2021 Annual Report

F&M Bank Corp.

Welcome

An introduction by F&M Bank President & CEO
Mark Hanna

2021 was a record year for F&M Bank Corp and the most profitable in our Company's 114-year history.

Earnings were driven by growth in net interest income, strong non-interest income due to our subsidiary organizations, and improved asset quality and fees earned under the Paycheck Protection Program (PPP). Continued improvements in asset quality and economic conditions resulted in the ability to reduce the allowance for loan losses to 1.16% of loans held for investment (1.18% excluding PPP loans) which was accretive to income by $2.8 million year to date, and $590 thousand in the fourth quarter.

During a time of economic challenges and Covid-19 variants, our associates continued to support the bank's growth and positive changes. In addition to re-alignment with a focus on improving processes and strengthening leadership, we took steps to better align our revenue, expenses and balance sheet for the future.

Our deposit growth of 68.3% over the last two years is significantly higher than our peers and indicative of our ability to generate organic growth. We continue to focus strategically on improving our infrastructure and digital experience as we expand our reach to new banking relationships.

Our greater scale, coupled with improvements in asset quality, position F&M for continued success. These successes, along with surpassing the $1 billion asset milestone, is a testament to the commitment and dedication of associates across our organization.

F&M Bank Corp's executive team and board are planning thoughtfully and setting our sights on a great year ahead and a bright future for our company, our teammates, and the Shenandoah Valley.

Financials

$1.2B Asset milestone

68.3% Deposit Growth

$28.75 Stock Price 12/31

$1.2 billion in total assets

$261.7 million annual deposit growth

$297 million annual investment portfolio growth

$31.9 million core loan growth

$2.5 million contributed to net income by Mortgage/Title/Investment teams

Earnings Per Share

2021	$3.12
2020	$2.56
2019	$1.30

Stock Price (at close 12/31)

2021	$28.75
2020	$23.01
2019	$29.00

ROAA

2021	0.98%
2020	0.95%
2019	0.57%

ROAE

2021	10.84%
2020	9.46%
2019	4.93%

Year in Review

Most profitable year in our 114-year history

Expansion into new markets

Launched online account opening

Invested in leadership, training, and development

Grew agriculture portfolio by **30.5%**

22% increase in F&M Financial Services assets

John Sargent
Commercial Relationship Manager

Mike Wilkerson
Chief Lending Officer

Ronda Gross
Business Relationship Specialist

Gail Pryde
Business Relationship Specialist

Jon Reimer
Commercial Relationship Manager

Bill Steele
Senior Credit Analyst

190K Website Visits

31.97% Deposit Increase

3K New App Users

Frederick County Markets

In January, F&M announced expansion into the Winchester/ Frederick County markets and brought on a well-versed commercial banking team (pictured above) with extensive knowledge of the market.

The thriving Winchester economy and community has proven to be a great fit for the team and the company – with growth of over $36 million in deposits last year – and sights set on opening a second Winchester location in 2022.

Augusta County Markets

Identifying opportunities for organic loan and deposit growth, while remaining an independent community bank for the long-term, is an integral component of our strategic goals. In line with these initiatives, F&M Bank entered into an agreement with Carter Bank and Trust last spring to purchase its Waynesboro branch deposits.

The City of Waynesboro is a $586 million market (FDIC data, June 30, 2020) with a growing local economy.

Paycheck Protection Program

Economic Stimulus and the Paycheck Protection Program were a major driver of deposit growth in 2020-2021 and provided our associates with the opportunity to help our neighbors during unprecedented times.

F&M processed 1,080 PPP & CARES Act loans during 2020 and 2021 totaling $87.1 million.

Preferred Stock Redemption

On September 1, 2021, F&M gave notice to preferred shareholders that it would redeem all Series A Preferred Stock on October 29, 2021.

As a result of this announcement, 180,261 shares of the 205,327 shares of preferred stock converted to common shares and 25,066 shares were redeemed for cash.

Dividends Declaration

On January 21, 2022, our Board of Directors declared a fourth quarter dividend of $.26 per share to common shareholders.

Based on our most recent trade price of $31.38 per share this constitutes a 3.31% yield on an annualized basis.

The dividend was paid March 1, 2022, to shareholders on record as of February 14, 2022.

Digital Upgrades

F&M Bank migrated to a new online and mobile banking platform, digitizing typical banking functions to take user experience and service options to the next level.

F&M customers now have access to a personalized, secure, and convenient experience through digital channels.

Performance

F&M Financial Services Advisors Calan Jansen and Matt Robinson have both ranked among the Top Infinex Financial Professionals, based on 2021 Gross Dealer Concession (GDC) from 1,440 individual brokers.

Investment and insurance products and services are offered through INFINEX INVESTMENTS, INC. Member FINRA/SIPC. F&M Financial Services, Inc. is a nonbank subsidiary of F&M Bank. Infinex is not affiliated with either entity. Products and services made available through Infinex are not insured by the FDIC or any other agency of the United States and are not deposits or obligations of nor guaranteed or insured by any bank or bank affiliate. These products are subject to investment risk, including the possible loss of value. We do not provide tax advice. Please consult your advisor.

Securities and Insurance Products:
Not Insured By FDIC or any Federal Government Agency. May Lose Value. Not a Deposit of or Guaranteed by the Bank or any Bank Affiliate

Calan Jansen
Infinex Financial Advisor

Matt Robinson
Infenex Financial Advisor

Accolades

In addition to recognition by established banking and finance associations, F&M Bank was honored to receive Gold recognition for Best Bank and Silver recognition for Best Ag Lender in the inaugural "Shenandoah Valley's Best" contest, implemented by local media company, Harrisonburg Radio Group. HRG received 1,600 nominations and over 35,000 votes from community members.

F&M Mortgage

Second best year in history

$1.5 million pre-tax profits

820 loans closed

$190 million total loan volume

VS Title

$2.07 million in gross revenue

$521 thousand pre-tax profits

1355 real estate transactions closed

Agricultural & Rural Programs

$81.9 million loan portfolio

30.5% growth

Indirect Dealer Division

$107 million portfolio balance

$2.97 million in net income

.72% past due ratio

F&M Financial Services

Ranked third among peers in the nation in 2021

$356 million in assets under management

22% growth year over year

Securities and Insurance Products:
Not Insured By FDIC or any Federal Government Agency. May Lose Value.
Not a Deposit of or Guaranteed by the Bank or any Bank Affiliate.

ICBA Subcommittee

The Independent Community Bankers of America (ICBA) named Mark Hanna, President & CEO of F&M Bank, to its Housing Finance Subcommittee in March 2021. Mr. Hanna also serves as the ICBA's Elected Federal Delegate for Virginia, elected in March 2020 for a three-year term.

In addition to helping shape and advocate ICBA's national policy positions and programs, Hanna promotes pro-community bank policies and serves as a liaison between community banks and ICBA in Washington, D.C.

The Financial Brand

Annual reports are one of financial marketers' toughest creative tasks. Which is why receiving recognition for producing one of the "Best Annual Reports in Banking" was a great honor for F&M and our marketing team.

The Financial Brand is a digital publication focused on marketing and strategy issues affecting retail banks and credit unions.

ICBA Recognition

Paul Eberly, F&M Bank's EVP/Chief Credit Officer, was recognized as an "Emerging Community Bank Leader 40 under 40" by The Independent Community Bankers Association (ICBA), and the only recipient from the Commonwealth of Virginia in 2021.

The ICBA awards community-minded, innovative leaders under 40 years old who represent the future of the community banking industry.

Community

At F&M Bank, community has always been a focus. We understand the valuable role not-for-profits and small business play in creating thriving towns and communities.

That's why we encourage our employees to support local causes and, as a company, F&M donates time and resources to local charities and events.

Danielle Ropp
President, SFS Tools & Safety (F&M Bank client)

Sammy the Squirrel
Mascot, CNO (Chief Nut Officer)

100+ Community Events

27% Social Media Follower Increase

1000 Volunteer Hours

Great Community Give

F&M Bank provided title-level sponsorship and volunteer support for this annual April event, hosted by The Community Foundation of Harrisonburg and Rockingham County. The charity supports nonprofit organizations in the Valley and raised $1,772,878 in 2021.

Bank Shred Days

F&M hosts free document shredding events for the community each year to help clients prevent identity theft and dispose of their sensitive personal documents.

United Way

F&M is a proud supporter of United Way. Each year, staff members volunteer to improve their communities.

Big Brothers Big Sisters

Big Brothers Big Sisters of Harrisonburg-Rockingham County (BBBS) provides mentorship support to local youth in need. Our employees have participated with BBBS as volunteers or board members consecutively for over 25 years, with Garth Knight, EVP/Chief Banking Officer, currently sitting on the board.

Art Gallery Sponsorship

Art unifies communities. Our company commits to philanthropy for just that reason, to bring people together in a meaningful way. In 2021, F&M sponsored a new art gallery exhibition and opening reception for *Exuberance*: Dialogues in African American Abstract Painting.

Tailgate

F&M Bank hosts a corporate tailgate event during football season at James Madison University each year.

Santa to a Senior Program

Each year, F&M employees demonstrate their holiday spirit by signing up to support a local senior in need. As part of Home Instead Senior Care's "Santa to a Senior" program, individuals purchase Christmas presents for those who may not otherwise have the opportunity to celebrate the holidays.

Last year this program provided Christmas gifts to over 800 seniors across the counties of Rockingham, Augusta, and Rockbridge.

Walk to End Alzheimer's

Members of the Augusta County F&M Bank family participated in the 2021 Walk to End Alzheimer's in October alongside 58 teams that collectively raised over $71,000 for this worthy cause.

Local Business You Love

Associates from four counties celebrated the Top 10 Nominees of F&M Bank's "Local Business You Love" contest at Woodstock Brewhouse. The celebration honored small business owners who are well-known and well-loved by their patrons.

First Responder Appreciation

We support our local heroes who continue to help our communities during trying times.

F&M commercial associates delivered boxed lunches to the hardworking staff at Sentara RMH and Augusta Health Center during December.

Donations

Over $300,000 in corporate and employee donations were made in 2021.

Principles

At F&M Bank, we create value in every service we offer. We apply sound banking principles to encourage our local economy and strengthen 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.

Katherine Preston
Valley Market Executive

Mary Pavlovskaya
Business Deposit Services Officer

Service Milestones

Associates are recognized for their outstanding service at five year milestones. We thank these employees for their dedication.

Kitty Purcell and Julie Reeves, two longtime mortgage advisors, retired in 2021. Both are active members of our community and we wish them the best in their future endeavors.

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.

Vision

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

Values

Making the **communities** we serve better.

Providing **flexible** financial solutions.

Responsive to all requests and opportunities.

Bringing **enthusiasm** and a positive attitude to our endeavors.

Adding **fun** into banking and our workplace!

- 5 Promise Cook
- 5 Desma Flagle
- 10 Ashley Griffith
- 15 Ashley Riggleman
- 15 Natalie Strickler-Alt
- 20 Carrie Comer
- 20 Christy Trail
- 35 Debbie Andes
- 5 Carrie Grimes
- 5 Dennis Hohenstein
- 10 Melody Emswiler
- 15 Yvette McCoy
- 20 Linda Spencer
- 20 Berlin Smith
- 5 Calan Jansen
- 10 Tonya Crider
- 10 Ashley McLure
- 15 Eddie Reid
- 5 Mary Pavlovskaya
- 5 Cynthia Rice

Executives

Mark Hanna
President & Chief Executive Officer

Barton Black
Chief Operating Officer

Carrie Comer
Chief Financial Officer

Paul Eberly
Chief Credit Officer

Melody Emswiler
Chief Human Resources Officer

Garth Knight
Chief Banking Officer

Stephanie Shillingburg
Chief Experience Officer

Kevin Russell
President of Mortgage, Title, and Financial Services

Mike Wilkerson
Chief Lending Officer

Board of Directors

Anne Keeler
Vice President for Finance and Treasurer (Retired)
Bridgewater College

Chris Runion
President
Eddie Edwards Signs, Inc

Daniel Harshman
Mayor
Town of Edinburg

Daphyne Saunders Thomas
Professor Department of Finance and Business Law, James Madison University

Dean Withers
Vice Chairman of the Board
Former F&M Bank President & CEO (retired)

Hannah Hutman
Partner & Creditor/Debtor Attorney
Hoover Penrod, PLC

John Willingham
CPA
President of Stoneridge Companies

Larry Caplinger
Secretary of the Board
Former F&M Bank Chief Lending Officer (retired)

Mark Hanna
President & Chief Executive Officer
F&M Bank

Michael Pugh
Chairman of the Board
President
Old Dominion Realty, Inc. President, Colonial Appraisal Service, Inc.

Peter Wray
Principal Broker
Triangle Realtors

Ray Burkholder
Owner
Balzer and Associates, Inc.

Senior Vice Presidents

Gregory Berkshire
Dealer Finance Manager

Sara Berry
Southern Market Manager

Terri Bradley
F&M Mortgage

Carolyn Burnett
Commercial Relationship Manager

Charles Driest
Director of Digital Banking

Jeffrey Lam
Retail Loan Administrator

John Meyer
Information Security Officer

Katherine Preston
Valley Market Executive

Karen Rose
Deposit Operations Officer

Cynthia Sherman
Loans Operations Officer

Dale Shoop
President, VS Title

Natalie Strickler-Alt
Northern Market Manager

Krista Suter
Finance Director

Holly Thorne
Marketing Director

Bobby Williams
Agriculture & Rural Programs Leader

Vice Presidents

Deborah Andes
Collections Manager

Donna Brown
Commercial Relationship Manager

Jordan Dean
Commercial Relationship Manager

Keith Deeds
Facilities Manager

Carolyn Dove
Timberville Branch Manager

Chris Gunter
Broadway Branch Manager

Teresa Helmick
Elkton Branch Manager

Calan Jansen
Investment Consultant, Infinex

Ryan May
Dealer Division Relationship Manager

Jacob Mowry
Marketing Manager

Kevin Nixon
Commercial Relationship Manager

Jonathan Reimer
Commercial Relationship Manager

Matthew Robinson
Investment Consultant, Infinex

Sean Ryman
Contoller

John Sargent
Commercial Relationship Manager

William Steele
Senior Credit Analyst

Jason Withers
Credit Manager

Brooke Zirk
Commercial Relationship Manager

Offices

Corporate Headquarters

205 South Main Street, Timberville, VA
(540) 896-8941

NMLS# 414464

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

Dealer Finance Division

4759 Spotswood Trail, Penn Laird, VA

F&M Mortgage

2040 Deyerle Avenue, Suite 207, Harrisonburg, VA
540-442-8583

19 Myers Corner Drive, Suite 105, Staunton, VA
540-466-8540

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

NMLS# 275173

VS Title

410 Neff Avenue, Harrisonburg, VA
540-434-8571

1707 Jefferson Highway, Fishersville, VA
540-213-0419

154 Hansen Road, Suite 202-C, Charlottesville, VA
434-202-4336

Branches

Bridgewater

100 Plaza Drive
540-828-6300

Broadway

126 Timber Way
540-896-7071

Edinburg

300 Stoney Creek Boulevard
540-984-4128

Elkton

127 West Rockingham Street
540-298-1251

Harrisonburg

80 Cross Keys Road
540-433-7575

2030 Legacy Lane
540-433-0112

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

Waynesboro

2701 W Main Street
540-943-2080

Winchester (loan office)

45 E. Boscawen Street
540-686-1030

Woodstock

161 South Main Street
540-459-3707

fmbankva.com

fmbankva

fmbankva

F&M Bank (Farmers & Merchants Bank)

fmbankva

fmbankva

App Stores: F&M Bank - VA

The theme of this year's annual report is growth & transparency.
To decrease environmental impact, this document has been designed for reduced color printing and printed on recycled/responsibly-sourced paper.

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, 2021

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

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 2,890,404 shares of Common Stock of the registrant issued and outstanding held by non-affiliates on June 30, 2021 was approximately $85,667,846 based on the closing sales price of $29.40 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 February 25, 2022, there were 3,415,235 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 12, 2022 (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 VSTitle, LLC (“VST”). VBS Mortgage, LLC (“F&M Mortgage”), TEB Life Insurance Company (“TEB”) and Farmers & Merchants Financial Services, Inc. (“FMFS”) are wholly owned subsidiaries of the Bank.

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 remaining minority interest on April 30, 2020. The Company purchased a majority interest in VST on January 1, 2017; F&M Mortgage, owned entirely by the Bank, owned the remaining minority interest in VST until the Company purchased F&M Mortgage’s minority interest in VST on January 3, 2022.

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 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, Virginia. 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, 2021, the Bank had 152 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.

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 in companies 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. On January 1, 2015, the Federal Reserve Board, the Federal Deposit Insurance Corporation ("FDIC") and the Office of the Comptroller of the Currency ("OCC") adopted a 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 included new minimum risk-based capital and leverage ratios and refined the definition of what constitutes "capital" for purposes of calculating these ratios. The minimum capital requirements currently applicable to the Bank are: (i) a 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 regulatory minimum capital ratios, which effectively resulted 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, 2021, were 13.95% and 8.62%, 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 were generally effective on January 1, 2023, 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%. The community bank leverage ratio rules were modified in response to COVID-19. See Coronavirus Aid, Relief and Economic Security Act that follows.

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.

Regulation and Supervision, continued

Source of Strength. Federal Reserve Board 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.

Anti-Money Laundering Laws and Regulations. The Bank is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities (“AML laws”). This category of laws includes the Bank Secrecy Act of 1970, the Money Laundering Control Act of 1986, the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020. The Anti-Money Laundering Act of 2020, the most sweeping anti-money laundering legislation in 20 years, requires various federal agencies to promulgate regulations implementing a number of its provisions.

The AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Community Reinvestment Act. The requirements of the Community Reinvestment Act (“CRA”) 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.

Regulation and Supervision, continued

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. The Bank was rated "satisfactory" in the most recent CRA evaluation.

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 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.

PART I, continued

Item 1. Business, continued

Regulation and Supervision, continued

On November 23, 2021, the federal banking agencies issued a final rule called the Computer-Security Incident Notification Requirements for Banking Organizations and Their Bank Service Partners that requires banking organizations to notify their primary regulator within 36 hours of becoming aware of a "computer-security incident" that rises to the level of a "notification incident" has occurred. The rule also requires bank service providers to notify each affected banking organization customer when it is determined a computer security incident has caused, or is reasonably likely to cause, a material service disruption or degradation of four or more hours. The rule is effective as of April 1, 2022 and compliance is required beginning May 1, 2022.

To date, the Bank has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but the Bank's systems and those of its customers and third-party service providers are under constant threat and it is possible that the Bank could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Bank and its customers.

Privacy Laws. Several laws and regulations issued by federal banking agencies also provide protections against the transfer and use of customer information by financial institutions. A financial institution must provide to its customers information regarding its policies and procedures with respect to the handling of customers' personal information. Each institution must conduct an internal risk assessment of its ability to protect customer information. These privacy provisions generally prohibit a financial institution from providing a customer's personal financial information to unaffiliated parties without prior notice and approval from the customer.

Coronavirus Aid, Relief, and Economic Security Act. In response to the COVID-19 pandemic, President Trump signed into law the CARES Act on March 27, 2020. Among other things, the CARES Act included the following provisions impacting financial institutions:

- Community Bank Leverage Ratio. The CARES Act directed federal bank regulators to adopt interim final rules to lower the threshold under the community bank leverage ratio from 9% to 8% and to provide a reasonable grace period for a community bank that falls below the threshold to regain compliance, in each case until the earlier of the termination date of the national emergency or December 31, 2020. In October 2020, the federal bank regulators issued two interim final rules implementing this directive. The interim final rules provided that, as of the second quarter 2020, banking organizations with leverage ratios of 8% or greater (and that met the other existing qualifying criteria) may elect to use the community bank leverage ratio framework. The leverage ratio requirement increased to 8.5% effective January 1, 2021 and 9% effective January 1, 2022. The final rules also established a two-quarter grace period for qualifying community banking organizations who fail to meet the qualifying criteria, including the leverage ratio, so long as the banking organization maintained a leverage ratio of 7% or greater effective the second quarter of 2020, 7.5% effective January 1, 2021, and 8% effective January 1, 2022. A banking organization that elected the community bank leverage ratio framework when it submitted its March 31, 2022, Call Report or Form FR Y–9C was subject to the 9 percent community bank leverage ratio requirement and must use total consolidated assets as of the report date to determine eligibility.
- Temporary Troubled Debt Restructurings ("TDR") Relief. The CARES Act allowed banks to elect to suspend requirements under GAAP for loan modifications related to the COVID-19 pandemic (for loans that were not more than 30 days past due as of December 31, 2019) that would otherwise be categorized as a TDR, including impairment for accounting purposes, until the earlier of 60 days after the termination date of the national emergency or December 31, 2020. Federal banking regulators are required to defer to the determination of the banks making such suspension. The Consolidated Appropriations Act, 2021, signed into law on December 27, 2020, extended this temporary relief until the earlier of 60 days after the termination date of the national emergency or January 1, 2022.

Regulation and Supervision, continued

- Small Business Administration ("SBA") Paycheck Protection Program. The CARES Act created the SBA's Paycheck Protection Program. Under the Paycheck Protection Program, funds were authorized for small business loans to pay payroll and group health costs, salaries and commissions, mortgage and rent payments, utilities, and interest on other debt. The loans were provided through participating financial institutions, including the Bank, that process loan applications and service the loans. The Paycheck Protection Program officially ended on May 31, 2021.

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. With the Biden administration, a Democratic controlled Congress, and changes in leadership at federal agencies such as the CFPB, we expect that financial institutions will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices. 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:

- The effects of the COVID-19 pandemic, including its potential adverse effect on economic conditions and the Company's employees, customers, credit quality, and financial performance;
- 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 firms and others, 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 need for sufficient capital to support that growth, difficulties or disruptions expanding into new markets or integrating the operations of acquired branches or business, and the inability to obtain the expected benefits of such 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
- Geopolitical conditions, including acts or threats of terrorism, international hostilities, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the U.S. and abroad; and
- The Company's potential exposure to fraud, negligence, computer theft, and cyber-crime; and
- Other factors identified in reports the Company files with the SEC from time to time.

Forward-Looking Statements, continued

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, 2021 and 2020:

Period	Class of Service	Percentage of Total Revenues
December 31, 2021	Interest and fees on loans held for investment	69.05%
December 31, 2020	Interest and fees on loans held for investment	69.62%

Executive Officers of the Company

Mark C. Hanna, 53, 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, 51, has served as Executive Vice President/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 from June 2013 to March 2018, Vice President/Controller from March 2009 to June 2013, and as Assistant Vice President/Controller from December 2005 to March 2009.

Stephanie E. Shillingburg, 60, has served as Executive Vice President/Chief Experience Officer of the Bank and the Company since January 2022, Executive Vice President/Chief Banking Officer July 2016 to December 2021, 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.

Barton E. Black, 51, has served as the Executive Vice President/Chief Operating Officer of the Bank and the Company since June 2020. Prior to that he served as Executive Vice President/Chief Strategy & Risk Officer March 2019 to May 2020. 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.

