GLAZIER JASON
Form 4
February 21, 2006

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
Expires:	January 31, 2005
Estimated average burden hours per response...	0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
GLAZIER JASON

(Last) (First) (Middle)

CENTRE SQUARE-WEST TOWER, 1500 MARKET ST., SUITE 3900

(Street)

PHILADELPHIA, PA 19102

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
LINCOLN NATIONAL CORP [LNC]

3. Date of Earliest Transaction (Month/Day/Year)
02/21/2006

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
SVP & CTO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	02/21/2006		S		9,150	D	$ 56.95	4,293.64 (1)	D	
Common Stock								575.32 (2)	I	By 401(k)

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)		8. Price of Derivative Security (Instr. 5)	9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares		

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
GLAZIER JASON CENTRE SQUARE-WEST TOWER 1500 MARKET ST., SUITE 3900 PHILADELPHIA, PA 19102			SVP & CTO	

Signatures

/s/Dennis L. Schoff	02/21/2006
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) Includes shares acquired through dividend reinvestment since the reporting person's last report.

(2) Represents routine transactions in the Company's 401(k) Plan from 6/1/05 to 2/1/06.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
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Marketable equity securities

135 135 -

Total

13,047 13,215 30,266

Held to Maturity

U.S. Treasury and Agency

125 125 106

Total

125 125 106

Other Equity Investments

12,157 8,965 8,114

Total Securities

$25,329 $22,305 $c38,486

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

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

Maturities and weighted average yields of debt securities at December 31, 2015 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					
(Dollars in thousands)	Amount	Yield		Amount	Yield		Amount	Yield	Amount	Yield		Total	Yield	
Debt Securities Available for Sale														
U.S. Treasury, Agency & GSE	$4,075	.99	%	$8,020	.78	%	$-		$-			$12,095	.85	%
Mortgage-backed									817	2.35	%	817	2.35	%
Marketable equities	-			-			-		135			135		
Total	$4,075	.99	%	$8,020	.78	%	$-		$952	2.29	%	$13,047	.94	%
Debt Securities Held to Maturity														
U.S. Treasury & Agency	$125	.28	%									$125	.28	%
Total	$125	.28	%									$125	.28	%

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Analysis of Loan Portfolio

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

The Company's portfolio of loans held for investment totaled $544,053,000 at December 31, 2015 compared with $518,202,000 at the beginning of the year. The Company's policy has been to make conservative loans that are held for future interest income. 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. Commercial loans, including agricultural and multifamily loans, increased 1.24% during 2015 to $176,922,000. Real estate mortgages increased $8,407,000 (3.76%). Growth has included a variety of loan and collateral types including owner occupied residential real estate and residential rental properties.

Construction loans increased $2,579,000 or 3.84%. The increase in construction lending is a result of improvement in the economy in the Bank's primary market area. The Bank also has loan participation arrangements with several other banks within the region to aid in diversification of the loan portfolio geographically, by collateral type and by borrower.

Consumer installment loans increased $12,624,000 or 25.44%. This category includes personal loans, auto loans and other loans to individuals. This category began increasing during the fourth quarter of 2012 due to the opening of the Dealer Finance Division in Penn Laird, Virginia; at year end this Division had a loan portfolio of $54,086,000. Credit card balances increased $40,000 to $2,745,000 but are a minor component of the loan portfolio. The following table presents the changes in the loan portfolio over the previous five years.

	December 31				
(Dollars in thousands)	2015	2014	2013	2012	2011
Real estate – mortgage	$232,321	$223,824	$212,630	$204,812	$193,280
Real estate – construction	69,759	67,180	68,512	71,251	72,224
Consumer installment	62,239	49,615	30,643	15,753	13,015
Commercial	153,691	147,599	135,835	147,089	141,014
Agricultural	15,672	15,374	16,265	14,099	15,985
Multi-family residential	7,559	11,775	11,797	9,357	13,157
Credit cards	2,745	2,705	2,680	2,788	2,812
Other	67	130	91	670	83
Total Loans	$544,053	$518,202	$478,453	$465,819	$451,570

The following table shows the Company's loan maturity and interest rate sensitivity as of December 31, 2015:

(Dollars in thousands)	Less Than 1 Year	1-5 Years	Over 5 Years	Total
Commercial and agricultural loans	$42,132	$113,729	$13,503	$169,364
Multi-family residential	2,078	4,883	597	7,558

Real Estate – mortgage	84,888	147,124	309	232,321
Real Estate – construction	53,860	15,479	420	69,759
Consumer – installment/other	7,519	45,811	11,721	65,051
Total	$190,477	$327,026	$26,550	$544,053
Loans with predetermined rates	$28,667	$60,484	$15,062	$104,213
Loans with variable or adjustable rates	161,810	266,542	11,488	439,840
Total	$190,477	$327,026	$26,550	$544,053

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Analysis of Loan Portfolio, continued

Residential real estate loans are generally made for a period not to exceed 25 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 94% 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.

Since 1992, fixed rate real estate loans have been funded with fixed rate borrowings from the Federal Home Loan Bank, which allows the Company to control its interest rate risk. In addition, the Company makes home equity loans secured by second deeds of trust with total indebtedness not to exceed 90% of the appraised value. Home equity loans are made for three, five or ten year periods at a fixed rate or as a revolving line of credit.

Construction loans may be made to individuals, who have arranged with a contractor for the construction of a residence, or to contractors that are involved in building pre-sold, spec-homes or subdivisions. The majority of commercial loans are made to small retail, manufacturing and service businesses. Consumer loans are made for a variety of reasons; however, approximately 81% of the loans are secured by automobiles and trucks.

