Form

    Unknown document format

5;border-bottom:double 4px #000000;vertical-align:bottom;display:inline-block;width:5%;font-family:Times New Roman;font-size:13px;">$-

$2,670

31

Note 10.
Business Segments, continued

Three Months Ended September 30, 2016

	F&M Bank	VBS Mortgage	TEB Life/FMFS	VS Title	Parent Only	Eliminations	F&M Bank Corp. Consolidated
Revenues:							
Interest Income	$8,160	$17	$39	$-	$-	$(1)	$8,215
Service charges on deposits	336	-	-	-	-	-	336
Investment services and insurance income	-	-	112	-	-	-	112
Mortgage banking income, net	-	694	-	-	-	-	694
Income from bank owned life insurance	119	-	-	-	-	-	119
Low income housing partnership losses	(183)	-	-	-	-	-	(183)
ATM and check card fees	328	-	-	-	-	-	328
Other operating income	129	-	-	-	-	-	129
Total income	8,889	711	151	-	-	(1)	9,750
Expenses:							
Interest Expense	971	-	-	-	-	(1)	970
Provision for loan losses	-	-	-	-	-	-	-
Salary expense	2,094	295	82	-	-	-	2,471
Employee benefit expense	628	71	-	-	-	-	699
Occupancy expense	185	30	-	-	-	-	215
Equipment expense	181	2	-	-	-	-	183
FDIC insurance assessment	113	-	-	-	-	-	113
Other real estate owned, net	19	-	-	-	-	-	19
Marketing expense	120	6	2	-	-	-	128
Legal and professional fees	98	2	-	-	-	-	100
ATM and check card fees	183	1	-	-	-	-	184
Telecom and data processing expense	286	23	-	-	-	-	309
Directors fees	42	4	-	-	-	-	46
Bank franchise Tax	170	-	-	-	-	-	170
Other operating expenses	755	63	5	-	-	-	823
Total expense	5,845	497	89	-	-	(1)	6,430
Income tax expense (benefit)	770	-	16	-	(132)	-	654

Net income	$2,274	$214	$46	$-	$132	$-	$2,666
Net income attributable to noncontrolling interest	-	64	-	-	-	-	64
Net Income attributable to F & M Bank Corp.	$2,274	$150	$46	$-	$132	$-	$2,602

32

Note 11.
Debt

Short-term Debt

The Company utilizes short-term debt such as Federal funds purchased and Federal Home Loan Bank of Atlanta (FHLB) short term borrowings to support the loans held for sale participation program and provide liquidity. Federal funds purchased are unsecured overnight borrowings from other financial institutions. FHLB short term debt, which is secured by the loan portfolio, can be a daily rate variable loan that acts as a line of credit or a fixed rate advance, depending on the need of the Company. Short-term debt totaled $42,128,000 at September 30, 2017 and has increased $2,128,000 from $40 million at December 31, 2016; the total of increase was in Federal funds purchased.

Long-term Debt

The Company utilizes the FHLB advance program to fund loan growth and provide liquidity. The interest rates on long-term debt are fixed at the time of the advance and range from 1.16% to 2.56%; the weighted average interest rate was 1.86% and 1.80% at September 30, 2017 and December 31, 2016, respectively. The balance of these obligations at September 30, 2017 and December 31, 2016 were $50,661,000 and $63,982,000 respectively. The Company recognized a gain of $504,000 on prepayment of two FHLB advances totaling $10,000,000 during the first quarter of 2017 and there were no additional borrowings in 2017. FHLB advances include a $5,000,000 line of credit at FHLB that is pledged to the Commonwealth of Virginia to secure public funds.

In addition, the Company has a note payable to purchase a lot adjacent to one of the Bank branches for $170,000 at September 30, 2017 that is payable in two remaining annual payments on January 1, 2018 and 2019. There was $255,000 outstanding on this note at December 31, 2016.

VS Title, LLC has a note payable for vehicle purchases with a balance of $9,000 at September 30, 2017.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations

F & M Bank Corp. (Company), incorporated in Virginia in 1983, is a financial holding company pursuant to section 3(a)(1) of the Bank Holding Company Act of 1956, which provides financial services through its wholly-owned subsidiary Farmers & Merchants Bank (Bank), TEB Life Insurance Company (TEB) and Farmers & Merchants Financial Services (FMFS) are wholly-owned subsidiaries of the Bank. The Bank also holds a majority ownership in VBS Mortgage LLC (VBS) and F & M Bank Corp. holds a majority ownership in VS Title LLC (VST).

