

The Gramm-Leach-Bliley Act. The Gramm-Leach-Bliley Act (the “GLB Act”) allows a bank holding company or other company to certify status as a financial holding company, which will allow such company to engage in activities that are financial in nature, that are incidental to such activities, or are complementary to such activities. The GLB Act enumerates certain activities that are deemed financial in nature, such as underwriting insurance or acting as an insurance principal, agent or broker; dealing in or making markets in securities; and engaging in merchant banking under certain restrictions. It also authorizes the Federal Reserve to determine by regulation what other activities are financial in nature, or incidental or complementary thereto.

USA Patriot Act of 2001. In October 2001, the USA Patriot Act of 2001 was enacted in response to the terrorist attacks in New York, Pennsylvania and Northern Virginia which occurred on September 11, 2001. The Patriot Act is intended to strengthen U.S. law enforcements’ and the intelligence communities’ abilities to work cohesively to combat terrorism on a variety of fronts. The continuing and potential impact of the Patriot Act and related regulations and policies on financial institutions of all kinds is significant and wide ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws, and imposes various regulations, including standards for verifying client identification at account opening, and rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

Community Reinvestment Act. The requirements of the Community Reinvestment Act are also applicable to the Bank. The act imposes on financial institutions an affirmative and ongoing obligation to meet the credit needs of their local communities, including low and moderate income neighborhoods, consistent with the safe and sound operation of those institutions. A financial institution’s efforts in meeting community needs currently are evaluated as part of the examination process pursuant to twelve assessment factors. These factors are also considered in evaluating mergers, acquisitions and applications to open a branch or facility.

Regulation and Supervision, continued

Dodd-Frank Wall Street Reform and Consumer Protection Act. The Dodd-Frank Act was signed into law on July 21, 2010. Its wide-ranging provisions affect all federal financial regulatory agencies and nearly every aspect of the American financial services industry. Among the provisions of the Dodd-Frank Act that directly impact the Company is the creation of an independent Consumer Financial Protection Bureau ("CFPB"), which has the ability to implement, examine and enforce complaints with federal consumer protection laws, which govern all financial institutions. For smaller financial institutions, such as the Company and the Bank, their primary regulators will continue to conduct its examination activities.

The Dodd-Frank Act contains provisions designed to reform mortgage lending, which includes the requirement of additional disclosures for consumer mortgages. In addition, the Federal Reserve has issued new rules that have the effect of limiting the fees charged to merchants for debit card transactions. The result of these rules will be to limit the amount of interchange fee income available explicitly to larger banks and indirectly to us. The Dodd-Frank Act also contains provisions that affect corporate governance and executive compensation.

In May 2018, the Economic Growth Act was enacted to modify or remove certain regulatory financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion, such as the Bank, and for large banks with assets of more than $50 billion.

Among other matters, the Economic Growth Act expands the definition of qualified mortgages which may be held by a financial institution with total consolidated assets of less than $10 billion, exempts community banks from the Volcker Rule, and includes additional regulatory relief regarding regulatory examination cycles, call reports, mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Consumer Financial Protection. The Bank is subject to a number of federal and state consumer protection laws that extensively govern its relationship with its customers. These laws include the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the Truth in Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Home Mortgage Disclosure Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Fair Debt Collection Practices Act, the Service Members Civil Relief Act, laws governing flood insurance, federal and state laws prohibiting unfair and deceptive business practices, foreclosure laws, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans and providing other services. If the Bank fails to comply with these laws and regulations, it may be subject to various penalties. Failure to comply with consumer protection requirements may also result in failure to obtain any required bank regulatory approval for merger or acquisition transactions the Company may wish to pursue or being prohibited from engaging in such transactions even if approval is not required.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Bank fails to meet the expectations set forth in this regulatory guidance, it could be subject to various regulatory actions and any remediation efforts may require significant resources of the Bank. In addition, all federal and state bank regulatory agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

Regulation and Supervision, continued

Future Legislation and Regulation. Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which the Company and the Bank operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to business strategy, and limit the ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank could have a material adverse effect on the business, financial condition and results of operations of the Company and the Bank.

Forward-Looking Statements

Certain information contained in this report may include "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These forward-looking statements are generally identified by phrases such as "we expect," "we believe" or words of similar import. Such forward-looking statements are subject to known and unknown risks including, but not limited to:

- Changes in the quality or composition of our loan or investment portfolios, including adverse developments in borrower industries, declines in real estate values in our markets, or in the repayment ability of individual borrowers or issuers;
- The strength of the economy in our target market area, as well as general economic, market, or business conditions;
- An insufficient allowance for loan losses as a result of inaccurate assumptions;
- Our ability to maintain our "well-capitalized" regulatory status;
- Changes in the interest rates affecting our deposits and our loans;
- Changes in our competitive position, competitive actions by other financial institutions, financial technology forms and others and the competitive nature of the financial services industry and our ability to compete effectively in our banking markets;
- Our ability to manage growth;
- Our potential growth, including our entrance or expansion into new markets, the opportunities that may be presented to and pursued by us and the need for sufficient capital to support that growth;
- Our exposure to operational risk;
- Our ability to raise capital as needed by our business;
- Changes in laws, regulations and the policies of federal or state regulators and agencies;
- Other circumstances, many of which are beyond our control; and
- Other factors identified in "Risk Factors" below and in other reports the Company files with the SEC from time to time.

Although we believe that our expectations with respect to the forward-looking statements are based upon reliable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that our actual results, performance or achievements will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements.

Operating Revenue

The following table displays components that contributed 15% or more of the Company's total operating revenue for the years ended December 31, 2019 and 2018:

Period	Class of Service	Percentage of Total Revenues
December 31, 2019	Interest and fees on loans held for investment	73.75%
December 31, 2018	Interest and fees on loans held for investment	78.26%

Item 1. Business, continued

Executive Officers of the Company

Mark C. Hanna, 51, has served as President/CEO of the Bank since July 1, 2018. Prior to that he served as President since December 2017. Prior to joining the Company, he served as Executive Vice President and Tidewater Regional President of EVB and its successor, Sonabank from November 2014 through October 2017. Previously, he served as President and Chief Executive Officer of Virginia Company Bank from November 2006 through November 2014.

Carrie A. Comer, 50, has served as Executive Vice President and Chief Financial Officer of the Bank and the Company since March 1, 2018. Prior to that she served as Senior Vice President/Chief Financial Officer of the Company and Bank since June 2013. Ms. Comer served as Vice President/Controller of the Bank from March 2009 to June 2013. From December 2005 to March 2009, Ms. Comer served as Assistant Vice President/Controller of F&M Bank.

Stephanie E. Shillingburg, 58, has served as Executive Vice President/Chief Banking Officer of the Bank and the Company since July 2016, Executive Vice President/Chief Retail Officer from June 2013 until July 2016 and Senior Vice President/Branch Administrator from February 2005 until June 2013. She also served as Vice President/Branch Administrator from March 2003 until February 2005 and as Branch Manager of the Edinburg Branch from February 2001 until March 2003.

Edward Strunk, 63, has served as Executive Vice President and Chief Credit Officer of the Bank and the Company since March 1, 2018. Prior to that he served as Senior Vice President/Senior Lending Officer since July 2006, Senior Vice President/Commercial Loan Administrator from May 2011 until July 2016, Vice President/Commercial Loan Administrator from February 2011 until May 2011 and Vice Present/Business Development Officer III from May 2007 until February 2011.

Barton E. Black, 49, has served as Executive Vice President and Chief Strategy & Risk Officer of the Bank and the Company since March 1, 2019. Prior to joining the company, he served as Managing Director at Strategic Risk Associates, a financial services consulting company based in Virginia, from August 2012 through February 2019.

Item 1A. Risk Factors

Not required.

PART I, continued

Item 1B. Unresolved Staff Comments
None

Item 2. Properties

The locations of F & M Bank Corp. and its subsidiaries are shown below.

Corporate Offices	**205 South Main Street**	**Timberville, VA 22853**
Timberville Branch	**165 New Market Road**	**Timberville, VA 22853**
Elkton Branch	**127 West Rockingham Street**	**Elkton, VA 22827**
Broadway Branch	**126 Timberway**	**Broadway, VA 22815**
Bridgewater Branch	**100 Plaza Drive**	**Bridgewater, VA 22812**
Edinburg Branch	**300 Stoney Creek Blvd.**	**Edinburg, VA 22824**
Woodstock Branch	**161 South Main Street**	**Woodstock, VA 22664**
Crossroads Branch	**80 Cross Keys Road**	**Harrisonburg, VA 22801**
Coffman's Corner Branch	**2030 Legacy Lane**	**Harrisonburg, VA 22801**
Luray Branch	**700 East Main Street**	**Luray, VA 22835**
Myers Corner Branch	**30 Gosnell Crossing**	**Staunton, VA 24401**
North Augusta Branch	**2813 North Augusta Street**	**Staunton, VA 22401**
Craigsville Branch	**125 W. Craig Street**	**Craigsville, VA 24430**
Grottoes Branch	**200 Augusta Avenue**	**Grottoes, VA 24441**
Stuarts Draft	**2782 Stuarts Draft Highway**	**Stuarts Draft, VA 24477**
Dealer Finance Division	**4759 Spotswood Trail**	**Penn Laird, VA 22846**

F&M Mortgage offices are located at:

Harrisonburg Office	**2040 Deyerle Avenue, Suite 107**	**Harrisonburg, VA 22801**
Fishersville Office	**19 Myers Corner Drive, Suite 105**	**Staunton, VA 24401**
Woodstock Office	**161 South Main Street**	**Woodstock, VA 22664**

VSTitle offices are located at:

Harrisonburg Office	**410 Neff Avenue**	**Harrisonburg, VA 22801**
Fishersville Office	**1707 Jefferson Highway**	**Fishersville, VA 22939**
Charlottesville Office	**154 Hansen Rd., Suite 202-C**	**Charlottesville, VA 22911**

With the exception of the Luray Branch, Dealer Finance Division, and the North Augusta Branch, the remaining facilities are owned by Farmers & Merchants Bank. ATMs are available at all branch locations. The Woodstock office of F&M Mortgage is leased from F&M Bank. All offices of VST are leased.

Through an agreement with FCTI, Inc., the Bank also operates cash only ATMs at three Food Lion grocery stores, one in Mt. Jackson, Virginia and two in Harrisonburg, Virginia.

Item 3. Legal Proceedings
In the normal course of business, the Company may become involved in litigation arising from banking, financial, or other activities of the Company. Management after consultation with legal counsel, does not anticipate that the ultimate liability, if any, arising out of these matters will have a material effect on the Company's financial condition, operating results or liquidity.

Item 4. Mine Safety Disclosures

None.

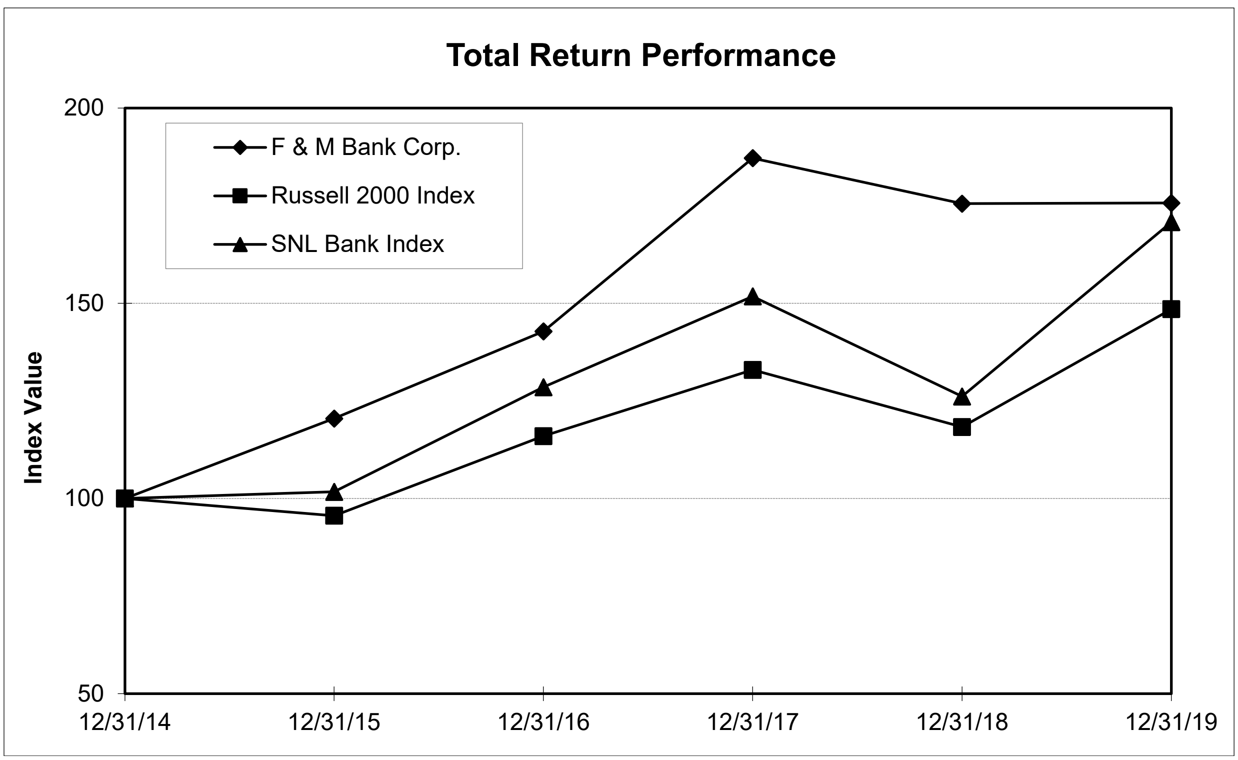
PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Stock Listing
The Company's Common Stock is quoted under the symbol "FMBM" on the OTCQX Market. The bid and ask price is quoted at www.OTCMARKETS.com/Stock/FMBM/quote. Any over-the-counter market quotations reflect iner-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. With its inclusion on the OTCQX Markets, there are now several active market makers for FMBM stock.

Transfer Agent and Registrar
Broadridge Corporate Issuer Solutions
PO Box 1342
Brentwood, NY 11717

Stock Performance
The following graph compares the cumulative total return to the shareholders of the Company for the last five fiscal years with the total return of the Russell 2000 Index and the SNL Bank Index, as reported by SNL Financial, LC, assuming an investment of $100 in the Company's common stock on December 31, 2014, and the reinvestment of dividends.



	Period Ending					
Index	**12/31/14**	**12/31/15**	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**
F & M Bank Corp.	100.00	120.47	142.79	187.16	175.50	175.67
Russell 2000 Index	100.00	95.59	115.95	132.94	118.30	148.49
SNL Bank Index	100.00	101.71	128.51	151.75	126.12	170.79

PART II, continued

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities, continued

Dividends

Dividends to common shareholders totaled $3,272 and $3,890 in 2019 and 2018, respectively. In addition to regular dividends totaling $1.00 per share, a special dividend of $0.20 per share was paid in 2018 to mark the Bank's 110th anniversary. Preferred stock dividends were $315 and $413 in 2019 and 2018, respectively. Regular quarterly dividends have been declared for at least 26 years. The payment of dividends depends on the earnings of the Company and its subsidiaries, the financial condition of the Company and other factors including capital adequacy, regulatory requirements, general economic conditions and shareholder returns. The ratio of dividends per common share to net income per common share was 77.27% in 2019 compared to 46.15% (including special dividend) in 2018.

Refer to *Payment of Dividends* in Item 1. Business, Regulation and Supervision section above for a summary of applicable restrictions on the Company's ability to pay dividends.

Stock Repurchases and Holders

On October 20, 2016, the Company's Board of Directors approved a plan to repurchase up to 150,000 shares of common stock. Shares repurchased through the end of 2019 totaled 131,528 shares; of this amount, 60,104 were repurchased in 2019 at an average price of $29.90 per share. During the fourth quarter of 2019, 14,200 shares were repurchased on 11/8/19.

The number of common shareholders was approximately 2,142 as of March 6, 2020. This amount includes all shareholders, whether titled individually or held by a brokerage firm or custodian in street name.

PART II, continued

Item 6. Selected Financial Data

Five Year Summary of Selected Financial Data

(Dollars and shares in thousands, except per share data)	**2019**	**2018[7]**	**2017[7]**	**2016[6]**	**2015[6]**
Income Statement Data:					
Interest and Dividend Income	$ 38,210	$ 36,377	$ 33,719	$ 32,150	29,404
Interest Expense	6,818	4,832	3,897	3,599	2,876
Net Interest Income	31,392	31,545	29,822	28,551	26,528
Provision for Loan Losses	7,405	2,930	-	-	300
Net Interest Income After Provision for Loan Losses	23,987	28,615	29,822	28,551	26,228
Noninterest Income[6]	10,759	8,770	8,517	6,313	5,412
Low income housing partnership losses	(839)	(767)	(625)	(731)	(619)
Noninterest Expenses[6]	29,518	26,744	24,719	21,272	19,554
Income before income taxes	4,389	9,874	12,995	12,861	11,467
Income Tax Expense (Benefit)	(250)	1,041	4,202	3,099	2,886
Net income attributable to noncontrolling interest	(130)	(10)	(31)	(194)	(164)
Net Income attributable to F & M Bank Corp.	$ 4,509	$ 8,823	$ 8,762	$ 9,568	$ 8,417
Per Common Share Data:					
Net Income – basic	$ 1.32	$ 2.60	$ 2.68	$ 2.77	$ 2.40
Net Income - diluted	1.30	2.45	2.41	2.57	2.25
Dividends Declared	1.02	1.20	.94	.80	.73
Book Value per Common Share	27.11	26.68	25.65	24.18	22.38
Balance Sheet Data:					
Assets	$ 813,999	$ 779,743	$ 752,894	$ 744,889	$ 665,357
Loans Held for Investment	603,425	638,799	616,974	591,636	544,053
Loans Held for Sale	66,798	55,910	39,775	62,735	57,806
Securities	18,015	21,844	41,243	39,475	25,329
Deposits	641,709	591,325	569,177	537,085	494,670
Short-Term Debt	10,000	40,116	25,296	40,000	24,954
Long-Term Debt	53,201	40,218	49,733	64,237	48,161
Stockholders' Equity	91,575	91,401	91,027	86,682	82,950
Average Common Shares Outstanding – basic	3,189	3,238	3,270	3,282	3,291
Average Common Shares Outstanding – diluted	3,460	3,596	3,632	3,717	3,735
Financial Ratios:					
Return on Average Assets[1]	0.57%	1.15%	1.17%	1.34%	1.31%
Return on Average Equity[1]	4.93%	9.67%	9.89%	11.18%	10.46%
Net Interest Margin	4.33%	4.65%	4.48%	4.34%	4.43%
Efficiency Ratio [2]	69.03%	66.04%	64.27%	60.78%	60.97%
Dividend Payout Ratio - Common	77.27%	46.15%	35.07%	28.88%	30.42%
Capital and Credit Quality Ratios:					
Average Equity to Average Assets[1]	11.48%	11.90%	12.10%	11.97%	12.49%
Allowance for Loan Losses to Loans[3]	1.39%	0.82%	0.98%	1.27%	1.61%
Nonperforming Loans to Total Assets[4]	0.70%	1.31%	0.94%	0.65%	0.98%
Nonperforming Assets to Total Assets[5]	0.89%	1.62%	1.21%	0.94%	1.34%
Net Charge-offs to Total Loans[3]	0.71%	0.58%	0.24%	0.21%	0.04%

1 Ratios are primarily based on daily average balances.

2 The Efficiency Ratio equals noninterest expenses divided by the sum of tax equivalent net interest income and noninterest income. Noninterest income excludes gains (losses) on securities transactions and LIH Partnership losses. Noninterest expense excludes amortization of intangibles.

3 Calculated based on Loans Held for Investment, excludes Loans Held for Sale.

4 Calculated based on 90 day past due and non-accrual to Total Assets.

5 Calculated based on 90 day past due, non-accrual and OREO to Total Assets.

6 Data for 2015 and 2016 does not reflect the reclassification of F&M Mortgage to report gross income/expense rather than net

7 The 2018 and 2017 financial information has been adjusted to reflect the correction of a prior periods error (see Note 3 to the Consolidated Financial Statements).

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands)

The following discussion provides information about the major components of the results of operations and financial condition, liquidity and capital resources of F & M Bank Corp. and its subsidiaries. This discussion and analysis should be read in conjunction with the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Information, of this Form 10-K.

Lending Activities

Credit Policies

The principal risk associated with each of the categories of loans in our portfolio is the creditworthiness of our borrowers. Within each category, such risk is increased or decreased, depending on prevailing economic conditions. In an effort to manage the risk, our loan policy gives loan amount approval limits to individual loan officers based on their position and level of experience and to our loan committees based on the size of the lending relationship. The risk associated with real estate and construction loans, commercial loans and consumer loans varies, based on market employment levels, consumer confidence, fluctuations in the value of real estate and other conditions that affect the ability of borrowers to repay indebtedness. The risk associated with real estate construction loans varies, based on the supply and demand for the type of real estate under construction.

We have written policies and procedures to help manage credit risk. We have a loan review policy that includes regular portfolio reviews to establish loss exposure and to ascertain compliance with our loan policy.

We use a management loan committee and a directors' loan committee to approve loans. The management loan committee is comprised of members of senior management, and the directors' loan committee is comprised of any six directors. Both committees approve new, renewed and or modified loans that exceed officer loan authorities. The directors' loan committee also reviews any changes to our lending policies, which are then approved by our board of directors.

Construction and Development Lending

We make construction loans, primarily residential, and land acquisition and development loans. The construction loans are secured by residential houses under construction and the underlying land for which the loan was obtained. The average life of a construction loan is approximately 12 months, and it is typically re-priced as the prime rate of interest changes. Construction lending entails significant additional risks, compared with residential mortgage lending. Construction loans often involve larger loan balances concentrated with single borrowers or groups of related borrowers. Another risk involved in construction lending is attributable to the fact that loan funds are advanced upon the security of the land or home under construction, which value is estimated prior to the completion of construction. Thus, it is more difficult to evaluate accurately the total loan funds required to complete a project and related loan-to-value ratios. To mitigate the risks associated with construction lending, we generally limit loan amounts to 75% to 90% of appraised value, in addition to analyzing the creditworthiness of our borrowers. We also obtain a first lien on the property as security for our construction loans and typically require personal guarantees from the borrower's principal owners.