Prior to the recession, real estate values in the Company's market area for commercial, agricultural and residential property increased, on the average, between 5% and 8% annually depending on the location and type of property. However, due to the slowing economy and declining real estate sales it is estimated that values peaked in 2007 or 2008. Depending on a number of factors, including property type, location and price point, the decline in value ranges from relatively modest, perhaps 10%, to more severe, up to 30%. Values appear to have bottomed out in 2011, with modest increases in both 2014 and 2015. Approximately 83% 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. Unemployment rates in the Company's market area continue to be below both the national and state averages.

The Bank has identified loan concentrations of greater than 25% of capital in the real estate development category. While the Bank has not developed a formal policy limiting the concentration level to any particular loan type or industry segment, it has established target limits on both a nominal and percentage of capital basis. Concentrations are monitored and reported to the board of directors quarterly. Concentration levels have been used by management to determine how aggressively they may price or pursue new loan requests. At December 31, 2015, there are no industry categories of loans that exceed 10% of total loans.

Nonaccrual and Past Due Loans

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. The Company would have earned approximately $267,000 in additional interest income had the loans on nonaccrual status been current and performing. Nonperforming loans totaled $6,526,000 at December 31, 2015 compared to $6,975,000 at December 31, 2014. At December 31, 2015 $570,000 of loans 90 days or more past due were not on nonaccrual status. Approximately 91% of these nonperforming loans are secured by real estate. Although management expects that there may be additional loan losses, the bank is generally well secured and continues to actively work with its customers to effect payment. As of December 31, 2015, the Company holds $2,128,000 of real estate which was acquired through foreclosure, of which $125,000 was under contract pending sale in the first quarter of 2016.

Nonperforming loans have decreased approximately $449,000 since December 31, 2014.

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Nonaccrual and Past Due Loans, continued

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

(Dollars in thousands)	2015		2014		2013		2012		2011	
Nonaccrual Loans:										
Real Estate - 2011 includes $1,040 of restructured loans	$5,698		$5,481		$9,963		$9,611		$7,671	
Commercial - 2011 includes $309 of restructured loans	109		1,179		1,890		2,914		5,888	
Home Equity	40		153		402		740		266	
Other	108		161		-		121		39	
Loans past due 90 days or more:										
Real Estate	272		0		246		-		646	
Commercial	25		0		4		-		-	
Home Equity	107		0		61		-		260	
Other	167		1		16		-		6	
Total Nonperforming loans	$6,526		$6,975		$12,582		$13,386		$14,776	
Restructured Loans current and performing:										
Real Estate	8,713		3,913		7,484		6,572		4,335	
Commercial	1,463		518		3,989		3,753		1,292	
Home Equity	1,414		290		727		450		451	
Other	91		22		-		-		-	
Nonperforming loans as a percentage of loans held for investment	1.20	%	1.35	%	2.63	%	2.87	%	3.27	%
Net Charge Offs to Total Loans Held for Investment(1)	0.04	%	0.33	%	0.78	%	0.64	%	0.63	%
Allowance for loan and lease losses to nonperforming loans	134.55	%	125.09	%	65.04	%	60.91	%	46.95	%

Potential Problem Loans

Loans classified for regulatory purposes as loss, doubtful, substandard, or special mention do not represent or result from trends or uncertainties which management reasonably expects will materially impact future operating results, liquidity or capital resources. Nor do they represent material credits about which management is aware of any information which causes it to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. As of December 31, 2015, 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.

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loan Losses and the Allowance for Loan Losses

In evaluating the portfolio, loans are segregated into loans with identified potential losses, pools of loans by type, with separate weighting for past dues and 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 Restructuring are reviewed individually for impairment under ASC 310. A variety of factors are taken into account when reviewing these credits, including borrower cash flow, payment history, fair value of collateral, company management, industry and economic factors. Loan relationships that are determined to have no impairment are placed back into the appropriate loan pool and reviewed under ASC 450.

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 amount of loan losses in the past two years, the Company felt the two year lost history utilized in 2014 and prior would not be indicative of the amount of losses that could occur in our current economic cycle, therefore for 2015 the loss history was expanded to five years to capture a more representative loss history. Dealer finance loans utilize the highest year within the five year loss history. The Company will monitor the net losses for this division and adjust 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 six (past dues are now segregated as their own pool) environmental factors (loan growth, unemployment, interest rates, changes in underwriting practices, local real estate industry conditions, and experience of lending staff). The general allowance assists in managing recent changes in portfolio risk that may not be captured in individually impaired loans, past dues or in the homogeneous pools based on five year loss histories. The Board approves the loan loss provision for each quarter based on this evaluation. An effort is made to keep the actual allowance at or above the midpoint of the range established by the evaluation process.

The allowance for loan losses of $8,781,000 at December 31, 2015 is equal to 1.61% of total loans held for investment. This compares to an allowance of $8,725,000 (1.68%) at December 31, 2014 and 1.71% at December 31, 2013. Management and the Board of Directors made a concentrated effort at increasing the allowance during the recent recession to reflect the increased risks within the portfolio. The overall level of the allowance is above peer group averages and management feels the current reserve level is appropriate. Management has reached this conclusion based on historical losses, delinquency rates, collateral values of delinquent loans and a thorough review of the loan portfolio.

Loan losses, net of recoveries, totaled $244,000 in 2015 which is equivalent to .04% of total loans outstanding. Over the preceding three years, the Company has had an average loss rate of .38%, compared to a .20% loss rate for its peer group.