The Bank is a full service commercial bank offering a wide range of banking and financial services through its thirteen branch offices as well as its loan production office located in Penn Laird, VA (which specializes in providing automobile financing through a network of automobile dealers). TEB reinsures credit life and accident and health insurance sold by the Bank in connection with its lending activities. FMFS provides, brokerage services and property/casualty insurance to customers of the Bank. VBS originates conventional and government sponsored mortgages through their offices in Harrisonburg and Woodstock, VA. VS Title provides title insurance services through their offices in Harrisonburg, Fishersville, and Charlottesville, VA.

The Company’s primary trade area services customers in Rockingham County, Shenandoah County, Page County and Augusta County.

Management’s discussion and analysis is presented to assist the reader in understanding and evaluating the financial condition and results of operations of the Company. The analysis focuses on the consolidated financial statements, footnotes, and other financial data presented. The discussion highlights material changes from prior reporting periods and any identifiable trends which may affect the Company. Amounts have been rounded for presentation purposes. 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 1, Part 1 of this Form 10-Q and in conjunction with the audited Consolidated Financial Statements included in the Company’s December 31, 2016 Form 10-K.

Forward-Looking Statements

Certain statements in this report may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as “expect,” “believe,” “estimate,” “plan,” “project,” or other statements concerning opinions or judgment of the Company and its management about future events.

Although the Company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, and consumer spending and savings habits.

We do not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

34

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (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. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. The Company uses historical loss factors as one factor in determining the inherent loss that may be present in its loan portfolio. Actual losses could differ significantly from the historical factors that are used. The fair value of the investment portfolio is based on period end valuations but changes daily with the market. 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.

Allowance for Loan Losses

Allowances for loans are determined by applying estimated loss factors to the portfolio based on management’s evaluation and “risk grading” of the loan portfolio. Specific allowances 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. The specific reserves are determined on a loan-by-loan basis based on management’s evaluation of the Company’s exposure for each credit, given the current payment status of the loan and the value of any underlying collateral.

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

Goodwill and Intangibles

ASC 805 “Business Combinations” and ASC 350 “Intangibles” require that the acquisition method of accounting be used for all business combinations initiated after June 30, 2001. Additionally, it further clarifies the criteria for the initial recognition and measurement of intangible assets separate from goodwill. ASC 350 prescribes the accounting for goodwill and intangible assets subsequent to initial recognition. The provisions of ASC 350 discontinue the amortization of goodwill and intangible assets with indefinite lives. Instead, these assets will be subject to at least an annual impairment review and more frequently if certain impairment indicators are in evidence. ASC 350 also requires that reporting units be identified for the purpose of assessing potential future impairments of goodwill.

At September 30, 2017, preliminary goodwill of $443,000 was reported for the purchase of VSTitle, LLC. This amount is subject to change after expert evaluation.

Pension Plan Accounting

The accounting guidance for the measurement and recognition of obligations and expense related to pension plans generally applies the concept that the cost of benefits provided during retirement should be recognized over the employees' active working life. Inherent in this concept is the requirement to use various actuarial assumptions to predict and measure costs and obligations many years prior to the settlement date. Major actuarial assumptions that require significant management judgment and have a material impact on the measurement of benefits expense and accumulated 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.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Critical Accounting Policies (continued)

Securities

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

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.

Overview

Net income for the nine months ended September 30, 2017 was $7,223,000 or $1.99 per diluted share, compared to $7,049,000 or $1.89 in the same period in 2016, an increase of 2.47%. During the nine months ended September 30, 2017, noninterest income increased 44.31% and noninterest expense increased 14.19% during the same period. Net income from Bank operations adjusted for income from Parent activities is as follows:

In thousands	2017	2016
Net Income from Bank Operations	$7,023	$6,836
Income from Parent Company Activities (2017 includes VSTitle)	200	213
Net Income for the nine months ended September 30	$7,223	$7,049

During the three months ended September 30, 2017, net income was $2,550,000 or $.70 per diluted share, compared to $2,602,000 or $.70 in the same period in 2016, a decrease of 2.00%. In the three months ended September 30, 2017, noninterest income increased 39.80% and noninterest expense increased 14.63%.

In thousands	2017	2016
Net Income from Bank Operations	$2,473	$2,470

Income from Parent Company Activities (2017 includes VSTitle)	77	132
Net Income for the three months ended September 30	$2,550	$2,602

36

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Results of Operations

The increase in noninterest income of $1,824,000 for the nine-month period and $611,000 for the three-month period ended September 30, 2017 is primarily due to the gain on prepayment of FHLB debt of $504,000 (first quarter) and the acquisition of VS Title LLC which contributed $668,000 for the year to date 2017. Exclusive of the FHLB debt gain, noninterest income increased 32.07% for the nine month period. During the nine month period compared to the first nine months of 2016, other areas of increase are service charges on deposits ($168,000), mortgage banking income ($83,000) and investment services and insurance ($213,000). For the three months ended September 30, 2017 noninterest income increased 39.80%, with increase primarily related to VS Title and mortgage banking.

