

F&M BANK CORP  
Form 10-Q  
November 13, 2013

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

FORM 10-Q

Quarterly report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2013.

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 000-13273

F & M BANK CORP.

Virginia 54-1280811  
(State or Other (I.R.S.  
Jurisdiction (Employer  
of  
Incorporation Identification  
or No.)  
Organization)

P. O. Box 1111  
Timberville, Virginia 22853

(Address of Principal Executive Offices) (Zip Code)

(540) 896-8941  
(Registrant's Telephone Number, Including Area Code)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes  No

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

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Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No   
State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at November 8, 2013
Common Stock, par value - \$5	2,510,267 shares

## F &amp; M BANK CORP.

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Part I Financial Information  
Item 1 Financial Statements

F & M BANK CORP.  
Consolidated Statements of Income

(In Thousands of Dollars Except per Share Amounts)  
(Unaudited)

	Three Months Ended September 30,	
	2013	2012
Interest income		
Interest and fees on loans held for investment	\$6,320	\$ 6,454
Interest and fees on loans held for sale	80	531
Interest on federal funds sold	17	3
Interest on interest bearing deposits	2	1
Interest on debt securities	39	37
Total interest income	6,458	7,026
Interest expense		
Interest on demand deposits	198	290
Interest on savings accounts	29	47
Interest on time deposits over \$100,000	197	225
Interest on other time deposits	378	502
Total interest on deposits	802	1,064
Interest on short-term debt	3	15
Interest on long-term debt	389	494
Total interest expense	1,194	1,573
Net interest income	5,264	5,453
Provision for loan losses	1,000	900
Net interest income after provision for loan losses	4,264	4,553
Noninterest income		
Service charges	307	290
Insurance and other commissions	235	236
Other	387	360
Income on bank owned life insurance	128	146
Total noninterest income	1,057	1,032
Noninterest expense		
Salaries	1,670	1,448
Employee benefits	521	496
Occupancy expense	148	149
Equipment expense	134	131
FDIC insurance assessment	180	174
Other	1,009	1,066
Total noninterest expense	3,662	3,464

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Income before income taxes	1,659	2,121
Income tax expense	445	702
Consolidated net income	1,214	1,419
Net income - Noncontrolling interest	(31 )	(37 )
Net Income – F & M Bank Corp	\$1,183	\$ 1,382
Per share data		
Net income (basic and dilutive)	\$.47	\$ .56
Cash dividends	\$.17	.16
Weighted average shares outstanding	2,503,509	2,497,142

See notes to unaudited consolidated financial statements

Part I Financial Information  
Item 1 Financial Statements

F & M BANK CORP.  
Consolidated Statements of Income

(In Thousands of Dollars Except per Share Amounts)  
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Interest income		
Interest and fees on loans held for investment	\$ 18,763	\$ 18,941
Interest and fees on loans held for sale	623	1,127
Interest on federal funds sold	36	22
Interest on interest bearing deposits	4	4
Interest on debt securities	140	147
Total interest income	19,566	20,241
Interest expense		
Interest on demand deposits	608	954
Interest on savings accounts	91	149
Interest on time deposits over \$100,000	601	683
Interest on other time deposits	1,203	1,559
Total interest on deposits	2,503	3,345
Interest on short-term debt	22	26
Interest on long-term debt	1,175	1,521
Total interest expense	3,700	4,892
Net interest income	15,866	15,349
Provision for loan losses	3,025	2,700
Net interest income after provision for loan losses	12,841	12,649
Noninterest income		
Service charges	845	865
Insurance and other commissions	704	585
Other	1,163	970
Income on bank owned life insurance	380	335
Total noninterest income	3,092	2,755
Noninterest expense		
Salaries	4,858	4,326
Employee benefits	1,631	1,470
Occupancy expense	468	418
Equipment expense	404	417
FDIC insurance assessment	546	536
Other	2,923	2,862
Total noninterest expense	10,830	10,029