PART II, Continued

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loan Losses and the Allowance for Loan Losses, continued

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

(Dollars in thousands)	2015	2014	2013	2012	2011
Balance at beginning of period	$8,725	$8,184	$8,154	$6,937	$5,786
Provision charged to expenses	300	2,250	3,775	4,200	4,000
Loan losses:					
Construction/land development	156	1,611	2,127	1,480	1,263
Farmland	-	-	-	-	-
Real Estate	25	208	173	482	474
Multi-family	-	-	-	-	-
Commercial Real Estate	-	-	201	424	381
Home Equity – closed end	26	-	159	69	222
Home Equity – open end	51	80	68	-	83
Commercial & Industrial – Non Real Estate	-	385	986	776	423
Consumer	32	33	173	45	90
Dealer Finance	251	107	17	-	-
Credit Cards	60	46	121	71	106
Total loan losses	601	2,470	4,025	3,347	3,042
Recoveries:					
Construction/land development	85	223	40	192	-
Farmland	-	-	-	3	-
Real Estate	37	-	-	-	8
Multi-family	-	-	-	-	48
Commercial Real Estate	65	108	42	48	16
Home Equity – closed end	6	-	-	-	3
Home Equity – open end	-	-	29	-	27
Commercial & Industrial – Non Real Estate	62	356	127	62	24
Consumer	32	33	14	27	42
Dealer Finance	24	6	-	-	-
Credit Cards	46	35	28	32	25
Total recoveries	357	761	280	364	193
Net loan losses	(244)	(1,709)	(3,745)	(2,983)	(2,849)
Balance at end of period	$8,781	$8,725	$8,184	$8,154	$6,937
Allowance for loan losses as a percentage of loans	1.61%	1.68%	1.71%	1.75%	1.54%
Net loan losses to loans held for investment	.04%	.33%	.78%	.64%	.63%

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Explanation of Responses:

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Loan Losses and the Allowance for Loan Losses, continued

ALLOCATION OF THE ALLOWANCE FOR LOAN LOSSES

	2015		2014		2013		2012*		2011*	
Allowance for loan losses: (in thousands)	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category	Balance	Percentage of Loans in Each Category
Construction/Land Development	$4,442	50.59 %	$4,738	54.30 %	$4,007	45.93 %	$2,771	33.86 %	$-	-
Real Estate	806	9.18 %	623	7.14 %	400	4.58 %	924	11.29 %	-	-
Commercial, Financial and Agricultural	1,666	18.97 %	1,337	15.33 %	2,239	25.66 %	3,187	38.94 %	2,984	36.60 %
Consumer	1,059	12.06 %	1,685	19.31 %	905	10.37 %	253	3.09 %	298	3.65 %
Home Equity	808	9.20 %	342	3.92 %	633	7.26 %	1,019	12.45 %	920	11.28 %
Total	$8,781	100.00 %	$8,725	100.00 %	$8,184	93.80 %	$8,154	99.63 %	$6,937	85.07 %

* Allocation detail for Construction/Land Development verses Real Estate is not readily available.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Deposits and Borrowings

The average deposit balances and average rates paid for 2015, 2014 and 2013 were as follows:

Average Deposits and Rates Paid (Dollars in thousands)

	December 31,								
	2015			2014			2013		
	Amount	Rate		Amount	Rate		Amount	Rate	
Noninterest-bearing	$125,665			$107,647			$90,170		
Interest-bearing:									
Interest Checking	$112,334	.48	%	$117,396	.57	%	$120,482	.66	%
Savings Accounts	76,491	.28	%	60,460	.20	%	52,714	.23	%
Time Deposits:									
CDARS	11,247	.18	%	19,771	.21	%	8,581	.53	%
$100,000 or more	66,719	.55	%	74,743	.61	%	69,130	.87	%
Less than $100,000	93,863	1.08	%	101,419	1.19	%	121,075	1.39	%
Total Interest-bearing	360,654	.60	%	373,789	.67	%	371,982	.87	%
Total deposits	$486,319	.44	%	$481,436	.52	%	$462,152	.70	%

Noninterest-bearing demand deposits, which are comprised of checking accounts, increased $18,018,000 or 16.74% from $107,647,000 at December 31, 2014 to $125,665,000 at December 31, 2015. Interest-bearing deposits, which include interest checking accounts, money market accounts, regular savings accounts and time deposits, decreased $13,135,000 or 3.51% from $373,789,000 at December 31, 2014 to $360,654,000 at December 31, 2015. Total interest checking (including money market) account balances decreased $5,062,000 or 4.31% from $117,396,000 at December 31, 2014 to $112,334,000 at December 31, 2015. Total savings account balances increased $16,031,000 or 26.52% from $60,460,000 at December 31, 2014 to $76,491,000 at December 31, 2015.

Time deposits decreased $24,104,000 or 12.30% from $195,933,000 at December 31, 2014 to $171,829,000 at December 31, 2015. This is comprised of decrease in certificates of deposit of $100,000 and more of $8,024,000 or 10.74% from $74,743,000 at December 31, 2014 to $66,719,000 at December 31, 2015, a decrease in certificates of deposit of less than $100,000 of $7,556,000 or 7.45% from $101,419,000 at December 31, 2014 to $93,863,000 at December 31, 2015 and decrease in CDARs deposits of $8,524,000 or 43.11% from $19,771,000 at December 31, 2014 to $11,247,000 at December 31, 2015 The Bank joined the CDARS network in 2008, which allows it to offer over $50 million in FDIC insurance on a certificate of deposit.

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

(Actual Dollars in thousands)	2015	2014
Less than 3 months	$5,238	$32,378
3 to 6 months	12,478	6,915
6 to 12 months	8,008	7,439
1 year to 5 years	27,901	33,080

Total	$53,625	$79,812

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Explanation of Responses:

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Deposits and Borrowings, continued

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

Borrowings from the Federal Home Loan Bank 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 4the loan portfolio. The Company borrowed $40,000,000 during 2015, with maturities ranging from 5 to 10 years, to replace maturities and lock in lower rates. The Company borrowed $10,000,000 in 2014 and there were no new long term borrowings in 2013. Repayment of amortizing and fixed maturity loans through FHLB totaled $1,714,000 for the year. These loans carry an average rate of 1.86% at December 31, 2015.