Noninterest expense for the nine months ended September 30, 2017 increased $2,252,000 as compared to 2016. For the three months ended September 30, 2017 noninterest expense increased $799,000. Expenses increased in the areas of salaries and benefits ($1,695,000), occupancy expense ($133,000) and telecommunications and data processing ($184,000) for the nine months ended September 30, 2017. During the three months ended September 30, 2017 areas of increase were salary and benefits ($566,000), equipment expense ($78,000) and telecommunications and data processing ($61,000). Increases in salaries and benefits relate to normal salary increases, additional staff to support new branch locations and growth at VBS Mortgage, increased cost of insurance and the acquisition of VSTitle. Occupancy and telecommunications and data processing also increased as a result of branching activities.

As shown in Table I on page 46, the 2017 year to date tax equivalent net interest income increased $984,000 or 4.64% compared to the same period in 2016. The tax equivalent adjustment to net interest income totaled $107,000 for the first nine months of 2017. The yield on earning assets increased .18%, while the cost of funds increased .06% compared to the same period in 2016.

The three months ended September 30, 2017 tax equivalent net interest income increased $434,000 or 5.98% compared to the same period in 2016. The tax equivalent adjustment to net interest income totaled $37,000 for the three months.

Year to date, the combination of the increase in yield on assets and the increase in cost of funds coupled with changes in balance sheet leverage has resulted in the net interest margin increasing to 4.47% at September 30, 2017, an increase of 14 basis points when compared to the same period in 2016. The net interest margin for the three months ended September 30, 2017 of 4.48% is an increase from 4.23% for the three months ended September 30, 2016. The growth is driven by increases in yield and balance sheet mix. A schedule of the net interest margin for the three and nine month periods ended September 30, 2017 and 2016 can be found in Table I on page 46.

GAAP Financial Measurements: (Dollars in thousands).	September 30, 2017		September 30, 2016	
	Nine Months	Three Months	Nine Months	Three Months
Interest Income – Loans	$24,604	$8,550	$23,515	$8,092
Interest Income - Securities and Other Interest-Earnings Assets	350	138	278	123
Interest Expense – Deposits	1,947	698	1,757	609

Interest Expense - Other Borrowings	914	332	888	361
Total Net Interest Income	22,093	7,658	21,148	7,245
Non-GAAP Financial Measurements:				
Add: Tax Benefit on Tax-Exempt Interest Income – Loans	107	37	68	16
Total Tax Benefit on Tax-Exempt Interest Income	107	37	68	16
Tax-Equivalent Net Interest Income	$22,200	$7,695	$21,216	$7,261

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

The Interest Sensitivity Analysis contained in Table II on page 47 indicates the Company is in an asset sensitive position in the one year time horizon. 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. Approximately 44.04% of rate sensitive assets and 34.49% of rate sensitive liabilities are subject to repricing within one year. Due to the relatively flat yield curve, management has kept deposit rates low. The growth in earning assets and the growth in noninterest bearing accounts has resulted in the decrease in the positive GAP position in the one year time period.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Balance Sheet

Federal Funds Sold and Interest Bearing Bank Deposits

The Company’s subsidiary bank invests a portion of its excess liquidity in either federal funds sold or interest bearing bank deposits. Federal funds sold offer daily liquidity and pay market rates of interest that at quarter end were benchmarked at 1.00% to 1.25% by the Federal Reserve. Actual rates received vary slightly based upon money supply and demand among banks. Interest bearing bank deposits are held either in money market accounts or as short-term certificates of deposits. Balances in federal funds sold have decreased and interest bearing bank deposits have remained flat since year end due to changes in the composition of the balance sheet.

Securities

The Company’s securities portfolio serves to assist the Company with asset liability management and to provide tax benefits.

The securities portfolio consists of investment securities commonly referred to as securities held to maturity and securities available for sale. Securities are classified as held to maturity investment securities when management has the intent and ability to hold the securities to maturity. held to maturity Investment securities are carried at amortized cost. Securities available for sale include securities that may be sold in response to general market fluctuations, liquidity needs and other similar factors. Securities available for sale are recorded at fair value. Unrealized holding gains and losses on available for sale securities are excluded from earnings and reported (net of deferred income taxes) as a separate component of stockholders’ equity. The low income housing projects included in other investments are held for community development and the tax losses and tax credits that they provide.