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Income before income taxes	5,103	5,375
Income tax expense	1,465	1,630
Consolidated net income	3,638	3,745
Net income - Noncontrolling interest	(106 )	(88 )
Net Income – F & M Bank Corp	\$3,532	\$3,657
Per share data		
Net income (basic and dilutive)	\$1.41	1.47
Cash dividends	\$.51	.48
Weighted average shares outstanding	2,501,990	2,495,461

See notes to unaudited consolidated financial statements



F & M BANK CORP.  
Consolidated Statements of Comprehensive Income  
(In Thousands of Dollars)  
(Unaudited)

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2013	2012	2013	2012
Net Income:				
Net Income – F & M Bank Corp	\$3,532	\$3,657	\$1,183	\$1,382
Net Income attributable to noncontrolling interest	106	88	31	37
	3,638	3,745	1,214	1,419
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities	(60 )	39	52	22
Reclassification adjustment for (gains) losses realized in income	-	-	-	-
Net unrealized gains (losses)	(60 )	39	52	22
Tax effect	(20 )	13	18	7
Unrealized holding gain (loss), net of tax	(40 )	26	34	15
Total other comprehensive income (loss)	(40 )	26	34	15
Comprehensive income	\$3,598	\$3,771	\$1,248	\$1,434

See notes to unaudited consolidated financial statements

F & M BANK CORP.  
Consolidated Balance Sheets  
(In Thousands of Dollars Except per Share Amounts)

	September 30, 2013 (Unaudited)	December 31, 2012 (Audited)
<b>Assets</b>		
Cash and due from banks	\$6,964	\$7,961
Money market funds	773	1,036
Federal funds sold	24,464	-
Cash and cash equivalents	32,201	8,997
Interest bearing deposits in banks	248	248
<b>Securities:</b>		
Held to maturity – fair value of \$107 in 2013 and 2012	107	107
Available for sale	8,305	8,678
Other investments	8,491	10,022
Loans held for sale	2,777	77,207
Loans held for investment	479,212	465,819
Less allowance for loan losses	(8,339 )	(8,154 )
Net loans held for investment	470,873	457,665
Other real estate owned	2,369	2,884
Bank premises and equipment, net	6,377	6,445
Interest receivable	1,515	1,702
Goodwill	2,670	2,670
Bank owned life insurance	12,005	11,662
Other assets	8,212	8,617
<b>Total assets</b>	<b>\$556,150</b>	<b>\$596,904</b>
<b>Liabilities</b>		
<b>Deposits:</b>		
Noninterest bearing	\$91,060	\$84,749
<b>Interest bearing:</b>		
Demand	95,054	95,368
Money market accounts	24,033	24,559
Savings	54,831	47,602
Time deposits over \$100,000	69,408	68,585
All other time deposits	127,382	132,933
<b>Total deposits</b>	<b>461,768</b>	<b>453,796</b>
Short-term debt	3,480	34,597
Accrued liabilities	12,297	11,222
Subordinated debt	10,191	10,191
Long-term debt	16,678	37,714
<b>Total liabilities</b>	<b>504,414</b>	<b>547,520</b>
<b>Stockholders' Equity</b>		

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Common stock, \$5 par value, 6,000,000 shares authorized, 2,504,207 and 2,497,988 shares issued and outstanding in 2013 and 2012, respectively	12,521	12,498
Retained earnings	41,240	38,927
Noncontrolling interest	417	362
Accumulated other comprehensive loss	(2,442 )	(2,403 )
Total stockholders' equity	51,736	49,384
Total liabilities and stockholders' equity	\$556,150	\$596,904