F. Garth Knight, 39, has served as Executive Vice President/Chief Banking Officer of the Bank and the Company since January 2022, and Executive Vice President/Chief Lending Officer from June 2020 to December 2021. Prior to joining F&M Bank, he spent 15 years at Wells Fargo Bank serving as Vice President/Business Acquisition Manager for Mid-Atlantic and Greater Philadelphia from May 2017 until May of 2020, Vice President/Business Banking Manager for North and South Carolina from September of 2010 to May of 2017, and Retail Market Leader from June 2005 to September 2010.

Paul E. Eberly, 39, has served as Executive Vice President/Chief Credit Officer since September 2020, Senior Vice President/Agricultural & Rural Programs Leader from January 2020 until September 2020, and Vice President/Agricultural & Rural Programs Leader from January 2019 until January 2020. He also served in various sales, lending, credit, risk management and other leadership roles within the Farm Credit System from June 2005 until January 2019. Mr. Eberly has been in the banking and finance industry since 2005.

Kevin Russell, 44, has served as the Executive Vice President/President of Mortgage, Title and Financial Services at the Bank and the Company since June 16, 2020. Prior to that he served as the President of F&M Mortgage since 2000.

PART I, continued

Item 1. Business, continued

Executive Officers of the Company, continued

Aubrey Michael (Mike) Wilkerson, 63, has served as Executive Vice President/Chief Lending Officer since January 2022, and Executive Vice President/Chief Strategy Officer and Northern Shenandoah Valley Market Executive since January 2021. Mr. Wilkerson began his banking career at Wachovia Bank on January 4, 1982. Mr. Wilkerson's banking includes experience in Dealer Financial Services, Retail Banking, Private Banking, Commercial Banking and senior strategic leadership positions. From 2012 to 2018, Mr. Wilkerson was the Business Banking Division Executive for Virginia, Maryland & Washington DC at Wachovia. Most recently, Mr. Wilkerson served as the Commercial Banking Market Executive from 2018 through 2020 for Western Mid-Atlantic Region at Wells Fargo.

Melody Emswiler, 48, has served as Executive Vice President/Chief Human Resources Officer since January 2022, Senior Vice President/Human Resources Director from January 2019 to December 2021, Vice President/Director of Human Resources from February 2015 to December 2018, and Assistant Vice President/Human Resources Manager from February 2011 to January 2015. Ms. Emswiler has been in the human resources profession since 1996.

Item 1A. Risk Factors

Not required.

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**
Myers Corner Branch	**30 Gosnell Crossing**	**Staunton, VA 24401**
North Augusta Branch	**2813 North Augusta Street**	**Staunton, VA 22401**
Stuarts Draft Branch	**2782 Stuarts Draft Highway**	**Stuarts Draft, VA 24477**
Waynesboro Branch	**2701 West Main Street**	**Waynesboro, VA 22664**
Winchester Branch	**45 E. Boscawen Steet**	**Winchester, VA 22601**
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**

The Company leases the North Augusta Branch, Waynesboro Branch, Winchester Branch, Dealer Finance Division, and all locations of VST. The remaining facilities are owned by Farmers & Merchants Bank. ATMs are available at all branch locations except the Winchester Branch. The Woodstock office of F&M Mortgage is leased from F&M Bank.

PART I, continued

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 are 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

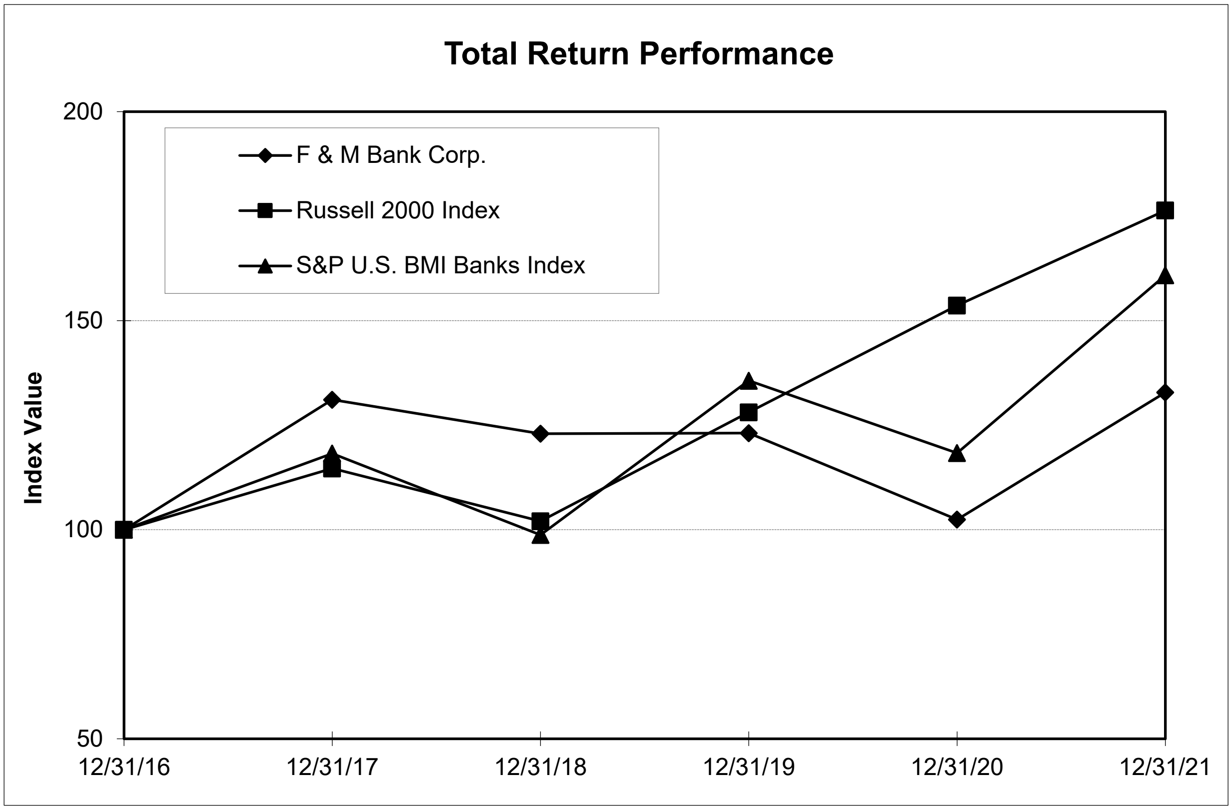
Broadridge Corporate Issuer Solutions
PO Box 1342
Brentwood, NY 11717

PART II

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

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, 2016, and the reinvestment of dividends.



	Period Ending					
Index	**12/31/16**	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**
F & M Bank Corp.	100.00	131.10	122.97	123.09	102.42	132.82
Russell 2000 Index	100.00	114.65	102.02	128.06	153.62	176.39
S&P U.S. BMI Banks Index	100.00	118.21	98.75	135.64	118.33	160.89

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

Dividends

Dividends to common shareholders totaled $3,397 and $3,328 in 2021 and 2020, respectively. For 2021, the regular dividends totaled $1.04 per share. Preferred stock dividends were $196 and $263 in 2021 and 2020, respectively. Regular quarterly dividends have been declared for at least 28 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 32.00% in 2021 compared to 39.10% in 2020.

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

The number of common shareholders was approximately 2,467 as of March 7, 2022. This amount includes all shareholders, whether titled individually or held by a brokerage firm or custodian in street name.

The Company completed the redemption of its Series A Preferred Stock on October 29, 2021. Holders of Series A Preferred Stock were entitled to convert their shares of Series A Preferred stock to shares of the Company's common stock at a conversion rate of 1.111 or have their shares redeemed by the Company for $25.00 per share in cash. There were 180,261 shares converted to common stock and 25,066 shares redeemed. As of December 31, 2021, no shares of Series A Preferred stock were outstanding.

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 segments of loans in our portfolio is the creditworthiness of our borrowers. Within each segment, 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, 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, credit administration and senior lenders; 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 residential construction loans are secured by residential houses under construction and the underlying land for which the loan was obtained. The land acquisition and development loans are secured by the 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.

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

Commercial & Industry – Non-Real Estate

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, automobile loans, deposit account loans, installment and demand loans, and home equity loans. 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 generally 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 one, three or five years, based on amortization periods of twenty to thirty years.

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 can purchase 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. F&M Bank does not share in the gains on sale of loans for the Northpointe participation and only earns interest during the holding period.

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 is staffed with officers that have extensive experience in Dealer Finance. This office is serving the automobile finance needs for customers of dealers throughout the existing geographic footprint of the Bank. Approximately eighty dealers have signed contracts to originate loans on behalf of the Bank. As of year-end 2021, the division had total loans outstanding of $107,346.

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

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; economic conditions, borrower and industry concentrations; changes in the experience and depths of lending management and staff; effects of any concentrations of credit; the findings of internal credit quality assessments, results from external bank regulatory examinations and third-party loan reviews. These factors, as well as historical losses and current economic and business conditions, are used in developing estimated loss factors used in the calculations.

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 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, the value of any underlying collateral or future discounted cash flows.

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 change 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 Obligations

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.

COVID-19

The World Health Organization declared a global pandemic in the first quarter of 2020 due to the spread of the coronavirus ("COVID-19") around the globe. As a result, the state of Virginia issued a stay at home order in March 2020 requiring all nonessential businesses to shut down and nonessential workers to stay home. The Company, while considered an essential business, implemented procedures to protect its employees, customers and the community and still serve their banking needs. Branch lobbies were closed until April 12, 2021. During this time the Company utilized drive through windows and courier service to handle transactions, new accounts were opened electronically with limited in person contact for document signing and verification of identification, and lenders accepted applications by appointment with limited in person contact as well. Due to high transmission rates in our service area, branch lobbies were closed again from January 18, 2022 to March 7, 2022, and only open by appointment. The Company serviced customers in similar methods as when the lobbies closed in 2020.

The SBA implemented the Paycheck Protection Program ("PPP") to support small business operations with loans during the shutdown and into the following months. The Company worked diligently to support both our customers and noncustomers within our footprint with these loans. The Company originated a total of 1,080 PPP loans totaling $87,061 and associated fees of $3,824 through the SBA program. The fees will be recognized over the life of the associated loans. As of February 4, 2022, there are 50 loans outstanding with a balance of $4,767 and unamortized fees of $122.

The full impact of COVID-19 and its length of duration remains uncertain at this time. The Company is closely monitoring the effects of the pandemic on our customers. Management assessed the risks in our loan portfolio and worked with our customers to minimize losses.

The company granted 1,266 modifications allowing principal and interest deferrals in connection with the COVID-19 related needs from first quarter 2020 to first quarter 2021. These modifications, 75% of which were short-term dealer loan modifications, were consistent with regulatory guidance and/or the CARES Act. As of January 18, 2022, no loans remain in deferral.

COVID-19, continued

Based on the Company's capital levels, current underwriting policies, low loan-to-deposit ratio, loan concentration diversification and rural operating environment, management believes that it is well positioned to support its customers and communities and to manage the economic risks and uncertainties associated with COVID-19 pandemic and remain adequately capitalized.

Given the rapidly changing and unprecedented nature of the pandemic, however, the Company could experience material and adverse effects on its business, including as a result of credit deterioration, operational disruptions, decreased demand for products and services, or other reasons. The extent to which the pandemic impacts the Company will depend on future developments, which are highly uncertain and are difficult to predict, including, but not limited to, its duration and severity, the actions to contain it or treat its impact, and how quickly and to what extent normal economic and operating conditions will resume.

PART II, continued

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

Five Year Summary of Selected Financial Data

(Dollars and shares in thousands, except per share data)	**2021**	**2020**	**2019**	**2018[6]**	**2017[6]**
Income Statement Data:					
Interest and Dividend Income	$ 35,576	$ 36,792	$ 38,210	$ 36,377	$ 33,719
Interest Expense	4,302	5,728	6,818	4,832	3,897
Net Interest Income	31,274	31,064	31,392	31,545	29,822
(Recovery of) Provision for Loan Losses	(2,821)	3,300	7,405	2,930	-
Net Interest Income After (Recovery of) Provision for Loan Losses	34,095	27,764	23,987	28,615	29,822
Noninterest Income	12,167	13,103	10,759	8,770	8,517
Low-income housing partnership losses	(861)	(893)	(839)	(767)	(625)
Noninterest Expenses	33,340	29,939	29,518	26,744	24,719
Income before income taxes	12,061	10,035	4,389	9,874	12,995
Income Tax Expense (Benefit)	1,323	1,142	(250)	1,041	4,202
Net income attributable to noncontrolling interest	-	(105)	(130)	(10)	(31)
Net Income attributable to F & M Bank Corp.	$ 10,738	$ 8,788	$ 4,509	$ 8,823	$ 8,762
Per Common Share Data:					
Net Income – basic	$ 3.25	$ 2.66	$ 1.32	$ 2.60	$ 2.68
Net Income - diluted	3.12	2.56	1.30	2.45	2.41
Dividends Declared	1.04	1.04	1.02	1.20	.94
Book Value per Common Share	29.42	28.43	27.11	26.68	25.65
Balance Sheet Data:					
Assets	$ 1,219,342	$ 966,930	$ 813,999	$ 779,743	$ 752,894
Loans Held for Investment	662,421	661,329	603,425	638,799	616,974
Loans Held for Sale	4,887	58,679	66,798	55,910	39,775
Securities	413,217	117,898	18,015	21,844	41,243
Deposits	1,080,295	818,582	641,709	591,325	569,177
Short-Term Debt	-	-	10,000	40,116	25,296
Long-Term Debt	21,772	33,202	53,201	40,218	49,733
Stockholders' Equity	100,456	95,629	91,575	91,401	91,027
Average Common Shares Outstanding – basic	3,245	3,200	3,189	3,238	3,270
Average Common Shares Outstanding – diluted	3,442	3,429	3,460	3,596	3,632
Financial Ratios:					
Return on Average Assets[1]	0.98%	0.95%	0.57%	1.15%	1.17%
Return on Average Equity[1]	10.84%	9.46%	4.93%	9.67%	9.89%
Net Interest Margin	3.00%	3.61%	4.33%	4.65%	4.48%
Efficiency Ratio [2]	75.44%	67.51%	69.03%	66.04%	64.27%
Dividend Payout Ratio - Common	32.00%	39.10%	77.27%	46.15%	35.07%
Capital and Credit Quality Ratios:					
Average Equity to Average Assets[1]	9.05%	10.08%	11.48%	11.90%	12.10%
Allowance for Loan Losses to Loans[3]	1.17%	1.58%	1.39%	0.82%	0.98%
Nonperforming Loans to Total Assets[4]	0.45%	0.68%	0.70%	1.31%	0.94%
Nonperforming Assets to Total Assets[5]	0.45%	0.68%	0.89%	1.62%	1.21%
Net Charge-offs to Total Loans[3]	(.01)%	0.18%	0.71%	0.58%	0.24%

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 loans and non-accrual loans to Total Assets.

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

6 The 2018 and 2017 financial information has been adjusted to reflect the correction of a prior periods error.

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 2021 totaled $10,738 or $3.25 per common share (basic), an increase of 22.19% from $8,788 or $2.66 a share (basic) in 2020. Return on average equity increased in 2021 to 10.84% versus 9.46% in 2020, and the return on average assets increased from .95% in 2020 to .98% in 2021. The Company's net income per share (dilutive) totaled $3.12 in 2021, an increase from $2.56 in 2020.

Changes in Net Income per Common Share (Basic)

		2021 to 2020		2020 to 2019
Prior Year Net Income Per Common Share (Basic)	$	2.66	$	1.32
Change from differences in:				
Net interest income		0.06		(0.10)
Provision for loan losses		1.89		1.28
Noninterest income, excluding securities gains		(0.08)		0.72
Noninterest expenses		(0.16)		(0.13)
Income taxes		(1.05)		(0.44)
Effect of preferred stock dividend		(0.06)		0.02
Change in average shares outstanding		(0.01)		(0.01)
Total Change		0.59		1.34
Net Income Per Common Share (Basic)	$	3.25	$	2.66

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 increased 0.68% from 2020 to 2021 following a decrease of 1.04% from 2019 to 2020. 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 2021 was $31,385 representing an increase of $231 or 0.74% over the prior year. A 0.99% decrease in 2020 versus 2019 resulted in total tax equivalent net interest income of $31,154.

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 accompanying table.

Tax equivalent income on earning assets decreased $1,196 in 2021 compared to 2020. Loans held for investment, expressed as a percentage of total earning assets, decreased in 2021 to 63.77% as compared to 76.37% in 2020. During 2021, yields on earning assets decreased 86 basis points (BP) and the average cost of interest-bearing liabilities decreased 34BP. Both are a result of the declining interest rate environment experienced in 2021.

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

Net Interest Income, continued

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

GAAP Financial Measurements:	**2021**	**2020**
Interest Income – Loans	$ 32,560	$ 35,411
Interest Income - Securities and Other Interest-Earnings Assets	3,016	1,381
Interest Expense – Deposits	3,336	4,615
Interest Expense - Other Borrowings	966	1,113
Total Net Interest Income	31,274	31,064
Non-GAAP Financial Measurements:		
Add: Tax Benefit on Tax-Exempt Interest Income – Loans and Securities	110	90
Total Tax Benefit on Tax-Exempt Interest Income	110	90
Tax-Equivalent Net Interest Income	$ 31,384	$ 31,154

Interest Income

Tax equivalent net interest income increased $230 or 0.73% in 2021, after decreasing 0.99% or $312 in 2020. Overall, the yield on earning assets decreased 0.86%, from 4.27% to 3.41%. Average loans held for investment increased during 2021, with average loans outstanding increasing $7,973 to $667,082. Average real estate loans decreased 4.20%, commercial loans increased 3.26%, and consumer installment loans increased 12.29% on average. Average investment securities increased 288.46%, with average securities outstanding increasing $175,455 to $236,280.

Interest Expense

Interest expense decreased $1,426 or 24.90% during 2021. The average cost of funds of 0.60% decreased 34BP compared to 2020, which followed a decrease of 36BP in 2020. Average interest-bearing liabilities increased $105,694 or 17.31% in 2021. Interest expense on deposits decreased 27.74%, in spite of a 28.17% increase in average deposits. Interest expense on borrowings decreased 13.21% as average debt decreased 61.21%. Changes in the cost of funds attributable to rate and volume variances are reflected in a following table.

The following analysis reveals a decrease in the net interest margin to 3.00% in 2021 from 3.61% in 2020, due to changes in balance sheet mix during the year and decreases in interest rates in earning assets and interest-bearing liabilities. The investment portfolio has grown significantly due to the increase in deposits and a decrease in funding loans held for sale with Northpointe Bank. The rate environment remained low in 2021 due to uncertainties in the economy.

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]

	2021			2020		
	Balance	**Interest**	**Rate**	**Balance**	**Interest**	**Rate**
ASSETS						
Loans[2]						
Commercial	$ 246,495	$ 11,667	4.73%	$ 238,722	$ 11,165	4.68%
Real estate	298,983	13,506	4.52%	312,092	15,893	5.09%
Consumer	121,604	7,277	5.98%	108,295	7,124	6.58%
Loans held for investment[4]	667,082	32,450	4.86%	659,109	34,182	5.19%
Loans held for sale	3,844	186	4.84%	45,784	1,298	2.84%
Investment securities[3]						
Fully taxable	228,287	2,739	1.20%	60,700	1,051	1.73%
Partially taxable	125	1	0.80%	125	2	1.60%
Tax exempt	7,868	168	2.14%	-	-	-%
Total investment securities	236,280	2,908	1.23%	60,825	1,053	1.73%
Interest bearing deposits in banks	2,184	3	0.14%	1,227	3	0.24%
Federal funds sold	136,705	139	0.10%	96,127	346	0.36%
Total Earning Assets	1,046,095	35,686	3.41%	863,072	36,882	4.27%
Allowance for loan losses	(9,000)			(9,433)		
Nonearning assets	57,474			67,645		
Total Assets	$ 1,094,569			$ 921,284		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Deposits						
Demand –interest bearing	$ 147,008	$ 280	0.19%	$ 107,961	$ 292	0.27%
Savings	410,769	1,689	0.41%	296,403	2,190	0.74%
Time deposits	129,760	1,367	1.05%	132,081	2,133	1.61%
Total interest-bearing deposits	687,537	3,336	0.49%	536,445	4,615	0.86%
Short-term debt	-	-	-%	1,776	41	2.31%
Long-term debt	28,770	966	3.36%	72,392	1,072	1.48%
Total interest-bearing liabilities	716,307	4,302	0.60%	610,613	5,728	0.94%
Noninterest bearing deposits	263,911			203,312		
Other liabilities	15,258			14,484		
Total liabilities	995,476			828,409		
Stockholders' equity	99,093			92,875		
Total liabilities and stockholders' equity	$ 1,094,569			$ 921,284		
Net interest earnings		$ 31,384			$ 31,154	
Net yield on interest earning assets (NIM)			3.00%			3.61%

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.

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.

	2021 Compared to 2020 Increase (Decrease) Due to Change in Average: Volume	Rate	Increase Or (Decrease)
Interest income			
Loans held for investment	$ 414	$ (2,146)	$ (1,732)
Loans held for sale	(1,191)	79	(1,112)
Investment securities			
Fully taxable	2,899	(1,211)	1,688
Partially taxable	-	(1)	(1)
Tax exempt	-	168	168
Interest bearing deposits in banks	2	(2)	-
Federal funds sold	146	(353)	(207)
Total Interest Income	2,270	(3,466)	(1,196)
Interest expense			
Deposits			
Demand - interest bearing	105	(117)	(12)
Savings	846	(1,347)	(501)
Time deposits	3,408	(4,174)	(766)
Short-term debt	(41)	-	(41)
Long-term debt	(646)	540	(106)
Total Interest Expense	3,672	(5,099)	(1,426)
Net Interest Income	$ (1,402)	$ 1,633	$ 230

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 for the Company 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 decreased 7.40% or $904, in 2021. The 2021 decrease is due primarily to a decline in the gross revenue of F&M Mortgage and realized security losses. The decline in revenue from F&M Mortgage was due to a decrease in refinance volume. The Company experienced growth in investment services and insurance income, title insurance income and ATM and check card fees.

Noninterest Expense

Noninterest expenses increased from $29,939 in 2020 to $33,340 in 2021, an 11.36% increase. Expenses increased primarily in the areas of salaries and benefits ($2,003), legal and professional expense ($406), telecommunication and data processing expense ($406), and other operating expenses ($376). Salary increases were due to expansion into the Winchester and Waynesboro markets; this also increased legal and professional fees and data processing expenses. Other operating expenses include loss on the sale of bank property ($112), donation of bank property ($162) and prepayment penalties on FHLB debt repayments ($228). Total noninterest expense as a percentage of average assets totaled 3.05% and 3.36% in 2021 and 2020, respectively. Peer group averages (as reported in the most recent Uniform Bank Performance Report) were 2.40% for 2021 and 2.60% for 2020.