Commercial Real Estate Lending

Commercial real estate loans are secured by various types of commercial real estate in our market area, including multi-family residential buildings, commercial buildings and offices, shopping centers and churches. Commercial real estate lending entails significant additional risks, compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the payment experience on loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or in the economy in general. Our commercial real estate loan underwriting criteria require an examination of debt service coverage ratios and the borrower's creditworthiness, prior credit history and reputation. We also evaluate the location of the property securing the loan and typically require personal guarantees or endorsements of the borrower's principal owners.

Business Lending

Business loans generally have a higher degree of risk than residential mortgage loans but have higher yields. To manage these risks, we generally obtain appropriate collateral and personal guarantees from the borrower's principal owners and monitor the financial condition of our business borrowers. Residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from employment and other income and are secured by real estate whose value tends to be readily ascertainable. In contrast, business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as real estate, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of business loans is substantially dependent on the success of the business itself. Furthermore, the collateral for business loans may depreciate over time and generally cannot be appraised with as much precision as residential real estate.

Consumer Lending

We offer various consumer loans, including personal loans and lines of credit, automobile loans, deposit account loans, installment and demand loans, and home equity loans and lines of credit. Such loans are generally made to clients with whom we have a pre-existing relationship. We currently originate all of our consumer loans in our geographic market area.

The underwriting standards employed by us for consumer loans include a determination of the applicant's payment history on other debts and an assessment of their ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment and additionally from any verifiable secondary income. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes an analysis of the value of the security in relation to the proposed loan amount. For home equity lines of credit and loans we require title insurance, hazard insurance and, if required, flood insurance.

Residential Mortgage Lending

The Bank makes residential mortgage loans for the purchase or refinance of existing loans with loan to value limits ranging between 80 and 90% depending on the age of the property, borrower's income and credit worthiness. Loans that are retained in our portfolio generally carry adjustable rates that can change every three to five years, based on amortization periods of twenty to thirty years.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Loans Held for Sale

The Bank makes fixed rate mortgage loans with terms of typically fifteen or thirty years through its subsidiary F&M Mortgage. These loans are funded by F&M Mortgage utilizing a line of credit at the Bank until sold to investors in the secondary market. Similarly, the Bank also has a relationship with Northpointe Bank in Grand Rapids, MI whereby it purchases fixed rate conforming 1-4 family mortgage loans for short periods of time pending those loans being sold to investors in the secondary market. These loans have an average duration of ten days to two weeks, but occasionally remain on the Bank's books for up to 60 days. The Bank began its relationship with Northpointe Bank in 2014 and had a similar program with a prior bank since 2003. This relationship allows the Bank to achieve a higher rate of return than is available on other short term investment opportunities.

Dealer Finance Division

In September 2012, the Bank started a loan production office in Penn Laird, VA which specializes in providing automobile financing through a network of automobile dealers. The Dealer Finance Division was originally staffed with three officers that have extensive experience in Dealer Finance. Based on the strong growth of this division the staff has been increased to six employees. This office is serving the automobile finance needs for customers of dealers throughout the existing geographic footprint of the Bank. Approximately fifty dealers have signed contracts to originate loans on behalf of the Bank. As of year end 2019, the division had total loans outstanding of $78,976.

Critical Accounting Policies

General

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial information contained within the statements is, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. The Company's financial position and results of operations are affected by management's application of accounting policies, including estimates, assumptions and judgments made to arrive at the carrying value of assets and liabilities and amounts reported for revenues, expenses and related disclosures. Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position and/or results of operations.

In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change. Following is a summary of the Company's significant accounting policies that are highly dependent on estimates, assumptions and judgments.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450 "Contingencies", which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC 310, "Receivables", which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance. The Company's allowance for loan losses is the accumulation of various components that are calculated based on independent methodologies. All components of the allowance represent an estimation performed pursuant to either ASC 450 or ASC 310. Management's estimate of each ASC 450 component is based on certain observable data that management believes are most reflective of the underlying credit losses being estimated. This evaluation includes credit quality trends; collateral values; loan volumes; geographic, borrower and industry concentrations; seasoning of the dealer loan portfolio; the findings of internal credit quality assessments, results from external bank regulatory examinations and third-party loan reviewer. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

Allowance for Loan Losses, continued

Allowances for loan losses are determined by applying estimated loss factors to the portfolio based on management's evaluation and "risk grading" of the loan portfolio. Specific allowances, if required are typically provided on all impaired loans in excess of a defined loan size threshold that are classified in the Substandard, Watch or Doubtful risk grades and on all troubled debt restructurings. The specific reserves are determined on a loan-by-loan basis based on management's evaluation of the Company's exposure for each credit, given the current payment status of the loan and the value of any underlying collateral.

While management uses the best information available to establish the allowance for loan and lease losses, future adjustments to the allowance may be necessary if economic conditions differ substantially from the assumptions used in making the valuations or, if required by regulators, based upon information available to them at the time of their examinations. Such adjustments to original estimates, as necessary, are made in the period in which these factors and other relevant considerations indicate that loss levels may vary from previous estimates.

Fair Value

The estimate of fair value involves the use of (1) quoted prices for identical instruments traded in active markets, (2) quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques using significant assumptions that are observable in the market or (3) model-based techniques that use significant assumptions not observable in the market. When observable market prices and parameters are not fully available, management's judgment is necessary to arrive at fair value including estimates of current market participant expectations of future cash flows, risk premiums, among other things. Additionally, significant judgment may be required to determine whether certain assets measured at fair value are classified within the fair value hierarchy as Level 2 or Level 3. The estimation process and the potential materiality of the amounts involved result in this item being identified as critical.

Pension Plan Accounting

The accounting guidance for the measurement and recognition of obligations and expense related to pension plans generally applies the concept that the cost of benefits provided during retirement should be recognized over the employees' active working life. Inherent in this concept is the requirement to use various actuarial assumptions to predict and measure costs and obligations many years prior to the settlement date. Major actuarial assumptions that require significant management judgment and have a material impact on the measurement of benefits expense and accumulated benefit obligation include discount rates, expected return on assets, mortality rates, and projected salary increases, among others. Changes in assumptions or judgments related to any of these variables could result in significant volatility in the Company's financial condition and results of operations. As a result, accounting for the Company's pension expense and obligation is considered a significant estimate. The estimation process and the potential materiality of the amounts involved result in this item being identified as critical.

Other Real Estate Owned (OREO)

OREO is held for sale and represents real estate acquired through or in lieu of foreclosure. OREO is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The Company's policy is to carry OREO on its balance sheet at the lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), continued

Overview

The Company's net income for 2019 totaled $4,509 or $1.32 per common share (basic), a decrease of 49% from $8,823 or $2.60 a share in 2018. Return on average equity decreased in 2019 to 4.93% versus 9.67% in 2018, and the return on average assets decreased from 1.15% in 2018 to .57% in 2019. The Company's net income per share (dilutive) totaled $1.30 in 2019, a decrease from $2.45 in 2018.

Changes in Net Income per Common Share (Basic)

	2019 to 2018	2018 to 2017
Prior Year Net Income Per Common Share (Basic)	$ 2.60	$ 2.68
Change from differences in:		
Net interest income	(0.05)	.37
Provision for loan losses	(1.40)	(0.90)
Noninterest income, excluding securities gains	0.56	0 .03
Security gains (losses), net		0 .01
Noninterest expenses	(.87)	(0.63)
Income taxes	0.40	1.02
Effect of preferred stock dividend	0.03	-
Change in average shares outstanding	0 .05	0 .02
Total Change	(1.28)	(0.08)
Net Income Per Common Share (Basic)	$ 1.32	$ 2.60

Net Interest Income

The largest source of operating revenue for the Company is net interest income, which is calculated as the difference between the interest earned on earning assets and the interest expense paid on interest bearing liabilities. Net interest income decreased 0.49% from 2018 to 2019 following an increase of 5.78% from 2017 to 2018. The net interest margin is the net interest income expressed as a percentage of interest earning assets. Changes in the volume and mix of interest earning assets and interest bearing liabilities, along with their yields and rates, have a significant impact on the level of net interest income. Tax equivalent net interest income for 2019 was $31,466 representing a decrease of $160 or 0.51% over the prior year. A 3.24% increase in 2018 versus 2017 resulted in total tax equivalent net interest income of $31,626.

In this discussion and in the tabular analysis of net interest income performance, entitled "Consolidated Average Balances, Yields and Rates," the interest earned on tax exempt loans and investment securities has been adjusted to reflect the amount that would have been earned had these investments been subject to normal income taxation. This is referred to as tax equivalent net interest income. For a reconciliation of tax equivalent net interest income to GAAP measures, see the following table.

Tax equivalent income on earning assets increased $1,826 in 2019 compared to 2018. Loans held for investment, expressed as a percentage of total earning assets, decreased in 2019 to 87.41% as compared to 92.72% in 2018. During 2019, yields on earning assets decreased 3 basis points (BP), primarily due to changes in the earning asset categories, specifically an increase in loans held for sale, federal funds sold and interest bearing deposits, while loans held for investment decreased. The average cost of interest bearing liabilities increased 28BP in 2019, following an increase of 19BP in 2018. The increase in 2019 is due to increased cost of deposits and growth in interest bearing deposits, as well as increased cost of borrowings from FHLB.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

The following table provides detail on the components of tax equivalent net interest income:

GAAP Financial Measurements: (Dollars in thousands).	2019	2018
Interest Income – Loans	$ 37,348	$ 35,798
Interest Income - Securities and Other Interest-Earnings Assets	862	579
Interest Expense – Deposits	5,170	3,425
Interest Expense - Other Borrowings	1,648	1,407
Total Net Interest Income	31,392	31,545
Non-GAAP Financial Measurements:		
Add: Tax Benefit on Tax-Exempt Interest Income – Loans	74	81
Total Tax Benefit on Tax-Exempt Interest Income	74	81
Tax-Equivalent Net Interest Income	$ 31,466	$ 31,626

Interest Income

Tax equivalent interest income decreased $160 or 0.51% in 2019, after increasing 4.23% or $1,284 in 2018. Overall, the yield on earning assets decreased 0.03%, from 5.30% to 5.27%. Average loans held for investment declined during 2019, with average loans outstanding decreasing $2,318 to $635,110. Average real estate loans decreased 4.17%, commercial loans decreased 1.62% and consumer installment loans increased 14.28% on average. The increase in average consumer loans is a result of the growth in our Dealer Finance Division despite the fourth quarter sale of a portion of the dealer portfolio. The decrease in tax equivalent net interest income is due primarily to the increase in deposit cost related to the 8.30% growth in average interest bearing deposits.

Interest Expense

Interest expense increased $1,986 or 41.10% during 2019. The average cost of funds of 1.30% increased 28BP compared to 2018, which followed an increase of 19BP in 2018. Average interest bearing liabilities increased $47,683 or 10.02% in 2019. Changes in the cost of funds attributable to rate and volume variances are in a following table.

The analysis on the next page reveals a decrease in the net interest margin to 4.33% in 2019 from 4.60% in 2018, primarily due to changes in balance sheet mix during the year and rising costs of interest bearing deposits and borrowings.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Consolidated Average Balances, Yields and Rates[1]

	2019			2018		
	Balance	Interest	Rate	Balance	Interest	Rate
ASSETS						
Loans[2]						
Commercial	$ 184,954	$ 10,145	5.49%	$ 187,999	$ 9,754	5.19%
Real estate	329,825	17,810	5.40%	344,191	17,946	5.21%
Consumer	120,321	7,614	6.33%	105,288	7,115	6.77%
Loans held for investment[4]	635,110	35,569	5.60%	637,478	34,815	5.46%
Loans held for sale	58,307	1,853	3.18%	29,971	1,064	3.48%
Investment securities[3]						
Fully taxable	13,290	492	3.70%	13,702	457	3.34%
Partially taxable	124	3	2.42%	124	2	1.61%-
Total investment securities	13,414	495	3.69%	13,826	459	3.32%
Interest bearing deposits in banks	1,610	33	2.05%	924	15	1.62%
Federal funds sold	18,145	334	1.84%	5,364	105	1.96%
Total Earning Assets	726,586	38,284	5.27%	687,563	36,458	5.30%
Allowance for loan losses	(6,815)			(6,416)		
Nonearning assets	77,100			85,172		
Total Assets	$ 796,871			$ 766,319		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits						
Demand –interest bearing	$89,823	$ 212	.24%	$ 87,079	$ 149	.17%
Savings	208,551	2,539	1.22%	162,718	1,209	.74%
Time deposits	147,107	2,418	1.64%	161,635	2,067	1.28%
Total interest bearing deposits	445,581	5,170	1.16%	411,432	3,425	.83%
Short-term debt	27,684	688	2.49%	24,336	456	1.87%
Long-term debt	50,496	960	1.90%	40,210	951	2.37%
Total interest bearing liabilities	523,661	6,818	1.30%	475,978	4,832	1.02%
Noninterest bearing deposits	165,731			161,860		
Other liabilities	15,991			37,267		
Total liabilities	705,383			675,105		
Stockholders' equity	91,488			91,214		
Total liabilities and stockholders' equity	$ 796,871			$ 766,319		
Net interest earnings		$ 31,466			$ 31,626	
Net yield on interest earning assets (NIM)			4.33%			4.60%

1 Income and yields are presented on a tax-equivalent basis using the applicable federal income tax rate of 21%.
2 Interest income on loans includes loan fees.
3 Average balance information is reflective of historical cost and has not been adjusted for changes in market value.
4 Includes nonaccrual loans.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

The following table illustrates the effect of changes in volumes and rates.

	2019 Compared to 2018		
	Increase (Decrease)		
	Due to Change in Average:		Increase Or
	Volume	Rate	(Decrease)
Interest income			
Loans held for investment	$ (129)	$ 883	$ 754
Loans held for sale	1,006	(217)	789
Investment securities			
Fully taxable	(14)	49	35
Partially taxable	-	1	1
Interest bearing deposits in banks	11	7	18
Federal funds sold	251	(22)	229
Total Interest Income	1,125	701	1,826
Interest expense			
Deposits			
Demand - interest bearing	3	60	63
Savings	454	876	1,330
Time deposits	485	(134)	351
Short-term debt	63	169	232
Long-term debt	244	(234)	10
Total Interest Expense	1,249	737	1,986
Net Interest Income	$ (124)	$ (36)	$ (160)

Note: Volume changes have been determined by multiplying the prior years' average rate by the change in average balances outstanding. The rate change is determined by multiplying the current year average balance outstanding by the change in rate from the prior year to the current year.

Noninterest Income

Noninterest income continues to be an increasingly important factor in maintaining and growing profitability. Management is conscious of the need to constantly review fee income and develop additional sources of complementary revenue.

Noninterest income increased 23.95% or $1,917, in 2019. Included in 2019 was a onetime gain on the sale of a portion of the dealer portfolio of $618. The 2019 increase, net of the gain on the dealer portfolio, is due to growth in the gross revenue of VST Title, F & M Financial services and F&M Mortgage and service charges on deposit accounts. The losses on low income housing projects increased 9.39% in 2019 which is consistent with growth in the underlying investments.

Noninterest Expense

Noninterest expenses increased from $26,744 in 2018 to $29,518 in 2019, a 10.37% increase. Salary and benefits increased 4.99% to $17,151 in 2019. This increase was the result of normal salary increases, pension settlement costs and severance packages expensed during the year. Other real estate owned, net increased $548 due to an increased effort to dispose of properties. Other areas of increase include data processing, legal and professional and other operating expenses. Total noninterest expense as a percentage of average assets totaled 3.70% and 3.49% in 2019 and 2018, respectively. Peer group averages (as reported in the most recent Uniform Bank Performance Report) were 2.81% for 2019 and 2018.

Provision for Loan Losses

Management evaluates the loan portfolio in light of national and local economic trends, changes in the nature and volume of the portfolio and industry standards. Specific factors considered by management in determining the adequacy of the level of the allowance for loan losses include internally generated and third-party loan review reports, past due reports and historical loan loss experience. This review also considers concentrations of loans in terms of geography, business type and level of risk. Management evaluates nonperforming loans relative to their collateral value, when deemed collateral dependent, and makes the appropriate adjustments to the allowance for loan losses when needed. Based on the factors outlined above, the current year provision for loan losses totaled $7,405 compared to $2,930 for 2018. The current levels of the allowance for loan losses reflect increased net charge-off activity and other credit risk factors that the Company considers in assessing the adequacy of the allowance for loan losses. During 2019, management has made a tremendous effort to lower nonperforming loans, including through charge-off of loan balances after disposal. As a result nonperforming loans decreased from 1.60% of loans held for investment at December 31, 2018 to 0.94% at December 31, 2019. There has been an increase in substandard loans during 2019 and that along with loan review results have increased the allowance for loan losses despite the improvements in nonperforming loans. Management will continue to monitor nonperforming, adversely classified and past due loans and will make necessary adjustments to specific reserves and provision for loan losses should conditions change regarding collateral values or cash flow expectations.

Net loan charge-offs were $4,255 in 2019 and $3,734 in 2018. The increase reflects management's efforts or reduce nonperforming loans throughout 2019. Net charge-offs as a percentage of loans held for investment totaled 0.71% and 0.58% in 2019 and 2018, respectively. The construction and development charge-off percentage is the largest category at 0.38% of loans held for investment and dealer finance was 0.16%. As stated in the most recently available Uniform Bank Performance Report (UPBR), peer group loss averages were 0.09% in 2019 and 0.08% in 2018. The Bank anticipates losses will remain above peer due to the Dealer Finance Division, however losses in this segment have been in line with expectations and are closely monitored.

Balance Sheet

Total assets increased 4.39% during the year to $813,999, an increase of $34,256 from $779,743 in 2018. Cash and cash equivalents increased $64,892, Net loans held for investment declined $38,524, Loans held for sale increased $10,888, and other asset categories experienced modest fluctuations. Average earning assets increased 5.68% to $726,586 at December 31, 2019. The increase in earning assets is due largely to the growth in the loans held for sale, which is the short-term loan participation program with Northpointe Bank and the growth in federal funds sold as a result of deposit growth. Deposits grew $50,384 and other liabilities decreased $16,302 in 2019. Average interest bearing deposits increased $34,149 for 2019 or 8.30%, with increases in interest-bearing demand accounts and savings while time deposits declined. The Company continues to utilize its assets well, with 91.18% of average assets consisting of earning assets.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Investment Securities

Total securities decreased $3,829 or 17.53% in 2019 to $18,015 at December 31, 2019 from $21,844 at December 31, 2018. Average balances in investment securities decreased 2.98% in 2019 to $13,414. At year end, 1.85% of average earning assets of the Company were held as investment securities, all of which are unpledged. Management strives to match the types and maturities of securities owned to balance projected liquidity needs, interest rate sensitivity and to maximize earnings through a portfolio bearing low credit risk. Portfolio yields averaged 3.69% for 2019, up from 3.32% in 2018.

There were no Other Than Temporary Impairments (OTTI) write-downs in 2019 or 2018. There were no security gains or losses in 2019 or 2018.

The composition of securities at December 31 was:

(Dollars in thousands)	2019	2018
Available for Sale[1]		
U.S. Treasury and Agency	$ 1,989	$ 7,886
Mortgage-backed obligations of federal agencies[2]	319	403
Other debt securities	2,058	-
Total	4,366	8,289
Held to Maturity		
U.S. Treasury and Agency	124	123
Total	124	123
Other Equity Investments	13,525	13,432
Total Securities	$ 18,015	$ 21,844

1 At estimated fair value. See Note 4 to the Consolidated Financial Statements for amortized cost.

2 Issued by a U.S. Government Agency or secured by U.S. Government Agency collateral.

Maturities and weighted average yields of securities at December 31, 2019 are presented in the table below. Amounts are shown by contractual maturity; expected maturities will differ as issuers may have the right to call or prepay obligations. Maturities of other investments are not readily determinable due to the nature of the investment; see Note 5 to the Consolidated Financial Statements for a description of these investments.

	Less Than one Year		One to Five Years		Five to Ten Years		Over Ten Years			
(Dollars in thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Total	Yield
Debt Securities Available for Sale										
U.S. Treasury & Agency	$ -		$ 1,989	3.00%	$ -		$ -		$1,989	3.00%
Mortgage-backed obligations of federal agencies	-		-		319	2.49%	-		319	2.49%
Other debt securities	-		2,058	1.07%	-		-		2,058	1.07%
Total	$ -		$ 4,047	2.66%	$ 319	2.49%	$ -		$4,366	2.65%
Debt Securities Held to Maturity										
U.S. Treasury & Agency	$ 124	2.42%	$		$ -		$ -		$124	2.42%
Total	$ 124	2.42%	$		$ -		$ -		$124	2.42%

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Analysis of Loan Portfolio

The Company's market area has a relatively stable economy which tends to be less cyclical than the national economy. Major industries in the market area include agricultural production and processing, higher education, retail sales, services and light manufacturing.

The Company's portfolio of loans held for investment totaled $603,425 at December 31, 2019 compared with $638,799 at December 31, 2018. Collateral required by the Company is determined on an individual basis depending on the purpose of the loan and the financial condition of the borrower. Real estate mortgages decreased $20,950 or 8.17%. Construction loans increased $15,472 or 25.09%. Commercial loans, including agricultural and multifamily loans, decreased 5.52% during 2019 to $198,467. The Bank also has loan participation arrangements with several other banks within the region to aid in diversification of the loan portfolio geographically, by collateral type and by borrower.

Consumer loans decreased $18,320 or 17.08% mainly due to the sale of a portion of the dealer finance division loans, resulting in a December 31, 2019 balance in this portfolio of $78,976. A gain of $618 thousand was recognized on the sale. Consumer loans include personal loans, auto loans and other loans to individuals. Credit card balances decreased $62 to $3,122 but are a minor component of the loan portfolio. The following table presents the changes in the loan portfolio over the previous five years categorized in business segments, rather than regulatory call report as in footnote.