See notes to unaudited consolidated financial statements

F & M BANK CORP.  
Consolidated Statements of Cash Flows  
(In Thousands of Dollars)  
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities		
Net income	\$3,532	\$3,657
Adjustments to reconcile net income to net cash provided by (used in)		
operating activities:		
Depreciation	433	453
Amortization of security premiums, net	28	63
Net decrease (increase) in loans held for sale	74,430	(10,874 )
Provision for loan losses	3,025	2,700
(Increase) decrease in interest receivable	188	98
(Increase) decrease in other assets	702	1,798
Decrease (increase) in accrued expenses	888	(1,928 )
Amortization of limited partnership investments	438	394
Income from bank owned life insurance investment	(380 )	(335 )
Other real estate owned valuation adjustments	-	295
(Gain) loss on other real estate owned	(4 )	(66 )
Net adjustments	79,748	(7,402 )
Net cash provided by (used in) operating activities	83,280	(3,745 )
Cash flows from investing activities		
Purchase of investments available for sale	(7,067 )	(16,196 )
Proceeds from maturity of investments available for sale	8,446	17,989
Net increase in loans held for investment	(16,239 )	(9,054 )
Proceeds from the sale of other real estate owned	525	1,941
Purchase of property and equipment	(365 )	(527 )
Net decrease in interest bearing bank deposits	-	677
Purchase of bank owned life insurance	-	(4,064 )
Net cash used in investing activities	(14,700 )	(9,234 )
Cash flows from financing activities		
Net change in demand and savings deposits	12,700	11,162
Net change in time deposits	(4,728 )	(1,652 )
Net change in short-term debt	(31,117 )	17,152
Cash dividends paid	(1,277 )	(1,198 )
Proceeds from issuance of common stock	82	82
Repayment of long-term debt	(21,036 )	(8,964 )
Net cash used in financing activities	(45,376 )	16,582
Net increase in cash and cash equivalents	23,204	3,603
Cash and cash equivalents, beginning of period	8,997	8,994

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Cash and cash equivalents, end of period	\$32,201	\$12,597
Supplemental disclosure		
Cash paid for:		
Interest expense	\$2,600	\$4,727
Income taxes	800	1,200
Transfers from loans to other real estate owned	416	2,058
Other real estate owned sold and financed	409	

See notes to unaudited consolidated financial statements

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F & M BANK CORP.  
Consolidated Statements of Changes in Stockholders' Equity  
(In Thousands of Dollars)  
(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Balance, beginning of period	\$49,384	\$46,180
<b>Comprehensive income</b>		
Net income – F & M Bank Corp	3,532	3,657
Net income attributable to noncontrolling interest	106	88
Net change in unrealized appreciation on securities available for sale, net of taxes	(40 )	26
Total comprehensive income	3,598	3,771
<b>Minority Interest Contributed Capital (Distributions)</b>		
Issuance of common stock	82	82
Dividends declared	(1,277 )	(1,198 )
Balance, end of period	\$51,736	\$48,835

See notes to unaudited consolidated financial statements

F & M BANK CORP.  
Notes to Unaudited Consolidated Financial Statements

Note 1. Accounting Principles

The unaudited consolidated financial statements include the accounts of F & M Bank Corp. and its subsidiaries (the “Company”). Significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements conform to accounting principles generally accepted in the United States of America and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of September 30, 2013 and the results of operations for the quarters and nine-month periods ended September 30, 2013 and 2012. The notes included herein should be read in conjunction with the notes to financial statements included in the 2012 annual report to stockholders of F & M Bank Corp.

The Company does not expect the anticipated adoption of any newly issued accounting standards to have a material impact on future operations or financial position.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities and gains or losses on certain derivative contracts, are reported as a separate component of the equity section of the balance sheet. Such items, along with operating net income, are components of comprehensive income.

Subsequent Events

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date the financial statements were issued.

Loans

Loans are carried on the balance sheet net of any unearned interest and the allowance for loan losses. Interest income on loans is determined using the effective interest method on the daily amount of principal outstanding except where serious doubt exists as to collectability of the loan, in which case the accrual of income is discontinued.

Allowance for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off 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 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.



## F &amp; M BANK CORP.

## Notes to Unaudited Consolidated Financial Statements

## Note 1. Accounting Principles, continued

## Allowance for Loan Losses, continued

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.

## Nonaccrual Loans

Loans are placed on nonaccrual status when they become ninety days or more past due, unless there is an expectation that the loan will either be brought current or paid in full in a reasonable period of time.