As of September 30, 2017, the fair value of securities available for sale exceeded their cost by $7,000. The portfolio is made up of primarily U.S.Treasury securities with an average portfolio life of just over three years. This short average life results in less portfolio volatility and positions the Bank to redeploy assets in response to rising rates. There are $22,000,000 in securities that will mature in 2017.

In reviewing investments as of September 30, 2017 and December 31, 2016, there were no securities which met the definition for other than temporary impairment. Management continues to re-evaluate the portfolio for impairment on a quarterly basis.

Loan Portfolio

The Company operates in a predominately rural area that includes the counties of Rockingham, Page, Shenandoah and Augusta in the western portion of Virginia. The local economy benefits from a variety of businesses including agri-business, manufacturing, service businesses and several universities and colleges. The Bank is an active residential mortgage and residential construction lender and generally makes commercial loans to small and mid-size businesses and farms within its primary service area.

Lending is geographically diversified within the service area. The Company has loan concentrations within the portfolio in construction and development lending. Management and the Board of Directors review this concentration and other potential areas of concentration quarterly.

Loans Held for Investment of $619,960,000 increased $28,324,000 at September 30, 2017 compared to December 31, 2016. The following categories experienced growth: farmland, real estate, multi-family, commercial and industrial, consumer and dealer finance.

Loans Held for Sale totaled $58,177,000 at September 30, 2017, a decrease of $4,558,000 compared to December 31, 2016. The Northpointe participation loan program has experienced a decline in volume in 2017 due to the mortgage environment.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Loan Portfolio (continued)

Nonperforming loans include nonaccrual loans and loans 90 days or more past due. Nonaccrual loans are loans on which interest accruals have been suspended or discontinued permanently. Nonperforming loans totaled $5,662,000 at September 30, 2017 compared to $4,870,000 at December 31, 2016. Loans added to nonaccrual since December 31, 2016 were past due and were not specifically reviewed for impairment as they were below the impairment review threshold. Although the potential exists for loan losses, management believes the bank is generally well secured and continues to actively work with its customers to effect payment. As of September 30, 2017 and December 31, 2016, the Company held $2,148,000 and $2,076,000 of real estate which was acquired through foreclosure, respectively.

The following is a summary of information pertaining to risk elements and nonperforming loans (in thousands):

	September 30, 2017	December 31, 2016
Nonaccrual Loans		
Real Estate	$4,502	$4,204
Commercial	481	70
Home Equity	436	311
Other	243	178
	5,662	4,763
Loans past due 90 days or more (excluding nonaccrual)		
Real Estate	-	81
Commercial	-	-
Home Equity	-	-
Other	-	26
	-	107
Total Nonperforming loans	$5,662	$4,870
Restructured Loans current and performing:		
Real Estate	7,714	8,641
Commercial	162	1,121
Home Equity	-	-
Other	64	76
Nonperforming loans as a percentage of loans held for investment	.91%	.82%
Net charge offs to total loans held for investment	.10%	.21%
Allowance for loan and lease losses to nonperforming loans	122.61%	154.89%

39

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Allowance for Loan Losses

The allowance for loan losses provides for the risk that borrowers will be unable to repay their obligations. The risk associated with real estate and installment notes to individuals is based upon employment, the local and national economies and consumer confidence. All of these affect the ability of borrowers to repay indebtedness. The risk associated with commercial lending is substantially based on the strength of the local and national economies.

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 into loans 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, regardless of the dollar amount, 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.

With the exception of Dealer finance loans, loans that are not impaired are categorized by call report code and an estimate is calculated based on actual loss experience over the last five years. Due to the rapid turnover in the Dealer finance portfolio, a two-year loss rate is utilized in that category as management feels this lookback period properly reflects the losses currently inherent in the portfolio. The Company monitors the net losses for this division and adjusts based on how the portfolio performs since the department was established in 2012. A general allowance for inherent losses has been established to reflect other unidentified losses within the portfolio. The general allowance is calculated using the 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 provision for each quarter based on this evaluation.

The allowance for loan losses of $6,942,000 at September 30, 2017 is equal to 1.12% of loans held for investment. This compares to an allowance of $7,543,000 (1.27%) at December 31, 2016. The company has experienced a decline in historical losses and improvements in the qualitative factors since year end. There has been an increase in past dues in the prior and current quarters, several of which have expected payments in the fourth quarter and several loans (63% of the past due increase) are reviewed for impairment. Past due and loans with adverse risk ratings receive additional allocations in the allowance for loan loss calculation. Increases to nonaccrual have been minimal with a majority of the increase coming from cyclical increases on a development property. No losses in excess of impairment reserves are expected on nonaccrual and TDR loans. Historical losses have continued their downward trend since the end of 2015; therefore, representing the majority of the decline in the allowance for loan losses. Due to these factors, management did not fund the allowance in the first nine months of 2017.