	December 31				
(Dollars in thousands)	2019	2018	2017	2016	2015
Real estate – mortgage	$ 235,564	$ 256,514	$ 250,891	$ 238,631	$ 232,321
Real estate – construction	77,131	61,659	71,620	76,172	69,759
Consumer	88,928	107,248	81,458	72,048	62,239
Commercial	158,466	179,476	182,360	178,392	153,691
Agricultural	34,637	20,917	17,064	15,876	15,672
Multi-family residential	5,364	9,665	10,298	7,605	7,559
Credit cards	3,122	3,184	2,939	2,822	2,745
Other	213	136	344	90	67
Total Loans	$ 603,425	$ 638,799	$ 616,974	$ 591,636	$ 544,053

The following table shows the Company's loan maturity and interest rate sensitivity as of December 31, 2019:

(Dollars in thousands)	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Commercial and				
agricultural loans	$ 57,806	$ 114,232	$ 21,065	$193,103
Multi-family residential	61	5,303	-	5,364
Real Estate – mortgage	77,592	153,779	4,193	235,564
Real Estate – construction	45,465	21,341	10,325	77,131
Consumer – dealer/credit cards/other	6,844	69,438	15,981	92,263
Total	$ 187,768	$ 364,093	$ 51,564	$ 603,425
Loans with predetermined rates	$ 25,484	$ 84,873	$ 33,203	$ 143,560
Loans with variable or adjustable rates	162,284	279,220	18,361	459,865
Total	$ 187,768	$ 364,093	$ 51,564	$ 603,425

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Analysis of Loan Portfolio, continued

Residential real estate loans are made for a period up to 30 years and are secured by a first deed of trust which normally does not exceed 90% of the appraised value. If the loan to value ratio exceeds 90%, the Company requires additional collateral, guarantees or mortgage insurance. On approximately 88% of the real estate loans, interest is adjustable after each one, three or five-year period. The remainder of the portfolio is comprised of fixed rate loans that are generally made for a fifteen-year or a twenty-year period with an interest rate adjustment after ten years.

Fixed rate real estate loans have been partially funded with fixed rate borrowings from the Federal Home Loan Bank, which allows the Company to control its interest rate risk. In addition, the Company makes home equity loans secured by second deeds of trust with total indebtedness not to exceed 90% of the appraised value. Home equity loans are made for three, five or ten year periods at a fixed rate or as a revolving line of credit.

Construction loans may be made to individuals, who have arranged with a contractor for the construction of a residence, or to contractors that are involved in building pre-sold, spec-homes or subdivisions. The majority of commercial loans are made to small retail, manufacturing and service businesses. Consumer loans are made for a variety of reasons; however, approximately 74% of the loans are secured by automobiles and trucks.

Approximately 79% of the Company's loans are secured by real estate; however, policies relating to appraisals and loan to value ratios are adequate to control the related risk. Market values continue to be stable with increases in sales prices, reduction in inventory and reduction in days on the market. Unemployment rates in the Company's market area continue to be below both the national and state averages.

The Bank has not identified any loan categories that would be considered loan concentrations of greater than 25% of capital. While the Bank has not developed a formal policy limiting the concentration level of any particular loan type or industry segment, it has established target limits on both a nominal and percentage of capital basis. Concentrations are monitored and reported to the board of directors quarterly. Concentration levels have been used by management to determine how aggressively we may price or pursue new loan requests.

Nonaccrual and Past Due Loans

Nonperforming loans include nonaccrual loans and loans 90 days or more past due still accruing. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. The Company would have earned approximately $531 in additional interest income in 2019 had the loans on nonaccrual status been current and performing. Nonperforming loans totaled $5,729 at December 31, 2019 compared to $10,205 at December 31, 2018. At December 31, 2019, there were $722 of loans 90 days or more past due and accruing. Nonperforming loans have decreased approximately $4,476 since December 31, 2018. Management has made a concerted effort to reduce nonperforming loans during 2019, some of this is reflected in the growth in charge-offs during the year.

Approximately 91% of these nonperforming loans are secured by real estate and were in the process of collection. The Bank believes that it is generally well secured or specific reserves have been established and continues to actively work with its customers to effect payment. As of December 31, 2019, the Company holds $1,489 of real estate which was acquired through foreclosure.

Nonaccrual and Past Due Loans, continued

The following is a summary of information pertaining to nonperforming loans:

(Dollars in thousands)	2019	2018	2017	2016	2015
Nonaccrual Loans:					
Real Estate	$ 1,721	$ 3,804	$ 5,628	$ 4,204	$ 5,698
Commercial	3,036	5,172	599	70	109
Home Equity	-	269	451	311	40
Other	250	160	226	178	108
Loans past due 90 days or more:					
Real Estate	619	726	143	81	272
Commercial	-	-	-	-	25
Home Equity	15	63	-	-	107
Other	88	11	55	26	67
Total Nonperforming loans	$ 5,729	$ 10,205	$ 7,102	$ 4,870	$ 6,526
Restructured Loans current and performing:					
Real Estate	3,644	6,574	7,710	8,641	8,713
Commercial	1,223	1,249	-	1,121	1,463
Home Equity	716	-	-	-	1,414
Other	167	205	78	76	91
Nonperforming loans as a percentage of loans held for investment	.94%	1.60%	1.15%	.82%	1.20%
Net Charge Offs to Total Loans Held for Investment	.71%	.58%	.24%	.21%	.04%
Allowance for loan and lease losses to nonperforming loans	146.47%	51.34%	85.10%	154.89%	134.55%

Potential Problem Loans

As of December 31, 2019, management is not aware of any potential problem loans which are not already classified for regulatory purposes or on the watch list as part of the Bank's internal grading system.

Loan Losses and the Allowance for Loan Losses

In evaluating the portfolio, loans are segregated into loans with identified potential losses, pools of loans by type, with separate weighting for past dues and adverse rated loans, and a general allowance based on a variety of criteria. Loans with identified potential losses include examiner and bank classified loans. Classified relationships in excess of $500 and loans identified as troubled debt restructurings are reviewed individually for impairment under ASC 310. A variety of factors are considered when reviewing these credits, including borrower cash flow, payment history, fair value of collateral, company management, industry and economic factors.

A general allowance for inherent losses has been established to reflect other unidentified losses within the portfolio. The general allowance is calculated using nine qualitative factors identified in the 2006 Interagency Policy Statement on the allowance for loan losses. The general allowance assists in managing recent changes in portfolio risk that may not be captured in individually impaired loans, or in the homogeneous pools based on loss histories. The Board reviews the allowance for loan loss calculation and approves the loan loss provision for each quarter based on this evaluation.

The allowance for loan losses of $8,390 at December 31, 2019 is equal to 1.39% of total loans held for investment. This compares to an allowance of $5,240 or .82% of total loans at December 31, 2018. Nonaccrual loans at December 31, 2019 totaled $5,007 compared to $9,405 at December 31, 2018; however, the decline in nonaccrual loans is primarily attributable to one large commercial relationship of approximately $4.3 million as of December 31, 2018 that was taken out of the bank during the third quarter 2019. Absent this one large relationship, nonaccrual loans at December 31, 2019 remained relatively consistent with December 31, 2018. In addition, classified loans (internally rated substandard or watch) increased significantly from a total of $23.0 million at December 31, 2018 to $38.5 million at December 31, 2019, or 67.47%. Recent external loan reviews have resulted in several downgrades in internal risk ratings, policy underwriting exceptions have increased, and Management has become more aggressive in loan workouts and charging off loans. Enhancements to the credit culture of the Company that Management feels will greatly improve the Company's ability to monitor and identify problem credits have been put in place. Past due and adversely risk rated loans that are not considered impaired have historically received higher allocation factors within the Company's allowance for loan losses calculation. However, with the large increase in classified loans during the third quarter of 2019, Management increased the qualitative factors to reflect the risk of rising classified loans and underwriting exceptions. Also, during the second quarter of 2019, Management changed the lookback period for calculating the allowance for loan losses from five years to two years as a shorter lookback period is considered more indicative of the risk remaining in the loan portfolio given the increased charge-offs experienced.

The change in the lookback period resulted in an increase of $1,098 in the allowance for loan losses from December 31, 2018 and increases in qualitative factor adjustments described above regarding the level of underwriting exceptions and classified loans resulted in a $1,932 increase in the allowance for loan losses from December 31, 2018 to December 31, 2019. The level of specific reserves included in the allowance for loan losses was approximately $1.8 million at December 31, 2019 and $1.6 million at December 31, 2018. As a result of management's analysis and change in the allowance methodology to reduce the historical lookback period, the Company recorded a $7,405 provision for loan losses for 2019 compared to $2,930 for 2018. Management will continue to monitor nonperforming, adversely classified and past due loans and will make necessary adjustments to specific reserves and provision for loan losses should conditions change regarding collateral values or cash flow expectations.

Loan losses, net of recoveries, totaled $4,255 in 2019 which is equivalent to .71% of total loans outstanding

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Loan Losses and the Allowance for Loan Losses, continued

A summary of the activity in the allowance for loan losses follows:

(Dollars in thousands)	2019	2018	2017	2016	2015
Balance at beginning of period	$ 5,240	$ 6,044	$ 7,543	$ 8,781	$ 8,725
Provision charged to expenses	7,405	2,930	-	-	300
Loan losses:					
Construction/land development	2,319	489	620	356	156
Farmland	-	-	-	-	-
Real Estate	32	99	-	25	25
Multi-family	-	-	-	-	-
Commercial Real Estate	677	1,546	-	19	-
Home Equity – closed end	1	3	7	8	26
Home Equity – open end	126	-	26	370	51
Commercial & Industrial – Non Real Estate	127	573	179	293	-
Consumer	116	51	136	37	32
Dealer Finance	2,118	2,083	1,806	1,081	251
Credit Cards	110	76	98	74	60
Total loan losses	5,626	4,920	2,872	2,261	601
Recoveries:					
Construction/land development	50	122	-	7	85
Farmland	-	-	-	-	-
Real Estate	4	12	2	4	37
Multi-family	-	-	-	-	-
Commercial Real Estate	16	1	13	135	65
Home Equity – closed end	2	4	25	-	6
Home Equity – open end	1	8	53	120	-
Commercial & Industrial – Non Real Estate	81	91	72	267	62
Consumer	44	41	28	19	32
Dealer Finance	1,144	861	1,143	417	24
Credit Cards	29	46	37	54	46
Total recoveries	1,371	1,186	1,373	1,023	357
Net loan losses	(4,255)	(3,734)	(1,499)	(1,238)	(244)
Balance at end of period	$ 8,390	$ 5,240	$ 6,044	$ 7,543	$ 8,781
Allowance for loan losses as a					
percentage of loans held for investment	1.39%	.82%	.98%	1.27%	1.61%
Net loan losses to loans held for investment	.71%	.58%	.24%	.21%	.04%

Loan Losses and the Allowance for Loan Losses, continued

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES										
	2019		2018		2017		2016		2015	
Allowance for loan losses: (dollars in thousands)	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category
Construction/Land Development	$1,190	14.18%	$ 2,094	39.97%	$ 2,547	42.14%	$ 3,381	44.82%	$ 4,442	50.59%
Real Estate	1,573	18.75%	292	5.56%	719	11.90%	843	11.18%	806	9.18%
Commercial, Financial and Agricultural	3,088	36.81%	633	12.08%	863	14.28%	1,348	17.88%	1,666	18.97%
Dealer Finance	1,786	21.28%	1,974	37.67%	1,440	23.83%	1,289	17.09%	836	9.52%
Consumer	254	3.03%	108	2.06%	200	3.31%	136	1.80%	223	2.54%
Home Equity	499	5.95%	139	2.66%	275	4.55%	545	7.22%	808	9.20%
Total	$ 8,390	100.00%	$ 5,240	100.00%	$ 6,044	100.00%	$ 7,543	100.00%	$ 8,781	100.00%

Deposits and Borrowings

The average deposit balances and average rates paid for 2019 and 2018 were as follows:

Average Deposits and Rates Paid (Dollars in thousands)

	December 31,			
	2019		2018	
	Average Balance	Rate	Average Balance	Rate
Noninterest-bearing	$ 165,731		$ 161,860	
Interest-bearing:				
Interest Checking	$ 89,823	.24%	$ 87,079	.17%
Savings Accounts	208,551	1.22%	162,718	.74%
Time Deposits	147,107	1.64%	161,635	1.28%
Total interest-bearing deposits	445,481	1.16%	411,432	.83%
Total deposits	$ 611,212	.85%	$ 573,292	.60%

Average noninterest-bearing demand deposits, which are comprised of checking accounts, increased $3,871 or 2.39% from $161,860 at December 31, 2018 to $165,731 at December 31, 2019. Average interest-bearing deposits, which include interest checking accounts, money market accounts, regular savings accounts and time deposits, increased $34,049 or 8.28% from $411,432 at December 31, 2018 to $445,481 at December 31, 2019. Total average interest checking account balances increased $2,744 or 3.15% from $87,079 at December 31, 2018 to $89,823 at December 31, 2019. Total average savings account balances (including money market accounts) increased $45,833 or 28.17% from $162,718 at December 31, 2018 to $208,551 at December 31, 2019.

Average time deposits decreased $14,528 or 8.99% from $161,635 at December 31, 2018 to $147,107 at December 31, 2019.

Deposits and Borrowings, continued

The maturity distribution of certificates of deposit of $100,000 or more is as follows:

(Actual Dollars in thousands)	2019	2018
Less than 3 months	$ 2,600	$ 1,885
3 to 6 months	6,407	5,838
6 to 12 months	11,867	9,262
1 year to 5 years	24,971	34,667
Total	$ 45,845	$ 51,652

Non-deposit borrowings include federal funds purchased, Federal Home Loan Bank (FHLB) borrowings, (both short term and long term), a note to purchase real estate and VST debt. Non-deposit borrowings are an important source of funding for the Bank. These sources assist in managing short and long-term funding needs, often at rates that are more favorable than raising additional funds within the deposit portfolio.

Borrowings from the FHLB are used to support the Bank's lending program and allow the Bank to manage interest rate risk by laddering maturities and matching funding terms to the terms of various loan types in the loan portfolio. The Company borrowed an additional $30,000 in 2019 and had no additional long-term borrowings in 2018. Repayment of amortizing and fixed maturity loans through FHLB totaled $17,017 during 2019. These long-term loans carry an average rate of 1.82% at December 31, 2019.

Contractual Obligations and Scheduled Payments (dollars in thousands)

	December 31, 2019				
	Less than One Year	One Year Through Three Years	Three Years Through Five Years	More than Five Years	Total
Federal funds purchased	$ -	$ -	$ -	$ -	$ -
FHLB Short term advances	10,000	-	-	-	10,000
FHLB long term advances and other debt	14,433	18,643	8,875	11,250	53,201
Total	$ 24,433	$ 18,643	$ 8,875	$ 11,250	$ 63,201

See Note 12 (Short Term Debt) and Note 13 (Long Term Debt) to the Consolidated Financial Statements for a discussion of the rates, terms, and conversion features on these advances.

Stockholders' Equity

Total stockholders' equity increased $174 or 0.19% in 2019. Capital was increased by net income totaling $4,509, net of noncontrolling interest of $130, issuance of common stock totaled $259, pension adjustment of $671 and unrealized gains on available for sale securities of $87. Capital was reduced by common and preferred dividends totaling $3,587, repurchases of common stock of $1,798, repurchase of preferred stock $42, minority interest distributions of $55. As of December 31, 2019, book value per common share was $27.11 compared to $26.68 as of December 31, 2018. Dividends are paid to stockholders on a quarterly basis in uniform amounts unless unexpected fluctuations in net income indicate a change to this policy is needed.

Banking regulators have established a uniform system to address the adequacy of capital for financial institutions. The rules require minimum capital levels based on risk-adjusted assets. Simply stated, the riskier an entity's investments, the more capital it is required to maintain. The Bank is required to maintain these minimum capital levels. Beginning in 2015, the Bank implemented the Basel III capital requirements, which introduced the Common Equity Tier I ratio in addition to the two previous capital guidelines of Tier I capital (referred to as core capital) and Tier II capital (referred to as supplementary capital). At December 31, 2019, the Bank had Common Equity Tier I capital of 13.30%, Tier I risked based capital of 13.30% and total risked based capital of 14.55% of risk weighted assets. Regulatory minimums at this date were 4.5%, 6% and 8%, respectively. The Bank has maintained capital levels far above the minimum requirements throughout the year. In the unlikely event that such capital levels are not met, regulatory agencies are empowered to require the Bank to raise additional capital and/or reallocate present capital.

In addition, the regulatory agencies have issued guidelines requiring the maintenance of a capital leverage ratio. The leverage ratio is computed by dividing Tier I capital by average total assets. The regulators have established a minimum of 4% for this ratio but can increase the minimum requirement based upon an institution's overall financial condition. At December 31, 2019, the Bank reported a leverage ratio of 10.89%. The Bank's leverage ratio was also substantially above the minimum. The Bank also reported a capital conservation buffer of 6.55% at December 31, 2019. The capital conservation buffer is designed to strengthen an institution's financial resilience during economic cycles. Financial institutions are required to maintain a minimum buffer as required by the Basel III final rules in order to avoid restrictions on capital distributions and other payments. The capital conservations buffer was fully phased in on January 1, 2019 at 2.5%.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations (dollars in thousands), Continued

Market Risk Management

Most of the Company's net income is dependent on the Bank's net interest income. Rapid changes in short-term interest rates may lead to volatility in net interest income resulting in additional interest rate risk to the extent that imbalances exist between the maturities or repricing of interest bearing liabilities and interest earning assets. The Company's net interest margin decreased .27% in 2019 following an increase of .07% in 2018. This decrease is due to decreases in interest rates as well as changes in balance sheet structure including a decrease in loans held for investment and substantial deposit growth which led to excess funds on hand. In 2019, the Federal Open Market Committee elected to decrease the short-term rates target 100BP to 1.50 to 2.75%.

Net interest income is also affected by changes in the mix of funding that supports earning assets. For example, higher levels of non-interest bearing demand deposits and leveraging earning assets by funding with stockholder's equity would result in greater levels of net interest income than if most of the earning assets were funded with higher cost interest-bearing liabilities, such as certificates of deposit and borrowings.

Liquid assets, which include cash and cash equivalents, federal funds sold, interest bearing deposits and short term investments averaged $43,358 for 2019. The Bank historically has had a stable core deposit base and, therefore, does not have to rely on volatile funding sources. Because of growth in the core deposit base, liquid assets have grown over prior year. While this helps liquidity, the higher priced deposits have had an effect on the net interest margin. The Bank's membership in the Federal Home Loan Bank has historically provided liquidity as the Bank borrows money that is repaid over a five to ten-year period and uses the money to make fixed rate loans. With excess funds provided by deposit growth, FHLB borrowings will continue to mature without replacement. The matching of the long-term receivables and liabilities helps the Bank reduce its sensitivity to interest rate changes. The Company reviews its interest rate gap periodically and makes adjustments as needed. There are no off-balance sheet items that will impair future liquidity.

The following table depicts the Company's interest rate sensitivity, as measured by the repricing of its interest sensitive assets and liabilities as of December 31, 2019. As the notes to the table indicate, the data was based in part on assumptions as to when certain assets or liabilities would mature or reprice. The analysis indicates an asset sensitive one-year cumulative GAP position of 17.16% of total earning assets, compared to 11.39% in 2018. Approximately 43.42% of rate sensitive assets and 36.37% of rate sensitive liabilities are subject to repricing within one year. Short term assets (less than one year) decreased $54,061 during the year, while total earning assets increased $37,887. The increase is attributed to growth in federal fund sold due to deposit growth. Short term deposits increased $29,655 and short term borrowings decreased $22,701. Increases are due to growth in core deposits primarily from a money market special and overall growth in deposits. Short term borrowings decreased as advances matured and were not renewed.

Market Risk Management, continued

The following GAP analysis shows the time frames as of December 31, 2019, in which the Company's assets and liabilities are subject to repricing:

(Dollars in thousands)	1-90 Days	91-365 Days	1-5 Years	Over 5 Years	Not Classified	Total
Rate Sensitive Assets:						
Loans held for investment	$ 106,342	$ 78,304	$ 364,093	$ 51,564	$ -	$ 600,303
Loans held for sale	66,798	-	-	-	-	66,798
Federal funds sold	66,559	-	-	-	-	66,559
Investment securities	124	-	4,047	319	-	4,490
Credit cards	3,122	-	-	-	-	3,122
Interest bearing bank deposits	1,126	-	-	-	-	1,126
Total	244,071	78,304	368,140	51,883	-	742,398
Rate Sensitive Liabilities:						
Interest bearing demand deposits	-	19,255	57,767	19,255	-	96,277
Savings deposits	-	89,249	128,621	19,685	-	237,555
Certificates of deposit	12,357	49,719	77,086	-	-	139,162
Total Deposits	12,357	158,223	263,474	38,940	-	472,994
Short-term debt	10,000	-	-	-	-	10,000
Long-term debt	6,107	8,322	27,522	11,250	-	53,201
Total	28,464	166,545	290,996	50,190	-	536,195
Discrete Gap	215,607	(88,241)	77,144	1,693	-	206,203
Cumulative Gap	215,607	127,366	204,510	206,203	206,203	
As a % of Earning Assets	29.04%	17.16%	27.55%	27.78%	27.78%	

- In preparing the above table, no assumptions are made with respect to loan prepayments or deposit run off. Loan principal payments are included in the earliest period in which the loan matures or can be repriced. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities on deposits which have no stated maturity dates were derived from regulatory guidance.

F & M Bank Corp. and Subsidiaries

Consolidated Balance Sheets (dollars in thousands, except per share data)

As of December 31, 2019 and 2018

	2019	2018
Assets		
Cash and due from banks	$ 8,119	$ 9,522
Money market funds and interest bearing deposits in other banks	1,126	1,390
Federal funds sold	66,559	-
Cash and cash equivalents	75,804	10,912
Securities:		
Held to maturity, at amortized cost - fair value of $124 and $123 in 2019 and 2018, respectively	124	123
Available for sale, at fair value	4,366	8,289
Other investments	13,525	13,432
Loans held for sale	66,798	55,910
Loans held for investment	603,425	638,799
Less: allowance for loan losses	(8,390)	(5,240)
Net loans held for investment	595,035	633,559
Other real estate owned, net	1,489	2,443
Bank premises and equipment, net	18,931	17,766
Interest receivable	2,044	2,078
Goodwill	2,884	2,884
Bank owned life insurance	20,050	19,464
Other assets	12,949	12,883
Total Assets	$ 813,999	$ 779,743
Liabilities		
Deposits:		
Noninterest bearing	$ 168,715	$ 157,146
Interest bearing	472,994	434,179
Total deposits	641,709	591,325
Short-term debt	10,000	40,116
Accrued and other liabilities	17,514	16,683
Long-term debt	53,201	40,218
Total Liabilities	722,424	688,342
Commitments and contingencies	-	-
Stockholders' Equity		
Preferred Stock $25 par value, 400,000 shares authorized, 206,660 and 249,860 shares		
issued and outstanding at December 31, 2019 and 2018, respectively	4,592	5,672
Common stock $5 par value, 6,000,000 shares authorized, 3,208,498 and 3,213,132		
shares issued and outstanding at December 31, 2019 and 2018, respectively	16,042	16,066
Additional paid in capital – common stock	7,510	7,987
Retained earnings	66,008	65,086
Noncontrolling interest in consolidated subsidiaries	634	559
Accumulated other comprehensive loss	(3,211)	(3,969)
Total Stockholders' Equity	91,575	91,401
Total Liabilities and Stockholders' Equity	$ 813,999	$ 779,743

See accompanying Notes to the Consolidated Financial Statements.