Contractual Obligations and Scheduled Payments (dollars in thousands)

	December 31, 2015				
	Less than One Year	One Year Through Three Years	Three Years Through Five Years	More than Five Years	Total
Securities sold under agreements to repurchase	$3,995	$-	$-	$-	$3,995
FHLB Short term advances	20,000	-	-	-	20,000
Federal Funds Purchased	959	-	-	-	959
FHLB long term advances	3,929	12,857	20,357	11,018	48,161
Subordinated Debt	-	-	-	-	-
Total	$28,883	$12,857	$20,357	$11,018	$73,115

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 $5,152,000 or 6.62% in 2015. Net income totaled $8,417,009, noncontrolling interest net income totaled $164,575, other sales of common stock totaled $146,418, changes in other comprehensive income decreased $353,484, and capital was reduced by dividends ($2.915 million), repurchases of common stock of $289,119 and minority interest distributions of $18,260. As of December 31, 2015, book value per common share was $22.38 compared to $20.77 as of December 31, 2014. Dividends are paid to stockholders on a quarterly basis in uniform amounts unless unexpected fluctuations in net income indicate a change to this policy is needed.

Banking regulators have established a uniform system to address the adequacy of capital for financial institutions. The rules require minimum capital levels based on risk-adjusted assets. Simply stated, the riskier an entity's investments, the more capital it is required to maintain. The Bank, as well as the Company, is required to maintain these minimum capital levels. In March 2015 the Company 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, 2015, the Company had Common Equity Tier I capital of 12.46%, Tier I capital of 14.13% of risk weighted assets and combined Tier I and II capital of 15.38% of risk weighted assets. Regulatory minimums at this date were 6% and 10%, 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 Company 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 5% for this ratio, but can increase the minimum requirement based upon an institution's overall financial condition. At December 31, 2015, the Company reported a leverage ratio of 12.18%. The Bank's leverage ratio was also substantially above the minimum.

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PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Market Risk Management

Most of the Company's net income is dependent on the Bank's net interest income. Rapid changes in short-term interest rates may lead to volatility in net interest income resulting in additional interest rate risk to the extent that imbalances exist between the maturities or repricing of interest bearing liabilities and interest earning assets. Fortunately the Company's net interest margin increased .13% in 2015 following an increase of .28% in 2014. This increase can be attributed to the growth in the Dealer finance division and continued reduction in cost of funds, in addition to the matching of maturities of interest bearing liabilities to interest earning assets. In December 2015, the Federal Open Market Committee elected to raise the short term rates target .25% to .25 to .50% due to expanding economic activity.

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.

Liquid assets, which include cash and cash equivalents, federal funds sold, interest bearing deposits and short term investments averaged $17,022,000 for 2015. The Bank historically has had a stable core deposit base and, therefore, does not have to rely on volatile funding sources. Because of the stable core deposit base, changes in interest rates should not have a significant effect on liquidity. 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. The matching of the long-term receivables and liabilities helps the Bank reduce its sensitivity to interest rate changes. The Company reviews its interest rate gap periodically and makes adjustments as needed. There are no off balance sheet items that will impair future liquidity.

The following table depicts the Company's interest rate sensitivity, as measured by the repricing of its interest sensitive assets and liabilities as of December 31, 2015. 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 15.59% of total earning assets, compared to 13.98% in 2014. Approximately 41.20% of rate sensitive assets and 36.48% of rate sensitive liabilities are subject to repricing within one year. Short term assets (less than one year) increased $10,446,000 during the year, while total earning assets increased $54,741,000. The increase is attributed to growth in Loans Held for Investment of $25,811,000 as well as Loans Held for Sale of $44,424,000. Growth in the loan held for investment portfolio was concentrated in real estate secured loans, commercial and the Dealer Finance division. Short term liabilities increased $10,596,000, while total interest bearing liabilities increased $29,459,000. The increase in short term liabilities is due to an increase in short term debt of $20,000,000 to fund Loans Held for Sale. Due to the relatively flat yield curve, management has kept deposit rates low. These actions and the increase in total earning assets have resulted in a slightly lower one year cumulative gap than prior year.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Market Risk Management, continued

The following GAP analysis shows the time frames as of December 31, 2015, in which the Company's assets and liabilities are subject to repricing:

(Dollars in thousands)	1-90 Days	91-365 Days	1-5 Years	Over 5 Years	Not Classified	Total
Rate Sensitive Assets:						
Loans held for investment	$122,425	$65,307	$327,026	$26,550	$-	$541,308
Loans held for sale	57,806	-	-	-	-	57,806
Federal funds sold	-	-	-	-	-	-
Investment securities	125	4,075	8,020	817	135	13,172
Credit Cards	2,745	-	-	-	-	2,745
Interest bearing bank deposits	1,596	-	-	-	-	1,596
Total	184,697	69,382	335,046	27,367	135	616,627
Rate Sensitive Liabilities:						
Interest bearing demand deposits	-	29,783	62,379	16,298	-	108,460
Savings deposits	-	18,076	54,230	18,077	-	90,383
Certificates of deposit $100,000 and over	5,239	20,486	27,900	-	-	53,625
Other certificates of deposit	14,683	40,827	51,905	-	-	107,415
Total Deposits	19,922	109,172	196,414	34,375	-	359,883
Short-term debt	24,954	-	-	-	-	24,954
Long-term debt	982	2,947	33,214	11,018	-	48,161
Total	45,858	112,119	229,628	45,393	-	432,998
Discrete Gap	138,839	(42,737)	105,418	(18,026)	135	183,629
Cumulative Gap	138,839	96,102	201,520	183,494	183,629	
As a % of Earning Assets	22.52%	15.59%	32.68%	29.76%	29.78%	

- In preparing the above table, no assumptions are made with respect to loan prepayments or deposit run off. Loan principal payments are included in the earliest period in which the loan matures or can be repriced. Principal payments on installment loans scheduled prior to maturity are included in the period of maturity or repricing. Proceeds from the redemption of investments and deposits are included in the period of maturity. Estimated maturities on deposits which have no stated maturity dates were derived from guidance contained in FDICIA 305.