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. Due to COVID-19, the Company had added or increased qualitative factors for the economy and concentrations in industries specifically affected by the virus. The Company continues to evaluate these factors in light of the changing effects the virus has on the economy, supply chains, and labor markets. The Company has experienced improvements in past dues and nonperforming loans since December 31, 2020. Past due loans have decreased $4,609 and nonperforming loans have decreased $1,029 since December 31, 2020.

As a result of the above factors, the current year recovery of provision for loan losses totaled $2,821 compared to a provision of $3,300 for 2020. Net charge offs decreased from $1,215 in 2020 to net recoveries of $94 in 2021. Net charge-offs as a percentage of loans held for investment totaled (0.01)% and 0.18% in 2021 and 2020, respectively. The dealer finance charge-off percentage is the largest category at 0.04% of loans held for investment. Losses in the dealer finance segment are closely monitored, and due to payment deferrals, government stimulus programs and record high used car prices, have declined in 2021. As stated in the most recently available Uniform Bank Performance Report (UPBR), peer group loss averages were 0.04% in 2021 and 0.08% in 2020.

The current levels of the allowance for loan losses reflect net charge-off activity and other credit risk factors that the Company considers in assessing the adequacy of the allowance for loan losses. Management will continue to monitor the effects of COVID-19 and nonperforming, adversely classified and past due loans to make necessary adjustments to specific reserves and provision for loan losses should conditions change regarding collateral values or cash flow expectations.

Balance Sheet

Total assets increased 26.10% during the year to $1,219,342 at December 31, 2021, an increase of $252,412 from $966,930 at December 31, 2020. Cash and cash equivalents increased $9,713, the AFS security portfolio grew $296,983, net loans held for investment increased $3,819, and loans held for sale declined $53,792. Average earning assets increased 21.21% to $1,046,095 for 2021. The increase in earning assets is due largely to the growth in investment securities and federal funds sold. Deposits grew $261,713 and non-deposit liabilities decreased $14,128 in 2021 as the Bank paid off long-term debt with the FHLB. Average interest-bearing deposits increased $151,092 for 2021 or 28.17%, with increases in interest-bearing demand accounts and savings while time deposits declined. The Company continues to utilize its assets well, with 95.57% of average assets consisting of earning assets.

PART II, Continued

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

Balance Sheet, continued

In January 2021, the Bank entered into an agreement to purchase the operations of a branch office in Waynesboro, Virginia from Carter Bank & Trust. The Bank acquired deposits of $14,229 in the transaction and received a cash payment of $13,758, which was net of a premium paid on deposits of $135. No loans were included in the transaction. The transaction closed on April 23, 2021; see Note 29 to the consolidated financial statements in this Form 10-K for additional details on the transaction.

Investment Securities

Due to the deposit growth initiatives implemented in recent years and the COVID-19 pandemic, management has invested excess funds into securities during 2021. Total securities increased $295,319 or 250.49% in 2021 to $413,217 at December 31, 2021 from $117,898 at December 31, 2020. Average balances in investment securities increased 288.46% in 2021 to $236,280. At year end, 22.59% 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 1.23% for 2021, compared to 1.73% in 2020; this is due to the overall market declines in 2021.

There were no Other Than Temporary Impairments (OTTI) write-downs in 2021 or 2020. There were $525 in realized security losses on sales of securities in 2021; there were no realized security gains or loss on sales of securities in 2020.

Maturities and weighted average yields of securities at December 31, 2021 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 4 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			
	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Amount	Yield[1]	Total	Yield[1]
Debt Securities Available for Sale:										
U.S. Treasuries	$ -		$ 14,895	0.68%	$ 14,587	0.99%	$ -		$ 29,482	0.83%
U.S. Government sponsored enterprises	-		95,313	0.98%	38,401	1.37%	-		133,714	1.09%
Securities issued by States & political subdivisions of the U.S.	2,005	0.21%	18,181	0.98%	3,730	1.63%	10,421	2.38%	34,337	1.43%
Mortgage-backed obligations of federal agencies	-		18,299	0.92%	11,678	1.21%	153,670	1.46%	183,647	1.39%
Corporate debt securities	2,013	2.13%	-		19,189	3.19%	1,500	3.75%	22,702	3.13%
Total	$ 4,018	1.17%	$146,688	0.94%	$ 87,585	1.70%	$165,591	1.54%	$403,882	1.35%
Debt Securities Held to Maturity:										
U.S. Treasury & Agency	$ 125	0.52%	$ -		$ -		$ -		$ 125	0.52%
Total	$ 125	0.52%	$ -		$ -		$ -		$ 125	0.52%

[1]Tax equivalent yield to the lower of call or maturity date. On securities without a call date, it is the stated yield.

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.

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

Analysis of Loan Portfolio, continued

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 $662,421 at December 31, 2021 compared with $661,329 at December 31, 2020. 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 $23,466 or 14.39%. Construction loans increased $3,769 or 5.27%. Commercial loans, including agricultural and multifamily loans, increased 4.25% during 2021 to $279,019; PPP loans decreased from $34,908 at December 31, 2020 to $7,936 at December 31, 2021. Consumer loans increased $14,116 or 13.94% mainly due to the dealer finance division loans. Consumer loans include personal loans, auto loans and other loans to individuals.

The following table shows the maturity of loans and leases, outstanding as of December 31, 2021:

	1 Year or less	1-5 Years	5-15 Years	After 15 Years	Total
Construction/Land Development	$ 39,177	$ 25,215	$ 8,818	$ 2,026	$ 75,236
Farmland	4,851	7,745	37,143	16,605	66,344
Real Estate	24,356	74,824	31,832	8,540	139,552
Multi-Family	-	241	2,530	2,116	4,887
Commercial Real Estate	16,442	52,962	69,670	24,490	163,564
Home Equity – closed end	1,187	3,239	1,836	-	6,262
Home Equity – open end	1,965	6,997	34,247	1,038	44,247
Commercial & Industrial – Non-Real Estate	9,091	16,023	19,110	-	44,224
Consumer	1,014	5,940	1,082	-	8,036
Dealer Finance	1,976	38,922	66,448	-	107,346
Credit Cards	3,000	-	-	-	3,000
Total	$ 103,059	$ 232,108	$ 272,716	$ 54,815	$ 662,698

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

Analysis of Loan Portfolio, continued

At December 31, 2021, for loans and leases due after one year, interest rate information is as follows:

	1-5 Years	5-15 Years	After 15 Years	Total
Construction/Land Development				
Outstanding with fixed interest rates	$ 12,052	$ 1,968	$ 1,164	$ 15,184
Outstanding with adjustable rates	13,163	6,850	862	20,875
Total Construction/Land Development	25,215	8,818	2,026	36,059
Farmland				
Outstanding with fixed interest rates	$ 218	$ 4,547	$ -	$ 4,765
Outstanding with adjustable rates	7,527	32,596	16,605	56,728
Total Farmland	7,745	37,143	16,605	61,493
Real Estate				
Outstanding with fixed interest rates	$ 417	$ 1,473	$ 1,807	$ 3,697
Outstanding with adjustable rates	74,407	30,359	6,733	111,499
Total Real Estate	74,824	31,832	8,540	115,196
Multi-Family				
Outstanding with fixed interest rates	$ -	$ -	$ -	$ -
Outstanding with adjustable rates	241	2,530	2,116	4,887
Total Multi-Family	241	2,530	2,116	4,887
Commercial Real Estate				
Outstanding with fixed interest rates	$ 1,234	$ 7,694	$ -	$ 8,928
Outstanding with adjustable rates	51,728	61,976	24,490	138,194
Total Commercial Real Estate	52,962	69,670	24,490	147,122
Home Equity – closed end				
Outstanding with fixed interest rates	$ 357	$ 1,623	$ -	$ 1,980
Outstanding with adjustable rates	2,882	213	-	3,095
Total Home Equity – closed end	3,239	1,836	-	5,075
Home Equity – open end				
Outstanding with fixed interest rates	$ -	$ -	$ -	$ -
Outstanding with adjustable rates	6,997	34,247	1,038	42,282
Total Home Equity – open end	6,997	34,247	1,038	42,282
Commercial & Industrial – Non-Real Estate				
Outstanding with fixed interest rates	$ 5,549	$ 12,616	$ -	$ 18,165
Outstanding with adjustable rates	10,474	6,494	-	16,968
Total Commercial & Industrial – Non-Real Estate	16,023	19,110	-	35,133
Consumer				
Outstanding with fixed interest rates	$ 5,008	$ 633	$ -	$ 5,641
Outstanding with adjustable rates	932	449	-	1,381
Total Consumer	5,940	1,082	-	7,022
Dealer Finance				
Outstanding with fixed interest rates	$ 38,922	$ 66,448	$ -	$ 105,370
Outstanding with adjustable rates	-	-	-	-
Total Dealer Finance	38,922	66,448	-	105,370
Total outstanding with fixed interest rates	$ 63,757	$ 97,002	$ 2,971	$ 163,730
Total outstanding with adjustable interest rates	$ 168,351	$ 175,714	$ 51,844	$ 395,909
Total	$ 232,108	$ 272,716	$ 54,815	$ 559,639

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 81% 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, except for dealer loans that generally have a term of 5 years.

Fixed rate real estate loans were partially funded with fixed rate borrowings from the Federal Home Loan Bank, which allowed the Company to control its interest rate risk. The Company has not had a need for additional funding from the FHLB due to the growth in deposits, but there may be a time where we match the maturities in the future. 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 ten or twenty year periods 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. Commercial construction loans are made to construct commercial and agricultural buildings. Consumer loans are made for a variety of reasons; however, approximately 75% of the loans are secured by vehicles.

Approximately 75% 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. The Bank has an approved limit of 16% for dealer loans as a percentage of total loans. The Bank has not developed a formal policy limiting the concentration level of any other 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 $276 in additional interest income in 2021 had the loans on nonaccrual status been current and performing. Nonperforming loans totaled $5,508 at December 31, 2021 compared to $6,537 at December 31, 2020. At December 31, 2021, there were $43 of loans 90 days or more past due and accruing compared to $102 at December 31, 2020. The remainder of nonperforming loans were on nonaccrual. Management continues their efforts to reduce nonperforming loans, which decreased 15.74% from December 31, 2020 to December 31, 2021 and from 0.99% of loans held for investment at December 31, 2020 to 0.83% at December 31, 2021.

Approximately 98.48% of these nonperforming loans are secured by real estate and were in the process of collection. The Bank believes that adequate specific reserves have been established on impaired loans and continues to actively work with its customers to effect payment. As of December 31, 2021 and 2020, the Company holds $0 of real estate acquired through foreclosure.

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

Nonaccrual and Past Due Loans, continued

A summary of credit ratios for nonaccrual loans is as follows:

	2021	2020
Allowance for loan losses	$ 7,748	$ 10,475
Nonaccrual loans	$ 5,465	$ 6,435
Total Loans	$ 662,421	$ 661,329
Allowance for loan losses to Total Loans	1.17%	1.58%
Nonaccrual Loans to Total Loans	0.83%	0.97%
Allowance for loan losses to Nonaccrual loans	141.77%	162.78%

Potential Problem Loans

As of December 31, 2021, 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

Management evaluates the allowance for loan losses on a quarterly basis in light of national and local economic trends, changes in the nature and volume of the loan portfolio and trends in past due and criticized loans. Specific factors evaluated include internally generated loan review reports, past due reports, historical loan loss experience and changes in the financial strength of individual borrowers that have been included on the Bank's watch list or schedule of classified loans.

In evaluating the portfolio, loans are segregated by segment with identified potential losses, pools of loans by type, with separate weighting for past dues 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 $500,000 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.

Loans that are not reviewed for impairment are categorized by call report code and an estimate is calculated based on actual loss experience over the last three years. As reflected in Note 6, the Company made a change in its allowance for loan losses methodology to increase the look back period on historical losses from two years to three years. This revised lookback period more accurately reflects the average loss history within the portfolio, as loss history during the most recent two years was impacted by government programs in response to the COVID-19 pandemic.

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 approves the loan loss provision for each quarter based on this evaluation.

The allowance for loan losses of $7,748 at December 31, 2021 is equal to 1.17% of total loans held for investment. This compares to an allowance of $10,475 or 1.58% of total loans at December 31, 2020. PPP loans are 100% guaranteed by the SBA; thus, they do not have an allowance. PPP loans totaled $7,936 and $34,908 at December 31, 2021 and 2020, respectively.

Loan Losses and the Allowance for Loan Losses, continued

During 2021, three relationships reviewed for impairment improved their collateral and/or cash flow position and were moved to the general allowance; proceeds were received on one foreclosure sale, sales of collateral to reduce the debt and amortization; and new appraisals on three relationships decreased the calculated impairment. Due to COVID-19, the bank increased the qualitative factor for the economy and concentrations in industries specifically affected by the virus in 2020. Due to improvements in 2021 in the unemployment rate, nonperforming, past due and classified loans, and the end of CARES Act modifications, the bank decreased the environmental factor for COVID-19's impact on the economy. The Company continues to monitor COVID-19's effects on the labor market, inflation, the supply chain, government stimulus programs and increased used car prices. Nonaccrual loans at December 31, 2021 totaled $5,465 compared to $6,435 at December 31, 2020. Classified loans (internally rated substandard or watch) decreased from a total of $67,592 at December 31, 2020 to $43,230 at December 31, 2021, or 36%. This remains above the pre-pandemic total of $41,343. Management is closely monitoring the effects of COVID-19 on the loan portfolio and makes adjustments to specific reserves, the environmental factors and the provision for loan losses as necessary.

Loan recoveries, net of losses, totaled $94 in 2021 which is equivalent to (.01)% of total loans outstanding.

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:

	2021	2020
Balance at beginning of period	$ 10,475	$ 8,390
(Recovery of) Provision charged to expenses	(2,821)	3,300
Loan losses:		
Construction/land development	-	7
Farmland	-	-
Real Estate	-	158
Multi-family	-	-
Commercial Real Estate	-	64
Home Equity – closed end	-	-
Home Equity – open end	-	34
Commercial & Industrial – Non-Real Estate	40	138
Consumer	33	89
Dealer Finance	1,038	1,551
Credit Cards	54	123
Total loan losses	1,165	2,164
Recoveries:		
Construction/land development	307	-
Farmland	-	-
Real Estate	76	7
Multi-family	-	-
Commercial Real Estate	19	11
Home Equity – closed end	-	-
Home Equity – open end	13	3
Commercial & Industrial – Non-Real Estate	37	19
Consumer	24	50
Dealer Finance	754	784
Credit Cards	29	75
Total recoveries	1,259	949
Net loan (losses) recoveries	94	(1,215)
Balance at end of period	$ 7,748	$ 10,475
Net loan (recoveries) losses to average loans held for investment:		
Construction/land development	(.05)%	-%
Farmland	-%	-%
Real Estate	(.01)%	.02%
Multi-family	-%	-%
Commercial Real Estate	-%	.01%
Home Equity – closed end	-%	-%
Home Equity – open end	-%	-%
Commercial & Industrial – Non-Real Estate	-%	.02%
Consumer	-%	.01%
Dealer Finance	.04%	.12%
Credit Cards	-%	.01%
Total	(.01)%	.18%
Allowance for loan losses as a percentage of loans held for investment	1.17%	1.58%

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

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	2021		2020	
	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category
Construction/Land Development	$ 977	12.61%	$ 1,249	11.92%
Farmland	448	5.78%	731	6.98%
Real Estate	1,162	15.00%	1,624	15.50%
Multi-Family	29	.38%	54	.52%
Commercial Real Estate	2,205	28.46%	3,662	34.96%
Home Equity – closed end	41	.53%	55	.53%
Home Equity – open end	407	5.25%	463	4.42%
Commercial & Industrial – Non-Real Estate	288	3.72%	363	3.46%
Consumer	520	6.71%	521	4.98%
Dealer Finance	1,601	20.66%	1,674	15.96%
Credit Cards	70	.90%	79	.76%
Total	$ 7,748	100.00%	$ 10,475	100.00%

Deposits and Borrowings

The average deposit balances and average rates paid for 2021 and 2020 were as follows:

	December 31,			
	2021		2020	
	Average Balance	Rate	Average Balance	Rate
Noninterest-bearing	$ 263,911		$ 203,312	
Interest-bearing:				
Interest Checking	$ 147,008	0.19%	$ 107,961	0.27%
Savings Accounts	410,769	0.41%	296,403	0.74%
Time Deposits	129,760	1.05%	132,081	1.61%
Total interest-bearing deposits	687,537	0.48%	536,445	0.86%
Total deposits	$ 951,448	0.35%	$ 739,757	0.61%

Average noninterest-bearing demand deposits, which are comprised of checking accounts, increased $60,599 or 29.81% from $203,312 at December 31, 2020 to $263,911 at December 31, 2021. Average interest-bearing deposits, which include interest checking accounts, money market accounts, regular savings accounts and time deposits, increased $151,092 or 28.17% from $536,445 at December 31, 2020 to $687,537 at December 31, 2021. Total average interest checking account balances increased $39,047 or 36.17% from $107,961 at December 31, 2020 to $147,008 at December 31, 2021. Total average savings account balances (including money market accounts) increased $114,366 or 38.58% from $296,403 at December 31, 2020 to $410,769 at December 31, 2021. The bank has a competitive money market rate to maintain and attract core deposits.

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

Deposits and Borrowings, continued

Average time deposits decreased $2,321 or 1.76% from $132,081 at December 31, 2020 to $129,760 at December 31, 2021. The money market rate has been attractive and as time deposits matured, customers moved their deposits to the money market account.

The maturity distribution of certificates of deposit in excess of FDIC limits is as follows:

	2021	2020
Less than 3 months	$ -	$ -
3 to 6 months	3,206	300
6 to 12 months	257	-
1 year to 5 years	8,910	11,983
Total	$ 12,373	$ 12,283

Total uninsured deposits in excess of $250,000 was $323,361 and $179,218 at December 31, 2021 and 2020, respectively.

Non-deposit borrowings include Federal Home Loan Bank (FHLB) borrowings and subordinated debt notes. Non-deposit borrowings are an important source of funding for the Bank that assist in managing short and long-term funding needs.

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 had no short-term borrowings in 2021 or 2020 due to deposit growth. Repayment of amortizing and fixed maturity loans through FHLB totaled $11,268 during 2021. One loan with a balance of $10,000 and rate of 0.81% was outstanding at December 31, 2021.

Other long-term debt includes $11,772 of subordinated notes, net of unamortized costs at December 31, 2021. On July 29, 2020, the Company issued $5,000 in aggregate principal amount of 5.75% fixed rate subordinated notes due July 31, 2027 and $7,000 in aggregate principal amount of 6% fixed to floating rate subordinated notes due July 31, 2030.

Contractual Obligations and Scheduled Payments:

	December 31, 2021				
	Less than One Year	One Year Through Three Years	Three Years Through Five Years	More than Five Years	Total
FHLB long term advances	$ -	$ -	$ -	$ 10,000	$ 10,000
Subordinated debt	-	-	-	11,772	11,772
Total	$ -	$ -	$ -	$ 21,772	$ 21,772

See Note 11 (Short Term Debt) and Note 12 (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 $4,827 or 5.05% in 2021. Capital was increased by net income totaling $10,738, issuance of common stock totaling $263, common stock issued in the Company's stock incentive plan of $121, and pension adjustment of $530. Capital was reduced by common and preferred dividends totaling $3,593, unrealized gains on available for sale securities of $2,605, and redemption of preferred stock totaling $627. As of December 31, 2021, book value per common share was $29.42 compared to $28.43 as of December 31, 2020. Dividends are paid to stockholders quarterly based on decisions by the Board of Directors unless unexpected fluctuations in net income indicate a change to this policy is needed.

Stockholders' Equity, continued

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, 2021, the Bank had Common Equity Tier I capital of 13.95%, Tier I risked based capital of 13.95% and total risked based capital of 15.00% 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, 2021, the Bank reported a leverage ratio of 8.62%. The Bank's leverage ratio was also substantially above the minimum. The Bank also reported a capital conservation buffer of 7.00% at December 31, 2021. 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.

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 .61% in 2021 following a decrease of .72% in 2020. This decrease is primarily due to decreases in interest rates as well as changes in balance sheet structure including a decrease in loans held for investment, establishing an investment portfolio, and substantial deposit growth which led to excess funds on hand. In 2020, the Federal Open Market Committee elected to decrease the short-term rates target 150BP to 0% from 1.50%.

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 $83,265 for 2021. 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 the prior year. The Company has increased efforts to raise deposits and depositors have changed their savings habits during 2021 due to the COVID-19 pandemic. While this helps liquidity, the investment options and rate market in general have hurt the net interest margin. The Company has lowered core deposit rates throughout 2021 to mitigate the decline in 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, management anticipates no additional borrowings in 2022. 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. Management is not aware of any off-balance sheet items that will impair future liquidity.

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

Market Risk Management, continued

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, 2021. 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 -1.96% of total earning assets, compared to 17.03% in 2020. Approximately 22.42% of rate sensitive assets and 34.19% of rate sensitive liabilities are subject to repricing within one year. Short term assets (less than one year) decreased $99,862 during the year, while total earning assets increased $256,998. The growth in earning assets is primarily due to the utilization of excess funds created by deposit growth. Short term deposits, maturities less than 365 days, increased $78,658 and short-term borrowings decreased $3,623. Short term borrowings decreased as advances matured and were not renewed.