F & M Bank Corp. and Subsidiaries

Consolidated Statements of Income (dollars in thousands, except per share data)

For the years ended 2019 and 2018

	2019	2018
Interest and Dividend Income		
Interest and fees on loans held for investment	$ 35,495	$ 34,734
Interest from loans held for sale	1,853	1,064
Interest from money market funds, federal funds sold and deposits in other banks	367	120
Interest from debt securities – taxable	495	459
Total interest and dividend income	38,210	36,377
Interest Expense		
Total interest on deposits	5,170	3,425
Interest from short-term debt	688	456
Interest from long-term debt	960	951
Total interest expense	6,818	4,832
Net Interest Income	31,392	31,545
Provision for Loan Losses	7,405	2,930
Net Interest Income After Provision for Loan Losses	23,987	28,615
Noninterest Income		
Service charges on deposit accounts	1,691	1,496
Insurance, other commissions and mortgage banking, net	5,211	4,505
Other operating income	3,256	2,242
Income from bank owned life insurance	601	527
Low income housing partnership losses	(839)	(767)
Total noninterest income	9,920	8,003
Noninterest Expenses		
Salaries	12,284	12,622
Employee benefits	4,867	3,814
Occupancy expense	1,172	1,116
Equipment expense	1,173	1,044
FDIC insurance assessment	155	294
Other real estate owned, net	517	(31)
Director's fees	437	468
Data processing expense	2,500	2,197
Advertising expense	701	622
Legal and professional expense	852	597
Bank Franchise tax	673	522
Other operating expenses	4,187	3,479
Total noninterest expenses	29,518	26,744
Income before income taxes	4,389	9,874
Income Tax Expense (Benefit)	(250)	1,041
Net Income	4,639	8,833
Net Income attributable to noncontrolling interests	(130)	(10)
Net Income attributable to F & M Bank Corp.	4,509	8,823
Dividends paid/accumulated on preferred stock	(315)	(413)
Net income available to common stockholders	$ 4,194	$ 8,410
Per Common Share Data		
Net income - basic	$ 1.32	$ 2.60
Net income - diluted	$ 1.30	$ 2.45
Cash dividends on common stock	$ 1.02	$ 1.20
Weighted average common shares outstanding – basic	3,189,288	3,238,177
Weighted average common shares outstanding – diluted	3,460,234	3,596,017

See accompanying Notes to the Consolidated Financial Statements.

F & M BANK CORP.

Consolidated Statements of Comprehensive Income (dollars in thousands)

For the years ended 2019 and 2018

	Years Ended December 31,	
	2019	**2018**
Net Income	$ 4,509	$ 8,823
Other comprehensive income:		
Pension plan adjustment	849	313
Tax effect	(178)	(66)
Pension plan adjustment, net of tax	671	247
Unrealized holding gains (losses)		
on available-for-sale securities	110	(94)
Tax effect	(23)	20
Unrealized holding gains (losses), net of tax	87	(74)
Total other comprehensive income	758	173
Comprehensive income attributable to F&M Bank Corp.	$ 5,267	$ 8,996
Comprehensive income attributable to noncontrolling interests	$ 130	$ 10
Total comprehensive income	$ 5,397	$ 9,006

See accompanying Notes to the Consolidated Financial Statements.

F & M Bank Corp. and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity (dollars in thousands, except share and per share data)

For the years ended December 31, 2019 and 2018

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2017	$ 7,529	$ 16,275	$ 10,225	$ 60,566	$ 574	$ (4,142)	$ 91,027
Net income	-	-	-	8,823	10	-	8,833
Other comprehensive income	-	-	-	-	-	173	173
Distributions to noncontrolling interest	-	-	-	-	(25)	-	(25)
Dividends on preferred stock ($1.28 per share)	-	-	-	(413)	-	-	(413)
Dividends on common stock ($1.20 per share)	-	-	-	(3,890)	-	-	(3,890)
Common stock repurchased (49,446 shares)	-	(247)	(1,535)	-	-	-	(1,782)
Common stock issued (7,542 shares)	-	38	228	-	-	-	266
Preferred stock repurchased (74,290 shares)	(1,857)	-	(931)	-	-	-	(2,788)
Balance, December 31, 2018	$ 5,672	$ 16,066	$ 7,987	$ 65,086	$ 559	$ (3,969)	$ 91,401
Net Income	-	-	-	4,509	130	-	4,639
Other comprehensive income	-	-	-	-	-	758	758
Distributions to noncontrolling interest	-	-	-	-	(55)	-	(55)
Dividends on preferred stock ($1.28 per share)	-	-	-	(315)	-	-	(315)
Dividends on common stock ($1.02 per share)	-	-	-	(3,272)	-	-	(3,272)
Common stock repurchased (60,104 shares)	-	(301)	(1,497)	-	-	-	(1,798)
Common stock issued (8,763 shares)	-	44	215	-	-	-	259
Preferred stock converted to common (42,000 shares)	(1,050)	233	817	-	-	-	-
Preferred stock repurchased (1,200 shares)	(30)	-	(12)	-	-	-	(42)
Balance, December 31, 2019	$ 4,592	$ 16,042	$ 7,510	$ 66,008	$ 634	$ (3,211)	$ 91,575

See accompanying Notes to the Consolidated Financial Statements.

F & M Bank Corp. and Subsidiaries

Consolidated Statements of Cash Flows (dollars in thousands)

For the years ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 4,639	$ 8,833
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,299	1,137
Amortization of intangibles	74	66
Amortization of securities	7	2
Proceeds from sale of loans held for sale originated	128,102	94,129
Gain on sale of loans held for sale originated	(2,944)	(2,222)
Loans held for sale originated	(124,588)	(91,806)
Provision for loan losses	7,405	2,930
(Benefit) expense for deferred taxes	(1,179)	55
Decrease (increase) in interest receivable	34	(71)
Decrease (increase) in other assets	784	(514)
Increase (decrease) in accrued liabilities	1,679	(794)
Amortization of limited partnership investments	839	767
Gain on sale of fixed assets	(13)	(9)
Loss (gain) on sale and valuation adjustments of other real estate owned	452	(94)
Gain on sale of dealer loans	(618)	-
Income from life insurance investment	(601)	(527)
Net Cash Provided by Operating Activities	15,371	11,882
Cash Flows from Investing Activities		
Proceeds from maturities of securities available for sale	8,256	21,897
Purchases of securities available for sale and other investments	(5,163)	(3,361)
Net decrease (increase) in loans held for investment	5,680	(26,065)
Proceeds from sale of dealer loans	25,923	-
Net increase in loans held for sale participations	(11,458)	(16,237)
Net purchase of property and equipment	(2,380)	(3,000)
Purchase of bank owned life insurance	-	(5,000)
Purchase of title company	-	(75)
Proceeds from sale of other real estate owned	635	141
Net Cash Provided by (Used in) Investing Activities	21,493	(31,700)
Cash Flows from Financing Activities		
Net change in deposits	50,384	22,149
Net change in short-term debt	(30,116)	14,820
Dividends paid in cash	(3,587)	(4,303)
Proceeds from long-term debt	30,000	-
Distributions to non-controlling interest	(55)	(25)
Proceeds from issuance of common stock	259	266
Repurchase of preferred stock	(42)	(2,788)
Repurchase of common stock	(1,798)	(1,782)
Repayments of long-term debt	(17,017)	(9,514)
Net Cash Provided by Financing Activities	28,028	18,823
Net Increase (Decrease) in Cash and Cash Equivalents	64,892	(995)
Cash and Cash Equivalents, Beginning of Year	10,912	11,907
Cash and Cash Equivalents, End of Year	$ 75,804	$ 10,912
Supplemental Cash Flow information:		
Cash paid for:		
Interest	$ 6,812	$ 4,744
Income taxes	300	1,957
Supplemental non-cash disclosures:		
Transfers from loans to other real estate owned	133	506
Unrealized gain (loss) on securities available for sale, net	87	(74)
Minimum pension liability adjustment, net	671	247
Initial recognition of right-of-use asset and lease liability	1,034	-

See accompanying Notes to the Consolidated Financial Statements.

NOTE 1 NATURE OF OPERATIONS:

F & M Bank Corp. (the "Company"), through its subsidiary Farmers & Merchants Bank (the "Bank"), operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services. As a state-chartered bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Reserve Bank. The Bank provides services to customers located mainly in Rockingham, Shenandoah, Page and Augusta Counties in Virginia. Services are provided at fourteen branch offices and a Dealer Finance Division loan production office. The Company offers insurance, mortgage lending, title insurance and financial services through its subsidiaries, TEB Life Insurance, Inc., Farmers & Merchants Financial Services, Inc, F&M Mortgage, LLC and VSTitle, LLC.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and to accepted practice within the banking industry. The following is a summary of the more significant policies:

Principles of Consolidation

The consolidated financial statements include the accounts of Farmers & Merchants Bank, TEB Life Insurance Company, Farmers & Merchants Financial Services, Inc., F&M Mortgage, LLC, (net of noncontrolling interest) and VSTitle, LLC. Significant inter-company accounts and transactions have been eliminated.

Use of Estimates in the Preparation of Financial Statements

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses, fair value, pension accounting and the valuation of foreclosed real estate.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, money market funds whose initial maturity is ninety days or less and Federal funds sold.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, the unrealized holding gains and losses are reported in other comprehensive income, net of tax. Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, in any, plus or minus changes resulting from observable price changes in an orderly transaction for the identical or a similar investment.

The Company follows the accounting guidance related to recognition and presentation of other-than-temporary impairment. The guidance specifies that if (a) an entity does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that the entity will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired, unless there is a credit loss. When criteria (a) and (b) are met, the entity will recognize the credit component of other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Securities, continued

For held-to-maturity debt securities, the amount of other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

For available-for-sale securities, when the Company has decided to sell an impaired available-for-sale security and the Company does not expect the fair value of the security to fully recover before the expected time of sale, the security is deemed other-than-temporarily impaired in the period in which the decision to sell is made. The Company recognizes an impairment loss when the impairment is deemed other than temporary even if a decision to sell has not been made. The Company had no other than temporary impairment in 2019 or 2018.

Other Investments

The Company periodically invests in low income housing partnerships whose primary benefit is the distribution of federal income tax credits to partners. The Company recognizes these benefits and the cost of the investments over the life of the partnership. In addition, state and federal historic rehabilitation credits are generated from some of the partnerships. Amortization of these investments is prorated based on the amount of benefits received in each year to the total estimated benefits over the life of the projects.

Due to the nature and restrictions placed on the Company's investment in common stock of the Federal Home Loan Bank of Atlanta ("FHLB") and the Federal Reserve Bank of Richmond, these securities are considered restricted and carried at cost.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management’s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties, if any, on income taxes as a component of income tax expense.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Investment

The Company, through its banking subsidiary, provides mortgage, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans, particularly commercial and residential mortgages. The ability of the Company's debtors to honor their contracts is largely dependent upon the real estate and general economic conditions in the Company's market area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off, generally are reported at their outstanding unpaid principal balance adjusted for the allowance for loan losses, and any unearned income. Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Loans are typically charged off when the loan is 120 days past due, unless secured and in process of collection. Loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful.

The Company's loans are grouped into eleven segments: construction/land development, farmland, real estate, multi-family, commercial real estate, home equity – closed end, home equity – open end, commercial & industrial – non-real estate, consumer, credit cards and dealer finance. Each segment is subject to certain risks that influence the establishment of pricing, loan structures, approval requirements, reserves, and ongoing credit management. The Company does not segregate the portfolio further.

Construction and land development loans are subject to general risks from changing commercial building and housing market trends and economic conditions that may impact demand for completed properties and the costs of completion. Completed properties that do not sell or become leased within originally expected timeframes may impact the borrower's ability to service the debt. These risks are measured by market-area unemployment rates, bankruptcy rates, housing and commercial building market trends, and interest rates. Risks specific to the borrower are also evaluated, including previous repayment history, debt service ability, and current and projected loan-to value ratios for the collateral.

Farmland loans are loans secured by agricultural property. These loans are subject to risks associated with the value of the underlying farmland and the cash flows of the borrower's farming operations.

Multifamily loans are loans secured by multi-unit residential property. These loans are subject to risks associated with the value of the underlying property as well as the successful operation and management of the property.

Real estate loans are for consumer residential real estate where the credit quality is subject to risks associated with the borrower's repayment ability and collateral value, measured generally by analyzing local unemployment and bankruptcy trends, and local housing market trends and interest rates. Risks specific to a borrower are determined by previous repayment history, loan-to-value ratios, and debt-to-income ratios.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Investment, continued

The commercial real estate segment includes loans secured by commercial real estate occupied by the owner/borrower, and commercial real estate leased to non-owners. Loans in the commercial real estate segment are impacted by economic risks from changing commercial real estate markets, rental markets for commercial buildings, business bankruptcy rates, local unemployment rates and interest rate trends that would impact the businesses housed by the commercial real estate.

The Company's home-equity loan portfolios (closed end and open end) carry risks associated with the creditworthiness of the borrower and changes in loan-to-value ratios. The Company manages these risks through policies and procedures such as limiting loan-to-value at origination, experienced underwriting, and requiring standards for appraisers.

Commercial and industrial non-real estate loans are secured by collateral other than real estate or are unsecured. Credit risk for commercial non-real estate loans is subject to economic conditions, generally monitored by local business bankruptcy trends, interest rates, and borrower repayment ability and collateral value (if secured).

Consumer non-real estate includes non-dealer financed automobile loans and other consumer loans. Certain consumer loans are unsecured, while collateral is obtained for automobile loans and other consumer loans. Credit risk stems primarily from the borrower's ability to repay. If the loan is secured, the Company analyzes loan-to-value ratios. All consumer non-real estate loans are analyzed for debt-to-income ratios and previous credit history, as well as for general risks for the portfolio, including local unemployment rates, personal bankruptcy rates and interest rates.

Credit card loan portfolios carry risks associated with the creditworthiness of the borrower and changes in the economic environment. The Company manages these risks through policies and procedures such as experienced underwriting, maximum debt to income ratios, and minimum borrower credit scores.

Dealer finance lending generally carries certain risks associated with the values of the collateral and borrower's ability to repay the loan. The Company focuses its dealer finance lending on used vehicles where substantial depreciation has already occurred thereby minimizing the risk of significant loss of collateral values in the future.

Interest accrued but not collected for loans that are placed on nonaccrual status or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

A loan is considered past due when a payment of principal or interest or both is due but not paid. Management closely monitors past due loans in timeframes of 30-59 days, 60-89 days, and 90 or more days past due.

These policies apply to all loan portfolio segments.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Troubled debt restructurings are considered impaired loans.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Sale

These loans consist of fixed rate loans made through the Company's subsidiary, F&M Mortgage, and loans held for sale participations with Northpointe Bank, Grand Rapids, Michigan.

F&M Mortgage originates conforming mortgage loans for sale in the secondary market. These loans consist primarily of fixed-rate, single-family residential mortgage loans which meet the underwriting characteristics of the investors. F&M Mortgage enters into mortgage loan commitments whereby the interest rate on the loan is determined prior to funding (rate lock commitments).

The period of time between issuance of a loan commitment and sale of the loan generally ranges from two to three weeks. F&M Mortgage protects itself from changes in interest rates through the use of best efforts forward delivery contracts, by committing to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed the interest rate risk on the loan. As a result, the Company is not generally exposed to significant losses nor will it realize significant gains related to its rate lock commitments due to changes in interest rates. The correlation between the rate lock commitments and the best efforts contracts is very high due to their similarity. The market value of rate lock commitments and best efforts contracts is not readily ascertainable with precision because rate lock commitments and best efforts contracts are not actively traded in stand-alone markets. F&M Mortgage determines the fair value of rate lock commitments and best efforts contracts by measuring the change in the estimated value of the underlying assets while taking into consideration the probability that the loan will be funded. The fair value of rate lock commitments and best efforts contracts was considered immaterial at December 31, 2019 and 2018. These loans are pre-sold with servicing released and no interest is retained after the loans are sold. Because of the short holding period, these loans are carried at the lower of cost or market and no market adjustments were deemed necessary in 2019 or 2018. Gains on sales of loans and commission expense are recognized at the loan closing date and are included in insurance, other commissions and mortgage banking income, net on the Company's consolidated income statement. At December 31, 2019 and 2018, there was $2,975 and $3,544, respectively, of these loans included in loans held for sale on the Company's consolidated balance sheet.

The Bank participates in a Mortgage Purchase Program with Northpointe Bank (Northpointe), a Michigan banking corporation. Pursuant to the terms of a participation agreement, the Bank purchases participation interests in loans made by Northpointe related to fully underwritten and pre-sold mortgage loans originated by various prescreened mortgage loan originators located throughout the United States. A takeout commitment is in place at the time the loans are purchased. The Bank has participated in similar arrangements since 2003 as a higher yielding alternative to federal funds sold or investment securities. These loans are short-term, residential real estate loans that have an average life in our portfolio of approximately two weeks. The Bank holds these loans during the period of time between loan closing and when the loan is paid off by the ultimate secondary market purchaser. As of December 31, 2019, and 2018, there were $63,823 and $52,366 million of these loans included in loans held for sale on the Company's consolidated balance sheet.

Troubled Debt Restructuring

In situations where, for economic or legal reasons related to a borrower's financial condition, management may grant a concession to the borrower that it would not otherwise consider, the related loan is classified as a troubled debt restructuring ("TDR"). Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers are granted new terms that provide for a reduction of either interest or principal, management measures any impairment on the restructuring as noted above for impaired loans. The Company has $5.75 million in loans classified as TDRs that are current and performing as of December 31, 2019, and $8.03 million as of December 31, 2018.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Allowance for Loan and Losses

The allowance for loan losses represents management's estimate of probable losses inherent in the Company's loan portfolio. A provision for estimated losses is charged to earnings to establish and maintain the allowance for loan losses at a level reflective of the estimated credit risk. When management determines that a loan balance or portion of a loan balance is not collectible, the loss is charged against the allowance. Subsequent recoveries, if any, are credited to the allowance.

Management's determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management evaluates the allowance each quarter through a methodology that estimates losses on individual impaired loans and evaluates the effect of numerous factors on the credit risk of each segment of loans.

The Company's allowance for loan losses has two basic components: the general allowance and the specific allowance. Each of these components is determined based upon estimates and judgments. The general allowance uses historical loss experience as an indicator of future losses, along with various qualitative factors, including levels and trends in delinquencies, nonaccrual loans, charge-offs and recoveries, trends in volume and terms of loans, effects of changes in underwriting standards, experience of lending staff, economic conditions, and portfolio concentrations.

Except for credit card, all loans are assigned an internal risk rating based on certain credit quality indicators. The period-end balances for each loan segment are multiplied by the adjusted loss factor. Specific allowances are established for individually evaluated impaired loans based on the excess of the loan balance relative to the fair value of the collateral, if the loan is deemed collateral dependent.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their examination.

Other Real Estate Owned (OREO)

OREO is held for sale and represents real estate acquired through or in lieu of foreclosure. OREO is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. The Company's policy is to carry OREO on its balance sheet at the lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Bank Premises and Equipment

Land is carried at cost and bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over the estimated useful lives of the assets on a combination of the straight-line and accelerated methods. The ranges of the useful lives of the premises and equipment are as follows:

Premises and Improvements	10 - 40 years
Furniture and Equipment	5 - 20 years

Maintenance, repairs, and minor improvements are charged to operations as incurred. Gains and losses on dispositions are reflected in other income or expense.

Goodwill and Intangible Assets

The Company accounts for goodwill and intangible assets under ASC 805, "Business Combinations" and ASC 350, "Intangibles", respectively. Goodwill is subject to at least an annual assessment for impairment by applying a fair value-based test. Additionally, acquired intangible assets are separately recognized if the benefit of the assets can be sold, transferred, licensed, rented, or exchanged, and amortized over their useful lives. The Company recorded goodwill and intangible assets in 2018 related to the purchase of VS Title which was valued by an independent third party. The Company records as goodwill the excess of purchase price over the fair value of the identifiable net assets acquired. Impairment testing is performed annually, as well as when an event triggering impairment may have occurred. The Company performs its annual analysis as of December 31 each fiscal year. Accounting guidance permits preliminary assessment of qualitative factors to determine whether a more substantial impairment testing is required. The Company chose to bypass the preliminary assessment and utilized a two-step process for impairment testing of goodwill. The first step tests for impairment, while the second step, if necessary, measures the impairment. No indicators of impairment were identified during the years ended December 31, 2019 and 2018.

Pension Plans

The Bank has a qualified noncontributory defined benefit pension plan which covers all full-time employees hired prior to April 1, 2012. The benefits are primarily based on years of service and earnings. The Company complies with ASC 325-960 "Defined Benefit Pension Plans" which requires recognition of the over-funded or under-funded status of pension and other postretirement benefit plans on the balance sheet. Under ASC 325-960, gains and losses, prior service costs and credits, and any remaining transition amounts that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost.

Advertising Costs

The Company follows the policy of charging the cost of advertising to expense as incurred. Total advertising costs included in other operating expenses for 2019 and 2018 were $701 and $622, respectively.

Bank Owned Life Insurance

The Company has purchased life insurance policies on certain employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Comprehensive Income

Comprehensive income is shown in a two-statement approach, the first statement presents total net income and its components followed by a second statement that presents all the components of other comprehensive income such as unrealized gains and losses on available for sale securities and changes in the funded status of a defined benefit pension plan.

Derivative Financial Instruments

Under ASC 815, the gain or loss on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedging item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period. The effective portion of the gain or loss on a derivative designated and qualifying as a cash flow hedging instrument is initially reported as a component of other comprehensive income and subsequently reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests. Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedging items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the consolidated financial statements.

Fair Value Measurements

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involved uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets of particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Reclassifications

Certain reclassifications have been made in prior years' financial statements to conform to classifications used in the current year. These reclassifications had no impact on net income or earnings per share.