## Note 2. Investment Securities

Investment securities available for sale are carried in the consolidated balance sheets at their approximate market value, amortized cost and unrealized gains and losses at September 30, 2013 and December 31, 2012 are reflected in the table below. The amortized costs of investment securities held to maturity are carried in the consolidated balance sheets and their approximate market values at September 30, 2013 and December 31, 2012 are as follows:

	2013		2012	
	Cost	Market Value	Cost	Market Value
Securities held to maturity				
U. S. Treasury and agency obligations	\$ 107	\$ 107	\$ 107	\$ 107
Total	\$ 107	\$ 107	\$ 107	\$ 107

	September 30, 2013			
	Cost	Unrealized Gains	Losses	Market Value
Securities available for sale				
Government sponsored enterprises	\$ 7,064	\$ 11	\$ 13	\$ 7,062
Mortgage-backed securities	1,244	-	1	1,243
Total	\$ 8,308	\$ 11	\$ 14	\$ 8,305

December 31, 2012

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	Cost	Unrealized Gains	Unrealized Losses	Market Value
Securities available for sale				
Government sponsored enterprises	\$7,012	\$19	\$-	\$7,031
Mortgage-backed securities	1,609	38	-	1,647
Total	\$8,621	\$57	\$-	\$8,678

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F &amp; M BANK CORP.

## Notes to Unaudited Consolidated Financial Statements

## Note 2. Investment Securities, continued

The amortized cost and fair value of securities at September 30, 2013, by contractual maturity are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Securities Held to Maturity		Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$107	\$107	\$2,000	\$2,000
Due after one year through five years	-	-	6,308	6,305
Due after five years	-	-	-	-
Total	\$107	\$107	\$8,308	\$8,305

There were no gains and losses on sales of debt and equity securities in the nine months of 2013 or 2012.

## Securities Impairment

The Company follows the guidance in ASC 320-10 and Staff Accounting Bulletin (SAB) Topic 5M, Other Than Temporary Impairment in evaluating if these impairments are temporary or other than temporary in nature. This determination is made on an investment by investment basis and includes all available evidence at the time of the determination including the following:

- The length of time of impairment;
- The extent of the impairment relative to the cost of the investment;
- Recent volatility in the market value of the investment;
- The financial condition and near-term prospects of the issuer, including any specific events which may impair the earnings potential of the issuer; or
- The intent and ability of the Company to hold its investment for a period of time sufficient to allow for any anticipated recovery in market value.

The following description provides our policies/procedures for the evaluation for Other Than Temporary Impairment (OTTI):

We begin our evaluation using a default position that OTTI has occurred and then use all available evidence to determine whether prospects for the individual security are sufficient to support temporary impairment at the date of the SEC filing. This evaluation will be conducted at each filing date.

For purposes of determining OTTI, the security value recovery period will be projected for a maximum of a two year holding period. This will be the maximum; a shorter period may be used when there are particular conditions related to the individual security which make recovery unlikely.

The primary focus in determining whether a security is OTTI, and projecting potential recovery, is the prospects for the individual security, rather than broad market indices. All available evidentiary material is considered, including the Company's public filings with the SEC, press releases, analyst reports, etc.



F &amp; M BANK CORP.

## Notes to Unaudited Consolidated Financial Statements

## Note 2. Investment Securities, continued

## Securities Impairment continued

Secondary consideration is given to historic returns, but only to the extent that this evidence is instructive in determining whether the individual security has shown a history of outperforming (or underperforming) the market (or industry) in prior economic cycles. These factors are only considered when the declines in value are not limited to the individual security, but were prevalent over the broader market. This measure is considered to aid in determining whether OTTI should be recognized earlier, rather than later (i.e. a security which underperforms relative to the industry or market will result in early recognition of OTTI). In no event will OTTI recognition be delayed beyond the two year projection period.

OTTI may be recognized as early as quarter 1, regardless of holding period projections, when there are specific factors relative to the security which make recovery unlikely. These factors could include evidence contained in the aforementioned SEC filings, press releases, analyst reports, but may also be based on the severity of the impairment.

Situations where a security has declined in value more rapidly than the industry (or market), absent strong evidence supporting prospects for recovery, will result in OTTI being recognized in quarter 1 or quarter 2 rather than continuing to evaluate the security over several quarters, based on holding period projections.