The following GAP analysis shows the time frames as of December 31, 2021, in which the Company's assets and liabilities are subject to repricing:

	1-90 Days	91-365 Days	1-5 Years	Over 5 Years	Not Classified	Total
Rate Sensitive Assets:						
Loans held for investment	$ 108,743	$ 60,772	$ 360,168	$ 133,015	$ -	$ 662,698
Loans held for sale	4,887	-	-	-	-	4,887
Federal funds sold	76,667	-	-	-	-	76,667
Investment securities	125	4,018	146,688	253,176	-	404,007
Interest bearing money market and bank deposits in other banks	2,938	-	-	-	-	2,938
Total Earning Assets	193,360	64,790	506,856	386,191	-	1,151,197
Rate Sensitive Liabilities:						
Interest bearing demand deposits	-	38,394	115,181	38,394	-	191,969
Savings deposits	-	198,946	256,003	28,527	-	483,476
Certificates of deposit	12,622	30,790	80,445	-	-	123,857
Total Deposits	12,622	268,130	451,629	66,921	-	799,302
Long-term debt	-	-	-	21,772	-	21,772
Total	12,622	268,130	451,629	88,693	-	821,074
Discrete Gap	180,738	(203,340)	55,227	297,498	-	330,123
Cumulative Gap	180,738	(22,602)	32,625	330,123	330,123	
As a % of Earning Assets	15.70%	-1.96%	2.83%	28.68%	28.68%	

- 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.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Note Applicable

F & M Bank Corp. and Subsidiaries

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

As of December 31, 2021 and 2020

	2021	2020
Assets		
Cash and due from banks	$ 8,516	$ 11,181
Money market funds and interest-bearing deposits in other banks	2,938	1,244
Federal funds sold	76,667	65,983
Cash and cash equivalents	88,121	78,408
Securities:		
Held to maturity, at amortized cost - fair value of $125 in 2021 and 2020	125	125
Available for sale, at fair value	403,882	106,899
Other investments	9,210	10,874
Loans held for sale, at fair value	4,887	14,307
Loans held for sale, participations	-	44,372
Loans held for investment, net of deferred fees and costs	662,421	661,329
Less: allowance for loan losses	(7,748)	(10,475)
Net loans held for investment	654,673	650,854
Bank premises and equipment, net	17,063	17,909
Bank premises held for sale	300	520
Interest receivable	3,117	2,727
Goodwill	3,082	2,884
Bank owned life insurance	22,878	22,647
Other assets	12,004	14,404
Total Assets	$ 1,219,342	$ 966,930
Liabilities		
Deposits:		
Noninterest bearing	$ 280,993	$ 236,915
Interest bearing	799,302	581,667
Total deposits	1,080,295	818,582
Long-term debt	21,772	33,202
Other liabilities	16,819	19,517
Total Liabilities	1,118,886	871,301
Commitments and contingencies		
Stockholders' Equity		
Series A Preferred Stock, $25 liquidation preference, 400,000 shares authorized, 0 shares issued and outstanding at December 31, 2021 and 205,327 shares issued and outstanding at December 31, 2020	-	4,558
Common stock $5 par value, 6,000,000 shares authorized, 200,000 designated, 3,414,306 and 3,203,372 shares issued and outstanding at December 31, 2021 and 2020, respectively	17,071	16,017
Additional paid in capital – common stock	10,127	6,866
Retained earnings	78,350	71,205
Accumulated other comprehensive loss	(5,092)	(3,017)
Total Stockholders' Equity	100,456	95,629
Total Liabilities and Stockholders' Equity	$ 1,219,342	$ 966,930

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 2021 and 2020

	2021	2020
Interest and Dividend Income		
Interest and fees on loans held for investment	$ 32,374	$ 34,113
Interest from loans held for sale	186	1,298
Interest from money market funds and federal funds sold	142	349
Interest from debt securities	2,874	1,032
Total interest and dividend income	35,576	36,792
Interest Expense		
Total interest on deposits	3,336	4,615
Interest from short-term debt	-	41
Interest from long-term debt	966	1,072
Total interest expense	4,302	5,728
Net Interest Income	31,274	31,064
(Recovery of) Provision for Loan Losses	(2,821)	3,300
Net Interest Income After (Recovery of) Provision for Loan Losses	34,095	27,764
Noninterest Income		
Service charges on deposit accounts	1,133	1,191
Investment services and insurance income, net	944	669
Mortgage banking income, net	4,646	6,154
Title insurance income	2,074	1,978
Income on bank owned life insurance	671	614
Low income housing partnership losses	(861)	(893)
ATM and check card fees	2,311	1,900
Net investment securities gains (losses)	(525)	-
Other operating income	913	597
Total noninterest income	11,306	12,210
Noninterest Expenses		
Salaries	14,102	12,738
Employee benefits	4,385	3,746
Occupancy expense	1,262	1,167
Equipment expense	1,200	1,180
FDIC insurance assessment	414	378
Other real estate owned, net	-	346
Marketing expense	748	604
Legal and professional expense	1,068	662
ATM and check card fees	1,113	1,047
Telecommunication and data processing expense	2,672	2,266
Directors fees	493	428
Bank Franchise tax	711	733
Impairment of long-lived assets	171	19
Other operating expenses	5,001	4,625
Total noninterest expenses	33,340	29,939
Income before income taxes	12,061	10,035
Income Tax Expense	1,323	1,142
Net Income	10,738	8,893
Net Income attributable to noncontrolling interest	-	(105)
Net Income attributable to F & M Bank Corp.	10,738	8,788
Dividends paid/accumulated on preferred stock	(196)	(263)
Net income available to common stockholders	$ 10,542	$ 8,525
Per Common Share Data		
Net income - basic	$ 3.25	$ 2.66
Net income - diluted	$ 3.12	$ 2.56
Cash dividends on common stock	$ 1.04	$ 1.04
Weighted average common shares outstanding – basic	3,245,086	3,199,883
Weighted average common shares outstanding – diluted	3,442,173	3,428,765

See accompanying Notes to the Consolidated Financial Statements.

F & M Bank Corp. and Subsidiaries

Consolidated Statements of Comprehensive Income (dollars in thousands)

For the years ended 2021 and 2020

	Years Ended December 31, 2021	2020
Net Income attributable to F & M Bank Corp.	$ 10,738	$ 8,788
Other comprehensive income (loss):		
Pension plan adjustment	671	(781)
Tax effect	141	164
Pension plan adjustment, net of tax	530	(617)
Unrealized holding (losses) gains on available-for-sale securities	(3,823)	1,027
Tax effect	803	(216)
Unrealized holding (losses) gains, net of tax	(3,020)	811
Less:		
Reclassifications adjustment for losses included in net income	525	-
Tax effect	110	-
Realized losses on sale of available-for-sale securities, net	415	-
Total other comprehensive (loss) income	(2,075)	194
Comprehensive income attributable to F&M Bank Corp.	$ 8,663	$ 8,982
Comprehensive income attributable to noncontrolling interests	$ -	$ 105
Total comprehensive income	$ 8,663	$ 9,087

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, 2021 and 2020

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2019	$ 4,592	$ 16,042	$ 7,510	$ 66,008	$ 634	$ (3,211)	$ 91,575
Net income	-	-	-	8,788	105	-	8,893
Other comprehensive income	-	-	-	-	-	194	194
Distributions to noncontrolling interest	-	-	-	-	(177)	-	(177)
Dividends on preferred stock ($1.27 per share)	-	-	-	(263)	-	-	(263)
Dividends on common stock ($1.04 per share)	-	-	-	(3,328)	-	-	(3,328)
Common stock repurchased (18,472 shares)	-	(92)	(381)	-	-	-	(473)
Common stock issued (11,866 shares)	-	59	199	-	-	-	258
Preferred stock converted to common (1,333 shares)	(34)	8	26	-	-	-	-
Purchase of Minority Interest	-	-	(488)	-	-	-	(1,050)
Balance, December 31, 2020	$ 4,558	$ 16,017	$ 6,866	$ 71,205	$ -	$ (3,017)	$ 95,629
Net Income	-	-	-	10,738	-	-	10,738
Other comprehensive (loss)	-	-	-	-	-	(2,075)	(2,075)
Dividends on preferred stock ($0.96 per share)	-	-	-	(196)	-	-	(196)
Dividends on common stock ($1.04 per share)	-	-	-	(3,397)	-	-	(3,397)
Common stock issued (9,332 shares)	-	47	216	-	-	-	263
Preferred stock converted to common (180,261 shares)	(3,931)	1,001	2,930	-	-	-	-
Preferred stock redeemed (25,066 shares)	(627)	-	-	-	-	-	(627)
Common stock issued for Stock-based Compensation (1,332 shares)	-	6	29	-	-	-	35
Stock-based compensation expense	-	-	86	-	-	-	86
Balance, December 31, 2021	$ -	$ 17,071	$ 10,127	$ 78,350	$ -	$ (5,092)	$ 100,456

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, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 10,738	$ 8,893
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,164	1,241
Amortization of intangibles	71	59
Amortization of securities	1,004	284
Proceeds from sale of loans held for sale originated	203,681	212,180
Gain on sale of loans held for sale originated	(4,679)	(5,576)
Loans held for sale originated	(189,582)	(217,937)
(Recovery of) Provision for loan losses	(2,821)	3,300
Deferred tax expense (benefit)	476	(670)
(Increase) in interest receivable	(390)	(683)
Decrease (increase) in other assets	2,560	(670)
(Decrease) increase in accrued liabilities	(2,076)	836
Loss on sale of investments	525	-
Amortization of limited partnership investments	861	893
Loss (gain) on sale of fixed assets, net	114	(14)
Loss on sale and valuation adjustments of other real estate owned	-	326
Income from life insurance investment	(671)	(614)
Share based compensation expense	86	-
Loss on sale of assets held for sale	220	-
Net Cash Provided by Operating Activities	21,281	1,848
Cash Flows from Investing Activities		
Proceeds from maturities of securities available for sale	19,130	24,513
Proceeds from sales of securities available for sale	25,917	-
Purchases of securities available for sale and other investments	(346,857)	(126,304)
Proceeds from the redemption of restricted stock, net	790	1,758
Proceeds from maturities of securities held to maturity	-	125
Purchases of securities held to maturity	-	(125)
Net (increase) in loans held for investment	(998)	(59,119)
Net decrease in loans held for sale participations	44,372	19,452
Net purchase of property and equipment	(563)	(742)
Purchase of bank owned life insurance	-	(2,000)
Purchase of minority interest	-	(856)
Proceeds from sale of other real estate owned	-	1,163
Proceeds from life insurance benefits	421	-
Proceeds from the sale of property and equipment	142	-
Cash received in branch acquisition (net of cash paid)	13,946	-
Net Cash (Used in) Investing Activities	(243,700)	(142,135)
Cash Flows from Financing Activities		
Net change in deposits	247,484	176,873
Net change in short-term debt	-	(10,000)
Dividends paid in cash	(3,593)	(3,591)
Proceeds from long-term debt	-	71,903
Distributions to non-controlling interest	-	(177)
Proceeds from sale of common stock	263	-
Proceeds from issuance of common stock	35	258
Repurchase of preferred stock	(627)	-
Repurchase of common stock	-	(473)
Repayments of long-term debt	(11,430)	(91,902)
Net Cash Provided by Financing Activities	232,132	142,891
Net Increase in Cash and Cash Equivalents	9,713	2,604
Cash and Cash Equivalents, Beginning of Year	78,408	75,804
Cash and Cash Equivalents, End of Year	$ 88,121	$ 78,408

See accompanying Notes to the Consolidated Financial Statements.

Supplemental Cash Flow information:				
Cash paid for:				
Interest	$	4,071	$	5,816
Income taxes	$	2,012	$	595
Supplemental non-cash disclosures:				
Change in unrealized (loss) gain on securities available for sale, net	$	(3,298)	$	811
Minimum pension liability adjustment, net	$	530	$	(617)
Conversion of preferred stock to common stock	$	(3,931)	$	34
Assets held for sale:				
Bank premises and equipment transferred to held for sale	$	-	$	537
Donation of assets held for sale	$	161	$	-
Write down of assets held for sale	$	59	$	-
Branch purchase:				
Tangible assets acquired (net of cash received)	$	61	$	-
Identifiable intangible assets acquired	$	73	$	-
Liabilities assumed	$	14,044	$	-

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 primarily in the counties of Rockingham, Shenandoah, and Augusta, and the cities of Harrisonburg, Staunton, Waynesboro and Winchester in Virginia. Services are provided at thirteen 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 Company, Farmers & Merchants Financial Services, Inc, ("FMFS") VBS Mortgage, LLC (dba F&M Mortgage) and VSTitle, LLC ("VST").

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, 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, and pension accounting.

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

At the time of purchase, debt securities are classified into the following categories: held to maturity, available for sale or trading. Debt securities that the Company has both the positive intent and ability to hold to maturity are classified as held to maturity. Held to maturity securities are stated at amortized cost adjusted for amortization of premiums and accretion of discounts on purchase using a method that approximates the effective interest method. Investments classified as trading or available for sale are stated at fair value. Changes in fair value of trading investments are included in current earnings while changes in fair value of available for sale investments are excluded from current earnings and reported, net of taxes, as a separate component of other comprehensive income. Presently, the Company does not maintain a portfolio of trading securities.

The fair value of investment securities available for sale is estimated based on quoted prices for similar assets determined by bid quotations received from independent pricing services. Declines in the fair value of securities below their amortized cost that are other than temporary are reflected in earnings or other comprehensive income, as appropriate. For those debt securities whose fair value is less than their amortized cost basis, we consider our intent to sell the security, whether it is more likely than not that we will be required to sell the security before recovery and if we do not expect to recover the entire amortized cost basis of the security. In analyzing an issuer's financial condition, we may consider whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred and the results of reviews of the issuer's financial condition.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Securities, continued

Interest income is recognized when earned. Realized gains and losses for securities classified as available-for-sale are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

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 2021 or 2020.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Investment, continued

Commercial and industrial non-real estate loans are secured by collateral other than real estate or are unsecured. During 2020 and 2021, the bank participated in the Payroll Protection Program (“PPP”) sponsored by the SBA. These loans are unsecured at a fixed interest rate of 1% and 100% guaranteed by the SBA. 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, regardless of type, are considered impaired loans.

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).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Loans Held for Sale, continued

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. 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. These loans are pre-sold with servicing released and no interest is retained after the loans are sold. The Company uses fair value accounting for its portfolio of loans held for sale (LHFS) originated by F&M Mortgage in accordance with ASC 820 – Fair Value Measurement and Disclosures. Fair value is based on observable market prices for the identical instruments traded in the secondary mortgage loan markets in which the Company conducts business total $4,887 as of December 31, 2021 of which $4,920 is related to unpaid principal. The Company's portfolio of LHFS is classified as Level 2.

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, 2021, and 2020, there were $0 and $44,372 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 $4,999 and $5,748 in loans classified as TDRs that are current and performing as of December 31, 2021 and December 31, 2020.

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.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Allowance for Loan and Losses, continued

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 cards and dealer finance, 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 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.

On March 27, 2020, the CARES Act allowed banks to elect to suspend requirements under GAAP for loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR. During the pandemic, the bank executed modifications of principal and interest deferrals in connection with COVID-19 relief to our customers. Of those modifications, one loan with a balance of $2,486 was in deferral as of December 31, 2021 and returned to active status on January 18, 2022.

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.

Assets Held for Sale

Assets held for sale at December 31, 2021 included one branch building that was closed during 2020. The Company periodically evaluates the value of assets held for sale and records an impairment charge for any subsequent declines in fair value less selling costs.

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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 2021 related to the Waynesboro branch acquisition; see Note 29. 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 states 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 should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The Company performed an internal evaluation of goodwill for December 31, 2021. Based on the results of this review, no impairment was deemed necessary.

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 2021 and 2020 were $748 and $604, 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.

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.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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.

Risk and Uncertainties

The coronavirus ("COVID-19") pandemic spread rapidly across the world in the first quarter of 2020 and was declared a pandemic by the World Health Organization. The government and private sector responses to contain its spread began to significantly affect our operating businesses in March 2020 with branch lobby closings, operations and administrative staff working remotely and the use of virtual meetings. Branches reopened on April 12, 2021 for regular business hours and staff returned to their normal office locations. Due to high transmission rates in our area, branches reverted to drive-thru services with lobby hours by appointment from January 18, 2022 to March 7, 2022. COVID-19 continues to effect our operations, although the long-term extent and significance remain unknown. The duration and extent of the effects over longer terms cannot be reasonably estimated at this time. The risks and uncertainties resulting from the pandemic may adversely affect our future earnings, cash flows and financial condition, including among others, credit losses resulting from financial stress on borrowers, decreased demand for products and operational failures. In addition, significant assumptions, judgments, and estimates used in the preparation of our financial statements, including those associated with evaluations of goodwill for impairment, and allowance for loan losses, may be subject to adjustments in future periods due to the rapidly changing, uncertain and unprecedented nature of the pandemic.

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. All of the Company's outstanding preferred stock was redeemed by the Company for cash or converted to common stock during the fourth quarter of 2021.

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

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Earnings per Share, continued

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

	For the year ended	
	December 31, 2021	December 31, 2020
Earnings Available to Common Stockholders:		
Net Income	$ 10,738	$ 8,893
Non-controlling interest income	-	105
Preferred stock dividends	196	263
Net Income Available to Common Stockholders	$ 10,542	$ 8,525

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, 2021			December 31, 2020		
	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	$ 10,542	3,245,086	$ 3.25	$ 8,525	3,199,883	$ 2.66
Effect of Dilutive Securities:						
Convertible Preferred Stock	196	197,087	(0.13)	263	228,882	(0.10)
Diluted EPS	$ 10,738	3,442,173	$ 3.12	$ 8,788	3,428,765	$ 2.56

Recent Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (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 FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU’s 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. These ASU’s have provided for various minor technical corrections and improvements to the codification as well as other transition matters. Smaller reporting companies who file with the U.S. Securities and Exchange Commission (SEC), such as the Company, and all other entities who do not file with the SEC are 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 implementing a CECL model to begin running parallel in the first quarter 2022. Data has been archived under the current model.

Effective November 25, 2019, the SEC adopted Staff Accounting Bulletin (SAB) 119. SAB 119 updated portions of SEC interpretative guidance to align with FASB ASC 326, “Financial Instruments – Credit Losses.” It covers topics including (1) measuring current expected credit losses; (2) development, governance, and documentation of a systematic methodology; (3) documenting the results of a systematic methodology; and (4) validating a systematic methodology.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In March 2020, the FASB issued ASU No. 2020-04 “Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting.” These amendments provide temporary optional guidance to ease the potential burden in accounting for reference rate reform. The ASU provides optional expedients and exceptions for applying generally accepted accounting principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. It is intended to help stakeholders during the global market-wide reference rate transition period. The guidance is effective for all entities as of March 12, 2020 through December 31, 2022. Subsequently, in January 2021, the FASB issued ASU No. 2021-01 “Reference Rate Reform (Topic 848): Scope.” This ASU clarifies that certain optional expedients and exceptions in Topic 848 for contract modifications and hedge accounting apply to derivatives that are affected by the discounting transition. The ASU also amends the expedients and exceptions in Topic 848 to capture the incremental consequences of the scope clarification and to tailor the existing guidance to derivative instruments affected by the discounting transition. An entity may elect to apply ASU No. 2021-01 on contract modifications that change the interest rate used for margining, discounting, or contract price alignment retrospectively as of any date from the beginning of the interim period that includes March 12, 2020, or prospectively to new modifications from any date within the interim period that includes or is subsequent to January 7, 2021, up to the date that financial statements are available to be issued. An entity may elect to apply ASU No. 2021-01 to eligible hedging relationships existing as of the beginning of the interim period that includes March 12, 2020, and to new eligible hedging relationships entered into after the beginning of the interim period that includes March 12, 2020. The Company is preparing to have all loan agreements, other than SWAP loans, transitioned from LIBOR by the end of second quarter 2022. The SWAP loans have amended Rate Protection Agreements executed by the borrower in preparation of transition away from LIBOR by the swap holder.

In August 2020, the FASB issued ASU No. 2020-06 “Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity.” The ASU simplifies accounting for convertible instruments by removing major separation models required under current U.S. GAAP. Consequently, more convertible debt instruments will be reported as a single liability instrument and more convertible preferred stock as a single equity instrument with no separate accounting for embedded conversion features. The ASU removes certain settlement conditions that are required for equity contracts to qualify for the derivative scope exception, which will permit more equity contracts to qualify for it.

The ASU also simplifies the diluted earnings per share (EPS) calculation in certain areas. In addition, the amendment updates the disclosure requirements for convertible instruments to increase the information transparency. For public business entities, excluding smaller reporting companies, the amendments in the ASU are effective for fiscal years beginning after December 15, 2021, and interim periods within those fiscal years. For all other entities, the standard will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. The Company does not expect the adoption of ASU 2020-06 to have a material impact on its consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, “Earnings Per Share (Topic 260), Debt - Modifications and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging – Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity – Classified Written Call Options (a consensus of the FASB Emerging Issues Task Force).” The ASU addresses how an issuer should account for modifications or an exchange of freestanding written call options classified as equity that is not within the scope of another Topic. For both public and private companies, the ASU is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Transition is prospective. Early adoption is permitted. The Company does not expect the adoption of ASU 2021-04 to have a material impact on its consolidated financial statements.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In August 2021, the FASB issued ASU 2021-06, "'Presentation of Financial Statements (Topic 205), Financial Services—Depository and Lending (Topic 942), and Financial Services—Investment Companies (Topic 946): Amendments to SEC Paragraphs Pursuant to SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants. This ASU incorporates recent SEC rule changes into the FASB Codification, including SEC Final Rule Releases No. 33-10786, Amendments to Financial Disclosures about Acquired and Disposed Businesses, and No. 33-10835, Update of Statistical Disclosures for Bank and Savings and Loan Registrants". The ASU is effective upon addition to the FASB Codification. The Company does not expect the adoption of ASU 2018-14 to have a material impact on its consolidated financial statements.

In October 2021, the FASB issued ASU 2021-08, "Business Combinations (Topic 805): Accounting for Contract Assets and Contract Liabilities from Contracts with Customers". The ASU requires entities to apply Topic 606 to recognize and measure contract assets and contract liabilities in a business combination. The amendments improve comparability after the business combination by providing consistent recognition and measurement guidance for revenue contracts with customers acquired in a business combination and revenue contracts with customers not acquired in a business combination. The ASU is effective for fiscal years, including interim periods within those fiscal years, beginning after December 15, 2022. Entities should apply the amendments prospectively and early adoption is permitted. The Company does not expect the adoption of ASU 2021-08 to have a material impact on its consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350) - Simplifying the Test for Goodwill Impairment" ("ASU 2017-04"). ASU 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on the first step in the previous two-step impairment test. Under the new guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the prior requirement to calculate a goodwill impairment charge using Step 2, which requires an entity to calculate any impairment charge by comparing the implied fair value of goodwill with its carrying amount. ASU 2017-04 was effective for the Company on January 1, 2021. The adoption of ASU 2017-04 did not have a material impact on the Company's consolidated financial statements.

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. ASU 2019-12 was effective for the Company on January 1, 2021. The adoption of ASU 2019-12 did not have a material impact on the Company's consolidated financial statements.

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 2020-01 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. ASU 2020-01 was effective for the Company on January 1, 2021. The adoption of ASU 2020-01 did not have a material impact on the Company's consolidated financial statements.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In October 2020, the FASB issued ASU 2020-08, "Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable fees and Other Costs." This ASU clarifies that an entity should reevaluate whether a callable debt security is within the scope of ASC paragraph 310-20-35-33 for each reporting period. ASU 2020-08 was effective for the Company on January 1, 2021. The adoption of ASU 2020-08 did not have a material impact on the Company's consolidated financial statements.

In December 2020, the Consolidated Appropriates Act of 2021 ("CAA") was passed. Under Section 541 of the CAA, Congress extended or modified many of the relief programs first created by the CARES Act, including the PPP loan program and treatment of certain loan modifications related to the COVID-19 pandemic. The COVID-19 discussion following the Critical Accounting Policies at the beginning of the Management's Discussion and Analysis and note 5 provide more details on what the Company is doing to prepare for the impact.

NOTE 3 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, 2021 and 2020.