Earnings per Share

Accounting guidance specifies the computation, presentation and disclosure requirements for earnings per share ("EPS") for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market. Basic EPS is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued. The dilutive effect of conversion of preferred stock is reflected in the diluted earnings per common share calculation.

Net income available to common stockholders represents consolidated net income adjusted for preferred dividends declared.

The following table provides a reconciliation of net income to net income available to common stockholders for the periods presented:

	For the year ended	
Dollars in thousands	December 31, 2019	December 31, 2018
Earnings Available to Common Stockholders:		
Net Income	$ 4,639	$ 8,833
Net Income attributable to noncontrolling interest	(130)	(10)
Dividends paid/accumulated on preferred stock	(315)	(413)
Net Income Available to Common Stockholders	$ 4,194	$ 8,410

The following table shows the effect of dilutive preferred stock conversion on the Company's earnings per share for the periods indicated:

	For the year ended					
	December 31, 2019			December 31, 2018		
Dollars in thousands	Net Income Available to Common Stockholders	Weighted Average Shares	Per Share Amounts	Net Income Available to Common Stockholders	Weighted Average Shares	Per Share Amounts
Basic EPS	$ 4,194	3,189,288	$ 1.32	$ 8,410	3,238,177	$ 2.60
Effect of Dilutive Securities:						
Convertible Preferred Stock	315	270,946	(.02)	413	357,840	(0.15)
Diluted EPS	$ 4,509	3,460,234	$ 1.30	$ 8,823	3,596,017	$ 2.45

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements

During June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. All other entities will be required to apply the guidance for fiscal years, and interim periods within those years, beginning after December 15, 2022. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and is in the set up stage with expectations of running parallel for all of 2020 and all data has been archived under the current model.

During January 2017, the FASB issued ASU No. 2017-04, "Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in this ASU simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. Instead, under the amendments in this ASU, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity still has the option to perform the qualitative assessment for a reporting unit to determine if the quantitative impairment test is necessary. Public business entities that are U.S. Securities and Exchange Commission (SEC) filers should adopt the amendments in this ASU for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. The Company does not expect the adoption of ASU 2017-04 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement." The amendments modify the disclosure requirements in Topic 820 to add disclosures regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements and the narrative description of measurement uncertainty. Certain disclosure requirements in Topic 820 are also removed or modified. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Certain of the amendments are to be applied prospectively while others are to be applied retrospectively. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-13 to have a material impact on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, "Compensation—Retirement Benefits—Defined Benefit Plans—General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans." These amendments modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Certain disclosure requirements have been deleted while the following disclosure requirements have been added: the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates and an explanation of the reasons for significant gains and losses related to changes in the benefit obligation for the period. The amendments also clarify the disclosure requirements in paragraph 715-20-50-3, which state that the following information for defined benefit pension plans should be disclosed: The projected benefit obligation (PBO) and fair value of plan assets for plans with PBOs in excess of plan assets and the accumulated benefit obligation (ABO) and fair value of plan assets for plans with ABOs in excess of plan assets. The amendments are effective for fiscal years ending after December 15, 2020. Early adoption is permitted. The Company does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In April 2019, the FASB issued ASU 2019-04, "Codification Improvements to Topic 326, Financial Instruments—Credit Losses, Topic 815, Derivatives and Hedging, and Topic 825, Financial Instruments." This ASU clarifies and improves areas of guidance related to the recently issued standards on credit losses, hedging, and recognition and measurement including improvements resulting from various TRG Meetings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-04 will have on its consolidated financial statements.

In May 2019, the FASB issued ASU 2019-05, "Financial Instruments—Credit Losses (Topic 326): Targeted Transition Relief." The amendments in this ASU provide entities that have certain instruments within the scope of Subtopic 326-20 with an option to irrevocably elect the fair value option in Subtopic 825-10, applied on an instrument-by-instrument basis for eligible instruments, upon the adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities. An entity that elects the fair value option should subsequently measure those instruments at fair value with changes in fair value flowing through earnings. The amendments are effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. The amendments should be applied on a modified-retrospective basis by means of a cumulative-effect adjustment to the opening balance of retained earnings balance in the balance sheet. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

In November 2019, the FASB issued ASU 2019-11, "Codification Improvements to Topic 326, Financial Instruments – Credit Losses." This ASU addresses issues raised by stakeholders during the implementation of ASU No. 2016-13, "Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." Among other narrow-scope improvements, the new ASU clarifies guidance around how to report expected recoveries. "Expected recoveries" describes a situation in which an organization recognizes a full or partial write-off of the amortized cost basis of a financial asset, but then later determines that the amount written off, or a portion of that amount, will in fact be recovered. While applying the credit losses standard, stakeholders questioned whether expected recoveries were permitted on assets that had already shown credit deterioration at the time of purchase (also known as PCD assets). In response to this question, the ASU permits organizations to record expected recoveries on PCD assets. In addition to other narrow technical improvements, the ASU also reinforces existing guidance that prohibits organizations from recording negative allowances for available-for-sale debt securities. The ASU includes effective dates and transition requirements that vary depending on whether or not an entity has already adopted ASU 2016-13. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and is in the set up stage with expectations of running parallel for all of 2020 and all data has been archived under the current model.

In December 2019, the FASB issued ASU 2019-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes." The ASU is expected to reduce cost and complexity related to the accounting for income taxes by removing specific exceptions to general principles in Topic 740 (eliminating the need for an organization to analyze whether certain exceptions apply in a given period) and improving financial statement preparers' application of certain income tax-related guidance. This ASU is part of the FASB's simplification initiative to make narrow-scope simplifications and improvements to accounting standards through a series of short-term projects. For public business entities, the amendments are effective for fiscal years beginning after December 15, 2020, and interim periods within those fiscal years. Early adoption is permitted. The Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In January 2020, the FASB issued ASU 2020-01, "Investments – Equity Securities (Topic 321), Investments – Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815." The ASU is based on a consensus of the Emerging Issues Task Force and is expected to increase comparability in accounting for these transactions. ASU 2016-01 made targeted improvements to accounting for financial instruments, including providing an entity the ability to measure certain equity securities without a readily determinable fair value at cost, less any impairment, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. Among other topics, the amendments clarify that an entity should consider observable transactions that require it to either apply or discontinue the equity method of accounting. For public business entities, the amendments in the ASU are effective for fiscal years beginning after December 31, 2020, and interim periods within those fiscal years. Early adoption is permitted The Company is currently assessing the impact that ASU 2019-05 will have on its consolidated financial statements.

NOTE 3 – CORRECTION OF PRIOR PERIOD IMMATERIAL ERROR

In November 2019, the Company identified an immaterial error in its previously issued Consolidated Financial Statements related to the amortization of dealer commissions paid to originate indirect auto loans due to a system input error that was not previously identified. As a result, the Company determined the date of the system input error and the proper amount of the amortization that should have been recorded for 2018 and the amount related to prior periods.

In evaluating whether the previously issued Consolidated Financial Statements were materially misstated for the interim or annual periods prior to December 31, 2019, the Company applied the guidance of ASC 250, Accounting Changes and Error Corrections, SEC Staff Accounting Bulletin ("SAB") Topic 1.M, Assessing Materiality and SAB Topic 1.N, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements and concluded that the effect of the errors on prior period annual financial statements was immaterial; however, the cumulative effect of correcting all of the prior period misstatements in the current year would be material to the current year consolidated financial statements. The guidance states that prior-year misstatements which, if corrected in the current year would materially misstate the current year's financial statements, must be corrected by adjusting prior year financial statements, even though such correction previously was and continues to be immaterial to the prior-year financial statements. Correcting prior-year financial statements for such immaterial misstatements does not require previously filed reports to be amended.

The cumulative effect of adjustments required to correct the misstatements in the financial statements for years prior to 2019 are reflected in the 2018 financial statements. The cumulative effect of those adjustments on all periods prior to 2018 decreased retained earnings as of December 31, 2017 by $248 thousand. The Consolidated Balance Sheet and Statements of Income, Changes in Stockholders' Equity, and Cash Flows have been adjusted to reflect the correction for the year ended December 31, 2018.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 3 – CORRECTION OF PRIOR PERIOD IMMATERIAL ERROR (CONTINUED)

The Company's consolidated financial statements have been adjusted from the amounts previously reported to correct these errors as follows:

Consolidated Balance Sheets	Originally Reported	Adjustment	As Corrected
As of December 31, 2018			
Other assets	$ 13,393	$ (510)	$ 12,883
Retained earnings	$ 65,596	$ (510)	$ 65,086

Consolidated Statements of Income	Originally Reported	Adjustment	As Corrected
For the year ended December 31, 2018			
Interest and fees on loans held for investment	$ 35,065	$ (331)	$ 34,734
Income Tax Expense	$ 1,110	$ 69	$ 1,041
Net Income	$ 9,095	$ (262)	$ 8,833
Net Income attributable to F & M Bank Corp	$ 9,085	$ (262)	$ 8,823
Net income available to common stockholders	$ 8,672	$ (262)	$ 8,410
Net income – basic	$ 2.68	$ (0.08)	$ 2.60
Net income – diluted	$ 2.53	$ (0.08)	$ 2.45

Consolidated Statements of Cash Flows	Originally Reported	Adjustment	As Corrected
For the year ended December 31, 2018			
Net income	$ 9,095	$ (262)	$ 8,833

The correction of the errors affected Regulatory Capital as follows:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2018 originally reported	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based ratio	$ 95,597	14.44%	$ 52,955	8.00%	$ 66,194	10.00%
Tier 1 risk-based ratio	$ 90,357	13.65%	$ 39,717	6.00%	$ 52,955	8.00%
Common equity tier 1	$ 90,357	13.65%	$ 29,787	4.50%	$ 43,026	6.50%
Total assets leverage ratio	$ 90,357	11.79%	$ 30,659	4.00%	$ 38,324	5.00%
December 31, 2018 as corrected	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based ratio	$ 95,335	14.41%	$ 52,915	8.00%	$ 66,143	10.00%
Tier 1 risk-based ratio	$ 90,095	13.62%	$ 39,686	6.00%	$ 52,915	8.00%
Common equity tier 1	$ 90,095	13.62%	$ 29,764	4.50%	$ 42,993	6.50%
Total assets leverage ratio	$ 90,095	11.76%	$ 30,639	4.00%	$ 38,299	5.00%

See Note 22 for additional information on Regulatory Matters.

NOTE 4 CASH AND DUE FROM BANKS:

The Bank may be required to maintain average reserve balances based on a percentage of deposits. Due to the deposit reclassification procedures implemented by the Bank, there is no Federal Reserve Bank reserve requirement for the years ended December 31, 2019 and 2018.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 5 SECURITIES:

The amortized cost and fair value, with unrealized gains and losses, of securities held to maturity were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U. S. Treasuries	$ 124	$ -	$ -	$ 124
December 31, 2018				
U. S. Treasuries	$ 123	$ -	$ -	$ 123

The amortized cost and fair value of securities available for sale are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2019				
U. S. Government sponsored enterprises	$ 2,000	$ -	$ 11	$ 1,989
Mortgage-backed obligations of federal agencies	317	2	-	319
Corporate debt security	2,059	-	1	2,058
Total Securities Available for Sale	$ 4,376	$ 2	$ 12	$ 4,366
December 31, 2018				
U. S. Government sponsored enterprises	7,999	-	113	7,886
Mortgage-backed obligations of federal agencies	409	-	6	403
Total Securities Available for Sale	$ 8,408	$ -	$ 119	$ 8,289

The amortized cost and fair value of securities at December 31, 2019, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Held to Maturity		**Securities Available for Sale**	
	Amortized Cost	**Fair Value**	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 124	$ 124	$ -	$ -
Due after one year through five years	-	-	4,059	4,047
Due after five years through ten years	-	-	317	319
Due after ten years	-	-	-	-
Total	$ 124	$ 124	$ 4,376	$ 4,366

There were no sales of debt or equity securities during 2019 or 2018. There were no pledged securities at December 31, 2019 or 2018.

Other investments consist of investments in twenty-one low-income housing and historic equity partnerships (carrying basis of $8,529), stock in the Federal Home Loan Bank (carrying basis of $3,392), and various other investments (carrying basis of $1,469). The interests in the low-income housing and historic equity partnerships have limited transferability and the interests in the other stocks, except for $135, are restricted as to sales. The market values of these securities are estimated to approximate their carrying values as of December 31, 2019. At December 31, 2019, the Company was committed to invest an additional $3,351 in five low-income housing limited partnerships. These funds will be paid as requested by the general partner to complete the projects. This additional investment has been reflected in the above carrying basis and in accrued liabilities on the balance sheet.

NOTE 5 SECURITIES (CONTINUED):

The primary purpose of the investment portfolio is to generate income and meet liquidity needs of the Company through readily saleable financial instruments. The portfolio includes fixed rate bonds, whose prices move inversely with rates and variable rate bonds. At the end of any accounting period, the investment portfolio has unrealized gains and losses. The Company monitors the portfolio, which is subject to liquidity needs, market rate changes and credit risk changes for other than temporary impairment. The primary concern in a loss situation is the credit quality of the issuer behind the instrument. Bonds deteriorate in value due to credit quality of the individual issuer and changes in market conditions.

A summary of unrealized losses (in thousands) and the length of time in a continuous loss position, by security type of December 31, 2019 and 2018 were as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2019						
U. S. Government sponsored enterprises	$ 1,989	$ 11	$ -	$ -	$ 1,989	$ 11
Other debt securities	2,058	1	-	-	2,058	1
Total	$ 4,047	$ 12	$ -	$ -	$ 4,047	$ 12

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2018						
U. S. Government sponsored enterprises	$ -	$ -	$ 7,886	$ (113)	$ 7,886	$ (113)
Mortgage-backed obligations of federal agencies	-	-	403	(6)	403	(6)
Total	$ -	$ -	$ 8,289	$ (119)	$ 8,289	$ (119)

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. As of December 31, 2019, the Company did not hold any security that was other-than-temporarily impaired. There were two securities in an unrealized loss position, these securities were not in an unrealized loss position for more than twelve months. The Company did not recognize any other-than-temporary impairment losses in 2019 or 2018.

NOTE 6 LOANS:

Loans held for investment as of December 31, 2019, and 2018 were as follows:

	2019	**2018**
Construction/Land Development	$ 77,131	$ 61,659
Farmland	29,718	17,030
Real Estate	178,267	192,278
Multi-Family	5,364	9,665
Commercial Real Estate	129,850	147,342
Home Equity – closed end	9,523	11,039
Home Equity – open end	47,774	53,197
Commercial & Industrial – Non-Real Estate	33,535	36,021
Consumer	10,165	9,861
Dealer Finance	78,976	97,523
Credit Cards	3,122	3,184
Total	$ 603,425	$ 638,799

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 LOANS (CONTINUED):

The Company has pledged loans held for investment as collateral for borrowings with the Federal Home Loan Bank of Atlanta totaling $178,253 and $186,673 as of December 31, 2019 and 2018, respectively. The Company maintains a blanket lien on its entire residential real estate portfolio and certain commercial and home equity loans.

Loans held for sale consists of loans originated by F&M Mortgage for sale in the secondary market, and the Bank's commitment to purchase residential mortgage loan participations from Northpointe Bank. The volume of loans purchased from Northpointe fluctuates due to a number of factors including changes in secondary market rates, which affects demand for mortgage loans; the number of participating banks involved in the program; the number of mortgage loan originators selling loans to the lead bank and the funding capabilities of the lead bank. Loans held for sale as of December 31, 2019, and 2018 were $66,798 and $55,910, respectively.

The following is a summary of information pertaining to impaired loans:

	December 31, 2019			December 31, 2018		
		Unpaid			Unpaid	
	Recorded	Principal	Related	Recorded	Principal	Related
	Investment	Balance	Allowance	Investment	Balance	Allowance
Impaired loans without a valuation allowance:						
Construction/Land Development	$ 2,042	$ 2,042	$ -	$ 2,414	$ 2,414	$ -
Farmland	-	-	-	1,941	1,941	-
Real Estate	5,131	5,131	-	1,932	1,932	-
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	1,302	1,302	-	6,176	6,176	-
Home Equity – closed end	716	716	-	-	-	-
Home Equity – open end	-	-	-	-	-	-
Commercial & Industrial – Non-Real Estate	17	17	-	-	-	-
Consumer	-	-	-	-	-	-
Credit cards	-	-	-	-	-	-
Dealer Finance	79	79	-	32	32	-
	9,287	9,287	-	12,495	12,495	-
Impaired loans with a valuation allowance						
Construction/Land Development	1,036	2,061	85	4,311	4,871	1,627
Farmland	1,933	1,933	537	-	-	-
Real Estate	10,404	10,404	569	422	422	7
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	638	638	213	-	1,500	-
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	151	151	151	-	-	-
Commercial & Industrial – Non-Real Estate	192	192	192	-	-	-
Consumer	4	4	1	8	8	2
Credit cards	-	-	-	-	-	-
Dealer Finance	136	136	7	194	194	10
	14,494	15,519	1,755	4,935	6,995	1,646
Total impaired loans	$ 23,781	$ 24,806	$ 1,755	$ 17,430	$ 19,490	$ 1,646

The Recorded Investment is defined as the principal balance less principal payments and charge-offs.

NOTE 6 LOANS (CONTINUED):

The following is a summary of the average investment and interest income recognized for impaired loans (dollars in thousands):

	December 31, 2019		December 31, 2018	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:				
Construction/Land Development	$ 1,957	$ 130	$ 3,586	$ 89
Farmland	971	-	1,963	80
Real Estate	5,965	312	1,542	98
Multi-Family	-	-	-	-
Commercial Real Estate	1,605	72	2,304	286
Home Equity – closed end	539	57	-	-
Home Equity – open end	40	-	-	-
Commercial & Industrial – Non-Real Estate	15	2	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	55	5	28	5
	11,147	578	9,423	558
Impaired loans with a valuation allowance				
Construction/Land Development	2,248	68	6,352	91
Farmland	967	16	-	-
Real Estate	3,121	589	554	23
Multi-Family	-	-	-	-
Commercial Real Estate	2,542	36	4,167	-
Home Equity – closed end	-	-	-	-
Home Equity – open end	38	10	-	-
Commercial & Industrial – Non-Real Estate	97	13	-	-
Consumer	4	-	10	1
Credit cards	-	-	-	-
Dealer Finance	166	11	206	14
	9,183	743	11,289	129
Total impaired loans	$ 20,330	$ 1,321	$ 20,712	$ 687

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 LOANS (CONTINUED):

The following table presents the aging of the recorded investment of past due loans:

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loan Receivable	Non-Accrual Loans	Recorded Investment >90 days & accruing
December 31, 2019								
Construction/Land Development	$ 117	$ 45	$ 1,255	$ 1,417	$ 75,714	$ 77,131	$ 1,301	$ -
Farmland	27	-	1,933	1,960	27,758	29,718	1,933	-
Real Estate	2,440	1,035	837	4,312	173,955	178,267	420	619
Multi-Family	-	-	-	-	5,364	5,364	-	-
Commercial Real Estate	563	-	137	700	129,150	129,850	900	-
Home Equity – closed end	-	-	-	-	9,523	9,523	-	-
Home Equity – open end	429	296	15	740	47,034	47,774	-	15
Commercial & Industrial – Non- Real Estate	726	4	-	730	32,805	33,535	203	-
Consumer	89	14	-	103	10,062	10,165	1	-
Dealer Finance	1,943	400	198	2,541	76,435	78,976	249	84
Credit Cards	31	-	4	35	3,087	3,122	-	4
Total	$ 6,365	$ 1,794	$ 4,379	$ 12,538	$ 590,887	$ 603,425	$ 5,007	$ 722

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loan Receivable	Non-Accrual Loans	Recorded Investment >90 days & accruing
December 31, 2018								
Construction/Land Development	$ 290	$ -	$ 1,767	$ 2,057	$ 59,602	$ 61,659	$ 2,327	$ -
Farmland	-	-	-	-	17,030	17,030	-	-
Real Estate	3,074	677	1,729	5,480	186,798	192,278	1,477	726
Multi-Family	-	-	-	-	9,665	9,665	-	-
Commercial Real Estate	479	189	5,073	5,741	141,601	147,342	5,074	-
Home Equity – closed end	-	-	12	12	11,027	11,039	-	12
Home Equity – open end	148	171	320	639	52,558	53,197	269	51
Commercial & Industrial – Non- Real Estate	40	22	80	142	35,879	36,021	98	-
Consumer	89	26	3	118	9,743	9,861	5	2
Dealer Finance	2,763	337	96	3,196	94,327	97,523	155	9
Credit Cards	50	11	9	70	3,114	3,184	-	-
Total	$ 6,933	$ 1,433	$ 9,089	$ 17,455	$ 621,344	$ 638,799	$ 9,405	$ 800

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements (dollars in thousands)
December 31, 2019 and 2018

NOTE 7 ALLOWANCE FOR LOAN LOSSES:

A summary of changes in the allowance for loan losses (in thousands) for the years ended December 31, 2019 and 2018 is as follows:

December 31, 2019	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$ 2,094	$ 2,319	$ 50	$ 1,365	$ 1,190	$ 85	$ 1,105
Farmland	15	-	-	653	668	537	131
Real Estate	292	32	4	1,309	1,573	569	1,004
Multi-Family	10	-	-	10	20	-	20
Commercial Real Estate	416	677	16	2,060	1,815	213	1,602
Home Equity – closed end	13	1	2	28	42	-	42
Home Equity – open end	126	126	1	456	457	151	306
Commercial & Industrial – Non-Real Estate	192	127	81	439	585	192	393
Consumer	70	116	44	188	186	1	185
Dealer Finance	1,974	2,118	1,144	786	1,786	7	1,779
Credit Cards	38	110	29	111	68	-	68
Total	$ 5,240	$ 5,626	$ 1,371	$ 7,405	$ 8,390	$ 1,755	$ 6,635

December 31, 2018	Beginning Balance	Charge-offs	Recoveries	Provision for Loan Losses	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$ 2,547	$ 489	$ 122	$ (86)	$ 2,094	$ 1,627	$ 467
Farmland	25	-	-	(10)	15	-	15
Real Estate	719	99	12	(340)	292	7	285
Multi-Family	19	-	-	(9)	10	-	10
Commercial Real Estate	482	1,546	1	1,479	416	-	416
Home Equity – closed end	66	3	4	(54)	13	-	13
Home Equity – open end	209	-	8	(91)	126	-	126
Commercial & Industrial – Non-Real Estate	337	573	91	337	192	-	192
Consumer	148	51	41	(68)	70	2	68
Dealer Finance	1,440	2,083	861	1,756	1,974	10	1,964
Credit Cards	52	76	46	16	38	-	38
Total	$ 6,044	$ 4,920	$ 1,186	$ 2,930	$ 5,240	$ 1,646	$ 3,594

NOTE 7 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

The following table presents the recorded investment in loans (in thousands) based on impairment method as of December 31, 2019 and 2018:

December 31, 2019	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$ 77,131	$ 3,078	$ 74,053
Farmland	29,718	1,933	27,785
Real Estate	178,267	15,535	162,732
Multi-Family	5,364	-	5,364
Commercial Real Estate	129,850	1,940	127,910
Home Equity – closed end	9,523	716	8,807
Home Equity –open end	47,774	151	47,623
Commercial & Industrial – Non-Real Estate	33,535	209	33,326
Consumer	10,165	4	10,161
Dealer Finance	78,976	215	78,761
Credit Cards	3,122	-	3,122
Total	$ 603,425	$ 23,781	$ 579,644
December 31, 2018	**Loan Receivable**	**Individually Evaluated for Impairment**	**Collectively Evaluated for Impairment**
Construction/Land Development	$ 61,659	$ 6,725	$ 54,934
Farmland	17,030	1,941	15,089
Real Estate	192,278	2,354	189,924
Multi-Family	9,665	-	9,665
Commercial Real Estate	147,342	6,176	141,166
Home Equity – closed end	11,039	-	11,039
Home Equity –open end	53,197	-	53,197
Commercial & Industrial – Non-Real Estate	36,021	-	36,021
Consumer	9,861	8	9,853
Dealer Finance	97,523	226	97,297
Credit Cards	3,184	-	3,184
Total	$ 638,799	$ 17,430	$ 621,369

NOTE 7 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

During the second quarter of 2019, Management reduced the historical net charge off lookback period from five years to two years for all segments given recent asset quality trends and charge off experience. Management believes the two-year lookback period is more indicative of the risk remaining in the loan portfolio.