PART II, Continued

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Continued

Quarterly Results (unaudited)

The table below lists the Company's quarterly performance for the years ended December 31, 2015 and 2014:

(Dollars in thousands)	2015 Fourth	Third	Second	First	Total
Interest and Dividend Income	$7,518	$7,451	$7,373	$7,011	$29,353
Interest Expense	771	722	698	685	2,876
Net Interest Income	6,747	6,729	6,675	6,326	26,477
Provision for Loan Losses	-	-	-	300	300
Net Interest Income after Provision, For Loan Losses	6,747	6,729	6,675	6,026	26,177
Non-Interest Income	813	797	783	719	112
Non-Interest Expense	4,614	4,494	4,496	4,382	17,986
Income before taxes	2,946	3,032	2,962	2,363	11,303
Income Tax Expense	766	842	786	492	2,886
Net Income	$2,180	$2,190	$2,176	$1,871	$8,417
Net Income Per Average Common Share	$.62	$.63	$.62	$.53	$2.40

(Dollars in thousands)	2014 Fourth	Third	Second	First	Total
Interest and Dividend Income	$6,934	$6,873	$6,674	$6,291	$26,772
Interest Expense	871	908	919	950	3,648
Net Interest Income	6,063	5,965	5,755	5,341	23,124
Provision for Loan Losses	-	750	750	750	2,250
Net Interest Income after Provision, For Loan Losses	6,063	5,215	5,005	4,591	20,874
Non-Interest Income	780	789	738	570	2,877
Non-Interest Expense	4,194	3,923	3,801	3,738	15,656
Income before taxes	2,649	2,081	1,942	1,423	8,095
Income Tax Expense	1,057	520	446	270	2,293
Net Income	$1,592	$1,561	$1,496	$1,153	$5,802

Net Income Per Average Common Share	$.43	$.48	$.45	$.46	$1.82

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Item 8. Financial Statements and Supplementary Data

F & M Bank Corp. and Subsidiaries
Consolidated Balance Sheets
As of December 31, 2015 and 2014

	2015	2014
Assets		
Cash and due from banks (notes 3 and 15)	$6,923,065	$6,241,016
Money market funds	1,596,382	910,527
Federal funds sold	-	16,051,000
Cash and cash equivalents	8,519,447	23,202,543
Securities:		
Held to maturity - fair value of $125,043 and $125,150 in 2015 and 2014, respectively (note 4)	125,043	125,150
Available for sale (note 4)	13,046,945	13,215,112
Other investments (note 4)	12,157,115	8,964,640
Loans held for sale	57,805,529	13,381,941
Loans held for investment (notes 5)	544,053,477	518,201,574
Less: allowance for loan losses (note 6)	(8,781,453)	(8,724,731)
Net loans held for investment	535,272,024	509,476,843
Other real estate owned (note 9)	2,127,685	3,507,153
Bank premises and equipment, net (note 8)	7,542,078	6,458,254
Interest receivable	1,708,617	1,674,846
Goodwill (note 23)	2,669,517	2,669,517
Bank owned life insurance (note 24)	13,046,111	12,581,210
Other assets	11,336,735	10,050,893
Total Assets	$665,356,846	$605,308,102
Liabilities		
Deposits: (note 10)		
Noninterest bearing	$134,786,875	$112,197,722
Interest bearing:		
Demand	81,491,760	93,693,468
Money market accounts	26,967,837	25,900,061
Savings	90,383,486	64,249,199
Time deposits over $100,000	53,624,554	79,812,757
All other time deposits	107,415,244	115,651,329
Total deposits	494,669,756	491,504,536
Short-term debt (note 11)	24,954,051	14,358,492
Accrued liabilities	14,621,913	11,771,671
Federal Home Loan Bank debt (note 12)	48,160,714	9,875,000
Total Liabilities	582,406,434	527,509,699
Commitments and contingencies (notes 4 and 16)		

Stockholders' Equity (Note 22)		
Preferred Stock $5 par value, 400,000 shares authorized, issued and outstanding for 2015	9,425,123	9,425,123
Common stock $5 par value, 6,000,000 shares authorized, 3,285,404 and 3,291,766 shares issued and outstanding at December 31, 2015 and 2014, respectively	16,427,020	16,458,830
Additional paid in capital – common stock	11,149,104	11,259,995
Retained earnings (note 19)	48,056,300	42,554,421
Noncontrolling interest	572,680	426,365
Accumulated other comprehensive loss	(2,679,815)	(2,326,331)
Total Stockholders' Equity	82,950,412	77,798,403
Total Liabilities and Stockholders' Equity	$665,356,846	$605,308,102

See accompanying Notes to the Consolidated Financial Statements.