NOTE 4 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, 2021				
U. S. Treasuries	$ 125	$ -	$ -	$ 125
December 31, 2020				
U. S. Treasuries	$ 125	$ -	$ -	$ 125

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, 2021				
U. S. Treasuries	$ 29,847	$ -	$ 365	$ 29,482
U. S. Government sponsored enterprises	134,466	-	752	133,714
Securities issued by States and political subdivisions of the U.S.	34,078	406	147	34,337
Mortgage-backed obligations of federal agencies	185,216	522	2,091	183,647
Corporate debt securities	22,555	372	225	22,702
Total Securities Available for Sale	$ 406,162	$ 1,300	$ 3,580	$ 403,882
December 31, 2020				
U. S. Government sponsored enterprises	$ 6,000	$ 47	$ -	$ 6,047
Securities issued by States and political subdivisions of the U.S.	17,177	515	-	17,692
Mortgage-backed obligations of federal agencies	73,422	502	153	73,771
Corporate debt securities	9,282	121	14	9,389
Total Securities Available for Sale	$ 105,881	$ 1,185	$ 167	$ 106,899

The amortized cost and fair value of securities at December 31, 2021, 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.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 4 SECURITIES (CONTINUED):

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 125	$ 125	$ 4,011	$ 4,018
Due after one year through five years	-	-	147,321	146,688
Due after five years through ten years	-	-	88,489	87,585
Due after ten years	-	-	166,341	165,591
Total	$ 125	$ 125	$ 406,162	$ 403,882

The following table presents the gross realized gains and losses on and the proceeds from the sale of securities during the years ended December 31, 2021 and 2020:

	2021	2020
Realized gains (losses):		
Gross realized gains	$ -	$ -
Gross realized losses	(525)	-
Net realized (losses)	$ (525)	$ -
Proceeds from sales of securities	$ 25,917	$ -

There were no pledged securities at December 31, 2021 or 2020.

As of December 31, 2021, other investments consist of investments in twelve low-income housing and historic equity partnerships (carrying basis of $6,762), stock in the Federal Home Loan Bank (carrying basis of $859), and various other investments (carrying basis of $1,589). The interests in the low-income housing and historic equity partnerships have limited transferability and the interests in the other stocks are restricted as to sales. The market values of these securities are estimated to approximate their carrying values as of December 31, 2021. At December 31, 2021, the Company was committed to invest an additional $961 in four 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 consolidated balance sheet.

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 and the length of time in a continuous loss position, by security type of December 31, 2021 and 2020 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, 2021						
U. S. Government treasuries	$ 29,481	$ 365	$ -	$ -	$ 29,481	$ 365
U. S. Government sponsored enterprises	93,714	752	-	-	93,714	752
Securities issued by State and political subdivisions in the U.S.	13,308	147	-	-	13,308	147
Mortgage-backed obligations of federal agencies	126,501	1,871	10,074	220	136,575	2,091
Corporate debt securities	8,825	225	-	-	8,825	225
Total	$271,829	$ 3,360	$ 10,074	$ 220	$ 281,903	$ 3,580

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 4 SECURITIES (CONTINUED):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2020						
Mortgage-backed obligations of federal agencies	$73,771	$ 153	$ -	$ -	$ 73,771	$ 153
Corporate debt securities	9,389	14	-	-	9,389	14
Total	$83,160	$ 167	$ -	$ -	$ 83,160	$ 167

At December 31, 2021 there were $10.0 million or 4 instances of individual available for sale securities that had been in a continuous loss position for more than 12 months and had an aggregate unrealized loss of $220 thousand. At December 31, 2020 there were no securities in a loss position for more than 12 months.

The Company has evaluated AFS securities in an unrealized loss position for credit related impairment at December 31, 2021 and 2020 and concluded no impairment existed based on several factors which included: (1) the majority of these securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility, (3) the contractual terms of the investments do not permit the issuer(s) to settle the securities at a price less than the cost basis of each investment, (4) issuers continue to make timely principal and interest payments, and (5) the Company does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Company to be required to sell any of the investments before recovery of its amortized cost basis.

Additionally, the majority of the Company's mortgage-backed securities are issued by FNMA, FHLMC, and GNMA and do not have credit risk given the implicit and explicit government guarantees associated with these agencies.

NOTE 5 LOANS:

During the pandemic, modifications allowing principal and interest deferrals were granted in connection with COVID-19 relief. These modifications and deferrals were not considered troubled debt restructurings pursuant to interagency guidance issued in March 2020 and the Coronavirus Aid, Relief and Economic Security ("CARES") Act. As of December 31, 2021, one loan with a balance of $2,486 was in deferral; it returned to active status on January 18, 2022.

Loans held for investment as of December 31, 2021, and 2020 were as follows:

	2021	2020
Construction/Land Development	$ 75,236	$ 71,467
Farmland	66,344	53,728
Real Estate	139,552	163,018
Multi-Family	4,887	5,918
Commercial Real Estate	163,564	142,516
Home Equity – closed end	6,262	8,476
Home Equity – open end	44,247	46,613
Commercial & Industrial – Non-Real Estate	44,224	65,470
Consumer	8,036	9,405
Dealer Finance	107,346	91,861
Credit Cards	3,000	2,857
Gross loans	662,698	661,329
Less: Deferred loan fees, net of costs	(277)	-
Total	$ 662,421	$ 661,329

The Company has pledged loans held for investment as collateral for borrowings with the Federal Home Loan Bank of Atlanta totaling $163,326 and $173,029 as of December 31, 2021 and 2020, respectively. The Company maintains a blanket lien on its entire residential real estate portfolio and certain commercial and home equity loans.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 5 LOANS (CONTINUED):

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, 2021 and 2020 were $4,887 and $58,679, respectively.

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

	December 31, 2021			December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
Impaired loans without a valuation allowance:						
Construction/Land Development	$ 645	$ 645	$ -	$ 1,693	$ 1,693	$ -
Farmland	2,286	2,286	-	-	-	-
Real Estate	2,748	2,748	-	6,648	6,648	-
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	8,494	8,494	-	8,592	8,656	-
Home Equity – closed end	147	147	-	687	687	-
Home Equity – open end	-	-	-	151	151	-
Commercial & Industrial – Non-Real Estate	-	-	-	8	8	-
Consumer	5	5	-	-	-	-
Credit cards	-	-	-	-	-	-
Dealer Finance	12	12	-	8	8	-
	14,337	14,337	-	17,787	17,851	-
Impaired loans with a valuation allowance						
Construction/Land Development	-	-	-	-	-	-
Farmland	-	-	-	1,737	1,737	370
Real Estate	1,172	1,172	119	7,143	7,143	365
Multi-Family	-	-	-	-	-	-
Commercial Real Estate	6,004	6,004	603	7,464	7,464	1,833
Home Equity – closed end	-	-	-	-	-	-
Home Equity – open end	-	-	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-	-
Consumer	-	-	-	1	1	1
Credit cards	-	-	-	-	-	-
Dealer Finance	95	95	14	147	147	15
	7,271	7,271	736	16,492	16,492	2,584
Total impaired loans	$ 21,608	$ 21,608	$ 736	$ 34,279	$ 34,343	$ 2,584

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

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 5 LOANS (CONTINUED):

The following is a summary of the average investment and interest income recognized for impaired loans:

	December 31, 2021		December 31, 2020	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:				
Construction/Land Development	$ 984	$ 29	$ 1,598	$ 103
Farmland	1,760	126	-	-
Real Estate	4,575	155	5,520	356
Multi-Family	-	-	-	-
Commercial Real Estate	9,225	253	3,296	229
Home Equity – closed end	414	18	522	34
Home Equity – open end	-	-	38	7
Commercial & Industrial – Non-Real Estate	2	-	55	1
Consumer	1	-	-	-
Credit cards	-	-	-	-
Dealer Finance	14	1	24	1
	16,975	582	11,053	731
Impaired loans with a valuation allowance				
Construction/Land Development	-	-	243	-
Farmland	420	-	1,797	233
Real Estate	1,399	45	8,956	413
Multi-Family	-	-	-	-
Commercial Real Estate	6,201	172	4,108	237
Home Equity – closed end	-	-	177	-
Home Equity – open end	-	-	113	-
Commercial & Industrial – Non-Real Estate	-	-	17	-
Consumer	-	-	2	-
Credit cards	-	-	-	-
Dealer Finance	112	9	146	13
	8,132	226	15,559	896
Total impaired loans	$ 25,107	$ 808	$ 26,612	$ 1,627

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 5 LOANS (CONTINUED):

The following table presents the aging of the recorded investment of past due loans as of December 31, 2021 and 2020:

December 31, 2021	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
Construction/Land Development	$ 360	$ 41	$ 38	$ 439	$ 74,797	$ 75,236	$ 302	$ -
Farmland	-	-	-	-	66,344	66,344	1,320	-
Real Estate	1,254	89	395	1,738	137,814	139,552	827	-
Multi-Family	-	-	-	-	4,887	4,887	-	-
Commercial Real Estate	-	-	108	108	163,456	163,564	2,975	-
Home Equity – closed end	53	-	-	53	6,209	6,262	-	-
Home Equity – open end	471	216	-	687	43,560	44,247	-	-
Commercial & Industrial – Non- Real Estate	35	1	43	79	44,145	44,224	-	43
Consumer	9	67	-	76	7,960	8,036	1	-
Dealer Finance	694	91	16	801	106,545	107,346	40	-
Credit Cards	16	-	-	16	2,984	3,000	-	-
Less: Deferred loan fees, net of costs	-	-	-	-	(277)	(277)	-	-
Total	$ 2,892	$ 505	$ 600	$ 3,997	$ 658,424	$ 662,421	$ 5,465	$ 43

December 31, 2020	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
Construction/Land Development	$ 2,557	$ -	$ -	$ 2,557	$ 68,910	$ 71,467	$ 251	$ -
Farmland	-	-	-	-	53,728	53,728	1,737	-
Real Estate	1,724	512	304	2,540	160,478	163,018	368	102
Multi-Family	-	-	-	-	5,918	5,918	-	-
Commercial Real Estate	554	-	920	1,474	141,042	142,516	3,820	-
Home Equity – closed end	3	30	-	33	8,443	8,476	-	-
Home Equity – open end	716	-	212	928	45,685	46,613	212	-
Commercial & Industrial – Non- Real Estate	95	44	-	139	65,331	65,470	3	-
Consumer	39	-	-	39	9,366	9,405	-	-
Dealer Finance	694	157	-	851	91,010	91,861	44	-
Credit Cards	45	-	-	45	2,812	2,857	-	-
Total	$ 6,427	$ 743	$ 1,436	$ 8,606	$ 652,723	$ 661,329	$ 6,435	$ 102

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 ALLOWANCE FOR LOAN LOSSES:

A summary of changes in the allowance for loan losses for the years ended December 31, 2021 and 2020 is as follows:

December 31, 2021	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	$ 1,249	$ -	$ 307	$ (579)	$ 977	$ -	$ 977
Farmland	731	-	-	(283)	448	-	448
Real Estate	1,624	-	76	(538)	1,162	119	1,043
Multi-Family	54	-	-	(25)	29	-	29
Commercial Real Estate	3,662	-	19	(1,476)	2,205	603	1,602
Home Equity – closed end	55	-	-	(14)	41	-	41
Home Equity – open end	463	-	13	(69)	407	-	407
Commercial & Industrial – Non-Real Estate	363	40	37	(72)	288	-	288
Consumer	521	33	24	8	520	-	520
Dealer Finance	1,674	1,038	754	211	1,601	14	1,587
Credit Cards	79	54	29	16	70	-	70
Total	$ 10,475	$ 1,165	$ 1,259	$ (2,821)	$ 7,748	$ 736	$ 7,012

December 31, 2020	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	$ 1,190	$ 7	$ -	$ 66	$ 1,249	$ -	$ 1,249
Farmland	668	-	-	63	731	370	361
Real Estate	1,573	158	7	202	1,624	365	1,259
Multi-Family	20	-	-	34	54	-	54
Commercial Real Estate	1,815	64	11	1,900	3,662	1,833	1,829
Home Equity – closed end	42	-	-	13	55	-	55
Home Equity – open end	457	34	3	37	463	-	463
Commercial & Industrial – Non-Real Estate	585	138	19	(103)	363	-	363
Consumer	186	89	50	374	521	1	520
Dealer Finance	1,786	1,551	784	655	1,674	15	1,659
Credit Cards	68	123	75	59	79	-	79
Total	$ 8,390	$ 2,164	$ 949	$ 3,300	$ 10,475	$ 2,584	$ 7,891

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

The following table presents the recorded investment in loans based on impairment method as of December 31, 2021 and 2020:

December 31, 2021	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$ 75,236	$ 645	$ 74,591
Farmland	66,344	2,286	64,058
Real Estate	139,552	3,920	135,632
Multi-Family	4,887	-	4,887
Commercial Real Estate	163,564	14,498	149,066
Home Equity – closed end	6,262	147	6,115
Home Equity –open end	44,247	-	44,247
Commercial & Industrial – Non-Real Estate	44,224	-	44,224
Consumer	8,036	5	8,031
Dealer Finance	107,346	107	107,239
Credit Cards	3,000	-	3,000
Gross Loans	662,698	21,608	641,090
Less: Deferred loan fees, net of costs	(277)	-	(277)
Total	$ 662,421	$ 21,608	$ 640,813

December 31, 2020	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$ 71,467	$ 1,693	$ 69,774
Farmland	53,728	1,737	51,991
Real Estate	163,018	13,791	149,227
Multi-Family	5,918	-	5,918
Commercial Real Estate	142,516	16,056	126,460
Home Equity – closed end	8,476	687	7,789
Home Equity –open end	46,613	151	46,462
Commercial & Industrial – Non-Real Estate	65,470	8	65,462
Consumer	9,405	1	9,404
Dealer Finance	91,861	155	91,706
Credit Cards	2,857	-	2,857
Total	$ 661,329	$ 34,279	$ 627,050

During the third quarter of 2021, Management changed the historical net charge off lookback period from two years to three years for all segments given recent asset quality trends and the impact of government programs in response to the COVID-19 pandemic on charge off experience. Management believes the three-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, 2021 and the allowance for loan losses at December 31, 2021 was as follows:

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

	Calculated Provision Based on Current Methodology	Current Provision Based on Prior Methodology	Difference
Construction/Land Development	$ (579)	$ (1,099)	$ 520
Farmland	(283)	(283)	-
Real Estate	(538)	(532)	(6)
Multi-Family	(25)	(25)	-
Commercial Real Estate	(1,476)	(1,701)	225
Home Equity – closed end	(14)	(14)	-
Home Equity – open end	(69)	(105)	36
Commercial & Industrial – Non-Real Estate	(72)	(75)	3
Consumer	8	(368)	376
Dealer Finance	211	52	159
Credit Cards	16	1	15
	$ (2,821)	$ (4,149)	$ 1,328

The following table shows the Company's loan portfolio broken down by internal loan grade as of December 31, 2021 and 2020:

December 31, 2021	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	$ -	$ 6	$ 9,952	$ 43,861	$ 19,457	$ 1,658	$ 302	$ -	$ 75,236
Farmland	56	291	6,804	42,615	13,620	1,638	1,320	-	66,344
Real Estate	-	1,128	30,268	61,940	28,895	12,462	4,859	-	139,552
Multi-Family	-	-	1,021	2,586	1,154	126	-	-	4,887
Commercial Real Estate	-	2,124	36,308	72,414	35,444	4,428	12,846	-	163,564
Home Equity – closed end	-	61	1,268	3,103	762	1,068	-	-	6,262
Home Equity – open end	-	1,293	17,333	21,296	2,477	1,632	216	-	44,247
Commercial & Industrial - Non-Real Estate	-	1,001	7,562	21,527	13,538	533	63	-	44,224
Consumer (excluding dealer)	10	522	2,919	3,526	980	79	-	-	8,036
Gross loans	$ 66	$ 6,426	$113,435	$ 272,868	$ 116,327	$23,624	$ 19,606	$ -	$ 552,352
Less: Deferred loan fees, net of costs									(277)
Total									$ 552,075

	Credit Cards	Dealer Finance
Performing	$ 3,000	$ 107,330
Nonperforming	-	16
Total	$ 3,000	$ 107,346

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

December 31, 2020	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	$ -	$ 142	$ 8,448	$ 40,126	$ 18,226	$ 4,274	$ 251	$ -	$ 71,467
Farmland	58	459	11,707	26,899	11,846	1,022	1,737	-	53,728
Real Estate	-	2,283	39,223	66,698	32,302	6,977	15,535	-	163,018
Multi-Family	-	-	1,075	3,509	1,334	-	-	-	5,918
Commercial Real Estate	-	4,114	31,205	47,477	26,677	18,637	14,406	-	142,516
Home Equity – closed end	-	124	2,479	3,289	759	1,795	30	-	8,476
Home Equity – open end	-	1,705	17,716	22,014	3,171	1,477	530	-	46,613
Commercial & Industrial - Non-Real Estate	90	1,524	7,601	17,050	38,290	913	2	-	65,470
Consumer (excluding dealer)	-	173	3,461	3,975	1,790	6	-	-	9,405
Total	$ 148	$10,524	$122,915	$ 231,037	$ 134,395	$35,101	$ 32,491	$ -	$566,611

	Credit Cards	Dealer Finance
Performing	$ 2,857	$ 91,817
Nonperforming	-	44
Total	$ 2,857	$ 91,861

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.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 6 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 7 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. Loans modified under the regulatory guidance and CARES Act due to the pandemic were not considered troubled debt restructurings.

During the twelve months ended December 31, 2021, the Bank modified 3 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, 2021	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Farmland	1	$ 966	$ 966
Real Estate	1	109	109
Consumer	1	5	5
Total	3	$ 1,080	$ 1,080

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 7 TROUBLED DEBT RESTRUCTURING (CONTINUED):

As of December 31, 2021, there were no loans restructured in the previous twelve months, in default. A restructured loan is considered in default when it becomes 90 days past due.

During the twelve months ended December 31, 2020, the Bank modified 6 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, 2020	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Real Estate	1	$ 186	$ 186
Consumer	5	37	37
Total	6	$ 222	$ 222

As of December 31, 2020, there were no loans restructured in the previous twelve months, in default. A restructured loan is considered in default when it becomes 90 days past due.

NOTE 8 BANK PREMISES AND EQUIPMENT:

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

	2021	2020
Land	$ 4,115	$ 4,369
Buildings and improvements	15,956	16,192
Furniture and equipment	10,052	10,086
	30,123	30,647
Less - accumulated depreciation	(13,060)	(12,738)
Net	$ 17,063	$ 17,909

Depreciation of $1,169 in 2021 and $1,232 in 2020 were charged to operations.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 9 OTHER REAL ESTATE OWNED:

The table below reflects other real estate owned (OREO) activity for 2021 and 2020:

	2021	2020
Balance as of January 1	$ -	$ 1,489
Loans transferred to OREO	-	-
Sale of OREO	-	(1,163)
Write down of OREO and losses on sale	-	(326)
Balance as of December 31	$ -	$ -

Activity in the valuation allowance was as follows:

	2021	2020
Balance as of January 1	$ -	$ 1,181
Provision charged to expense	-	116
Reductions from sales of real estate owned	-	(1,297)
Balance as of December 31	$ -	$ -

(Income) expenses related to foreclosed assets include:

	2021	2020
Net loss on sales	$ -	$ 205
Gain on foreclosure	-	-
Provision for unrealized losses	-	116
Operating expenses, net of rental income	-	25
(Income) expenses related to foreclosed assets	$ -	$ 346

There were no real estate owned properties at December 31, 2021 and 2020. At December 31, 2021, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure procedures are in process is $589.

NOTE 10 DEPOSITS:

Time deposits that meet or exceed the FDIC insurance limit of $250 at year end 2021 and 2020 were $12,373 and $12,283. At December 31, 2021, the scheduled maturities of all time deposits are as follows:

2022	$ 43,411
2023	44,720
2024	20,347
2025	9,580
2026	5,799
Thereafter	-
Total	$ 123,857

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 11 SHORT-TERM DEBT:

Short-term debt, all maturing within 12 months, as of December 31, 2021 and 2020 is summarized as follows:

	Maximum Outstanding at any Month End	Outstanding at Year End	Average Balance Outstanding	Yield
2021				
Federal funds purchased	$ -	$ -	$ -	-%
FHLB short term	-	-	-	-%
Totals		$ -	$ -	-%
2020				
Federal funds purchased	$ -	$ -	$ -	-%
FHLB short term	10,000	-	1,776	2.31%
Totals		$ -	$ 1,776	2.31%

The Company utilizes short-term debt such as Federal funds purchased and 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. With the growth in deposits, excess liquidity, and decrease in loans held for sale participation program, the Company did not utilize the short-term debt facilities after the first quarter of 2020.

As of December 31, 2021, the Company had unsecured lines of credit with correspondent banks totaling $50,000 which may be used in the management of short-term liquidity, on which none was outstanding.

NOTE 12 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; the weighted average interest rate was 0.81% and 1.47% at December 31, 2021 and December 31, 2020, respectively. The balance of these obligations at December 31, 2021 and 2020 were $10,000 and $21,268 respectively. FHLB advances include a $10,000 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, 2021, were as follows:

2022	$ -
2023	-
2024	-
2025	-
2026	-
Thereafter	10,000
Total	$ 10,000

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 12 LONG-TERM DEBT (CONTINUED):

On July 29, 2020, the Company sold and issued to certain institutional accredited investors $5,000 in aggregate principal amount of 5.75% fixed rated subordinated notes due July 31, 2027 (the "2027 Notes") and $7,000 in aggregate principal amount of 6.00% fixed to floating rate subordinated notes due July 31, 2030 (the "2030 Notes"). The 2027 Notes bear interest at 5.75% per annum, payable semi-annually in arrears. Beginning on July 31, 2022 through maturity, the 2027 Notes may be redeemed, at the Company's option, on any scheduled interest payment date. The 2027 Notes will mature on July 31, 2027. The 2030 Notes will initially accrue interest at 6.00% per annum, beginning July 29, 2020 to but excluding July 31, 2025, payable semi-annually in arrears. From and including July 31, 2025 through July 30, 2030, or up to an early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR plus 593 basis points, payable quarterly in arrears. Beginning on July 31, 2025 through maturity, the 2030 Notes may be redeemed, at the Company's option, on any scheduled interest payment date. The 2030 Notes will mature on July 31, 2030. The subordinated notes, net of issuance costs totaled $11,772 and $11,740 at December 31, 2021 and December 31, 2020, respectively.

NOTE 13 INCOME TAX EXPENSE:

The components of income tax expense were as follows:

	2021	2020
Current expense	$ 847	$ 1,812
Deferred expense (benefit)	476	(670)
Total Income Tax Expense	$ 1,323	$ 1,142

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

	2021	2020
Deferred Tax Assets:		
Allowance for loan losses	$ 1,627	$ 2,195
Split Dollar Life Insurance	3	3
Nonqualified deferred compensation	757	847
Low-income housing partnerships losses	326	293
Core deposit amortization	29	24
SBA fees	47	198
Lease Liability	172	140
Unfunded pension benefit obligation	875	1,016
VSTitle income	2	-
Assets available for sale	32	-
Net unrealized loss on securities available for sale	479	-
Total Assets	$ 4,349	$ 4,716

	2021	2020
Deferred Tax Liabilities:		
Unearned low-income housing credits	$ 63	$ 93
Depreciation	567	584
Prepaid pension	114	294
Goodwill tax amortization	576	571
Right of Use Asset	149	156
Net unrealized gain on securities available for sale	-	214
Total Liabilities	1,469	1,912
Net Deferred Tax Asset (included in Other Assets on Balance Sheet)	$ 2,880	$ 2,804

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 13 INCOME TAX EXPENSE (CONTINUED):

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

	2021	2020
Tax expense at federal statutory rates	$ 2,533	$ 2,107
Increases (decreases) in taxes resulting from:		
Partially tax-exempt income	(38)	(36)
Tax-exempt income	(172)	(176)
LIH and historic credits	(913)	(892)
Other	(87)	139
Total Income Tax Expense	$ 1,323	$ 1,142

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 2018.