This change and the effect on provision expense for the twelve months ended December 31, 2019 was as follows:

	Calculated Provision Based on Current Methodology	Calculated Provision Based on Prior Methodology	Difference
Construction and Development	$ 1,365	$ 1,008	$ 357
Farmland	653	653	-
Real Estate	1,309	1,284	25
Multi-Family	10	10	-
Commercial RE	2,060	1,473	587
Home Equity - Closed End	28	30	(2)
Home Equity - Open End	456	475	(19)
C&I - Non - RE	439	323	116
Consumer	188	165	23
Dealer Finance	786	786	-
Credit Cards	111	100	11
	$ 7,405	$ 6,307	$ 1,098

The following table shows the Company's loan portfolio broken down by internal loan grade (in thousands) as of December 31, 2019 and 2018:

December 31, 2019	Grade 1 Minimal Risk	Grade 2 Modest Risk	Grade 3 Average Risk	Grade 4 Acceptable Risk	Grade 5 Marginally Acceptable	Grade 6 Watch	Grade 7 Substandard	Grade 8 Doubtful	Total
Construction/Land Development	$ -	$ 615	$ 21.904	$ 41,693	$ 8,218	$ 2,434	$ 2,267	$ -	$ 77,131
Farmland	60	363	9,479	13,754	2,942	1,188	1,932	-	29,718
Real Estate	-	1,900	48,308	81,371	23,876	5,635	17,177	-	178,267
Multi-Family	-	-	1,327	3,711	153	173	-	-	5,364
Commercial Real Estate	-	2,465	40,227	67,626	14,139	4,397	996	-	129,850
Home Equity – closed end	-	189	2,999	3,816	1,154	1,365	-	-	9,523
Home Equity – open end	17	1,965	17,789	22,705	3,769	1,198	331	-	47,774
Commercial & Industrial (Non-Real Estate)	142	2,042	12,818	15,035	2,877	373	248	-	33,535
Consumer (excluding dealer)	6	170	3,476	4,726	1,729	56	2	-	10,165
Total	$ 225	$ 9,709	$158,327	$ 254,437	$ 58,857	$16,819	$ 22,953	$ -	$ 521,327

	Credit Cards	Dealer Finance
Performing	$ 3,118	$ 78,529
Non performing	4	447
Total	$ 3,122	$ 78,976

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 7 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

December 31, 2018	Grade 1 Minimal Risk	Grade 2 Modest Risk	Grade 3 Average Risk	Grade 4 Acceptable Risk	Grade 5 Marginally Acceptable	Grade 6 Watch	Grade 7 Substandard	Grade 8 Doubtful	Total
Construction/Land Development	$ -	$ 1,148	$ 15,857	$ 29,301	$ 9,353	$ -	$ 6,000	$ -	$ 61,659
Farmland	62	-	4,953	6,376	3,205	493	1,941	-	17,030
Real Estate	-	1,644	55,429	106,387	22,679	1,531	4,608	-	192,278
Multi-Family	-	-	2,895	6,604	166	-	-	-	9,665
Commercial Real Estate	-	2,437	44,065	81,916	11,564	2,286	5,074	-	147,342
Home Equity – closed end	-	31	3,245	5,842	1,909	-	12	-	11,039
Home Equity – open end	60	1,554	19,464	27,347	4,157	223	392	-	53,197
Commercial & Industrial (Non-Real Estate)	193	2,291	17,144	13,254	2,704	337	98	-	36,021
Consumer (excluding dealer)	27	190	2,648	5,192	1,800	-	4	-	9,861
Total	$ 342	$ 9,295	$165,700	$ 282,219	$ 57,537	$ 4,870	$ 18,129	$ -	$538,092

	Credit Cards	Dealer Finance	
Performing	$ 3,175	$ 97,368	
Non performing	9	155	
Total	$ 3,184	$ 97,523	

Description of internal loan grades:

Grade 1 – Minimal Risk: Excellent credit, superior asset quality, excellent debt capacity and coverage, and recognized management capabilities.

Grade 2 – Modest Risk: Borrower consistently generates sufficient cash flow to fund debt service, excellent credit, above average asset quality and liquidity.

Grade 3 – Average Risk: Borrower generates sufficient cash flow to fund debt service. Employment (or business) is stable with good future trends. Credit is very good.

Grade 4 – Acceptable Risk: Borrower's cash flow is adequate to cover debt service; however, unusual expenses or capital expenses must by covered through additional long term debt. Employment (or business) stability is reasonable, but future trends may exhibit slight weakness. Credit history is good. No unpaid judgments or collection items appearing on credit report.

Grade 5 – Marginally acceptable: Credit to borrowers who may exhibit declining earnings, may have leverage that is materially above industry averages, liquidity may be marginally acceptable. Employment or business stability may be weak or deteriorating. May be currently performing as agreed, but would be adversely affected by developing factors such as layoffs, illness, reduced hours or declining business prospects. Credit history shows weaknesses, past dues, paid or disputed collections and judgments, but does not include borrowers that are currently past due on obligations or with unpaid, undisputed judgments.

NOTE 7 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Grade 6 – Watch: Loans are currently protected but are weak due to negative balance sheet or income statement trends. There may be a lack of effective control over collateral or the existence of documentation deficiencies. These loans have potential weaknesses that deserve management's close attention. Other reasons supporting this classification include adverse economic or market conditions, pending litigation or any other material weakness. Existing loans that become 60 or more days past due are placed in this category pending a return to current status.

Grade 7 – Substandard: Loans having well-defined weaknesses where a payment default and or loss is possible, but not yet probable. Cash flow is inadequate to service the debt under the current payment, or terms, with prospects that the condition is permanent. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the borrower and there is the likelihood that collateral will have to be liquidated and/or guarantor(s) called upon to repay the debt. Generally, the loan is considered collectible as to both principal and interest, primarily because of collateral coverage, however, if the deficiencies are not corrected quickly; there is a probability of loss.

Grade 8 – Doubtful: Loans having all the characteristics of a substandard credit, but available information indicates it is unlikely the loan will be repaid in its entirety. Cash flow is insufficient to service the debt. It may be difficult to project the exact amount of loss, but the probability of some loss is great. Loans are to be placed on non-accrual status when any portion is classified doubtful.

Credit card and dealer finance loans are classified as performing or nonperforming. A loan is nonperforming when payments of principal and interest are past due 90 days or more.

NOTE 8 TROUBLED DEBT RESTRUCTURING:

In the determination of the allowance for loan losses, management considers troubled debt restructurings and subsequent defaults in these restructurings by adjusting the loan grades of such loans, which are considered in the qualitative factors within the allowance for loan loss methodology. Defaults resulting in charge-offs affect the historical loss experience ratios which are a component of the allowance calculation. Additionally, specific reserves may be established on troubled debt restructured loans which are evaluated individually for impairment.

During the twelve months ended December 31, 2019, the Bank modified 7 loans that were considered to be troubled debt restructurings. These modifications included rate adjustments, revisions to amortization schedules, suspension of principal payments for a temporary period, re-advancing funds to be applied as payments to bring the loan(s) current, or any combination thereof.

	December 31, 2019		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment
Real Estate	1	$ 190	$ 190
Home Equity	1	716	716
Commercial	1	17	17
Consumer	4	$ 29	$ 29
Total	7	$ 952	$ 952

NOTE 8 TROUBLED DEBT RESTRUCTURING (CONTINUED):

As of December 31, 2019, there were 2 loans restructured in the previous twelve months, in default. A restructured loan is considered in default when it becomes 30 days past due.

	December 31, 2019		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment
Consumer	2	$ 18	$ 18
Total	2	$ 18	$ 18

During the twelve months ended December 31, 2018, the Bank modified 21 loans that were considered to be troubled debt restructurings. These modifications included rate adjustments, revisions to amortization schedules, suspension of principal payments for a temporary period, re-advancing funds to be applied as payments to bring the loan(s) current, or any combination thereof.

	December 31, 2018		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment
Real Estate	1	$ 742	$ 742
Commercial	2	1,248	1,248
Consumer	18	$ 183	$ 183
Total	21	$ 2,173	$ 2,173

As of December 31, 2018, there were 5 loans restructured in the previous twelve months, in default. A restructured loan is considered in default when it becomes 30 days past due.

	December 31, 2018		
		Pre-Modification	Post-Modification
(dollars in thousands)		Outstanding	Outstanding
Troubled Debt Restructurings	Number of Contracts	Recorded Investment	Recorded Investment
Real Estate	2	$ 142	$ 142
Consumer	3	12	12
Total	5	$ 154	$ 154

NOTE 9 BANK PREMISES AND EQUIPMENT:

Bank premises and equipment as of December 31 are summarized as follows:

	2019		2018
Land	$ 4,508		$ 3,887
Buildings and improvements	16,038		14,370
Furniture and equipment	10,425		10,438
	30,971		28,695
Less - accumulated depreciation	(12,040)		(10,929)
Net	$ 18,931		$ 17,766

Depreciation of $1,228 in 2019 and $1,137 in 2018 were charged to operations.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 10 OTHER REAL ESTATE OWNED:

The table below reflects other real estate owned (OREO) activity for 2019 and 2018:

Other Real Estate Owned		
	2019	**2018**
Balance as of January 1	$ 2,443	$ 1,984
Loans transferred to OREO	133	600
Capital improvements	-	-
Sale of OREO	(635)	(132)
Write down of OREO or losses on sale	(452)	(9)
Balance as of December 31	$ 1,489	$ 2,443

Activity in the valuation allowance was as follows:

	2019	2018
Balance as of January 1	$ 861	$ 885
Provision (recoveries) charged/(credited) to expense	354	(10)
Reductions from sales of real estate owned	(36)	(34)
Balance as of December 31	$ 1,181	$ 861

(Income) expenses related to foreclosed assets include:

	2019	2018
Net loss (gain) on sales	$ 122	$ 9
Gain on foreclosure	(24)	(94)
Provision/(recoveries) for unrealized losses	354	(10)
Operating expenses, net of rental income	65	64
(Income) expenses related to foreclosed assets	$ 517	$ (31)

At December 31, 2019, the balance of real estate owned includes $133 of foreclosed residential real estate properties recorded as a result of obtaining physical possession of the property. At December 31, 2019, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process is $643.

NOTE 11 DEPOSITS:

Time deposits that meet or exceed the FDIC insurance limit of $250 at year end 2019 and 2018 were $9,386 and $13,464. At December 31, 2019, the scheduled maturities of all time deposits are as follows:

2020	$ 62,076
2021	42,578
2022	13,938
2023	10,478
2024	10,092
Thereafter	-
Total	$ 139,162

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 12 SHORT-TERM DEBT:

Short-term debt, all maturing within 12 months, as of December 31, 2019 and 2018 is summarized as follows:

	Maximum Outstanding at any Month End	Outstanding At Year End	Average Balance Outstanding	Yield
2019				
Federal funds purchased	$ 10,715	$ -	$ 861	2.67%
FHLB short term	45,000	10,000	26,822	2.48%
Totals		$ 10,000	$ 27,683	2.49%
2018				
Federal funds purchased	$ 11,906	$ 10,116	$ 1,399	2.51%
FHLB short term	46,000	30,000	22,937	1.83%
Totals		$ 40,116	$ 24,336	1.87%

The Company utilizes short-term debt such as Federal funds purchased and Federal Home Loan Bank of Atlanta (FHLB) short term borrowings to support the loans held for sale participation program and provide liquidity. Federal funds purchased are unsecured overnight borrowings from other financial institutions. FHLB short term debt, which is secured by the loan portfolio, can be a daily rate variable loan that acts as a line of credit or a fixed rate advance, depending on the needs of the Company.

As of December 31, 2019, the Company had unsecured lines of credit with correspondent banks totaling $41,000 which may be used in the management of short-term liquidity, on which none was outstanding.

NOTE 13 LONG-TERM DEBT:

The Company utilizes the FHLB advance program to fund loan growth and provide liquidity. The interest rates on long-term debt are fixed at the time of the advance and range from .81% to 2.56%; the weighted average interest rate was 1.85% and 1.96% at December 31, 2019 and December 31, 2018, respectively. The balance of these obligations at December 31, 2019 and 2018 were $53,197 and $40,125 respectively. FHLB advances include a $6,000 letter of credit at FHLB that is pledged to the Commonwealth of Virginia to secure public funds.

The maturities of long-term Federal Home Loan Bank long term debt as of December 31, 2019, were as follows:

2020	$ 14,429
2021	5,929
2022	12,714
2023	7,000
2024	1,875
Thereafter	11,250
Total	$ 53,197

VSTitle, LLC has a note payable for vehicle purchases with a balance of $4 and $8 at December 31, 2019 and 2018, respectively.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 14 INCOME TAX EXPENSE:

The components of income tax expense were as follows:

	2019	2018
Current expense	$ 929	$ 985
Deferred expense (benefit)	(1,179)	55
Total deferred (benefit) expense	(1,179)	55
Total Income Tax Expense (Benefit)	$ (250)	$ 1,041

The components of deferred taxes as of December 31, were as follows:

	2019	2018
Deferred Tax Assets:		
Allowance for loan losses	$ 1,757	$ 1,096
Split Dollar Life Insurance	3	3
Nonqualified deferred compensation	692	564
Low income housing partnerships losses	320	279
Core deposit amortization	19	13
Other real estate owned	178	173
Lease Liability	192	-
Net unrealized loss on securities available for sale	2	25
Unfunded pension benefit obligation	852	1,030
Total Assets	$ 4,015	$ 3,183

	2019	2018
Deferred Tax Liabilities:		
Unearned low income housing credits	$ 118	$ 158
Depreciation	487	403
Prepaid pension	464	849
Goodwill tax amortization	568	564
Right of Use Asset	192	-
Total Liabilities	1,829	1,974
Net Deferred Tax Asset (included in Other Assets on Balance Sheet)	$ 2,186	$ 1,209

The following table summarizes the differences between the actual income tax expense and the amounts computed using the federal statutory tax rates:

	2019	2018
Tax expense at federal statutory rates	$ 904	$ 2,104
Increases (decreases) in taxes resulting from:		
Partially tax-exempt income	(44)	(49)
Tax-exempt income	(161)	(146)
LIH and historic credits	(966)	(900)
Other	17	32
Total Income Tax Expense (Benefit)	$ (250)	$ 1,041

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with accounting guidance related to income taxes.

The Company and its subsidiaries file federal income tax returns and state income tax returns. With few exceptions, the Company is no longer subject to federal or state income tax examinations by tax authorities for years before 2016.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 15 EMPLOYEE BENEFITS:

Defined Benefit Pension Plan

The Company has a qualified noncontributory defined benefit pension plan which covers substantially all of its employees hired before April 1, 2012. The benefits are primarily based on years of service and earnings. The Company uses December 31st as the measurement date for the defined benefit pension plan.

The following table provides a reconciliation of the changes in the benefit obligations and fair value of plan assets for 2019 and 2018:

	2019	2018
Change in Benefit Obligation		
Benefit obligation, beginning	$ 14,219	$ 15,103
Service cost	738	768
Interest cost	548	497
Actuarial (gain) loss	2,056	(1,562)
Benefits paid	(3,910)	(587)
Settlement (gain) loss	(336)	-
Benefit obligation, ending	$ 13,315	$ 14,219
Change in Plan Assets		
Fair value of plan assets, beginning	$ 12,445	$ 13,645
Actual return on plan assets	2,008	(613)
Employer contribution	-	-
Benefits paid	(3,910)	(587)
Fair value of plan assets, ending	$ 10,543	$ 12,445
Funded status at the end of the year	$ (2,772)	$ (1,774)

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 21, "Fair Value Measurements" to the Consolidated Financial Statements. The valuations are based on third party data received as of the balance sheet date. All plan assets are considered Level 1 assets, as quoted prices exist in active markets for identical assets.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 15 EMPLOYEE BENEFITS (CONTINUED):

Defined Benefit Pension Plan, continued

	2019	2018
Amount recognized in the Consolidated Balance Sheet		
Prepaid benefit cost	$ 1,286	$ 3,131
Unfunded pension benefit obligation under ASC 325-960	(4,056)	(4,905)
Deferred taxes	852	1,030
Amount recognized in accumulated other comprehensive income (loss)		
Net loss	$ (4,067)	$ (4,932)
Prior service cost	11	27
Amount recognized	(4,056)	(4,905)
Deferred taxes	852	1,030
Amount recognized in accumulated comprehensive (loss)	$ (3,204)	$ (3,875)
Prepaid benefit detail		
Benefit obligation	$ (13,313)	$ (14,219)
Fair value of assets	10,543	12,445
Unrecognized net actuarial loss	4,067	4,932
Unrecognized prior service cost	(11)	(27)
Prepaid benefits	$ 1,286	$ 3,131
Components of net periodic benefit cost		
Service cost	$ 738	$ 768
Interest cost	548	496
Expected return on plan assets	(807)	(923)
Amortization of prior service cost	(15)	(15)
Recognized net loss due to settlement	1,100	-
Recognized net actuarial loss	281	303
Net periodic benefit cost	$ 1,845	$ 629
Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss)		
Net loss	$ (864)	$ (328)
Amortization of prior service cost	15	15
Total recognized in other comprehensive (loss)	$ (849)	$ (313)
Total recognized in net periodic benefit cost and other comprehensive income (loss)	$ 996	$ 316
Additional disclosure information		
Accumulated benefit obligation	$ 9,720	$ 10,992
Vested benefit obligation	$ 9,713	$ 10,983
Discount rate used for net pension cost	4.25%	3.50%
Discount rate used for disclosure	3.25%	4.25%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%
Average remaining service (years)	12.35	12

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 15 EMPLOYEE BENEFITS (CONTINUED):

Funding Policy

Due to the current funding status of the plan, the Company did not make a contribution in 2019 or 2018. The net periodic pension cost of the plan for 2020 will be approximately $703. In 2019, due to recent retirements, the Company was subject to a settlement charge totaling $1,100. The Company is not expected to be subject to settlement accounting in 2020.

Long-Term Rate of Return

The Company, as plan sponsor, selects the expected long-term rate of return on assets assumption in consultation with investment advisors and the plan actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation) for the major asset classes held or anticipated to be held by the trust. Undue weight is not given to recent experience, which may not continue over the measurement period, with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, and solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which the assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Asset Allocation

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 39% fixed income and 61% equity. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan’s investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure. The pension plan’s allocations as of December 31, 2019 and 2018 were 60% equity and 40% fixed and 58% equity and 42% fixed, respectively.

Estimated Future Benefit Payments, which reflect expected future service, as appropriate, as of December 31, 2019, are as follows:

2020	$ 855
2021	101
2022	1,759
2023	906
2024	134
2025-2029	5,967
	$ 9,722

NOTE 15 EMPLOYEE BENEFITS (CONTINUED):

Employee Stock Ownership Plan (ESOP)

The Company sponsors an ESOP which provides stock ownership to substantially all employees of the Company. The Plan provides total vesting upon the attainment of five years of service. Contributions to the plan are made at the discretion of the Board of Directors and are allocated based on the compensation of each employee relative to total compensation paid by the Company. All shares issued and held by the Plan are considered outstanding in the computation of earnings per share. Dividends on Company stock are allocated and paid to participants at least annually. Shares of Company stock, when distributed, have restrictions on transferability. The Company contributed $406 in 2019 and $443 in 2018 to the Plan and charged this expense to operations. The shares held by the ESOP totaled 193,549 and 203,147 at December 31, 2019 and 2018, respectively.

401(K) Plan

The Company sponsors a 401(k) savings plan under which eligible employees may choose to save up to 20 percent of their salary on a pretax basis, subject to certain IRS limits. Under the Federal Safe Harbor rules employees are automatically enrolled at 3% (this increases by 1% per year up to 6%) of their salary unless elected otherwise. The Company matches one hundred percent of the first 1% contributed by the employee and fifty percent from 2% to 6% of employee contributions. Vesting in the contributions made by the Company is 100% after two years of service. Contributions under the plan amounted to $289 and $283 in 2019 and 2018, respectively.

Deferred Compensation Plan

The Company has a nonqualified deferred compensation plan for several of its key employees and directors. The Company may make annual contributions to the plan, and the employee or director has the option to defer a portion of their salary or bonus based on qualifying annual elections. Contributions to the plan totaled $125 in 2019 and $125 in 2018. A liability is accrued for the obligation under the plan and totaled $3,713 and $3,170 at December 31, 2019 and 2018, respectively.