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F & M Bank Corp. and Subsidiaries
Consolidated Statements of Income
For the years ended 2015, 2014 and 2013

	2015	2014	2013
Interest and Dividend Income			
Interest and fees on loans held for investment	$27,930,151	$26,210,609	$25,070,039
Interest from loans held for sale	1,099,419	312,364	647,622
Interest from deposits and federal funds sold	20,990	44,435	54,679
Interest from debt securities	302,117	204,649	193,244
Total interest and dividend Income	29,352,677	26,772,057	25,965,584
Interest Expense			
Interest from demand deposits	539,469	663,618	791,245
Interest from savings deposits	212,186	121,808	119,020
Interest from time deposits over $100,000	485,285	589,673	781,950
Interest from all other time deposits	916,219	1,114,470	1,549,273
Total interest on deposits	2,153,159	2,489,569	3,241,488
Interest from short-term debt	69,179	9,437	23,956
Interest from long-term debt	653,271	1,148,716	1,507,299
Total interest expense	2,875,609	3,647,722	4,772,743
Net Interest Income	26,477,068	23,124,335	21,192,841
Provision for Loan and Lease losses (note 6)	300,000	2,250,000	3,775,000
Net Interest Income After Provision for Loan Losses	26,177,068	20,874,335	17,417,841
Noninterest Income			
Service charges on deposit accounts	963,459	1,033,959	1,117,910
Insurance and other commissions	1,058,281	635,543	868,464
Other operating income	1,401,162	1,393,897	1,537,397
Income from bank owned life insurance	473,098	466,936	508,658
Low income housing partnership losses	(619,534)	(608,360)	(855,527)
Total noninterest income	3,276,466	2,921,975	3,176,902
Noninterest Expenses			
Salaries	7,816,214	6,898,400	6,524,515
Employee benefits (note 14)	2,239,258	1,911,250	2,146,871
Occupancy expense	678,799	621,855	606,935
Equipment expense	651,113	589,919	547,948
FDIC insurance assessment	587,000	690,000	704,103
Other real estate owned expenses	566,147	407,219	214,832
Other operating expenses	5,447,347	4,537,269	3,974,791
Total noninterest expenses	17,985,878	15,655,912	14,719,995
Income before income taxes	11,467,656	8,140,398	5,874,748

Income Tax Expense (note 13)	2,886,072	2,293,136	1,051,770
Consolidated Net Income – F & M Bank Corp.	8,581,584	5,847,262	4,822,978
Net Income attributed to Noncontrolling interest	(164,575)	(45,653)	(107,185)
Net Income-F & M Bank Corp.	$8,417,009	$5,801,609	$4,715,793
Dividends paid/accumulated on preferred stock	510,000	127,500	-
Net income available to common stockholders	$7,907,009	$5,674,109	$4,715,793
Per Common Share Data			
Net income - basic	2.40	1.82	1.88
Net income - diluted	2.25	1.80	1.88
Cash dividends on common stock	.73	.68	.68
Weighted average common shares outstanding – basic	3,290,812	3,119,333	2,504,015
Weighted average common shares outstanding – diluted	3,735,212	3,229,942	2,504,015

See accompanying Notes to the Consolidated Financial Statements.

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F & M BANK CORP.
Consolidated Statements of Comprehensive Income
For the years ended 2015, 2014 and 2013

	Years Ended December 31,		
	2015	2014	2013
Net Income:			
Net income – F & M Bank Corp	$8,417,009	$5,801,609	$4,715,793
Net income attributable to noncontrolling interest	164,575	45,653	107,185
Total net income	8,581,584	5,847,262	4,822,978
Other comprehensive income (loss):			
Pension plan adjustment	(537,005)	(2,145,868)	2,314,274
Tax effect	182,582	729,595	(786,853)
Pension plan adjustment, net of tax	(354,423)	(1,416,273)	1,527,421
Unrealized holding gains (losses)			
on available-for-sale securities	1,423	22,386	(75,127)
Tax effect	(484)	(7,611)	25,543
Unrealized holding gain (losses), net of tax	939	14,775	(49,584)
Other comprehensive income	(353,484)	(1,401,498)	1,477,837
Total comprehensive income	$8,228,100	$4,445,764	$6,300,815

See accompanying Notes to the Consolidated Financial Statements.

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F & M Bank Corp. and Subsidiaries
Consolidated Statements of Changes in Stockholders' Equity
For the years ended December 31, 2015, 2014 and 2013

	Preferred Stock	Common Stock	Additional Paid in Capital	Retained Earnings	Noncontrolling Interest	Accumulated Other Comprehensive Income (Loss)	Total
Balance December 31, 2012	$-	$12,497,720	$2,951,967	$35,974,812	$ 362,131	$ (2,402,670)	$49,383,960
Net income consolidated				4,715,793	107,185		4,822,978
Other comprehensive income (loss)						1,477,837	1,477,837
Minority Interest Contributed Capital (Distributions)					(51,088)		(51,088)
Dividends on common stock				(1,705,881)			(1,705,881)
Common stock issued (12,141 shares)		60,955	152,474	-	-	-	213,429
Balance December 31, 2013	$-	$12,558,675	$3,104,441	$38,984,724	$ 418,228	$ (924,833)	$54,141,235
Net income consolidated				5,801,609	45,653		5,847,262
Other comprehensive income (loss)						(1,401,498)	(1,401,498)
Minority Interest Contributed Capital (Distributions)					(37,516)		(37,516)
Dividends on preferred stock				(127,500)			(127,500)

Dividends on common stock				(2,104,412)			(2,104,412)
Preferred stock issued (400,000 shares)	9,425,123						9,425,123
Common Stock issued (780,031 shares)	-	3,900,155	8,155,554	-	-	-	12,055,709
Balance December 31, 2014	$9,425,123	$16,458,830	$11,259,995	$42,554,421	$ 426,365	$ (2,326,331)	$77,798,403
Net income consolidated				8,417,009	164,575		8,581,584
Other comprehensive income (loss)						(353,484)	(353,484)
Minority Interest Distribution					(18,260)		(18,260)
Dividends on preferred stock				(510,000)			(510,000)
Dividends on common stock				(2,405,130)			(2,405,130)
Common stock repurchased (13,277 shares)		(66,390)	(222,729)				(289,119)
Common Stock issued (6,916 shares)		34,580	111,838	-	-	-	146,418
Balance December 31, 2015	$9,425,123	$16,427,020	$11,149,104	$48,056,300	$ 572,680	$ (2,679,815)	$82,950,412

See accompanying Notes to the Consolidated Financial Statements.