Net charge-offs at September 30, 2017 totaled $601,000 which is equivalent to .10% of total loans outstanding. At December 31, 2016, net charge-offs totaled $1,238,000 or .21% of total loans outstanding.

40

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Deposits and Other Borrowings

The Company's main source of funding is comprised of deposits received from individuals, governmental entities and businesses located within the Company's service area. Deposit accounts include demand deposits, savings, money market and certificates of deposit. Total deposits at September 30, 2017 have increased $25,295,000 since December 31, 2016. Noninterest bearing deposits increased $10,305,000 while interest bearing increased $14,990,000. The increase in deposits is consistent with 2016 in that deposits grew substantially in the second half of the year. The Bank also participates in the CDARS and the ICS programs. CDARS (Certificate of Deposit Account Registry Service) and ICS (Insured Cash Sweep) are programs that allows the bank to accept customer deposits in excess of FDIC limits and through reciprocal agreements with other network participating banks by offering FDIC insurance up to as much as $50 million in deposits. The CDARS program also allows the Bank to purchase funds through its One-Way Buy program. At September 30, 2017 and December 31, 2016, the Company had a total of $1.3 million in CDARS funding. The Company had $17.1 million and $12.1 million in ICS funding at September 30, 2017 and December 31, 2016, respectively.

Short-term borrowings

Short-term debt consists of federal funds purchased, daily rate credit obtained from the Federal Home Loan Bank (FHLB), and short-term fixed rate FHLB borrowings. Federal funds purchased are overnight borrowings obtained from the Bank’s primary correspondent bank to manage short-term liquidity needs. Borrowings from the FHLB have been used to finance loans held for sale and also to finance the increase in short-term residential and commercial construction loans. As of September 30, 2017, short-term debt consisted of $20,000,000 in FHLB short-term borrowings, $20,000,000 in FHLB daily rate credit and $2,128,000 in federal funds purchased. This compared to FHLB short-term borrowings of $40,000,000 at December 31, 2016. There were no balances in federal funds purchased or daily rate credit at December 31, 2016.

Long-term borrowings

Borrowings from the FHLB continue to be an important source of funding. The Company’s subsidiary bank borrows funds on a fixed rate basis. These borrowings are used to fund loan growth and also assist the Bank in matching the maturity of its fixed rate real estate loan portfolio with the maturity of its debt and thus reduce its exposure to interest rate changes. During the first quarter of 2017, the Company recognized a $504,000 gain on prepayment of two FHLB long term advances totaling $10 million and there were no new borrowings during the nine months ended September 30, 2017.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level.

In March 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 September 30, 2017, the Bank had Common Equity Tier I capital of 13.90%, Tier I capital of 13.90% of risk weighted assets and combined Tier I and II capital of 14.98% of risk weighted assets. Regulatory minimums at this date were 4.5%, 6% and 8%, respectively. At December 30, 2016, the Bank had Common Equity Tier I capital of 13.86%, Tier I capital of 13.86% of risk weighted assets and combined Tier I and II capital of 15.08% 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 September 30, 2017 and December 31, 2016, the Bank reported a leverage ratio of 12.16% and 11.83%, respectively, which was also substantially above the minimum. The Bank also reported a capital conservation buffer of 6.98% at September 30, 2017 and 7.08% at December 31, 2016. 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. Beginning January 1, 2016, a capital conservation buffer of 0.625% became effective. The capital conservations buffer for 2017 is 1.25% and will gradually be increased through January 1, 2019 to 2.5%.

Liquidity

Liquidity is the ability to meet present and future financial obligations through either the sale or maturity of existing assets or the acquisition of additional funds through liability management. Liquid assets include cash, interest-bearing deposits with banks, federal funds sold, investments and loans maturing within one year. The Company's ability to obtain deposits and purchase funds at favorable rates determines its liquidity exposure. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

Additional sources of liquidity available to the Company include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates and the purchasing of federal funds. To further meet its liquidity needs, the Company’s subsidiary bank also maintains a line of credit with its primary correspondent financial institution, with Zions Bank and with Pacific Coast Bankers Bank. The Bank also has a line of credit with the Federal Home Loan Bank of Atlanta that allows for secured borrowings.