Investments in Life Insurance Contracts

The Bank currently offers a variety of benefit plans to all full-time employees. While the costs of these plans are generally tax deductible to the Bank, the cost has been escalating greatly in recent years. To help offset escalating benefit costs and to attract and retain qualified employees, the Bank purchased Bank Owned Life Insurance (BOLI) contracts that will provide benefits to employees during their lifetime. Dividends received on these policies are tax-deferred and the death benefits under the policies are tax exempt. Rates of return on a tax-equivalent basis are very favorable when compared to other long-term investments which the Bank might make. The accrued liability related to the BOLI contracts was $477 and $466 for December 31, 2019 and 2018, respectively.

NOTE 16 CONCENTRATIONS OF CREDIT:

The Company had cash deposits in other commercial banks in excess of FDIC insurance limits totaling $975 and $2,195 at December 31, 2019 and 2018, respectively.

The Company grants commercial, residential real estate and consumer loans to customers located primarily in the northwestern portion of the State of Virginia. There were no loan concentration areas greater than 25% of capital. Collateral required by the Company is determined on an individual basis depending on the purpose of the loan and the financial condition of the borrower. As of December 31, 2019, approximately 79% of the loan portfolio was secured by real estate.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 17 COMMITMENTS:

The Company makes commitments to extend credit in the normal course of business and issues standby letters of credit to meet the financing needs of its customers. The amount of the commitments represents the Company's exposure to credit loss that is not included in the consolidated balance sheet. As of the December 31, 2019 and 2018, the Company had the following commitments outstanding:

	2019	2018
Commitments to extend credit	$ 174,925	$ 169,863
Standby letters of credit	2,369	2,119

The Company uses the same credit policies in making commitments to extend credit and issue standby letters of credit as it does for the loans reflected in the consolidated balance sheet.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. Collateral required, if any, upon extension of credit is based on management's credit evaluation of the borrower’s ability to pay. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment.

NOTE 18 ON BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

Mortgage Banking Derivatives

Commitments to fund certain mortgage loans originated by F&M Mortgage (rate lock commitments) to be sold into the secondary market and best efforts commitments for the future delivery of mortgage loans to third party investors are considered derivatives. It is the practice of F&M Mortgage to enter into best efforts commitments for the future delivery of residential mortgage loans when interest rate lock commitments are entered into in order to economically hedge the effect of changes in interest rates resulting from its commitments to fund the loans. These mortgage banking derivatives are not designated hedge relationships. The fair value of the mortgage banking derivatives were estimated based on changes in interest rates from the date of the commitments and were considered immaterial at December 31, 2019 and 2018, and were not recorded on the Company’s consolidated balance sheet.

Derivative Financial Instruments

The Company has stand alone derivative financial instruments in the form of forward option contracts. These transactions involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Company’s consolidated balance sheet as derivative assets and derivative liabilities.

The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations. The Company deals only with primary dealers.

Derivative instruments are generally either negotiated Over-the-Counter (OTC) contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 18 ON BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED):

The Company issues to customer's certificates of deposit with an interest rate that is derived from the rate of return on the stock of the companies that comprise The Dow Jones Industrial Average. In order to manage the interest rate risk associated with this deposit product, the Company has purchased a series of forward option contracts. These contracts provide the Company with a rate of return commensurate with the return of The Dow Jones Industrial Average from the time of the contract until maturity of the related certificates of deposit. These contracts are accounted for as fair value hedges. Because the certificates of deposit can be redeemed by the customer at any time and the related forward options contracts cannot be cancelled by the Company, the hedge is not considered effective. The ineffective portion of the gain or loss on the derivative instrument, if any, is recognized currently in earnings. There was no ineffective portion included in the consolidated income statement for the years ended December 31, 2019 and 2018.

At December 31, the information pertaining to the forward option contracts, included in other assets and other liabilities on the balance sheet, is as follows:

	2019	2018
Notional amount	$ 184	$ 184
Fair value of contracts, included in other assets	72	44

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 19 TRANSACTIONS WITH RELATED PARTIES:

During the year, executive officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. Management believes these transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk.

Loan transactions with related parties are shown in the following schedule:

	2019	2018
Total loans, beginning of year	$ 20,565	$ 20,377
New loans	5,532	5,785
Relationship change	(443)	169
Repayments	(3,932)	(5,766)
Total loans, end of year	$ 21,722	$ 20,565

Deposits of executive officers and directors and their affiliates were $5,524 and $4,110 on December 31, 2019 and 2018 respectively. Management believes these deposits were made under the same terms available to other customers of the bank.

NOTE 20 DIVIDEND LIMITATIONS ON SUBSIDIARY BANK:

The principal source of funds of F & M Bank Corp. is dividends paid by the Farmers & Merchants Bank. The Federal Reserve Act restricts the amount of dividends the Bank may pay. Approval by the Board of Governors of the Federal Reserve System is required if the dividends declared by a state member bank, in any year, exceed the sum of (1) net income of the current year and (2) income net of dividends for the preceding two years. As of January 1, 2020, approximately $2,000 was available for dividend distribution without permission of the Board of Governors. Dividends paid by the Bank to the Company totaled $6,000 in 2019 and $8,874 in 2018.

NOTE 21 FAIR VALUE MEASUREMENTS:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.
Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.
Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements:

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED):

Securities

Where quoted prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities, such as U. S. Treasuries. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. The carrying value of restricted Federal Reserve Bank and Federal Home Loan Bank stock approximates fair value based upon the redemption provisions of each entity and is therefore excluded from the following table.

Derivatives

The Company's derivatives are recorded at fair value based on third party vendor supplied information using discounted cash flow analysis from observable-market based inputs, which are considered Level 2 inputs.

The following tables present the balances of financial assets measured at fair value on a recurring basis as of December 31, 2019, and 2018 (dollars in thousands):

December 31, 2019	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government sponsored enterprises	$ 1,989	$ -	$ 1,989	$ -
Mortgage-backed obligations of federal agencies	319	-	319	-
Other debt securities	2,058	-	2,058	-
Total securities available for sale	$ 4,366	$ -	$ 4,366	$ -
Derivatives	$ 72	$ -	$ 72	$ -
December 31, 2018	**Total**	**Level 1**	**Level 2**	**Level 3**
U.S. Government sponsored enterprises	$ 7,886	$ -	$ 7,886	$ -
Mortgage-backed obligations of federal agencies	403	-	403	-
Total securities available for sale	$ 8,289	$ -	$ 8,289	$ -
Derivatives	$ 44	$ -	$ 44	$ -

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans Held for Sale

Loans held for sale are short-term loans purchased at par for resale to investors at the par value of the loan and loans originated by F&M Mortgage for sale in the secondary market. Loan participations are generally repurchased within 15 days. Loans originated for sale by F&M Mortgage are recorded at lower of cost or market. No market adjustments were required at December 31, 2019 or 2018; therefore, loans held for sale were carried at cost. Because of the short-term nature and fixed repurchase price, the book value of these loans approximates fair value at December 31, 2019 and 2018.

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED):

Impaired Loans

Loans are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. Troubled debt restructurings are impaired loans. Impaired loans are measured at fair value on a nonrecurring basis. If an individually-evaluated impaired loan's balance exceeds fair value, the amount is allocated to the allowance for loan losses. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The fair value of an impaired loan and measurement of associated loss is based on one of three methods: the observable market price of the loan, the present value of projected cash flows, or the fair value of the collateral. The observable market price of a loan is categorized as a Level 1 input. The present value of projected cash flows method results in a Level 3 categorization because the calculation relies on the Company's judgment to determine projected cash flows, which are then discounted at the current rate of the loan, or the rate prior to modification if the loan is a troubled debt restructure.

Loans measured using the fair value of collateral method are categorized in Level 3. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Most collateral is real estate. The Company bases collateral method fair valuation upon the "as-is" value of independent appraisals or evaluations. The value of real estate collateral is determined by an independent appraisal utilizing an income or market valuation approach. The Company discounts appraised value by estimated selling costs to arrive at net fair value. Appraisals conducted by an independent, licensed appraiser outside of the Company using observable market data is categorized as Level 3. The value of business equipment is based upon an outside appraisal (Level 3) if deemed significant, or the net book value on the applicable business' financial statements (Level 3) if not considered significant. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3).

As of December 31, 2019 and 2018, the fair value measurements for impaired loans with specific allocations were primarily based upon the fair value of the collateral.

The following table summarizes the Company's financial assets that were measured at fair value on a nonrecurring basis during the period (dollars in thousands):

December 31, 2019	Total	Level 1	Level 2	Level 3
Construction/Land Development	$ 951	-	-	$ 951
Farmland	1,396	-	-	1,396
Real Estate	9,835	-	-	9,835
Commercial Real Estate	425	-	-	425
Consumer	3	-	-	3
Dealer Finance	129	-	-	129
Impaired loans	$ 12,739	-	-	$ 12,739

December 31, 2018	Total	Level 1	Level 2	Level 3
Construction/Land Development	$ 2,684	-	-	$ 2,684
Real Estate	415	-	-	415
Consumer	6			6
Dealer Finance	184	-	-	184
Impaired loans	$ 3,289	-	-	$ 3289

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED):

The following table presents information about Level 3 Fair Value Measurements for December 31, 2019 and 2018:

	Fair Value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 12,739	Discounted appraised value	Discount for selling costs and marketability	0%-58.98% (Average 24.04%)

	Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 3,289	Discounted appraised value	Discount for selling costs and marketability	2%-9% (Average 4.21%)

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell. Valuation of other real estate owned is determined using current appraisals from independent parties, a level three input. If current appraisals cannot be obtained prior to reporting dates, or if declines in value are identified after a recent appraisal is received, appraisal values are discounted, resulting in Level 3 estimates. If the Company markets the property with a realtor, estimated selling costs reduce the fair value, resulting in a valuation based on Level 3 inputs.

The Company markets other real estate owned both independently and with local realtors. Properties marketed by realtors are discounted by selling costs. Properties that the Company markets independently are not discounted by selling costs.

The following table summarizes the Company's other real estate owned that were measured at fair value on a nonrecurring basis during the period.

December 31, 2019	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 1,489	-	-	$ 1,489

December 31, 2018	Total	Level 1	Level 2	Level 3
Other real estate owned	$ 2,443	-	-	$ 2,443

The following table presents information about Level 3 Fair Value Measurements for December 31, 2019 and 2018:

	Fair Value at December 31, 2019	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 1,489	Discounted appraised value	Discount for selling costs	5%-10% (Average 8%)

	Fair Value at December 31, 2018	Valuation Technique	Significant Unobservable Inputs	Range
Other real estate owned	$ 2,443	Discounted appraised value	Discount for selling costs	5%-15% (Average 8%)

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED)

The following presents the carrying amount, fair value and placement in the fair value hierarchy of the Company's financial instruments as of December 31, 2019 and 2018. For short-term financial assets such as cash and cash equivalents and short-term liabilities, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization. For financial liabilities such as noninterest bearing demand, interest bearing demand and savings deposits, the carrying amount is a reasonable estimate of fair value due to these products having no stated maturity. Fair values for December 31, 2019 and 2018 are estimated under the exit price notion in accordance with ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities.*"

The estimated fair values, and related carrying amounts (in thousands), of the Company's financial instruments are as follows:

		Fair Value Measurements at December 31, 2019 Using			
(dollars in thousands)	**Carrying Amount**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**Fair Value at December 31, 2019**
Assets:					
Cash and cash equivalents	$ 75,804	$75,804	$ -	$ -	$ 75,804
Securities	4,490	-	4,490	-	4,490
Loans held for sale	66,798	-	66,798	-	66,798
Loans held for investment, net	595,035	-	-	580,903	580,903
Interest receivable	2,044	-	2,044	-	2,044
Bank owned life insurance	20,050	-	20,050	-	20,050
Total	$ 764,221	$ 75,804	$ 93,382	$ 580,903	$ 750,089
Liabilities:					
Deposits	$ 641,709	$ -	$ 504,522	$ 139,713	$ 644,235
Short-term debt	10,000	-	10,000	-	10,000
Long-term debt	53,201	-	-	53,543	53,543
Interest payable	354	-	354	-	354
Total	$ 705,264	$ -	$ 514,876	$ 193,256	$ 708,132

NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED)

		Fair Value Measurements at December 31, 2018 Using			
(dollars in thousands)	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value at December 31, 2018
Assets:					
Cash and cash equivalents	$ 10,912	$ 10,912	$ -	$ -	$ 10,912
Securities	8,412	-	8,412	-	8,412
Loans held for sale	55,910	-	55,910	-	55,910
Loans held for investment, net	633,559	-	-	613,717	613,717
Interest receivable	2,078	-	2,078	-	2,078
Bank owned life insurance	19,464	-	19,464	-	19,464
Total	$ 730,335	$ 10,912	$ 85,864	$ 613,717	$ 710,493
Liabilities:					
Deposits	$591,325	$ -	$ 441,319	$ 153,848	$ 595,167
Short-term debt	40,116	-	40,116	-	40,116
Long-term debt	40,218	-	-	39,609	39,609
Interest payable	348	-	348	-	348
Total	$ 672,007	$ -	$ 481,783	$ 193,457	$ 675,240

NOTE 22 REGULATORY MATTERS

The Company meets the eligibility criteria of a small bank holding company in accordance with the Federal Reserve's Small Bank Holding Company Policy Statement issued in February 2015 and is not obligated to report consolidated regulatory capital. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The final rules implementing the Basel Committee on Banking Supervision's capital guidelines for U.S. Banks (Basel III rules) became effective January 1, 2015, with full compliance of all the requirements being phased in over a multi-year schedule and fully phased in on January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was fully phased in at 2.50% January 1, 2019. The capital conservation buffer for 2019 was 6.55% and for 2018 was 6.44%. The net unrealized gain on securities available for sale and the unfunded pension liability are not included in computing regulatory capital.

Quantitative measures established by regulation, to ensure capital adequacy, require the Bank to maintain minimum amounts and ratios. These ratios are defined in the regulations and the amounts are set forth in the table below. Management believes, as of December 31, 2019 and 2018, that the Bank meets all capital adequacy requirements to which they are subject.

Community Bank Leverage Ratio

On September 17, 2019, the Federal Deposit Insurance Corporation finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio (CBLR) framework), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 9 percent, less than $10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital.

The CBLR framework will be available for banks to use in their March 31, 2020, Call Report. The Company is currently evaluating whether to opt into the CBLR framework.

As of the most recent notification from the Federal Reserve Bank, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

NOTE 22 REGULATORY MATTERS, CONTINUED

The actual capital ratios for the Bank are presented in the following table (dollars in thousands):

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2019	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based ratio	$ 96,619	14.55%	$ 53,116	8.00%	$ 66,394	10.00%
Tier 1 risk-based ratio	88,319	13.30%	39,837	6.00%	53,116	8.00%
Common equity tier 1	88,319	13.30%	29,877	4.50%	43,156	6.50%
Tier 1 leverage ratio	88,319	10.89%	32,452	4.00%	40,565	5.00%

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2018	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total risk-based ratio	$ 95,335	14.41%	$ 52,915	8.00%	$ 66,143	10.00%
Tier 1 risk-based ratio	90,095	13.62%	39,686	6.00%	52,915	8.00%
Common equity tier 1	90,095	13.62%	29,764	4.50%	42,993	6.50%
Tier 1 leverage ratio	90,095	11.76%	30,639	4.00%	38,299	5.00%

NOTE 23 BUSINESS SEGMENTS:

	December 31, 2019						
	F&M Bank	**F&M Mortgage**	**TEB Life/FMFS**	**VSTitle**	**Parent Only**	**Eliminations**	**F&M Bank Corp. Consolidated**
Revenues:							
Interest Income	$ 38,110	$ 183	$ 164	$ -	$ -	$ (247)	$38,210
Service charges on deposits	1,691	-	-	-	-	-	1,691
Investment services and insurance income	2	-	694	-	-	(19)	677
Mortgage banking income, net	-	3,031	-	-	-	-	3,031
Title insurance income	-	-	-	1,503	-	-	1,503
Other operating income	3,011	7	-	-	-	-	3,018
Total income	42,814	3,221	858	1,503	-	(266)	48,130
Expenses:							
Interest Expense	6,851	214	-	-	-	(247)	6,818
Provision for loan losses	7,405	-	-	-	-	-	7,405
Salaries and benefits	13,943	1,897	285	1,026	-	-	17,151
Other operating expenses	11,274	726	67	266	53	(19)	12,367
Total expense	39,473	2,837	352	1,292	53	(266)	43,741
Income before income taxes	3,341	384	506	211	(53)	-	4,389
Income tax expense (benefit)	(356)	-	65	-	41	-	(250)
Net income	$ 3,697	$ 384	$ 441	$ 211	$ (94)	$ -	$ 4,639
Net income attributable to noncontrolling interest	-	(130)	-	51	(51)	-	(130)
Net Income attributable to F & M Bank Corp.	$ 3,697	$ 254	$ 441	$ 160	$ (43)	$ -	$ 4,509
Total Assets	$ 818,273	$ 7,980	$ 7,591	$ 1,504	$ 91,093	$ (112,444)	$ 813,999
Goodwill	$ 2,670	$ 47	$ -	$ 3	$ 164	$ -	$ 2,884

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 23 BUSINESS SEGMENTS (CONTINUED):

	December 31, 2018						
	F&M Bank	**F&M Mortgage**	**TEB Life/FMFS**	**VSTitle**	**Parent Only**	**Eliminations**	**F&M Bank Corp. Consolidated**
Revenues:							
Interest Income	$ 36,219	$ 139	$ 144	$ -	$ -	$ (125)	$ 36,377
Service charges on deposits	1,496	-	-	-	-	-	1,496
Investment services and insurance income	-	-	918	-	-	(19)	899
Mortgage banking income, net	-	2,348	-	-	-	(36)	2,312
Title insurance income	-	-	-	1,294	-	-	1,294
Other operating income	2,002	-	-	-	-	-	2,002
Total income	39,717	2,487	1,062	1,294	-	(180)	44,380
Expenses:							
Interest Expense	4,839	118	-	-	-	(125)	4,832
Provision for loan losses	2,930	-	-	-	-	-	2,930
Salaries and benefits	13,153	2,004	579	700	-	-	16,436
Other operating expenses	9,448	332	56	442	49	(19)	10,308
Total expense	30,370	2,454	635	1,142	49	(144)	34,506
Income before income taxes	9,347	33	427	152	(49)	(36)	9,874
Income tax expense (benefit)	952	-	57	-	32	-	1,041
Net income	$ 8,395	$ 33	$ 370	$ 152	$ (81)	$ (36)	$ 8,833
Net income attributable to noncontrolling interest	-	(10)	-	36	-	(36)	(10)
Net Income attributable to F & M Bank Corp.	$ 8,395	$ 23	$ 370	$ 116	$ (81)	$ -	$ 8,823
Total Assets	$ 782,273	$ 7,449	$ 7,237	$ 458	$ 91,072	$ (108,746)	$ 779,743
Goodwill	$ 2,670	$ 48	$ -	$ 2	$ 164	$ -	$ 2,884

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 24 PARENT COMPANY ONLY FINANCIAL STATEMENTS:

Balance Sheets
December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	$ 540	$ 749
Investment in subsidiaries	88,864	89,468
Other investments	135	135
Income tax receivable (including due from subsidiary)	1,904	946
Goodwill and intangibles	274	327
Total Assets	$ 91,717	$ 91,625
Liabilities		
Deferred income taxes	108	151
Accrued expenses	34	73
Total Liabilities	$ 142	$ 224
Stockholders' Equity		
Preferred stock par value $25 per share, 400,000 shares authorized, 206,660 and 249,860 issued and outstanding at December 31, 2019 and 2018, respectively.	$ 4,592	$ 5,672
Common stock par value $5 per share, 6,000,000 shares authorized, 3,208.498 and 3,213,132 shares issued and outstanding for 2019 and 2018, respectively	16,042	16,066
Additional paid in capital	7,510	7,987
Retained earnings	66,008	65,086
Accumulated other comprehensive loss	(3,211)	(3,969)
Noncontrolling interest in consolidated subsidiaires	634	559
Total Stockholders' Equity	91,575	91,401
Total Liabilities and Stockholders' Equity	$ 91,717	$ 91,625

Statements of Income
For the years ended December 31, 2019 and 2018

	2019	2018
Income		
Dividends from affiliate	$ 6,000	$ 8,874
Total Income	6,000	8,874
Expenses		
Total Expenses	53	49
Net income before income tax expense		
and undistributed subsidiary net income	5,947	8,825
Income Tax Expense	41	32
Income before undistributed subsidiary net income	5,906	8,793
Undistributed subsidiary net income	(1,397)	30
Net Income F&M Bank Corp.	$ 4,509	$ 8,823

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 24 PARENT COMPANY ONLY FINANCIAL STATEMENTS (CONTINUED):

Statements of Cash Flows
For the years ended December 31, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities		
Net income	$ 4,509	$ 8,823
Adjustments to reconcile net income to net		
cash provided by operating activities:		
Undistributed subsidiary income	1,397	(30)
Deferred tax (benefit) expense	(5)	235
Increase in other assets	(905)	(576)
Decrease in other liabilities	(38)	(13)
Net Cash Provided by Operating Activities	4,958	8,439
Cash Flows from Investing Activities		
Net Cash Used in Investing Activities	-	-
Cash Flows from Financing Activities		
Repurchase of preferred stock	(42)	(2,788)
Repurchase of common stock	(1,798)	(1,782)
Proceeds from issuance of common stock	259	266
Dividends paid in cash	(3,587)	(4,303)
Net Cash Used in Financing Activities	(5,167)	(8,607)
Net (decrease) increase in Cash and Cash Equivalents	(209)	(168)
Cash and Cash Equivalents, Beginning of Year	749	917
Cash and Cash Equivalents, End of Year	$ 540	$ 749

NOTE 25 INVESTMENT IN F&M MORTGAGE, LLC

On November 3, 2008, the Bank acquired a 70% ownership interest in VBS Mortgage, LLC (DBA F&M Mortgage). F&M Mortgage originates both conventional and government sponsored mortgages for sale in the secondary market. Accordingly, the Company consolidated the assets, liabilities, revenues and expenses of F&M Mortgage and reflected the issued and outstanding interest not held by the Company in its consolidated financial statements as noncontrolling interest.