F & M Bank Corp. and Subsidiaries
Consolidated Statements of Cash Flows
For the years ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$8,417,009	$5,801,609	$4,715,793
Adjustments to reconcile net income to net cash			
provided by (used in) operating activities:			
Depreciation	709,237	612,116	581,625
Amortization of securities	147,407	76,057	45,416
Sale of loans held for sale originated	75,364,878	56,210,640	79,778,381
Loans held for sale originated	(77,151,936)	(56,044,669)	(71,169,362)
Provision for loan losses	300,000	2,250,000	3,775,000
Benefit (expense) for deferred taxes	340,941	(515,538)	(568,858)
(Increase) decrease in interest receivable	(33,771)	(176,734)	204,735
Increase in other assets	(457,010)	(1,473,634)	(967,516)
Increase in accrued expenses	1,480,074	1,159,913	1,731,973
Amortization of limited partnership investments	627,326	608,360	581,737
Loss on sale and valuation adjustments of other real estate owned	488,583	318,714	97,155
Income from life insurance investment	(473,098)	(466,936)	(508,658)
Net Cash Provided by Operating Activities	9,759,640	8,359,898	18,297,421
Cash Flows from Investing Activities			
Decrease in interest bearing bank deposits	-	-	248,000
Proceeds from maturities of securities available for sale	8,242,751	27,495,319	10,712,508
Proceeds from maturities of securities held to maturity	-	106,000	
Purchases of securities available for sale	(12,040,262)	(11,957,235)	(31,093,384)
Purchases of securities held to maturity	-	(125,250)	
Net increase in loans held for investment	(25,892,052)	(43,642,033)	(17,149,156)
Net (increase) decrease in loans held for sale participations	(42,636,530)	(9,743,487)	64,793,073
Net purchase of property and equipment	(1,793,061)	(545,313)	(661,621)
Proceeds from sale of other real estate owned	687,756	986,373	928,897
Net Cash Provided by (Used in) Investing Activities	(73,431,398)	(37,425,626)	27,778,317
Cash Flows from Financing Activities			
Net change in demand and savings deposits	37,589,508	27,894,981	15,867,944
Net change in time deposits	(34,424,288)	(539,689)	(5,514,239)
Net change in short-term debt	10,595,559	10,935,414	(31,174,274)
Dividends paid in cash	(2,915,130)	(2,231,912)	(1,705,881)
Proceeds from long-term debt	40,000,000	10,000,000	-
Proceeds from issuance of preferred stock	-	6,831,123	-
Proceeds from issuance of common stock	146,418	12,055,709	213,429
Repurchase of common stock	(289,119)		
Repayments of long-term debt	(1,714,286)	(19,222,000)	(26,214,286)
Net Cash Provided by (Used in) Financing Activities	48,988,662	45,723,626	(48,527,307)
Net Increase (Decrease) in Cash and Cash Equivalents	(14,683,096)	16,657,898	(2,451,569)

Cash and Cash Equivalents, Beginning of Year	23,202,543	6,544,645	8,996,214
Cash and Cash Equivalents, End of Year	$8,519,447	$23,202,543	$6,544,645
Supplemental Disclosure:			
Cash paid for:			
Interest expense	$2,854,119	$3,703,190	$6,500,592
Income taxes	1,500,000	1,607,000	800,000
Transfers from loans to other real estate owned	125,000	2,914,958	1,337,890
Loans originated for the sale of other real estate owned	(328,129)	(780,097)	(569,245)
Conversion of subordinated debt to preferred stock	-	2,594,000	

See accompanying Notes to the Consolidated Financial Statements.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 1 NATURE OF OPERATIONS:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of the Company and its subsidiaries conform to generally accepted accounting principles and to accepted practice within the banking industry.

The following is a summary of the more significant policies:

Principles of Consolidation

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

Use of Estimates in the Preparation of Financial Statements

In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts in those statements; actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant changes in the near term are the determination of the allowance for loan losses, which is sensitive to changes in local and national economic conditions, and the other than temporary impairment of investments in the investment portfolio.

Cash and Cash Equivalents

Cash and cash equivalents include cash on hand, deposits at other financial institutions whose initial maturity is ninety days or less and Federal funds sold.

Investment Securities

Management reviews the securities portfolio and classifies all securities as either held to maturity or available for sale at the date of acquisition. Securities that the Company has both the positive intent and ability to hold to maturity (at time of purchase) are classified as held to maturity securities. All other securities are classified as available for sale. Securities held to maturity are carried at historical cost and adjusted for amortization of premiums and accretion of discounts, using the effective interest method. Securities available for sale are carried at fair value with any valuation adjustments reported, net of deferred taxes, as a part of other accumulated comprehensive income.

Interest, amortization of premiums and accretion of discounts on securities are reported as interest income using the effective interest method. Gains (losses) realized on sales and calls of securities are determined on the specific identification method.

Accounting for Historic Rehabilitation and Low Income Housing Partnerships

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 (usually 15 years). 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. The effective yield method is used to record the income statement effects of these investments.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Income Taxes

Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. Deferred taxes, which arise principally from temporary differences between the period in which certain income and expenses are recognized for financial accounting purposes and the period in which they affect taxable income, are included in the amounts provided for income taxes.