NOTE 14 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 2021 and 2020:

	2021	2020
Change in Benefit Obligation		
Benefit obligation, beginning	$ 15,456	$ 13,313
Service cost	862	808
Interest cost	379	419
Actuarial loss	-	1,554
Benefits paid	(1,140)	(638)
Benefit obligation, ending	$ 15,557	$ 15,456
Change in Plan Assets		
Fair value of plan assets, beginning	$ 11,201	$ 10,543
Actual return on plan assets	1,174	1,296
Benefits paid	(1,140)	(638)
Fair value of plan assets, ending	$ 11,235	$ 11,201
Funded status at the end of the year	$ (4,322)	$ (4,255)

The fair value of plan assets is measured based on the fair value hierarchy as discussed in Note 20, “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.

F & M Bank Corp. and Subsidiaries

Notes to the Consolidated Financial Statements (dollars in thousands)

December 31, 2021 and 2020

NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

Defined Benefit Pension Plan, continued

	2021	2020
Amount recognized in the Consolidated Balance Sheet		
(Accrued) prepaid benefit cost	$ (156)	$ 583
Unfunded pension benefit obligation under ASC 325-960	(4,166)	(4,837)
Deferred taxes	875	1,016
Amount recognized in accumulated other comprehensive income (loss)		
Net loss	$ (4,166)	$ (4,837)
Prior service cost	-	-
Amount recognized	(4,166)	(4,837)
Deferred taxes	875	1,016
Amount recognized in accumulated comprehensive (loss)	$ (3,291)	$ (3,821)
(Accrued)/Prepaid benefit detail		
Benefit obligation	$ (15,557)	$ (15,455)
Fair value of assets	11,235	11,201
Unrecognized net actuarial loss	4,166	4,837
(Accrued) Prepaid benefits	$ (156)	$ 583
Components of net periodic benefit cost		
Service cost	$ 862	$ 808
Interest cost	379	419
Expected return on plan assets	(791)	(734)
Amortization of prior service cost	-	(11)
Recognized net actuarial loss	289	221
Net periodic benefit cost	$ 739	$ 703
Other changes in plan assets and benefit obligations recognized in other comprehensive (income) loss		
Net (gain) loss	$ (671)	$ 770
Amortization of prior service cost	-	11
Total recognized in other comprehensive (income) loss	$ (671)	$ 781
Total recognized in net periodic benefit cost and other comprehensive income	$ 67	$ 1,484
Additional disclosure information		
Accumulated benefit obligation	$ 11,473	$ 11,784
Vested benefit obligation	$ 11,473	$ 11,784
Discount rate used for net pension cost	2.50%	3.25%
Discount rate used for disclosure	2.75%	2.50%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%
Average remaining service (years)	11.26	11.40

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

Funding Policy

Due to the current funding status of the plan, the Company did not make a contribution in 2021 or 2020. The net periodic pension cost of the plan for 2022 will be approximately $624. The Company was not subject to settlement accounting in 2021 and does not anticipate being subject to settlement accounting in 2022.

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, 2021 and 2020 were 62% equity and 38% fixed and 63% equity and 37% fixed, respectively.

Estimated Future Benefit Payments, which reflect expected future service, as appropriate, as of December 31, 2021, are as follows:

2022	$	938
2023		833
2024		84
2025		853
2023		1,533
2026-2031		5,530
	$	9,771

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 $472 in 2021 and $447 in 2020 to the Plan and charged this expense to operations. The shares held by the ESOP totaled 158,905 and 183,659 at December 31, 2021 and 2020, respectively.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

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 $444 and $295 in 2021 and 2020, 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 2021 and $125 in 2020. A liability is accrued for the obligation under the plan and totaled $3,928 and $3,683 at December 31, 2021 and 2020, 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 $669 and $488 for December 31, 2021 and 2020, respectively.

Stock Incentive Plan

The Company maintains the F & M Bank Corp. 2020 Stock Incentive Plan, which was designed to further the long-term stability and financial success of the Company by attracting and retaining personnel, including employees, directors, and consultants, through the use of stock and stock-based incentives. It was adopted by the Company’s Board, effective upon shareholder approval on May 2, 2020 and will expire on March 18, 2030. The plan provides for the granting of an option, restricted stock, restricted stock unit, stock appreciation right, or stock award to employees, directors, and consultants. It authorizes the issuance of up to 200,000 shares of the Company’s common stock.

The Company’s Stock Plan Committee administers the plan, identifies which participants will be granted awards, and determines the terms and conditions applicable to the awards. No shares were awarded during 2020. On March 5, 2021 the Company’s Stock Plan Committee awarded 16,140 shares with a fair value of $431,745 from this plan to selected employees. These shares vest 25% over each of the next four years. The Committee also awarded 1,332 shares with a fair value of $35,631 to directors. These shares vested upon issuance. On August 17, 2021, 200 shares were awarded with a fair value of $5,750 from this plan to select employees that will vest 25% over the next four years. As of December 31, 2021 the total unrecognized compensation cost related to the nonvested restricted stock awards was $338.

The following table summarizes the status of the Company’s nonvested awards for the year ended December 31, 2021:

	Shares	Weighted-Average Grant Date Fair Value Per Share
Nonvested at December 31, 2020	-	$ -
Granted	17,672	26.77
Vested	(1,332)	26.75
Forfeited	(471)	26.75
Nonvested at December 31, 2021	15,869	26.78

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 15 CONCENTRATIONS OF CREDIT:

The Company had cash deposits in other commercial banks in excess of FDIC insurance limits totaling $3,880 and $4,714 at December 31, 2021 and 2020, 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, 2021, approximately 75% of the loan portfolio was secured by real estate.

NOTE 16 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, 2021 and 2020, the Company had the following commitments outstanding:

	2021	2020
Commitments to extend credit	$ 257,229	$ 233,182
Standby letters of credit	2,818	1,689

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 17 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

Mortgage Banking Derivatives

Loans Held for Sale

The Company, through the Bank’s mortgage banking subsidiary, F&M Mortgage Company, originates residential mortgage loans for sale in the secondary market. Residential mortgage loans held for sale are sold to the permanent investor with the mortgage servicing rights released. During the second quarter of 2020, the Company elected to begin using fair value accounting for its entire portfolio of loans held for sale (LHFS) in accordance with ASC 820 – Fair Value Measurement and Disclosures. Fair value of the Company’s LHFS is based on observable market prices for the identical instruments traded in the secondary mortgage loan markets in which the Company conducts business total $4,887 as of December 30, 2021 of which $4,920 is related to unpaid principal. The Company’s portfolio of LHFS is classified as Level 2.

NOTE 17 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (CONTINUED):

Interest Rate Lock Commitments and Forward Sales Commitments

The Company, through F&M Mortgage Company, enters into commitments to originate residential mortgage loans in which the interest rate on the loan is determined prior to funding, termed interest rate lock commitments (IRLCs). Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. Upon entering into a commitment to originate a loan, the Company protects itself from changes in interest rates during the period prior to sale by requiring a firm purchase agreement from a permanent investor before a loan can be closed (forward sales commitment).

The Company locks in the loan and rate with an investor and commits to deliver the loan if settlement occurs on a best efforts basis, thus limiting interest rate risk. Certain additional risks exist if the investor fails to meet its purchase obligation; however, based on historical performance and the size and nature of the investors the Company does not expect them to fail to meet their obligation. The Company determines the fair value of the IRLCs based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis while taking into consideration the probability that the rate loan commitments will close.

The fair value of these derivative instruments is reported in "Other Assets" in the Consolidated Balance Sheet at December 31, 2021, and totaled $258, with a notional amount of $18,801 and total positions of 70. The fair value of the IRLCs at December 31, 2020 totaled $816, with a notional amount of $31,000 and total positions of 134. Changes in fair value are recorded as a component of "Mortgage banking income, net" in the Consolidated Income Statement for the period ended December 31, 2021. The Company's IRLCs are classified as Level 2. At December 31, 2021 and 2020, each IRLC and all LHFS were subject to a forward sales commitment on a best efforts basis.

The Company uses fair value accounting for its forward sales commitments related to IRLCs and LHFS under ASC 825-10-15-4(b). The fair value of forward sales commitments was reported in "Other Assets" in the Consolidated Balance Sheet at December 31, 2021 totaled $112, with a notional amount of $23,721 and total positions of 91. The fair value of forward sales commitments is reported in "Other Liabilities" in the Consolidated Balance Sheet at December 31, 2020, and totaled $60, with a notional amount of $46,000 and total positions of 205.

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 17 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, 2021 and 2020.

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:

	2021	2020
Notional amount	$ 7	$ 7
Fair value of contracts, included in other assets	3	2

NOTE 18 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:

	2021	2020
Total loans, beginning of year	$ 22,685	$ 21,722
New loans	6,506	5,634
Relationship change	(98)	(3)
Repayments	(5,714)	(4,668)
Total loans, end of year	$ 23,379	$ 22,685

Deposits of executive officers and directors and their affiliates were $8,799 and $6,033 on December 31, 2021 and 2020, respectively. Management believes these deposits were made under the same terms available to other customers of the bank.

NOTE 19 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, 2022, approximately $14,492 was available for dividend distribution without permission of the Board of Governors. Dividends paid by the Bank to the Company totaled $2,232 in 2021 and $1,500 in 2020.

NOTE 20 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:

NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED):

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:

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. 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.

Loans Held for Sale

The Company uses the fair value accounting for its entire portfolio of originated loans held for sale in accordance with ASC 820 – Fair Value Measurement and Disclosures. Fair value of the Company's originated loans held for sale through F&M Mortgage is based on observable market prices for similar instruments traded in the secondary mortgage loan markets in which the Company conducts business. The Company's portfolio of loans held for sale through F&M Mortgage is classified as Level 2. Gains and losses on the sale of loans are recorded within mortgage banking income, net on the Consolidated Statements of Income.

Derivative assets – IRLCs

The Company recognizes IRLCs at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best-efforts basis while taking into consideration the probability that the rate lock commitments will close. All of the Company's IRLCs are classified as Level 2.

Derivative Asset/Liability – Forward Sale Commitments

The Company uses the fair value accounting for its forward sales commitments related to IRLCs and LHFS. Best efforts sales commitments are entered into for loans intended for sale in the secondary market at the time the borrower commitment is made. The best efforts commitments are valued using the committed price to the counter-party against the current market price of the interest rate lock commitment or mortgage loan held for sale. All the Company's forward sale commitments are classified Level 2.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED):
Derivative Asset/Liability – Indexed Certificate of Deposit

The Company's derivatives, which are associated with the Indexed Certificate of Deposit (ICD) product once offered, 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. This product is no longer offered, however there are a few certificates of deposits that have not matured.

The following tables present the balances of financial assets measured at fair value on a recurring basis as of December 31, 2021, and 2020:

December 31, 2021	Total	Level 1	Level 2	Level 3
Assets:				
Loans held for sale, F&M Mortgage	$ 4,887	$ -	$ 4,887	$ -
IRLC	258	-	258	-
U. S. Treasury securities	29,482	-	29,482	-
U.S. Government sponsored enterprises	133,714	-	133,714	-
Securities issued by States and political subdivisions of the US	34,337	-	34,337	-
Mortgage-backed obligations of federal agencies	183,647	-	183,647	-
Corporate debt securities	22,702	-	22,702	-
Forward sales commitments	112	-	112	-
Assets at Fair Value	$ 409,139	$ -	$ 409,139	$ -
Liabilities:				
Derivatives – ICD	$ 3	$ -	$ 3	$ -
Liabilities at Fair Value	$ 3	$ -	$ 3	$ -

December 31, 2020	Total	Level 1	Level 2	Level 3
Loans held for sale, F&M Mortgage	$ 14,307	$ -	$ 14,307	$ -
IRLC	816	-	816	-
U.S. Government sponsored enterprises	6,047	-	6,047	-
Securities issued by States and political subdivisions of the US	17,692	-	17,692	-
Mortgage-backed obligations of federal agencies	73,771	-	73,771	-
Corporate debt securities	9,389	-	9,389	-
Assets at Fair Value	$ 122,022	$ -	$ 122,022	$ -
Liabilities:				
Derivatives – ICD	$ 2	$ -	$ 2	$ -
Forward Sales Commitments	60	-	60	-
Liabilities at Fair Value	$ 62	$ -	$ 62	$ -

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:

NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED):

Assets Held for Sale

Assets held for sale were transferred from bank premises at the lower of cost less accumulated depreciation or fair value at the date of transfer. The Company periodically evaluates the value of assets held for sale and records an impairment charge for any subsequent declines in fair value less selling costs. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the assets held for sale as nonrecurring Level 2.

When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the asset held for sale as nonrecurring Level 3.

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, 2021 and 2020, the fair value measurements for impaired loans with specific allocations were primarily based upon the fair value of the collateral.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED):

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

December 31, 2021	Total	Level 1	Level 2	Level 3
Real Estate	$ 1,053	$ -	$ -	$ 1,053
Commercial Real Estate	5,401	-	-	5,401
Dealer Finance	81	-	-	81
Impaired loans	$ 6,535	$ -	$ -	$ 6,535
Bank premises held for sale	$ 300	$ -	$ -	$ 300

December 31, 2020	Total	Level 1	Level 2	Level 3
Farmland	$ 1,367	$ -	$ -	$ 1,367
Real Estate	6,778	-	-	6,778
Commercial Real Estate	5,631	-	-	5,631
Dealer Finance	132	-	-	132
Impaired loans	$ 13,908	$ -	$ -	$ 13,908
Bank premises held for sale	$ 520	$ -	$ -	$ 520

The following table presents information about Level 3 Fair Value Measurements for December 31, 2021 and 2020:

	Fair Value at December 31, 2021	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 6,535	Discounted appraised value	Discount for selling costs and marketability	11.76%-28.00% (Average 17.31%)

	Fair Value at December 31, 2020	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 13,908	Discounted appraised value	Discount for selling costs and marketability	9.25%-62.00% (Average 24.39%)

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 Company did not have any OREO at December 31, 2021 and 2020.

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, 2021 and 2020. Fair values for December 31, 2021 and 2020 are estimated under the exit price notion in accordance with the adoption of ASU 2016-01, "*Recognition and Measurement of Financial Assets and Financial Liabilities.*

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 20 FAIR VALUE MEASUREMENTS (CONTINUED):

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

		Fair Value Measurements at December 31, 2021 Using			
	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, 2021
Assets:					
Cash and cash equivalents	$ 88,121	$ 88,121	$ -	$ -	$ 88,121
Securities	404,007	-	404,007	-	404,007
Loans held for sale	4,887	-	4,887	-	4,887
IRLC	258	-	258	-	258
Loans held for investment, net	662,421	-	-	652,096	652,096
Interest receivable	3,117	-	3,117	-	3,117
Bank owned life insurance	22,878	-	22,878	-	22,878
Forward sales commitments	112	-	112	-	112
Total	$ 1,185,801	$ 88,121	$ 435,259	$ 652,096	$ 1,175,476
Liabilities:					
Deposits	$1,080,295	$ -	$ 968,604	$ 123,718	$ 1,092,322
Long-term debt	21,772	-	-	22,443	22,443
Interest payable	491	-	491	-	491
Total	$1,102,558	$ -	$ 969,095	$ 146,161	$ 1,115,256

		Fair Value Measurements at December 31, 2020 Using			
	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, 2020
Assets:					
Cash and cash equivalents	$ 78,408	$ 78,408	$ -	$ -	$ 78,408
Securities	107,024	-	107,024	-	107,024
Loans held for sale	58,679	-	58,679	-	58,679
IRLC	816	-	816	-	816
Loans held for investment, net	650,854	-	-	639,472	639,472
Interest receivable	2,727	-	2,727	-	2,727
Bank owned life insurance	22,647	-	22,647	-	22,647
Total	$ 921,155	$ 78,408	$ 191,896	$ 639,472	$ 909,773
Liabilities:					
Deposits	$ 818,582	$ -	$702,940	$ 131,917	$ 834,857
Forward sales commitments	60	-	60	-	60
Long-term debt	33,202	-	-	33,834	33,834
Interest payable	261	-	261	-	261
Total	$ 852,105	$ -	$ 703,261	$ 165,751	$ 869,012

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 21 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.

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 requirement is 2.50%. The Company's capital conservation buffer for 2021 was 7.00% and for 2020 was 6.81%. 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, 2021 and 2020, that the Bank meets all capital adequacy requirements to which they are subject.

The actual capital ratios for the Bank are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based ratio	$111,389	15.00%	$ 59,425	8.00%	$ 74,282	10.00%
Tier 1 risk-based ratio	103,641	13.95%	44,569	6.00%	59,425	8.00%
Common equity tier 1	103,641	13.95%	33,427	4.50%	48,283	6.50%
Tier 1 leverage ratio	103,641	8.62%	48,100	4.00%	60,125	5.00%

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total risk-based ratio	$103,838	14.81%	$ 56,104	8.00%	$ 70,131	10.00%
Tier 1 risk-based ratio	95,051	13.55%	42,078	6.00%	56,104	8.00%
Common equity tier 1	95,051	13.55%	31,559	4.50%	45,585	6.50%
Tier 1 leverage ratio	95,051	9.93%	38,275	4.00%	47,844	5.00%

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 22 BUSINESS SEGMENTS:

	December 31, 2021						
	F&M Bank	F&M Mortgage	TEB Life/FMFS	VSTitle	Parent Only	Eliminations	F&M Bank Corp. Consolidated
Revenues:							
Interest Income	$ 35,414	$ 198	$ 107	$ -	$ 1	$ (144)	$ 35,576
Service charges on deposits	1,133	-	-	-	-	-	1,133
Investment services and insurance income	-	-	953	-	-	(9)	944
Mortgage banking income, net	-	4,646	-	-	-	-	4,646
Title insurance income	-	-	-	2,074	-	-	2,074
Other operating income	2,499	134	-	-	(124)	-	2,509
Total income	39,046	4,978	1,060	2,074	(123)	(153)	46,882
Expenses:							
Interest Expense	3,591	123	-	-	732	(144)	4,302
(Recovery of) Provision for loan losses	(2,800)	-	(21)	-	-	-	(2,821)
Salaries and benefits	14,392	2,501	369	1,225	-	-	18,487
Other operating expenses	13,510	893	51	327	81	(9)	14,853
Total expense	28,693	3,517	399	1,552	813	(153)	34,821
Income before income taxes	10,353	1,461	661	522	(936)	-	12,061
Income tax expense (benefit)	1,266	-	134	-	(77)	-	1,323
Net Income attributable to F & M Bank Corp.	$ 9,087	$ 1,461	$ 527	$ 522	$ (859)	$ -	$ 10,738
Total Assets	$ 1,227,059	$ 10,334	$ 8,803	$ 3,135	$ 112,586	$ (142,575)	$ 1,219,342
Goodwill	$ 2,868	$ 47	$ -	$ 3	$ 164	$ -	$ 3,082

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 22 BUSINESS SEGMENTS (CONTINUED):

	December 31, 2020						
	F&M Bank	F&M Mortgage	TEB Life/FMFS	VSTitle	Parent Only	Eliminations	F&M Bank Corp. Consolidated
Revenues:							
Interest Income	$ 36,702	$ 332	$ 146	$ -	$ -	$ (388)	$ 36,792
Service charges on deposits	1,191	-	-	-	-	-	1,191
Investment services and insurance income	1	-	709	-	-	(41)	669
Mortgage banking income, net	-	6,154	-	-	-	-	6,154
Title insurance income	-	-	-	1,978	-	-	1,978
Other operating income	2,189	182	-	-	(153)	-	2,218
Total income	40,083	6,668	855	1,978	(153)	(429)	49,002
Expenses:							
Interest Expense	5,483	357	-	-	276	(388)	5,728
Provision for loan losses	3,300	-	-	-	-	-	3,300
Salaries and benefits	12,923	2,236	298	1,027	-	-	16,484
Other operating expenses	12,182	920	73	270	51	(41)	13,455
Total expense	33,888	3,513	371	1,297	327	(429)	38,967
Income before income taxes	6,195	3,155	484	681	(480)	-	10,035
Income tax expense (benefit)	925	-	98	-	119	-	1,142
Net income	$ 5,270	$ 3,155	$ 386	$ 681	$ (599)	$ -	$ 8,893
Net income attributable to noncontrolling interest	-	105	-	-	-	-	105
Net Income attributable to F & M Bank Corp.	$ 5,270	$ 3,050	$ 386	$ 681	$ (599)	$ -	$ 8,788
Total Assets	$ 972,129	$ 20,157	$ 8,023	$ 2,992	$ 107,726	$ (144,108)	$ 966,930
Goodwill	$ 2,670	$ 47	$ -	$ 3	$ 164	$ -	$ 2,884

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 23 PARENT COMPANY ONLY FINANCIAL STATEMENTS:

Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents	$ 8,824	$ 11,555
Investment in subsidiaries	102,808	95,643
Other investments	135	135
Income tax receivable (including due from subsidiary)	463	156
Goodwill and intangibles	190	237
Receivable from subsidiary bank	149	-
Total Assets	$ 112,569	$ 107,726
Liabilities		
Deferred income taxes	47	81
Accrued expenses	-	-
Accrued interest	294	276
Long-term liability	11,772	11,740
Total Liabilities	$ 12,113	$ 12,097
Stockholders' Equity		
Series A Preferred stock, $25 liquidation preference, 400,000 shares authorized, 0 shares issued and outstanding at December 31, 2021 and 205,327 issued and outstanding at December 31, 2020	$ -	$ 4,558
Common stock par value $5 par value, 6,000,000 shares authorized, 200,000 designated, 3,414,306 and 3,203,372 shares issued and outstanding at December 31, 2021 and 2020, respectively	17,071	16,017
Additional paid in capital	10,127	6,866
Retained earnings	78,350	71,205
Accumulated other comprehensive loss	(5,092)	(3,017)
Total Stockholders' Equity	100,456	95,629
Total Liabilities and Stockholders' Equity	$ 112,569	$ 107,726

Statements of Income
For the years ended December 31, 2021 and 2020

	2021	2020
Income		
Dividends from affiliate	$ 2,232	$ 1,500
Other income	1	11
Total Income	2,233	1,511
Expenses		
Total Expenses	812	328
Net income before income tax expense and undistributed subsidiary net income	1,421	1,183
Income Tax (Benefit) Expense	(77)	119
Income before undistributed subsidiary net income	1,498	1,064
Undistributed subsidiary net income	9,240	7,724
Net Income F&M Bank Corp.	$ 10,738	$ 8,788

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 23 PARENT COMPANY ONLY FINANCIAL STATEMENTS (CONTINUED):

Statements of Cash Flows
For the years ended December 31, 2021 and 2020

	2021	2020
Cash Flows from Operating Activities		
Net income	$ 10,738	$ 8,788
Adjustments to reconcile net income to net cash provided by operating activities:		
Undistributed (distributed) subsidiary income	(9,240)	(7,724)
Deferred tax (benefit) expense	(35)	478
(Increase) decrease in other assets	(409)	1,785
Increase in other liabilities	19	610
Share based compensation expense	86	-
Net Cash Provided by Operating Activities	1,159	3,937
Cash Flows from Investing Activities		
Purchase of minority interest	-	(856)
Net Cash Used in Investing Activities	-	(856)
Cash Flows from Financing Activities		
Proceeds from long-term debt	-	11,740
Long-term debt fee amortization	32	-
Repurchase of preferred stock	(627)	-
Repurchase of common stock	-	(473)
Proceeds from the sale of common stock	263	
Proceeds from issuance of common stock	35	258
Dividends paid in cash	(3,593)	(3,591)
Net Cash Provided by (Used in) Financing Activities	(3,890)	7,934
Net increase (decrease) in Cash and Cash Equivalents	(2,731)	11,015
Cash and Cash Equivalents, Beginning of Year	11,555	540
Cash and Cash Equivalents, End of Year	$ 8,824	$ 11,555

NOTE 24 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). On April 30, 2020, the bank acquired the remaining 30% interest to have 100% ownership of F&M Mortgage. F&M Mortgage originates both conventional and government sponsored mortgages for sale in the secondary market. The Company consolidated the assets, liabilities, revenues and expenses of F&M Mortgage in its consolidated financial statements as of December 31, 2021 and 2020.