Interest Rate Sensitivity

In conjunction with maintaining a satisfactory level of liquidity, management must also control the degree of interest rate risk assumed on the balance sheet. Managing this risk involves regular monitoring of interest sensitive assets relative to interest sensitive liabilities over specific time intervals. The Company monitors its interest rate sensitivity periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

As of September 30, 2017, the Company had a cumulative Gap Rate Sensitivity Ratio of 19.55% for the one year repricing period. This generally indicates that earnings would increase in an increasing interest rate environment as assets reprice more quickly than liabilities. However, in actual practice, this may not be the case as balance sheet leverage, funding needs and competitive factors within the market could dictate the need to raise deposit rates more quickly. Management constantly monitors the Company’s interest rate risk and has decided the current position is acceptable for a well-capitalized community bank.

A summary of asset and liability repricing opportunities is shown in Table II, on page 47.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Effect of Newly Issued Accounting Standards

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.” The amendments in ASU 2016-01, among other things: 1) Requires equity investments (except those accounted for under the equity method of accounting, or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. 2) Requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes. 3) Requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (i.e., securities or loans and receivables). 4) Eliminates the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost. The amendments in this ASU are effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company is currently assessing the impact that ASU 2016-01 will have on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842).” Among other things, in the amendments in ASU 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date: (1) A lease liability, which is a lessee‘s obligation to make lease payments arising from a lease, measured on a discounted basis; and (2) A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term. Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. Early application is permitted upon issuance. Lessees (for capital and operating leases) and lessors (for sales-type, direct financing, and operating leases) must apply a modified retrospective transition approach for leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements. The modified retrospective approach would not require any transition accounting for leases that expired before the earliest comparative period presented. Lessees and lessors may not apply a full retrospective transition approach. The Company is currently assessing the impact that ASU 2016-02 will have on its consolidated financial statements by gathering data on current lease agreements and analyzed the capital impact of expected right of use assets that will be recorded. No changes are expected regarding total lease expense.

During June 2016, the FASB issued ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The amendments in this ASU are effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company is currently assessing the impact that ASU 2016-13 will have on its consolidated financial statements and has formed a Current Expected Credit Losses steering committee that is researching methods and models.

During August 2016, the FASB issued ASU No. 2016-15, “Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments”, to address diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The amendments should be applied using a retrospective transition method to each period presented. If retrospective application is impractical for some of the issues addressed by the update, the amendments for those issues would be applied prospectively as of the earliest date practicable. Early adoption is permitted, including adoption in an interim period. The Company does not expect the adoption of ASU 2016-15 to have a material impact on its consolidated financial statements.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Effect of Newly Issued Accounting Standards, continued

During January 2017, the FASB issued ASU No. 2017-01, “Business Combinations (Topic 805): Clarifying the Definition of a Business”. The amendments in this ASU clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business—inputs, processes, and outputs. While an integrated set of assets and activities (collectively referred to as a “set”) that is a business usually has outputs, outputs are not required to be present. In addition, all the inputs and processes that a seller uses in operating a set are not required if market participants can acquire the set and continue to produce outputs. The amendments in this ASU provide a screen to determine when a set is not a business. If the screen is not met, the amendments (1) require that to be considered a business, a set must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output and (2) remove the evaluation of whether a market participant could replace missing elements. The ASU provides a framework to assist entities in evaluating whether both an input and a substantive process are present. The amendments in this ASU are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. The amendments in this ASU should be applied prospectively on or after the effective date. No disclosures are required at transition. The Company does not expect the adoption of ASU 2017-01 to have a material impact on its consolidated financial statements.

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

During March 2017, the FASB issued ASU 2017-07, “Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost.” The amendments in this ASU require an employer that offers defined benefit pension plans, other postretirement benefit plans, or other types of benefits accounted for under Topic 715 to report the service cost component of net periodic benefit cost in the same line item(s) as other compensation costs arising from services rendered during the period. The other components of net periodic benefit cost are required to be presented in the income statement separately from the service cost component. If the other components of net periodic benefit cost are not presented on a separate line or lines, the line item(s) used in the income statement must be disclosed. In addition, only the service cost component will be eligible for capitalization as part of an asset, when applicable. The amendments are effective for annual periods beginning after December 15, 2017, including interim periods within those annual periods. Early adoption is permitted. The Company does not expect the adoption of ASU 2017-07 to have a material impact on its consolidated financial statements.