NOTE 26 INVESTMENT IN VSTITLE, LLC

On January 1, 2017, the Company acquired a 76% ownership interest in VSTitle, LLC (VST). VST provides title insurance services to the customers in our market area, including F&M Mortgage and the Bank. F&M Mortgage is the minority owner in VST and accordingly, the Company consolidated the assets, liabilities, revenues and expenses of VST as of December 31, 2019 and 2018, however there is no noncontrolling interest reflected as the 24% is included in VBS Mortgage's operating results. On January 1, 2018 VST purchased a small title company in Harrisonburg.

NOTE 27 ACCUMULATED OTHER COMPREHENSIVE LOSS

The balances in accumulated other comprehensive loss are shown in the following table:

dollars in thousands	Unrealized Securities Gains (Losses)	Adjustments Related to Pension Plan	Accumulated Other Comprehensive Loss
Balance at December, 31, 2017	$ (20)	$ (4,122)	$ (4,142)
Change in unrealized securities gains (losses), net of tax	(74)	-	(74)
Change in unfunded pension liability, net of tax	-	247	247
Balance at December, 31, 2018	$ (94)	$ (3,875)	$ (3,969)
Change in unrealized securities gains (losses), net of tax	87		87
Change in unfunded pension liability, net of tax	-	671	671
Balance at December, 31, 2019	$ (7)	$ (3,204)	$ (3,211)

There were no reclassifications adjustments reported on the consolidated statements of income during 2019 or 2018.

NOTE 28 REVENUE RECOGNITION

On January 1, 2018, the Company adopted ASU No. 2014-09 *"Revenue from Contracts with Customers" (Topic 606)* and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

NOTE 28 REVENUE RECOGNITION (CONTINUED)

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), overdraft fees, monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Investment Services and Insurance Income

Investment services and insurance income primarily consists of commissions received on mutual funds and other investment sales. Commissions from the sale of mutual funds and other investments are recognized on trade date, which is when the Company has satisfied its performance obligation.

Title Insurance Income

VSTitle provides title insurance and real estate settlement services. Revenue is recognized at the time the real estate transaction is completed.

ATM and Check Card Fees

ATM and Check Card Fees are primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees.

Other

Other noninterest income consists of other recurring revenue streams such as safe deposit box rental fees, and other service charges. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. Other service charges include revenue from processing wire transfers, online payment fees, cashier's checks, mobile banking fees and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 28 REVENUE RECOGNITION (CONTINUED)

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for December 31, 2019 and 2018.

	Twelve Months Ended December 31,	
	2019	2018
Noninterest Income		
In-scope of Topic 606:		
Service Charges on Deposits	$ 1,691	$ 1,496
Investment Services and Insurance Income	678	901
Title Insurance Income	1,503	1,293
ATM and check card fees	1,760	1,537
Other	1,195	525
Noninterest Income (in-scope of Topic 606)	6,826	5,752
Noninterest Income (out-of-scope of Topic 606)	3,094	2,251
Total Noninterest Income	$ 9,920	$ 8,003

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Company's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2019 and 2018, the Company did not have any significant contract balances.

Contract Acquisition Costs

In connection with the adoption of Topic 606, an entity is required to capitalize, and subsequently amortize into expense, certain incremental costs of obtaining a contract with a customer if these costs are expected to be recovered. The incremental costs of obtaining a contract are those costs that an entity incurs to obtain a contract with a customer that it would not have incurred if the contract had not been obtained (for example, sales commission). The Company utilizes the practical expedient which allows entities to immediately expense contract acquisition costs when the asset that would have resulted from capitalizing these costs would have been amortized in one year or less. Upon adoption of Topic 606, the Company did not capitalize any contract acquisition cost.

NOTE 29 LEASES

On January 1, 2019, the Company adopted ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The Company also elected certain practical expedients within the standard and consistent with such elections did not reassess whether any expired or existing contracts are or contain leases, did not reassess the lease classification for any expired or existing leases, and did not reassess any initial direct costs for existing leases. As stated in the Company's 2018 Form 10-K, the implementation of the new standard resulted in recognition of a right-of-use asset and lease liability of $1.03 million at the date of adoption, which is related to the Company's lease of premises used in operations. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of each lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Company's leases:

(Dollars in thousands)	**December 31, 2019**	
Lease Liabilities (included in accrued and other liabilities)	$ 917	
Right-of-use assets (included in other assets)	$ 912	
Weighted average remaining lease term	6.26 years	
Weighted average discount rate	3.51%	
	2019	**2018**
Lease cost (in thousands)		
Operating lease cost	$ 128	$ 217
Total lease cost	$ 128	$ 217
Cash paid for amounts included in the measurement of lease liabilities	$ 148	

NOTE 29 LEASES (CONTINUED)

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities is as follows:

Lease payments due (in thousands)	**As of December 31, 2019**
Twelve months ending December 31, 2020	128
Twelve months ending December 31, 2021	110
Twelve months ending December 31, 2022	105
Twelve months ending December 31, 2023	93
Twelve months ending December 31, 2024	92
Thereafter	627
Total undiscounted cash flows	$ 1,155
Discount	(238)
Lease liabilities	$ 917

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
F&M Bank Corp.
Timberville, Virginia

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of F&M Bank Corp. and Subsidiaries (the Company) as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013, and our report dated March 14, 2019 expressed an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2016.

Winchester, Virginia
March 14, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
F&M Bank Corp.
Timberville, Virginia

Opinion on the Internal Control over Financial Reporting

We have audited F&M Bank Corp. and Subsidiaries' (the Company) internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended of the Company, and the related notes to the consolidated financial statements, and our report dated March 14, 2019 expressed an unqualified opinion.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting in the accompanying *Management's Report on Internal Control over Financial Reporting*. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Yount, Hyde & Barbour, P.C.
Winchester, Virginia
March 14, 2019

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures. The Company, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, is responsible for maintaining disclosure records and procedures that are designed to ensure that information required to be disclosed in reports filed or submitted under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to the Company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosures.

In connection with the preparation of this Annual Report on Form 10-K, management evaluated the Company's disclosure controls and procedures. The evaluation was performed under the direction of the Company's Chief Executive Officer and Chief Financial Officer to determine the effectiveness, as of December 31, 2019, of the design and operation of the Company's disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that, at December 31, 2019 the Company's disclosure controls and procedures were not effective due to the material weakness in internal control over financial reporting described below.

In the fourth quarter of 2019, the Company identified a material weakness in the design effectiveness of its control environment. The material weakness resulted from the failure to design appropriate controls to identify in a timely manner a system input error that prevented the deferred costs associated with indirect dealer auto loans originated after a certain date from amortizing properly. Management determined this deficiency represents a material weakness in internal controls over financial reporting on the basis that it resulted in a correction of an immaterial error in prior period financial statements that if corrected in the current year would materially misstate the current year's financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2019. All necessary adjustments have been recorded and reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Remediation for Reported Material Weakness. The Company has implemented a remediation plan to address the material weakness described above with respect to unamortized indirect dealer finance commissions. To address the material weakness, the Company analyzed all data inputs required by the core processing system in order to accurately amortize commissions paid to dealers for indirect auto loans. As of the date of this filing, the system inputs have been verified for all active loans to ensure amortization is being calculated and recorded appropriately.

Changes in Internal Control over Financial Reporting. Except as disclosed above, there were no changes in the Company's internal control over financial reporting during the Company's quarter ended December 31, 2019 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting. Because of the inherent limitations in all control systems, the Company believes that no system of controls, no matter how well designed and operated, can provide absolute assurance that all control issues have been detected.

Management's Report on Internal Control over Financial Reporting. Management is responsible for the preparation and fair presentation of the financial statements included in the annual report. The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America and reflect management's judgements and estimates concerning effects of events and transactions that are accounted for or disclosed.

Management is also responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting includes those policies and procedures that pertain to the Company's ability to record, process, summarize and report reliable financial data. Management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including the possibility of human error and the circumvention or overriding of internal control. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time.
In order to ensure that the Company's internal control over financial reporting is effective, management regularly assesses such controls and did so most recently for its financial reporting as of December 31, 2019. This assessment was based on criteria for effective internal control over financial reporting described in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations (COSO, 2013) of the Treadway Commission. Based on this assessment, management concluded the Company's internal control over financial reporting was not effective as of December 31, 2019.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2019 has been audited by Yount, Hyde & Barbour, P.C., the independent registered public accounting firm which also audited the Company's consolidated financial statements included in this Annual Report on Form 10-K. Yount, Hyde & Barbour's attestation report on the Company's internal control over financial reporting is included in Item 8 "Financial Statements and Supplemental Data" on this Form 10-K.

Item 9B. Other Information

None.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Information regarding directors, executive officers and the audit committee financial expert is incorporated by reference from the Company's definitive proxy statement for the Company's 2020 Annual Meeting of Shareholders to be held May 2, 2020 ("Proxy Statement"), under the captions "Election of Directors," "Board of Directors and Committees," and "Executive Officers."

Information on Section 16(a) beneficial ownership reporting compliance for the directors and executive officers of the Company is incorporated by reference from the Proxy Statement under the caption "Section 16(a) Beneficial Ownership Reporting Compliance."

The Company has adopted a broad based code of ethics for all employees and directors. The Company has also adopted a code of ethics tailored to senior officers who have financial responsibilities. A copy of the codes may be obtained without charge by request from the corporate secretary.

Item 11. Executive Compensation

This information is incorporated by reference from the Proxy Statement under the caption "Executive Compensation."

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

This information is incorporated by reference from the Proxy Statement under the caption "Ownership of Company Common Stock" and "Executive Compensation" and from Item 5 of this 10-K.

Item 13. Certain Relationships and Related Transactions, and Directors Independence

This information is incorporated by reference from the Proxy Statement under the caption "Interest of Directors and Officers in Certain Transactions."

Item 14. Principal Accounting Fees and Services

This information is incorporated by reference from the Proxy Statement under the caption "Principal Accounting Fees."

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following financial statements are filed as a part of this report:

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent auditors of the Company are in Part II, Item 8 on pages 43 thru 97:

(a)(2) Financial Statement Schedules

All schedules are omitted since they are not required, are not applicable, or the required information is shown in the consolidated financial statements or notes thereto.

(a)(3) Exhibits

The following exhibits are filed as a part of this form 10-K:

Exhibit No.

3.1 Restated Articles of Incorporation of F & M Bank Corp., incorporated herein by reference from F & M Bank Corp.'s, Quarterly Report on Form 10-Q, filed November 14, 2013.

3.2 Articles of Amendment to the Articles of Incorporation of F&M Bank Corp. designating the Series A Preferred Stock incorporated herein by reference from F&M Bank Corp,'s current report on Form 8-K filed December 4, 2014.

3.2 Amended and Restated Bylaws of F & M Bank Corp., incorporated herein by reference from F & M Bank Corp.'s, Annual Report on Form 10-K, filed March 8, 2002.

4.1 Description of Securities (filed herewith)

10.1 Change in Control Severance Plan, incorporated herein by reference from Exhibit 10.1 to F&M Bank Corp.'s Registration Statement on Form S-1, filed December 22, 2010.

10.2 VBA Executives Deferred Compensation Plan for Farmers & Merchants Bank, incorporated herein by reference from F & M Bank Corp.'s Annual Report on Form 10-K, filed March 28, 2014.

10.3 VBA Directors Non-Qualified Deferred Compensation Plan for Farmers & Merchants Bank, incorporated herein by reference from F & M Bank Corp.'s Annual Report on Form 10-K, filed March 28, 2014.

10.4 Separation Agreement and General Release, by and between Farmers and Merchants Bank and Neil W. Hayslett, incorporated herein by reference from F&M Bank Corp.'s Current Report on Form 8-K filed November 1, 2019.

21.0 Subsidiaries of the Registrant

23.1 Consent of Yount, Hyde & Barbour, P.C.

31.1 Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

31.2 Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

32.1 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 The following materials from F&M Bank Corp.'s Annual Report on Form 10-K for the year ended December 31, 2019, formatted in Extensible Business Reporting Language (XBRL), include: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Stockholders' Equity, (v) Consolidated Statements of Cash Flows and (vi) related notes (furnished herewith).

PART IV

Item 16 Form 10-K Summary

Not Required

Shareholders may obtain, free of charge, a copy of the exhibits to this Report on Form 10-K by writing Stephanie E. Shillingburg, Corporate Secretary, at F & M Bank Corp., P.O. Box 1111, Timberville, VA 22853 or our website at www.fmbankva.com.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

F & M Bank Corp.
(Registrant)

By: /s/ Mark C. Hanna
Mark C. Hanna
Director and Chief Executive Officer

March 16, 2020
Date

By: /s/ Carrie A. Comer
Carrie A. Comer
Executive Vice President and Chief Financial Officer

March 16, 2020
Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and as of the date indicated.

Signature	Title	Date
Larry A. Caplinger	Director	March 16, 2020
John N. Crist	Director	March 16, 2020
Dean W. Withers	Director	March 16, 2020
Daniel J. Harshman	Director	March 16, 2020
Michael W. Pugh	Director, Chair	March 16, 2020
Christopher S. Runion	Director	March 16, 2020
E. Ray Burkholder	Director	March 16, 2020
Peter H. Wray	Director	March 16, 2020
Anne Keeler	Director	March 16, 2020

Exhibit 21 List of Subsidiaries of the Registrant

Farmers & Merchants Bank (incorporated in Virginia)
VSTitle, LLC (a Virginia Limited Liability Company)
TEB Life Insurance Company (incorporated in Arizona), a subsidiary of Farmers & Merchants Bank
Farmers & Merchants Financial Services (incorporated in Virginia), a subsidiary of Farmers & Merchants Bank
VBS Mortgage, LLC, DBA F&M Mortgage (a Virginia Limited Liability Company), a subsidiary of Farmers & Merchants Bank

DESCRIPTION OF SECURITIES

As of December 31, 2019, the common stock, par value $5.00 per share, was the only class of securities of F&M Bank Corp. (the "Company") registered under Section 12 of the Securities Exchange Act of 1934, as amended.

The following section describes the general terms and provisions of the shares of the Company's common stock. You should read the Company's articles of incorporation and bylaws for additional information about the common stock. The articles of incorporation and bylaws are included as exhibits to the Company's Annual Report on Form 10-K, to which this exhibit also is attached.

General

The Company's authorized capital stock consists of 6,000,000 shares of common stock, par value $5.00 per share, and 2,000,000 shares of preferred stock, par value $5.00 per share. As of December 31, 2019, there were 3,208,498 shares of common stock outstanding and 206,660 shares of preferred stock outstanding.

Common Stock

Dividend Rights. The Company may pay dividends as declared from time to time by the board out of funds that are legally available, subject to certain restrictions imposed by state and federal laws.

Voting Rights. In all elections of directors, a shareholder has the right to cast one vote for each share of stock held by him or her for as many persons as there are directors to be elected. The Company does do not have cumulative voting rights. On any other question to be determined by a vote of shares at any meeting of shareholders, each shareholder is entitled to one vote for each share of stock held by him or her and entitled to vote.

Preemptive Rights. Holders of common stock do not have preemptive rights with respect to issues of common stock.

Liquidation Rights. Upon liquidation, after payment of all creditors, the remaining assets of the Company would be distributed to the holders of common stock on a pro-rata basis, subject to the rights of the holders of any share of the Company's preferred stock that may be issued from time to time.

Calls and Assessments. All common stock outstanding is fully paid and non-assessable.

Preferred Stock

The Company's board of directors may, from time to time, by action of a majority, issue shares of the authorized, undesignated preferred stock, in one or more class or series. In connection with any such issuance, the board of directors may by resolution determine the designation, voting rights, preferences as to dividends, in liquidation or otherwise, participation, redemption, sinking fund, conversion, dividend or other special rights or powers, and the limitations, qualifications and restrictions of such shares of preferred stock. As of December 31, 2019, there were 2,000,000 authorized shares of preferred stock, par value $5.00 per share, and the only class or series of preferred stock created or designated by the Company's board of directors was 400,000 shares designated as 5.10% Series A Noncumulative Mandatorily Convertible Preferred Stock (the "Series A Preferred Stock"). As of December 31, 2019, 206,660 shares of Series A Preferred Stock were outstanding.

The preferences and other terms of any series of preferred stock will be fixed by an amendment to the Company's articles of incorporation designating the terms of that series. Because the Company's board of directors has the power to establish the preferences and rights of each series of preferred stock, it may afford the holders of any series of preferred stock preferences and rights, voting or otherwise, senior to the rights of holders of the Company's common stock. It is not possible to state the actual effect of the issuance of any shares of preferred stock upon the rights of holders of common stock until the Company's board of directors determines the specific rights of the holders of preferred stock. However, the effects might include:

- restricting dividends on the Company's common stock;
- diluting the voting power of the Company's common stock;
- impairing liquidation rights of the Company's common stock; or
- discouraging, delaying or preventing a change in control of the Company without further action by its shareholders.

Certain Provisions of the Company's Articles of Incorporation and Bylaws

General. The following is a summary of the material provisions of the Company's articles of incorporation and bylaws that address matters of corporate governance and the rights of shareholders. In addition, Virginia has two antitakeover statutes, the Affiliated Transactions Statute and the Control Share Acquisitions Statute, that could make it more difficult for another party to acquire the Company without the approval of the Company's board of directors. Certain of these provisions may delay or prevent takeover attempts not first approved by the Company's board of directors (including takeovers which certain shareholders may deem to be in their best interests). These provisions also could delay or frustrate the removal of incumbent directors or the assumption of control by certain shareholders.

Issuance of Additional Shares. The Company's board of directors may issue additional authorized shares of the Company's capital stock to deter future attempts to gain control of the Company, and the board has the authority to determine the terms of any one or more series of preferred stock, such as voting rights, conversion rates, and liquidation preferences. As a result of the ability to fix voting rights for a series of preferred stock, the board has the power, to the extent consistent with its fiduciary duty, to issue a series of preferred stock to persons friendly to management in order to attempt to block a merger or other transaction by which a third party seeks control, and thereby assist the incumbent board of directors and management to retain their respective positions.

No Cumulative Voting. The Company's articles of incorporation do not provide for cumulative voting in the election of directors.

Advance Notice for Shareholder Proposals or Nominations at Meetings. The Company's bylaws also prescribe the procedure a shareholder must follow to nominate directors or to bring other business before shareholders' meetings. For a shareholder to nominate a candidate for director or to bring other business before a meeting, notice must be received by the Company not less than 60 days and not more than 90 days prior to the date of the meeting; provided, that if less than 70 days' notice or prior public disclosure of the meeting date is given, then the shareholder's notice must be received by the Company not less than 10 days following the Company's notice or public disclosure. Notice of a nomination for director must describe various matters regarding the nominee and the shareholder giving the notice. Notice of other business to be brought before the meeting must include a description of the proposed business, the reasons therefor and other specified matters.

Classified Board of Directors. The Company's articles of incorporation and bylaws currently provide that the board of directors shall be divided into three classes as nearly equal in number as possible. The members of each class are elected for a term of three years and until their successors are elected and qualified. As a result, approximately one third of the members of the board of directors are elected each year, and two annual meetings are required for the Company's shareholders to change a majority of the members constituting the board of directors.

Special Voting Provisions. The Company's articles of incorporation currently provide that, unless the following actions have been approved by a majority of the Company's directors as described in further detail below, the affirmative vote of the holders of more than two-thirds of the Company's capital stock, issued, outstanding and entitled to vote shall be required to approve the following actions:

- any merger or consolidation of the Company with or into any other corporation; or
- any share exchange in which a corporation, person or entity acquires the issued or outstanding shares of capital stock of the Company pursuant to a vote of shareholders; or
- any issuance of shares of the Company that results in an acquisition of control of the Company by any person, firm or corporation or group of one or more thereof that previously did not control the Company; or
- any sale, lease, exchange, mortgage, pledge or other transfer, in one transaction or a series of transactions, of all, or substantially all, of the assets of the Company to any other corporation, person or entity; or
- the adoption of a plan for the liquidation or dissolution of the Company proposed by any other corporation, person or entity.

If any of the transactions identified above, or having a similar effect as any of the foregoing transactions, is with a corporation, person or entity that is the beneficial owner, directly or indirectly, of more than 5% of the Company's shares of capital stock issued, outstanding and entitled to vote, then the affirmative vote of the holders of 80% of the shares of the Company's capital stock issued, outstanding and entitled to vote shall be required to approve any of such transactions, unless the following actions have been approved by a majority of the Company's directors as described in further detail below.

These special voting provisions shall not apply to a transaction which is approved in advance by a majority of directors (i) who were directors before the corporation, person or entity acquired beneficial ownership of 5% or more of the shares of the Company's capital stock and who are not affiliates of such corporation, person or entity and (ii) who became directors at the recommendation of directors referred to in (i) above.

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements (No. 333-160715) on Form S-1 and Form S-8 (No. 333-159074) of F&M Bank Corp. and Subsidiaries of our reports, dated March 14, 2019, relating to our audits of the consolidated financial statements and internal control over financial reporting, appearing in the Annual Report on Form 10-K of F&M Bank Corp. and Subsidiaries for the year ended December 31, 2018.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 14, 2019

Exhibit 31.1

CERTIFICATION
OF CHIEF EXECUTIVE OFFICER
Pursuant to section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 63, Title 18 USC Section 1350 (A) and (B)

I, Mark C. Hanna, certify that:

1. I have reviewed this annual report on Form 10-K of F & M Bank Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 16, 2020

/s/ Mark C. Hanna

Mark C. Hanna
Chief Executive Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to F & M Bank Corp. and will be retained by F & M Bank Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 31.2

CERTIFICATION
CHIEF FINANCIAL OFFICER
Pursuant to section 302 of the Sarbanes-Oxley Act of 2002
(Chapter 63, Title 18 USC Section 1350 (A) and (B)

I, Carrie A. Comer, certify that:

1. I have reviewed this annual report on Form 10-K of F & M Bank Corp;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: March 16, 2020

/s/ Carrie A. Comer

Carrie A. Comer
Executive Vice President and Chief Financial Officer

A signed original of this written statement required by Section 302 of the Sarbanes-Oxley Act of 2002 has been provided to F & M Bank Corp. and will be retained by F & M Bank Corp. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.1

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted
Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of F & M Bank Corp. (the "Company") on Form 10-K for the period ending December 31, 2019 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002 that based on their knowledge and belief: 1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods covered in the Report.

/s/ Mark C. Hanna
Mark C. Hanna
Chief Executive Officer

/s/ Carrie A. Comer
Carrie A. Comer
Executive Vice President & Chief Financial Officer

March 16, 2020