NOTE 25 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, 2021 and 2020. On January 3, 2022, the Company purchased F&M Mortgage's minority interest in VST.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 26 ACCUMULATED OTHER COMPREHENSIVE LOSS:

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

	Unrealized Securities Gains (Losses)	Adjustments Related to Pension Plan	Losses Realized in Net Income	Accumulated Other Comprehensive Loss
Balance at December, 31, 2019	$ (7)	$ (3,204)	$ -	$ (3,211)
Change in unrealized securities gains (losses), net of tax	811	-	-	811
Change in unfunded pension liability, net of tax	-	(617)	-	(617)
Balance at December, 31, 2020	$ 804	$ (3,821)	$ -	$ (3,017)
Change in unrealized securities gains (losses), net of tax	(2,190)	-	-	(2,190)
Change in unfunded pension liability, net of tax	-	530	-	530
Losses realized in income, net of tax	-	-	(415)	(415)
Balance at December, 31, 2021	$ (1,386)	$ (3,291)	$ (415)	$ (5,092)

There were no reclassification adjustments reported on the consolidated statements of income during 2020. During 2021 there were security losses of $525, net of tax of $110, that were reclassified out of unrealized gains on available for sale securities and reclassified into net investment security losses on the consolidated statements of income.

NOTE 27 REVENUE RECOGNITION:

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. Substantially all of the Company's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

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), 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.

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 27 REVENUE RECOGNITION (CONTINUED):

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.

Gains/Losses on sale of OREO

The Company records a gain or loss from the sale of OREO when the control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. The Company recorded no losses on the sales of OREO property in 2021 and $205 in 2020, which is presented on the consolidated income statement as a noninterest expense and therefore not reflected in the table below.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for December 31, 2021 and 2020.

	Twelve Months Ended December 31, 2021	2020
Noninterest Income		
In-scope of Topic 606:		
Service Charges on Deposits	$ 1,133	$ 1,191
Investment Services and Insurance Income	944	669
Title Insurance Income	2,074	1,978
ATM and check card fees	2,311	1,900
Other	807	547
Noninterest Income (in-scope of Topic 606)	7,269	6,285
Noninterest Income (out-of-scope of Topic 606)	4,037	5,925
Total	$ 11,306	$ 12,210

Notes to the Consolidated Financial Statements (dollars in thousands)

NOTE 27 REVENUE RECOGNITION (CONTINUED):

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, 2021 and 2020, 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 28 LEASES:

The Company adopted ASU No. 2016-02 *"Leases (Topic 842)"* and all subsequent ASUs that modified Topic 842. The Right-of-use assets and lease liabilities 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 the 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:

		December 31, 2021		December 31, 2020
Lease Liabilities (included in other liabilities)	$	957	$	859
Right-of-use assets (included in other assets)	$	937	$	840
Weighted average remaining lease term		3.37 years		4.12 years
Weighted average discount rate		3.01%		3.48%

		2021		2020
Lease cost				
Operating lease cost	$	121	$	112
Total lease cost	$	121	$	112
Cash paid for amounts included in the measurement of lease liabilities	$	145	$	130

NOTE 28 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		**As of December 31, 2021**
Twelve months ending December 31, 2022	$	185
Twelve months ending December 31, 2023		135
Twelve months ending December 31, 2024		136
Twelve months ending December 31, 2025		98
Twelve months ending December 31, 2026		70
Thereafter		518
Total undiscounted cash flows	$	1,142
Discount		(185)
Lease liabilities	$	957

NOTE 29 WAYNESBORO BRANCH ACQUISITION

On April 23, 2021, the Bank acquired a branch from Carter Bank & Trust located in Waynesboro, VA. Pursuant to the transaction, the Bank acquired $14,229 in deposits. In connection with its purchase of the branch, the Bank received a cash payment from Carter Bank & Trust. of $13,758, which was net of a premium paid on deposits of $135 thousand. This acquisition provides the Bank with the opportunity to enhance its footprint in Augusta County market.

The Company has accounted for the branch purchases under the acquisition method of accounting in accordance with FASB ASC topic 805, "Business Combinations," whereby the acquired assets and liabilities were recorded by the Bank at their estimated fair values as of their acquisition date. The acquired assets and assumed liabilities of the Waynesboro branch were measured at estimated fair value. Management made significant estimates and exercised significant judgement in accounting for the acquisition of the Waynesboro branch. Deposits were valued based upon interest rates, original and remaining terms and maturities, as well as current rates for similar funds in the same markets. Equipment was acquired based on the remaining book value from Carter Bank & Trust, which approximated fair value.

The statement of net assets acquired and the resulting goodwill recorded is presented in the following tables (dollars in thousands). As explained in the notes that accompany the following table, the purchased assets, assumed liabilities and identifiable assets were recorded at the acquisition date fair value.

NOTE 29 WAYNESBORO BRANCH ACQUISITION (CONTINUED):

	Acquired Balances as Recorded by Carter Bank & Trust	Fair Value Adjustments	Acquired Balances as Recorded by Farmers & Merchants Bank
Cash and due from banks	$ 188	$ -	$ 188
Premises and equipment, net	11	-	11
Right-of-use asset	50	-	50
Core deposit intangible	-	73	73
Total assets	$ 249	$ 73	$ 322
Deposits:			
Noninterest-bearing	$ 1,693	$ -	$ 1,693
Interest-bearing	12,401	135	12,536
Total deposits	14,094	135	14,229
Lease Liability	50	-	50
Total liabilities	$ 14,144	$ 135	$ 14,279
Net assets acquired	$ (13,895)	$ (62)	$ (13,957)

The following table summarizes the acquired assets and assumed liabilities in the purchase as of the acquisition date, and the resulting goodwill of $199 thousand resulting from the transaction (in thousands):

Assets acquired at fair value:	
Cash and cash equivalents	$ 188
Premises and equipment, net	11
Right-of-use asset	50
Core deposit intangible	73
Total fair value of assets acquired	$ 322
Liabilities assumed at fair value:	
Deposits	$ 14,229
Lease liability	50
Total fair value of liabilities assumed	$ 14,279
Net assets acquired at fair value	$ (13,957)
Transaction consideration received from Carter Bank & Trust	$ (13,758)
Amount of goodwill resulting from acquisition	$ 199

The total amount of goodwill arising from this transaction of $199 thousand is expected to be deductible for tax purposes, pursuant to section 197 of the Internal Revenue Code.

NOTE 30 SUBSEQUENT EVENTS:

On January 3, 2022 the Company purchased the minority interest in VST from F&M Mortgage.

On February 2, 2022 the F&M Bank purchased property in the City of Winchester for a potential future branch location.

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, 2021 and 2020, 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, 2021 and 2020, 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.

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 Public Company Accounting Oversight Board (United States) (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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no opinion.

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.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses – Loans Collectively Evaluated for Impairment - Qualitative Factors

Description of the Matter
As described in Note 2 (Summary of Significant Accounting Policies) and Note 6 (Allowance for Loan Losses) to the consolidated financial statements, the Company maintains an allowance for loan losses that represents management's estimate of the probable losses inherent in the Company's loan portfolio. The Company's allowance for loan losses has two basic components: the general allowance and the specific allowance. At December 31, 2021, the general allowance represented $7,012,000 of the total allowance for loan losses of $7,748,000. The general allowance is applied to non-impaired loans and uses historical loss experience along with qualitative factors, including changes in lending policies and procedures, the nature and volume of the portfolio, experience of lending management, levels and trends in delinquencies, nonaccrual loans, charge-offs and adversely rated loans, the loan review system, portfolio concentrations, economic conditions, collateral values, and the competitive and legal environment. The qualitative adjustments to the historical loss rates are established by applying an additional loss factor to the loan segments identified by management based on their assessment of shared risk characteristics within similar groups of non-impaired loans. Qualitative factors are determined based on management's continuing evaluation of inputs and assumptions underlying the quality of the loan portfolio and contribute significantly to the allowance for loan losses.

Management exercised significant judgment when assessing the qualitative factors in estimating the allowance for loan losses. We identified the assessment of the qualitative factors as a critical audit matter as auditing the qualitative factors involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit
The primary audit procedures we performed to address this critical audit matter included:

Substantively testing management's process, including evaluating their judgments and assumptions for developing the qualitative factors, which included:

- Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
- Evaluating the reasonableness of management's judgments related to the determination of qualitative factors.
- Evaluating the qualitative factors for directional consistency and for reasonableness.
- Testing the mathematical accuracy of the allowance calculation, including the application of the qualitative factors.

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

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

Roanoke, Virginia
March 10, 2022

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, 2021, 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, 2021 the Company's disclosure controls and procedures were effective.

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, 2021.There were no changes in internal controls over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting. 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 effective as of December 31, 2021.

Item 9B. Other Information

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

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 2022 Annual Meeting of Shareholders to be held on May 12, 2022 ("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 Accountant 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:

PART IV, continued

Item 15. Exhibits and Financial Statement Schedules

(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.
3.3	Amended and Restated Bylaws of F & M Bank Corp., incorporated herein by reference from F & M Bank Corp.'s, Current Report on Form 8-K, filed March 24, 2020.
4.1	Description of Securities, incorporated herein by reference from Exhibit 4.1 to F&M Bank Corp's Annual Report on Form 10-K, filed March 16, 2020.
4.2	Form of 2027 Subordinated Note (included as Exhibit 4.1 to the Current Report on Form 8-K filed July 31, 2020 and incorporated herein by reference).
4.3	Form of 2030 Subordinated Note (included as Exhibit 4.2 to the Current Report on Form 8-K filed July 31, 2020 and incorporated herein by reference).
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	Employment Agreement, dated December 30, 2020, by and between F&M Bank Corp. and Mark C. Hanna, incorporated herein by reference from Exhibit 10.1 to F&M Bank Corp.'s Current Report on Form 8-K, filed January 6, 2021.
10.5	Employment Agreement, dated December 30, 2020, by and between F&M Bank Corp. and Barton E. Black, incorporated herein by reference from Exhibit 10.2 to F&M Bank Corp.'s Current Report on Form 8-K, filed January 6, 2021.
10.6	F&M Bank Corp. 2020 Stock Incentive Plan, incorporated herein by reference from Exhibit 10.1 to F&M Bank Corp.'s Quarterly Report on Form 10-Q, filed August 11, 2020.
10.7	Form of Restricted Stock Award Agreement, filed herewith.
10.8	Form of Subordinated Note Purchase Agreement (included as Exhibit 10.1 to the Current Report on Form 8-K filed July 31, 2020 and incorporated herein by reference).
10.9	Employment Agreement, dated December 30, 2020, by and between F&M Bank Corp. and F. Garth Knight, filed herewith.
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, 2021, 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).
104	The cover page from F&M Bank Corp.'s Annual Report or Form 10-K for the year ended December 31, 2021, formatted in Inline XBRL (included with Exhibit 101)

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 10, 2022
Date

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

March 10, 2022
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
/s/ Larry A. Caplinger Larry A. Caplinger	Director	March 10, 2022
/s/ Dean W. Withers Dean W. Withers	Director	March 10, 2022
/s/ Daniel J. Harshman Daniel J. Harshman	Director	March 10, 2022
/s/ Michael W. Pugh Michael W. Pugh	Director, Chair	March 10, 2022
/s/ Christopher S. Runion Christopher S. Runion	Director	March 10, 2022
/s/ E. Ray Burkholder E. Ray Burkholder	Director	March 10, 2022
/s/ Peter H. Wray Peter H. Wray	Director	March 10, 2022
/s/ Anne Keeler Anne Keeler	Director	March 10, 2022
/s/ Daphyne Thomas Daphyne Thomas	Director	March 10, 2022
/s/ John Willingham John Willingham	Director	March 10, 2022
/s/ Hannah Hutman Hannah Hutman	Director	March 10, 2022

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

Exhibit 10.7

F & M BANK CORP.
2020 STOCK INCENTIVE PLAN

Restricted Stock Award Agreement

THIS RESTRICTED STOCK AWARD AGREEMENT (the "Award Agreement") between **F & M BANK CORP.**, a Virginia corporation (the "Company"), and ("Participant"), is made pursuant and subject to the provisions of the F & M Bank Corp. 2020 Stock Incentive Plan (___ "Plan"). All terms used herein that are defined in the Plan have the same meaning given them in the Plan, unless otherwise defined herein.

1. **Grant of Restricted Stock Award**. The Company hereby grants to Participant, effective as of (the "Date of Grant"), an Award of (number) shares of Company Stock (the "Restricted Stock"). This Award of Restricted Stock is subject to the terms and conditions of the Plan and subject further to the terms and conditions set forth herein.

2. **Restrictions**. Except as provided in this Award Agreement, the Restricted Stock is nontransferable and is subject to a substantial risk of forfeiture.

3. **Vesting**. Except as provided in paragraph 4, Participant's interest in the Restricted Stock shall be transferable and nonforfeitable ("Vested") to the extent provided in paragraphs (a), (b), and (c) below:

   (a) ***Continued Service***. Participant's interest in ___% of the Restricted Stock shall become Vested on each of the ____________ anniversaries of the Date of Grant (each, a "Vesting Date"), provided that Participant has continued to provide services for the Company or an Affiliate from the Date of Grant through the applicable Vesting Date.

   (b) ***Death or Disability***. Participant's interest in the Restricted Stock (if not sooner Vested) shall become Vested on the date that Participant dies or becomes Disabled while Participant is a service provider of the Company or an Affiliate.

   (c) ***Change in Control***. Participant's interest in the shares of Restricted Stock (if not sooner Vested) shall become Vested on a Change in Control.

4. **Forfeiture**. Participant's right to all or a portion of the shares of the Restricted Stock that are not then Vested shall be forfeited if Participant ceases to provide services for the Company or an Affiliate prior to the applicable Vesting Date. In addition, the Restricted Stock shall be subject to reduction, cancellation, forfeiture or recoupment upon breach of non- competition, non-solicitation, confidentiality, or other restrictive covenants or obligations that are applicable to Participant, or a termination of the Participant's service for Cause.

5. **Shareholder Rights**. Participant will have all the rights of a shareholder of the Company with respect to the Restricted Stock, including the right to receive dividends on and to vote the Restricted Stock; provided, however, that (i) any cash dividends and stock dividends with respect to Restricted Stock shall be withheld by the Company for Participant's account until such if, if any, as the underlying shares of Restricted Stock becomes Vested, at which time such dividends will be distributed, net of Applicable Withholding Taxes, (ii) Participant may not sell, transfer, pledge, exchange, hypothecate or otherwise dispose of the Restricted Stock before it is Vested, (iii) if the Restricted Stock is evidenced by a certificate, the Company shall retain custody of such certificate as provided in paragraph 6, and (iv) Participant shall deliver a stock power to the Company in accordance with paragraph 7.

6. **Certificates**. At the option of the Company, the Restricted Stock shall be evidenced by an entry on the registry books of the Company or by a certificate issued by the Company. Any book entries and certificates evidencing the Restricted Stock shall carry or be endorsed with a legend restricting the transferability of shares as may be required by applicable securities or other laws, or by the terms of the Plan. Participant may not receive or take possession of any shares of Restricted Stock through book-entry accounts held by, or in the name of, Participant so long as the Restricted Stock is not Vested. If the Restricted Stock is evidenced by a certificate, custody of such certificate evidencing the Restricted Stock shall be retained by the Company so long as the Restricted Stock is not Vested. The Company shall release the restrictions on the book-entry evidencing the Restricted Stock or deliver to Participant the stock certificates evidencing the Company Stock as soon as practicable after the Restricted Stock becomes Vested.

7. **Stock Power**. Participant shall deliver to the Company a stock power, endorsed in blank, with respect to the Restricted Stock. The Company shall use the stock power to cancel any shares of Restricted Stock that do not become Vested. The Company shall return the stock power to Participant with respect to any shares of Restricted Stock that become Vested.

8. **Fractional Shares**. Fractional shares of Company Stock shall not be issuable hereunder, and when any provision hereof or the Plan may entitle Participant to a fractional share, such fraction shall be disregarded.

9. **No Right to Continued Service**. This Award Agreement does not confer upon Participant any right to continue to provide services to the Company or an Affiliate, nor shall it interfere in any way with the right of the Company or an Affiliate to terminate Participant's services at any time.

10. **Investment Representation**. Participant agrees that unless shares issuable under the Plan have been registered with the Securities and Exchange Commission, all shares issuable to Participant hereunder shall be acquired for investment and not with a view to distribution or resale. Participant further agrees that, until such registration, certificates representing such shares may bear an appropriate legend to assure compliance with applicable law and regulations.

11. **Change in Capital Structure**. In the event of changes in the outstanding shares of Company Stock or in the capital structure of the Company by reason of any stock or extraordinary cash dividend, stock split, reverse stock split, extraordinary corporate transaction such as any recapitalization, reorganization, merger, spin-off of a subsidiary, or other relevant change in capitalization after the Date of Grant, the number and kind of shares of stock or securities subject to this Award Agreement shall be equitably adjusted as determined by the Committee in accordance with Plan section 14.

12. **Governing Law**. This Award Agreement shall be governed by the laws of the Commonwealth of Virginia.

13. **Conflicts**. In the event of any conflict between the provisions of the Plan and the provisions of this Award Agreement, the provisions of the Plan shall govern.

14. **Participant Bound by Plan**. Participant hereby acknowledges receipt of a copy of the Plan and agrees to be bound by all the terms and provisions thereof.

15. **Binding Effect**. Subject to the limitations stated above and in the Plan, this Award Agreement shall be binding upon and inure to the benefit of the legatees, distributees, and personal representatives of Participant and the successors of the Company.

16. **Tax Withholding**. Participant agrees, as a condition of receiving this Award, to pay, or make arrangements acceptable to the Company for the satisfaction of, all Applicable Withholding Taxes with respect to this Award.

17. **Counterparts**. This Award Agreement may be executed in counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument. Counterpart signature pages to this Award Agreement transmitted by facsimile transmission, electronic mail in portable document format (.pdf), or by any other electronic means intended to preserve the original graphic and pictorial appearance of a document, will have the same effect as physical delivery of the paper document bearing an original signature.

IN WITNESS WHEREOF, the Company has caused this Award Agreement to be signed by a duly authorized officer, and Participant has accepted and acknowledged the grant of this Award by affixing Participant's signature hereto.

F&M BANK CORP.
By:______________________

____
(Printed Name)

____
(Title)

PARTICIPANT

____

____
(Printed Name)

Exhibit 10.9

AMENDED & RESTATED EMPLOYMENT AGREEMENT

THIS AMENDED & RESTATED EMPLOYMENT AGREEMENT (the "Agreement") made and entered into as of December 30, 2020 (the "Effective Date") by and between F&M Bank Corp., a Virginia corporation (the "Corporation"), the Corporation's wholly-owned subsidiary, Farmers & Merchants Bank (the "Bank"), and F. Garth Knight ("Employee").

RECITALS

WHEREAS, the Corporation is a bank holding company engaged in the operation of a bank;

WHEREAS, Employee possesses the experience, knowledge, skills and expertise of value to the Corporation; and

WHEREAS, the Corporation wishes to retain Employee's valuable services, and Employee wishes to make Employee's services available to the Corporation on the terms and subject to the conditions set forth herein; and

WHEREAS, the parties entered into that certain Employment Agreement made as of May 18, 2020 (the "Original Agreement"), and, pursuant to Section 14 thereof, wish to amend and restate such Employment Agreement as set forth herein.

NOW, THEREFORE, for and in consideration of the premises and of the mutual promises and undertakings of the parties as hereinafter set forth, the parties covenant and agree as follows:

TERMS OF AGREEMENT

Section 1. Employment

(a) Employee shall be employed as Executive Vice President and Chief Lending Officer of the Bank and shall discharge such duties and as may be assigned to him by the Corporation or the Bank from time to time.

(b) References in this Agreement to services rendered for the Corporation and compensation and benefits payable or provided by the Corporation shall include services rendered for and compensation and benefits payable or provided by any Affiliate. References in this Agreement to the "Corporation" also shall mean and refer to each Affiliate for which Employee performs services. References in this Agreement to "Affiliate" shall mean any business entity that, directly or indirectly, through one or more intermediaries, is controlled by the Corporation.

Section 2. Term and Renewal The initial term of this Agreement shall begin on the Effective Date and end on December 31, 2021 unless earlier terminated as provided herein. However, on December 31, 2020, and each December 31 thereafter, the term of this Agreement shall be renewed and extended by one year, unless Employee or the Corporation gives notice to the other in writing, at least 90 days prior to the applicable December 31, that the term shall not be renewed and extended, such that, absent such notice of non-extension, the extended term of this Agreement on December 31, 2020, or the applicable anniversary thereof, shall be two (2) years. References in this Agreement to the "Term" shall mean the initial term of this Agreement and any renewal or extension thereof

Section 3. Exclusive Service Employee shall devote his best efforts and full business time to rendering services on behalf of the Corporation in furtherance of its best interests. Employee shall comply with all policies, standards and regulations of the Corporation now or hereafter promulgated and shall perform his duties under this Agreement to the best of his abilities and in accordance with standards of conduct applicable to officers of banks.

Section 4. Compensation and Benefits

(a) As compensation while employed hereunder, Employee, during his faithful performance of this Agreement, in whatever capacity rendered, shall receive an annual base salary of $250,000.00, payable in accordance with the normal payroll procedures and schedule of the Corporation, but no less frequently than monthly. The Board of Directors of the Corporation (or the appropriate committee thereof), in its discretion, may increase (but not decrease, unless Employee provides written consent to such decrease) Employee's base salary during the Term. The amount of such annual base salary from time to time is referred to herein as the "Base Salary." Except as otherwise expressly set forth hereunder, no compensation shall be paid pursuant to this Agreement in respect of any month or portion thereof subsequent to any termination of Employee's employment by the Corporation.