During March 2017, the FASB issued ASU 2017 08, “Receivables—Nonrefundable Fees and Other Costs (Subtopic 310 20), Premium Amortization on Purchased Callable Debt Securities.” The amendments in this ASU shorten the amortization period for certain callable debt securities purchased at a premium. Upon adoption of the standard, premiums on these qualifying callable debt securities will be amortized to the earliest call date. Discounts on purchased debt securities will continue to be accreted to maturity. The amendments are effective for fiscal years beginning after December 15, 2018, and interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. Upon transition, entities should apply the guidance on a modified retrospective basis, with a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption and provide the disclosures required for a change in accounting principle. The Company does not expect the adoption of ASU 2017 08 to have a material impact on its consolidated financial statements.

Item 2.
Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Effect of Newly Issued Accounting Standards, continued

During May 2017, the FASB issued ASU 2017 09, “Compensation – Stock Compensation (Topic 718): Scope of Modification Accounting.” The amendments provide guidance on determining which changes to the terms and conditions of share-based payment awards require an entity to apply modification accounting under Topic 718. The amendments are effective for all entities for annual periods, including interim periods within those annual periods, beginning after December 15, 2017. Early adoption is permitted, including adoption in any interim period, for reporting periods for which financial statements have not yet been issued. The Company does not expect ASU 2017 09 will have an impact on the Company’s consolidated financial statements.

During August 2017, the FASB issued ASU 2017-12, “Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities.” The amendments in this ASU modify the designation and measurement guidance for hedge accounting as well as provide for increased transparency regarding the presentation of economic results on both the financial statements and related footnotes. Certain aspects of hedge effectiveness assessments will also be simplified upon implementation of this update. The amendments are effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2018. Early adoption is permitted, including adoption in any interim period. The Company is currently assessing the impact that ASU 2017 12 will have on its consolidated financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not expected to have a material effect on the Company’s financial position, result of operations or cash flows.

Existence of Securities and Exchange Commission Web Site

The Securities and Exchange Commission maintains a Web site that contains reports, proxy and information statements and other information regarding registrants that file electronically with the Commission, including F & M Bank Corp. and the address is (http: //www.sec.gov).

TABLE I
F & M BANK CORP.
Net Interest Margin Analysis
(on a fully taxable equivalent basis)
(Dollar Amounts in Thousands)

	Nine Months Ended September 30, 2017			Nine Months Ended September 30, 2016			Three Months Ended September 30, 2017			Three Months Ended September 30, 2016		
	Average Balance4	Income/ Expense	Average Rates5	Average Balance4	Income/ Expense	Average Rates	Average Balance4	Income/ Expense	Average Rates	Average Balance4	Income/ Expense	A R
Interest income												
Loans held for investment1,2	$599,198	$23,937	5.34%	$561,347	$22,162	5.27%	$611,426	$8,258	5.36%	$570,252	$7,575	
Loans held for sale	36,026	774	2.87%	68,145	1,430	2.80%	45,007	329	2.90%	84,165	540	
Federal funds sold	15,780	108	.92%	6,402	22	.46%	11,131	37	1.32%	8,863	10	
Interest bearing deposits	1,594	8	.67%	778	2	.34%	2,569	4	.62%	594	-	
Investments												
Taxable 3	11,211	234	2.79%	17,388	245	1.88%	11,195	97	3.44%	16,576	106	
Partially taxable	125	-	-	125	-	-	125	-	-	125	-	
Total earning assets	$663,934	$25,061	5.05%	$654,185	$23,861	4.87%	$681,453	$8,725	5.08%	$680,575	$8,231	
Interest Expense												
Demand deposits	119,318	393	.44%	111,516	371	.44%	119,179	140	.47%	114,850	126	
Savings	112,803	379	.45%	97,803	322	.44%	114,864	131	.46%	102,757	114	
Time deposits	157,579	1,175	1.00%	161,025	1,064	.88%	161,487	427	1.05%	158,572	369	
Short-term debt	21,217	46	.29%	39,406	35	.12%	32,832	14	.16%	45,881	9	
Long-term debt	53,968	868	2.15%	53,512	853	2.13%	51,169	319	2.47%	65,412	352	
Total interest	$464,885	$2,861	.82%	$463,262	$2,645	.76%	$479,531	$1,031	.85%	$487,472	$970	

bearing liabilities				
Tax equivalent net interest income	$22,200	$21,216	$7,694	$7,261
Net interest margin	4.47%	4.33%	4.48%	

1 Interest income on loans includes loan fees.
2 Loans held for investment include nonaccrual loans.
3 An incremental income tax rate of 34% was used to calculate the tax equivalent income on nontaxable and partially taxable investments and loans.
4 Average balance information is reflective of historical cost and has not been adjusted for changes in market value.
5 Average rates have been annualized.