Declines determined to be other than temporary are charged to operations; there were no OTTI charges in the first nine months of 2013 or 2012.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2013 and December 31, 2012 were as follows (dollars in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>September 30, 2013</b>						
<b>Government sponsored enterprises</b>						
	\$3,230	\$(13 )	\$-	\$-	\$3,230	\$(13 )
Mortgage-back Securities	1,243	(1 )	-	-	1,243	(1 )
<b>Total</b>	<b>\$4,473</b>	<b>\$(14 )</b>	<b>\$-</b>	<b>\$-</b>	<b>\$4,473</b>	<b>\$( 14 )</b>
<b>December 31, 2012</b>						
<b>Government sponsored enterprises</b>						
	\$2,000	\$(.5 )	\$-	\$-	\$2,000	\$(.5 )
<b>Total</b>	<b>\$2,000</b>	<b>\$(.5 )</b>	<b>\$-</b>	<b>\$-</b>	<b>\$2,000</b>	<b>\$(.5 )</b>

Other investments, which consist of stock of correspondent banks and investments in low income housing projects, decreased since December 31, 2012. This decrease is due to FHLB stock repurchases and amortization of low income housing projects during the 2013.



F &amp; M BANK CORP.

## Notes to Unaudited Consolidated Financial Statements

## Note 3. Loans Held for Investment

Loans outstanding at September 30, 2013 and December 31, 2012 are summarized as follows:

	2013	2012
Construction/Land Development	\$68,803	\$71,251
Farmland	13,063	12,259
Residential Real Estate	152,024	144,066
Multi-Family	10,385	9,357
Commercial Real Estate	118,987	123,819
Home Equity – closed end	10,684	10,984
Home Equity – open end	48,875	49,762
Commercial & Industrial – Non-Real Estate	24,529	25,110
Consumer	12,561	12,698
Credit cards	2,493	2,788
Dealer Finance	16,808	3,725
Total	\$479,212	\$465,819

The following is a summary of information pertaining to impaired loans (in thousands):

September 30, 2013	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$6,974	\$6,974	\$-	\$4,938	\$190
Farmland	1,474	1,474	-	1,183	54
Residential Real Estate	1,145	1,145	-	1,149	32
Multi-Family	-	-	-	-	-
Commercial Real Estate	620	620	-	472	13
Home Equity – closed end	490	490	-	254	19
Home Equity – open end	100	100	-	65	3
Commercial & Industrial – Non-Real Estate	34	34	-	39	-
Consumer	2	2	-	40	1
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
Impaired loans with a valuation allowance					
Construction/Land Development	8,412	8,412	1,545	11,339	83
Farmland	-	-	-	-	-
Residential Real Estate	487	487	93	1,004	22
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,038	1,038	293	978	-
Home Equity – closed end	350	350	91	469	-
Home Equity – open end	-	-	-	73	-
Commercial & Industrial – Non-Real Estate	-	-	-	356	1
Consumer	-	-	-	3	-
Credit cards	-	-	-	-	-

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Dealer Finance	-	-	-	-	-
Total impaired loans	\$21,126	\$21,126	\$2,022	\$22,362	\$418

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## Notes to Unaudited Consolidated Financial Statements

## Note 3. Loans Held for Investment, continued

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

December 31, 2012	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$5,743	\$5,743	\$-	\$1,493	\$279
Farmland	1,481	1,481	-	301	76
Residential Real Estate	-	-	-	2,561	-
Multi-Family	-	-	-	-	-
Commercial Real Estate	541	541	-	168	23
Home Equity – closed end	-	-	-	153	-
Home Equity – open end	-	-	-	274	-
Commercial & Industrial – Non-Real Estate	-	-	-	56	-
Consumer	-	-	-	135	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
Impaired loans with a valuation allowance					
Construction/Land Development	10,466	10,466	1,363	7,875	217
Farmland	-	-	-	-	-
Residential Real Estate	901	901	146	1,089	38
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,585	1,585	164	1,092	4
Home Equity – closed end	415				