(b) Corporate Benefit Plans Employee shall be entitled to participate in or become a participant in all cash and non-cash employee benefit plans maintained by the Corporation for its officers, subject to the terms and conditions of any such plans and to the Corporation's right to amend or terminate such plans.

(c) Bonuses Employee shall receive only such bonuses as the Board of Directors of the Corporation, in its discretion, decides to pay to Employee. In addition, the Corporation will pay to Employee a signing bonus in the gross amount of $15,000.00 (the "Signing Bonus"), payable on the first regular payroll date that falls on or after his first day of employment with the Bank.

(d) Expense Account The Corporation shall reimburse Employee for reasonable and customary business expenses incurred in the conduct of the Corporation's business while he is employed hereunder. Such expenses will include business meals, out-of-town lodging and travel expenses and other items identified in written rules and policies of the Corporation. Employee agrees to timely submit records and receipts of reimbursable items and agrees that the Corporation can adopt reasonable rules and policies regarding such reimbursement. The Corporation agrees to make prompt payment to Employee following receipt and verification of such reports. No reimbursement provided under this Section 4(d) during one calendar year shall affect the expenses eligible for reimbursement during another calendar year.

(e) Paid Time Off Employee shall be entitled to the same paid time off policies as the Board of Directors of the Corporation may from time to time designate for all similarly situated full-time senior executive officers of the Corporation.

(f) Relocation Employee will receive relocation assistance in the gross amount of $20,000.00 (the "Relocation Assistance") to assist Employee with the expenses of his relocation in connection with employment with the Bank. The Relocation Assistance will be paid to Employee within thirty (30) days after Employee has relocated his principal residency to the market area of the Bank, provided Employee is employed by the Bank on the date of such relocation. Notwithstanding the foregoing or any other provision of this Agreement, Employee shall have no right to receive payment under this Section 4(f) on or after the date of Employee's resignation without Good Reason or Employee's termination for Cause (each event as defined herein).

(g) Automobile; Cell Phone While he is employed hereunder, the Corporation shall provide Employee with the use of a Bank-owned automobile and with a cell phone allowance, each in accordance with policies of the Corporation as may be adopted or as in effect from time to time.

(h) Country Club Membership While he is employed hereunder, the Corporation shall pay Employee's reasonable initiation fee, if any, at a country club in the Corporation's market area and Employee's annual membership fees at such club, and shall reimburse Employee for reasonable business-related expenses incurred at such club.

(i) Clawback If Employee's employment with the Corporation terminates for any reason other than death or disability (as defined below) within 24 months of his first day of employment with the Corporation, he will be responsible for repayment of 100% of the gross amount of the each of the Relocation Assistance and the Signing Bonus.

Section 5. Termination

(a) Notwithstanding the termination of Employee's employment pursuant to any provision of this Agreement, the parties shall be required to carry out any provisions of this Agreement which contemplate performance by them subsequent to such termination. In addition, no termination shall affect any liability or other obligation of any party which shall have accrued prior to such termination, including, but not limited to, any liability, loss or damage on account of breach. No termination of employment shall terminate the obligation of the Corporation to make payments of any vested benefits provided hereunder or the obligations of Employee under Sections 6, 7 and 8.

(b) Employee's employment hereunder may be terminated by Employee upon two weeks written notice to the Corporation or at any time by mutual agreement in writing. Upon such termination of employment, Employee shall have no right to receive compensation or other benefits under this Agreement for any period after such termination. Upon notice of such termination of employment, the Corporation, at its option, may relieve Employee of all duties.

(c) This Agreement shall terminate upon death of Employee; provided, however, that in such event the Corporation shall pay to the estate of Employee the compensation including salary and accrued bonus, if any, which otherwise would be payable to Employee through the end of the month in which his death occurs.

(d) (1) The Corporation may terminate Employee's employment other than for "Cause", as defined in Section 5(e), at any time upon written notice to Employee, which termination shall be effective immediately. Employee may resign thirty (30) days after notice to the Corporation for "Good Reason", as defined in Section 5(d)(4), subject to the following. Employee must provide written notice to the Corporation of the existence of the event or condition constituting such Good Reason within ninety (90) days of the initial occurrence of the event or condition alleged to constitute Good Reason. Upon delivery of such notice, the Corporation shall have a period of thirty (30) days during which it may remedy in good faith the event or condition constituting Good Reason, and Employee's employment shall continue in effect during such time so long as the Corporation is making diligent efforts to cure. In the event the Corporation shall remedy in good faith the event or condition constituting Good Reason, as determined by the Employee's good faith and reasonable judgment, then such notice of termination shall be null and void, and the Corporation shall not be required to pay the amount due to Employee under this Section 5(d) (or under Section 5(i), if applicable.) In the event Employee's employment terminates pursuant to this Section 5(d), provided the Employee signs a release and waiver of claims in a form satisfactory to the Corporation, which the Corporation shall provide to Employee no later than the date of termination (the "Release"), and the Release has become effective within thirty (30) days of Employee's date of termination:

(i) Employee shall continue to receive his Base Salary at the rate in effect immediately preceding such termination, for the number of months remaining in the Term or, if greater, 12 months (the "Severance Period"), such payments to be made at the times such payments would have been made in accordance with Section 4(a);

(ii) Employee shall receive any bonus or other short-term incentive compensation earned, but not yet paid, for the calendar year prior to the calendar year in which his employment terminates which shall be paid within thirty (30) days of Employee's date of termination; and

(iii) Employee shall receive a welfare continuance benefit in an amount equal to *(x)* twelve (12) times *(y)* the excess of the premium that would apply as of Employee's date of termination for continued health, dental and vision coverage for Employee and his "qualified beneficiaries" (as defined in Section 4980B of the Internal Revenue Code of 1986, as amended (the "Code")), if COBRA continuation were elected for such coverage, over the amount that Employee paid for such coverage immediately before the termination of his employment (the "Welfare Continuance Benefit"). Employee may use the Welfare Continuance Benefit, as Employee wishes, including for payment of insurance premiums. The Welfare Continuance Benefit will be paid in a lump sum cash payment within thirty (30) days of Employee's date of termination.

(2) Notwithstanding anything in this Agreement to the contrary:

(i) If Employee breaches Section 6 or 7, Employee will not thereafter be entitled to receive any further compensation or benefits pursuant to this Section S(d); and

(ii) If, while he is receiving payments under this Section 5(d), Employee engages in conduct described in Section 7 and in Section 1 of the Restrictive Agreement (as defined below), such payments will cease and he will not thereafter be entitled to receive any compensation or benefits pursuant to this Section S(d) even though such conduct occurs after the covenants contained in Section 7 and in Section 1 of the Restrictive Agreement have expired.

(3) Except as set forth in Section 5(d)(2), upon the timely execution and non- revocation of the Release, the Corporation's obligation to pay Employee the compensation provided in Section 5(d)(l) shall be absolute and unconditional and shall not be affected by any circumstances, including, without limitation, any set-off, counterclaim, recoupment, defense or other right which the Corporation may have against him or anyone else. All amounts payable by the Corporation hereunder shall be paid without notice or demand. Each and every payment made hereunder by the Corporation shall be final and the Corporation will not seek to recover all or any part of such payment from Employee or from whosoever may be entitled thereto, for any reason whatsoever. Employee shall not be required to mitigate the amount of any payment provided for in this Agreement by seeking other employment or otherwise.

(4) For purposes of this Agreement, "Good Reason" shall mean:

(i) A material diminution in Employee's authority, duties, or responsibilities as set forth in Section 1;

(ii) A notice of non-renewal/non-extension of this Agreement given by the Corporation under Section 2 of this Agreement;

(iii) Requiring Employee to maintain his principal office more than 30 miles from the location of Employee's principal office as of the Effective Date;

(iv) The failure of the Corporation to provide Employee with either substantially the same fringe benefits as provided to him at the inception of this Agreement or with fringe benefits at least as favorable, in the aggregate, as fringe benefits generally available to senior executive officers of the Corporation;

(v) The Corporation's failure to comply with any material term of this Agreement, provided that Employee agrees it shall not constitute a failure to comply with a material term of this Agreement if Employee's title as set forth in Section l(a) is changed by the Corporation or the Bank; or

(vi) The failure of the Corporation to obtain the assumption of and agreement to perform this Agreement by any successor as contemplated in Section 9 hereof

(e) The Corporation shall have the right to terminate Employee's employment under this Agreement at any time for Cause, as defined herein, which termination shall be effective immediately. Termination for "Cause" shall mean termination for Employee's personal dishonesty, willful misconduct, breach of a fiduciary duty involving personal profit, intentional failure to perform stated duties of Employee's position, willful violation of any law, rule or regulation (other than traffic violations or similar offenses) or final cease-and-desist order, conviction of a felony or of a misdemeanor involving moral turpitude, misappropriation of the Corporation's assets (determined on a reasonable basis) or those of its Affiliates, material violation of the Corporation's work rules or policies, material breach of any other provision of this Agreement, or the material omission or neglect in the performance of stated duties of Employee's position that has caused or is reasonably likely to cause material :financial or reputational injury to the Corporation, in each case which is not remedied by Employee (if reasonably capable of remedy) within thirty (30) days after the date the Corporation provides written notice to Employee of a detailed basis for such alleged event of Cause. In the event Employee's employment under this Agreement is terminated for Cause, Employee shall thereafter have no right to receive compensation or other benefits under this Agreement.

(f) The Corporation may terminate Employee's employment under this Agreement, by reason of Employee's disability by giving to Employee written notice of its intention to terminate his employment for disability and his employment shall terminate effective on the later to occur of the ninetieth (90^{th}) day thereafter or the date all accrued time off (sick, vacation, personal) has been expended (the "Period") if within the Period Employee shall fail to return to the full-time performance of the essential functions of his position (and if Employee's disability has been established pursuant to the definition of

"disability" set forth below). For purposes of this Agreement, "disability" means either (i) disability which after the expiration of more than thirteen (13) consecutive weeks after its commencement is determined to be total and permanent by a physician selected and paid for by the Corporation or its insurers, and reasonably acceptable to Employee or his legal representative or (ii) disability as defined in the policy of disability insurance maintained by the Corporation or its Affiliates for the benefit of Employee, whichever shall be more favorable to Employee. Notwithstanding any other provision of this Agreement, the Corporation shall comply with all requirements of the Americans with Disabilities Act, 42
U.S.C. § 12101 et seq.

(g) If Employee is suspended and/or temporarily prohibited from participating in the conduct of the Corporation's affairs by a notice served pursuant to the Federal Reserve Act, the Bank Holding Company Act of 1956 or the Federal Deposit Insurance Act or the Code of Virginia, each as amended, the Corporation's obligations under this Agreement shall be suspended as of the date of service unless stayed by appropriate proceedings. If the charges in the notice are dismissed, the Corporation may in its discretion (i) pay Employee all or part of the compensation withheld while its obligations under this Agreement were suspended, and (ii) reinstate (in whole or in part) any of its obligations which were suspended with any such payment made by March 15 following the calendar year in which such charges are dismissed.

(h) If Employee is removed and/or permanently prohibited from participating in the conduct of the Corporation's affairs by an order issued under the Federal Reserve Act, the Bank Holding Company Act of 1956 or the Federal Deposit Insurance Act or the Code of Virginia, each as amended, all obligations of the Corporation under this Agreement, and Employee's obligations under Section 1 of the Restrictive Agreement (as defined below), shall terminate as of the effective date of the order, but vested rights of the parties shall not be affected.

(i) (1) If Employee's employment is terminated without Cause or if he resigns for Good Reason within one year after a Change of Control shall have occurred, then, provided the Employee signs the Release, and the Release has become effective within thirty (30) days of Employee's date of termination, then on or within thirty (30) days following Employee's last day of employment with the Corporation, the Corporation shall pay to Employee a lump sum cash amount (subject to any applicable payroll or other taxes required to be withheld) equal to: (A) the Welfare Continuance Amount, but determined by substituting 24 months for 12 months: _plus_ (B) 2.99 times *(x)* Employee's Base Salary at the rate in effect (i) on the date of termination or, if greater, (ii) immediately prior to the Change of Control, plus *(y)* Employee's target annual bonus, or, if greater, actual annual bonus for the most recent fiscal year of the Corporation (i) that ends prior to Employee's termination or, if greater, (ii) that ends prior to the Change of Control. The amount payable under this Section 5(i)(l) shall be in lieu of any amount payable to Employee under Section 5(d)(i).

(2) For purposes of this Agreement, a Change of Control occurs if, after the date of this Agreement, (i) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becomes the owner or beneficial owner of F & M Bank Corp. (the "Holding Company") securities having 50% or more of the combined voting power of the then outstanding Holding Company securities that may be cast for the election of the Holding Company's directors other than a result of an issuance of securities initiated by the Holding Company, or open market purchases approved by the Holding Company's Board of Directors as long as the majority of the Holding Company's Board of Directors approving the purchases is a majority at the time the purchases are made; or (ii) as the direct or indirect result of, or in connection with, a tender or exchange offer, a merger or other business combination, a sale of assets, a contested election of directors, or any combination of these events, the persons who were directors of the Holding Company before such events cease to constitute a majority of the Holding Company's Board of Directors, or any successor's board, within one year of the last of such transactions. For purposes of this Agreement, a Change of Control occurs on the date on which an event described in (i) or (ii) occurs. If a Change of Control occurs on account of a series of transactions or events, the Change of Control occurs on the date of the last to occur of such transactions or events.

(3) It is the intention of the parties that no payment be made or benefit provided to Employee pursuant to this Agreement that would constitute an "excess parachute payment" within the meaning of Section 280G of the Code and any regulations thereunder, thereby resulting in a loss of an income tax deduction by the Corporation or the imposition of an excise tax on Employee under Section 4999 of the Code. If the independent accountants serving as auditors for the Corporation immediately prior to the date of a Change of Control (or any other accounting firm designated by the Corporation prior to the Change of Control) determine that some or all of the payments or benefits scheduled under this Agreement, together with any other

payments or benefits to which Employee is entitled under this Agreement or otherwise, would be nondeductible by the Corporation under Section 280G of the Code or result in an excise tax under Section 4999 of the Code, then the payments scheduled under this Agreement will be reduced to one dollar less than the maximum amount which may be paid without causing any such payment or benefit to be nondeductible or subject to such excise tax. The determination made as to the reduction of benefits or payments required hereunder by the independent accountants shall be binding on the parties.

(j) Effective upon Employee's termination of employment for any reason, Employee shall be deemed to have resigned from all positions that Employee holds as an officer, employee, or member of the Board of Directors (or committee thereof) of the Corporation or any of its Affiliates.

Section 6. Confidentiality/Nondisclosure and Return of Property

(a) For and in consideration of the promises set forth herein, including without limitation Section 5(d) and Section S(i), Employee has executed as of the date hereof, and affirms and agrees to the covenants and agreements set forth in, that certain Non-Competition and Confidentiality Agreement by and between Employee and the Bank, the form of which is attached hereto as Exhibit A and which is incorporated herein by reference (the "Restrictive Agreement"), including without limitation Section 3 thereof. Upon termination of employment for any reason, Employee shall deliver to the Corporation all originals and copies of documents, forms, records or other information, in whatever form it may exist, concerning the Corporation, its Affiliates, or the business, customers, products or services of the Corporation or any Affiliate.

(b) The following notice is provided pursuant to 18 U.S.C. § 1833: The U.S. Defense of Trade Secrets Act provides civil and criminal immunity to certain whistleblowers for the confidential disclosure of trade secrets (i) to relevant federal government officials or an engaged attorney, when such disclosure is made solely for the purpose of reporting or investigating a suspected violation of law or (ii) in a document filed under seal in a lawsuit or other proceeding.

Section 7. Non-Competition and Non-Solicitation Employee affirms and agrees to the covenants and agreements set forth in the Restrictive Agreement, including without limitation Sections 1 and 2 thereof.

Section 8. Injunctive Relief, Damages, Etc Employee affirms and agrees to the covenants and agreements set forth in the Restrictive Agreement, including without limitation Sections 1 and 4 thereof.

Section 9. Binding Effect/Assignability This Agreement shall be binding upon and inure to the benefit of the Corporation and Employee and their respective heirs, legal representatives, executors, administrators, successors and assigns, but neither this Agreement, nor any of the rights hereunder, shall be assignable by Employee or any beneficiary or beneficiaries designated by Employee. The Corporation will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business, stock or assets of the Corporation, by agreement in form and substance reasonably satisfactory to Employee, to expressly assume and agree to perform this Agreement in its entirety. Failure of the Corporation to obtain such agreement prior to the effectiveness of any such succession shall be a breach of this Agreement. As used in this Agreement, "Corporation" shall include any successor to its business, stock or assets as aforesaid which executes and delivers the agreement provided for in this Section 9 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

Section 10. Governing Law: Exclusive Forum This Agreement shall be subject to and construed in accordance with the laws of the Commonwealth of Virginia. The sole and exclusive forum for any legal action arising out of, or relating in any way to, this Agreement will be the Circuit Court for the County of Rockingham, Virginia.

Section 11. Invalid Provisions The invalidity or unenforceability of any particular provision of this Agreement shall not affect the validity or enforceability of any other provisions hereof, and this Agreement shall be construed in all respects as if such invalid or unenforceable provisions were omitted.

Section 12. Notices Any and all notices, designations, consents, offers, acceptance or any other communications provided for herein shall be given in writing and shall be deemed properly delivered if delivered in person or by registered or certified mail, return receipt requested, addressed in the case of the Corporation to its registered office or in the case of Employee to his last known address.

Section 13. Entire Agreement

(a) This Agreement, as amended and restated hereby, constitutes the entire agreement among the parties with respect to the subject matter hereof and supersedes any and all other agreements, either oral or in writing, among the parties hereto with respect to the subject matter hereof, including the Original Agreement; provided that the Restrictive Agreement is affirmed, and not superseded, as set forth herein.

(b) This Agreement may be executed in one or more counterparts, each of which shall be considered an original copy of this Agreement, but all of which together shall evidence only one agreement.

Section 14. Amendment and Waiver This Agreement may not be amended except by an instrument in writing signed by or on behalf of each of the parties hereto. No waiver of any provision of this Agreement shall be valid unless in writing and signed by the person or party to be charged.

Section 15. Case and Gender Wherever required by the context of this Agreement, the singular or plural case and the masculine, feminine and neuter genders shall be interchangeable.

Section 16. Captions The captions used in this Agreement are intended for descriptive and reference purposes only and are not intended to affect the meaning of any Section hereunder.

Section 17. Section 409A This Agreement is intended to comply with Section 409A of the Code or an exemption thereunder and each term hereof shall be construed and administered accordingly. Notwithstanding any other provision of this Agreement, payments provided under this Agreement may only be made upon an event and in a manner that complies with Section 409A of the Code or an applicable exemption. Any payments under this Agreement that may be excluded from Section 409A of the Code either as separation pay due to an involuntary separation from service or as a short-term deferral shall be excluded from Section 409A of the Code to the maximum extent possible. For purposes of Section 409A of the Code, each payment under this Agreement, including each installment payment under this Agreement, shall be treated as a separate payment. Any payments to be made under this Agreement upon a termination of employment shall only be made upon a "separation from service" under Section 409A of the Code. Notwithstanding the foregoing, the Corporation makes no representations that the payments and benefits provided under this Agreement comply with Section 409A of the Code and in no event shall the Corporation be liable for all or any portion of any taxes, penalties, interest or other expenses that may be incurred by Employee on account of non-compliance with Section 409A of the Code.

Notwithstanding any other provision of this Agreement, if any payment or benefit provided to Employee in connection with Employee's termination of employment is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code and Employee is determined to be a "specified employee" as defined in Section 409A(a)(2)(b)(i) of the Code, then such payment or benefit shall not be paid until the first payroll date to occur following the six-month anniversary of the date of termination or, if sooner, the date of Employee's death (the "Specified Employee Payment Date"). The aggregate of any payments that would otherwise have been paid before the Specified Employee Payment Date shall be paid to Employee in a lump sum on the Specified Employee Payment Date and thereafter, any remaining payments shall be paid without delay in accordance with their original schedule.

Any payment under Section 5 of this Agreement that is determined to constitute "nonqualified deferred compensation" within the meaning of Section 409A of the Code, and that is subject to a release's becoming effective, and that would otherwise be paid in the first 30 days after your termination date shall be paid, if at all, on such 30th day (subject to any required delay under the preceding paragraph) and any remaining payments shall be made in accordance with their original schedule.

Payments with respect to reimbursements of expenses or in-kind benefits shall be paid or provided in accordance with the Corporation's applicable policy or benefit plan, but in all events reimbursements shall be paid no later than the 15th day of the third month of the calendar year following the calendar year in which the relevant expense is incurred. To the extent required for compliance with Section 409A of the Code because the right to reimbursement constitutes a deferral of compensation thereunder, the amount of expenses or benefits eligible for reimbursement, payment or provision during a calendar year shall not affect the expenses or benefits eligible for reimbursement or provision in any other calendar year.

Section 18. Withholding The Corporation shall withhold from any payments under this Agreement amounts for state and federal income taxes, employment taxes, and such other payroll deductions as may from time to time be required by law.

Section 19. Regulatory Prohibition Notwithstanding anything in this Agreement to the contrary, it is understood and agreed that neither the Corporation nor the Bank (nor any of their respective successors in interest) shall be required to make any payment or take any action under this Agreement if: (i) such payment or action is prohibited by any governmental agency having jurisdiction over the Corporation or any of its subsidiaries (a "Regulatory Authority") because the Corporation or any of its subsidiaries is determined by such Regulatory Authority to be troubled, insolvent, in default or operating in an unsafe or unsound manner; or (ii) such payment or action (A) would be prohibited by or would violate any provision of state or federal law applicable to the Corporation or any of its subsidiaries, including, without limitation, the Federal Deposit Insurance Act and the regulations thereunder presently found at 12 C.F.R. Part 359, as now in effect or hereafter amended, (B) would be prohibited by or would violate any applicable rules, regulations, orders or statements of policy, whether now existing or hereafter promulgated, or any Regulatory Authority or (C) otherwise would be prohibited by any Regulatory Authority. If any payment hereunder is found by any Regulatory Authority, after a full and fair opportunity to be heard, to be in violation of the foregoing, any payment found to have been made in violation of the foregoing shall be immediately returned by Employee to the Corporation.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

F&M BANK CORP.

By:____________________________
Name: Mark C. Hanna
Title: President and Chief Executive Officer

FARMERS & MERCHANTS BANK

By:____________________________
Name: Mark C. Hanna
Title: President and Chief Executive Officer

EMPLOYEE

____
F. Garth Knight

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements No. 333-16075 on Form S-3 and No. 333-244322 and No. 333-159074 on Form S-8 of F&M Bank Corp. and Subsidiaries of our report dated March 10, 2022, relating to the consolidated financial statements, appearing in the Annual Report on Form 10-K of F&M Bank Corp. and Subsidiaries for the year ended December 31, 2021.

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

Roanoke, Virginia
March 10, 2022

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 10, 2022

/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 10, 2022

/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, 2021 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 10, 2022