46

TABLE II

F & M BANK CORP.
Interest Sensitivity Analysis
September 30, 2017
(Dollars In Thousands)

The following table presents the Company's interest sensitivity.

	0 – 3 Months	4 – 12 Months	– 5 Years	Over 5 Years	Not Classified	Total
Uses of funds						
Loans						
Commercial	$35,015	$31,260	$123,304	$28,063	$-	$217,642
Installment	4,206	1,291	60,608	14,790	-	80,895
Real estate loans for investments	92,354	61,061	160,463	4,871	-	318,749
Loans held for sale	58,177	-	-	-	-	58,177
Credit cards	2,674	-	-	-	-	2,674
Interest bearing bank deposits	945	-	-	-	-	945
Federal funds sold	-	-	-	-	-	-
Investment securities	21,998	125	-	549	135	22,807
Total	$215,369	$93,737	$344,375	$48,273	$135	$701,889
Sources of funds						
Interest bearing demand deposits	$-	$33,236	$71,407	$19,086	$-	$123,729
Savings deposits	-	23,515	70,547	23,516	-	117,578
Certificates of deposit $100,000 and over	3,250	18,551	38,335	-	-	60,136
Other certificates of deposit	12,730	33,996	57,289	-	-	104,015
Short-term borrowings	42,128	-	-	-	-	42,128
Long-term borrowings	1,107	3,407	35,701	10,625	-	50,840
Total	$59,215	$112,705	$273,279	$53,227	$-	$498,426
Discrete Gap	$156,154	$(18,968)	$71,096	$(4,954)	$135	$203,463
Cumulative Gap	$156,154	$137,186	$208,282	$203,328	$203,463	
Ratio of Cumulative Gap to Total Earning Assets	22.25%	19.55%	29.67%	28.97%	28.99%	

Table II reflects the earlier of the maturity or repricing dates for various assets and liabilities as of September 30, 2017. In preparing the above table, no assumptions were made with respect to loan prepayments. Loan principal payments are included in the earliest period in which the loan matures or can reprice. Investment securities included in the table consist of securities held to maturity and securities available for sale. 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 of deposits, which have no stated maturity dates, were derived from guidance contained in FDICIA 305.

47

Item 3.
Quantitative and Qualitative Disclosures About Market Risk

Not Applicable

Item 4.
Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As a result of the enactment of the Sarbanes-Oxley Act of 2002, issuers such as F & M Bank Corp. that file periodic reports under the Securities Exchange Act of 1934 (the "Act") are required to include in those reports certain information concerning the issuer's controls and procedures for complying with the disclosure requirements of the federal securities laws. These disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by an issuer in the reports it files or submits under the Act, is recorded , processed, summarized and reported within the time periods specified in the Securities and Exchange Commission’s rules and forms and is accumulated and communicated to the issuer's management, including its principal executive officer or officers and principal financial officer or officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

As required, we will evaluate the effectiveness of these disclosure controls and procedures on a quarterly basis, and most recently did so as of the end of the period covered by this report.

The Company’s Chief Executive Officer and Chief Financial Officer, based on their evaluation as of the end of the period covered by this quarterly report of the Company’s disclosure controls and procedures (as defined in Rule 13(a)-15(e) of the Act), have concluded that the Company’s disclosure controls and procedures are effective for purposes of Rule 13(a)-15(b).

Changes in Internal Controls

The findings of the internal auditor are presented to management of the Bank and to the Audit Committee of the Company. During the period covered by this report, there were no changes to the internal controls over financial reporting of the Company that have materially affected, or are reasonably likely to materially affect, the Company’s internal controls over financial reporting.

Part II
Other Information

Item 1.
Legal Proceedings

There are no material pending legal proceedings other than ordinary routine litigation incidental to its business, to which the Company is a party or of which the property of the Company is subject.

Item 1a.
Risk Factors –

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Item 2.
Unregistered Sales of Equity Securities and Use of Proceeds –None

Item 3.
Defaults Upon Senior Securities – None

Item 4.
Mine Safety Disclosures None

Item 5.
Other Information – None

Item 6.
Exhibits

(a)
Exhibits

31.1
Certification of Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).

31.2
Certification of Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).

32
Certifications of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sabanes-Oxley Act of 2002 (filed herewith).

101
The following materials from F&M Bank Corp.'s Quarterly Report on Form 10Q for the period ended September 30, 2017, 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 (filed herewith).

Signatures

Pursuant to the requirements 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.

By: /s/ Dean W. Withers
Dean W. Withers
Title

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

November 14, 2017

50