Loans Held for Investment

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.

Loans Held for Sale

These loans consists of fixed rate loans made through its subsidiary, VBS Mortgage and loans purchased from Gateway Savings Bank, Oakland, CA and Northpointe Bank, Grand Rapids, MI.

VBS Mortgage originates conforming mortgage loans for sale in the secondary market. The bank (VBS) gives the customer a rate commitment at the time the rate is locked. The bank then immediately gets a rate lock-in from the investor that will be buying the loan upon closing. Both the rate lock and the purchase commitments (which is a blanket agreement) are best effort agreements, subject to final approval and underwriting. Because either party can walk away from these agreements prior to closing, neither the rate lock commitment nor the purchase commitment is considered a derivative contract. The bank provides a warehouse line for the Mortgage subsidiary after closing, until the loan is purchased by the investor. The average time on the line is two or three weeks. Although VBS does have a line, loans are actually assigned to the bank at closing and then reassigned prior to purchase from investor. There were $3.6 million of these mortgage loans held for resale at the end of the year. All of these loans are under contract to deliver to an investor as a specified price. Because of this and the short holding period, these loans are carried at par and a gain is recorded at transfer to the investor. The effect of not marking these loans to market is not material to the current year financial statements.

Gateway Savings Bank (“Gateway”) loans are originated by a network of mortgage loan originators throughout the United States. A takeout commitment is in place at the time the loans are purchased. The Gateway arrangement has been used 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. Gateway Savings Bank discontinued the loan participation program in December of 2014 and the Company became a participant with Northpointe Bank which obtained the Gateway Savings Bank program and incorporated it into their existing program. The Northpointe Bank program and procedures are the same as described above for Gateway.

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 & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Allowance for Loan and Lease 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.

Other Real Estate Owned (OREO)

As of December 31, 2015, the Bank had $2.1 million classified as OREO on the balance sheet, compared to $3.5 million as of December 31, 2014. The table in Note 9 reflects the OREO activity in 2015. The Company's policy is to carry OREO on its balance sheet at the lower of cost or market. Values are reviewed periodically and additional losses are recognized if warranted based on market conditions.

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. Bank Premises and Equipment

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:

Buildings and Improvements	10 - 40 years
Furniture and Fixtures	5 - 20 years

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

Goodwill

The Company accounts for goodwill and intangible assets under ASC 805, "Business Combination" and ASC 350 "Intangibles", respectively.

Goodwill totaled $2,669,517 at December 31, 2015 and 2014. The goodwill is no longer amortized, but instead tested for impairment at least annually. Based on the testing, there were no impairment charges for 2015, 2014 or 2013.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 2015, 2014, and 2013 were $401,138, $317,780, and $278,555, respectively.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities and changes in pension plan funding status, 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.

Derivative Financial Instruments and Change in Accounting Principle

On January 1, 2001, the Company adopted ASC 815 “Derivative and Hedging Investments” (formerly SFAS No. 133). This statement requires that all derivatives be recognized as assets or liabilities in the balance sheet and measured at fair value.

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

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Company to risk. Those derivative financial instruments that do not meet the hedging criteria discussed below would be classified as trading activities and would be recorded at fair value with changes in fair value recorded in income. Derivative hedge contracts must meet specific effectiveness tests (i.e., over time the change in their fair values due to the designated hedge risk must be within 80 to 125 percent of the opposite change in the fair value of the hedged assets or liabilities). Changes in fair value of the derivative financial instruments must be effective at offsetting changes in the fair value of the hedging items due to the designated hedge risk during the term of the hedge. Further, if the underlying financial instrument differs from the hedged asset or liability, there must be a clear economic relationship between the prices of the two financial instruments. If periodic assessment indicates derivatives no longer provide an effective hedge, the derivatives contracts would be closed out and settled or classified as a trading activity.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

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 by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued. The dilutive effect of conversion of preferred stock is reflected in the diluted earnings per common share calculation.

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

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

	For the year ended	
	December 31, 2015	December 31, 2014
Earnings Available to Common Stockholders:		
Net Income	$8,581,584	$5,847,262
Minority interest	$164,575	$45,653
Preferred Stock Dividends	510,000	127,500
Net Income Available to Common Stockholders	$7,907,009	$5,674,109

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

	Year ended					
	12/31/2015			12/31/2014		
	Income	Shares	Per Share Amounts	Income	Shares	Per Share Amounts
Basic EPS	$7,907,009	3,735,212	$2.40	$5,674,109	3,229,942	$1.82
Effect of Dilutive Securities:						
Convertible Preferred Stock	510,000	444,400	(0.15)	127,500	110,631	(0.02)
Diluted EPS	$8,417,009	3,290,812	$2.25	$5,801,609	3,119,311	$1.80

There were no dilutive securities for the years ended December 31, 2013.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (“FASB”) issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. Management is currently analyzing the impact of the adoption of this guidance on the Company’s consolidated financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2015, the FASB issued guidance to eliminate from U.S. GAAP the concept of an extraordinary item, which is an event or transaction that is both (1) unusual in nature and (2) infrequently occurring. Under the new guidance, an entity will no longer (1) segregate an extraordinary item from the results of ordinary operations; (2) separately present an extraordinary item on its income statement, net of tax, after income from continuing operations; or (3) disclose income taxes and earnings-per-share data applicable to an extraordinary item. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2015, the FASB issued guidance which amends the consolidation requirements and significantly changes the consolidation analysis required under U.S. GAAP. Although the amendments are expected to result in the deconsolidation of many entities, the Company will need to reevaluate all its previous consolidation conclusions. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted (including during an interim period), provided that the guidance is applied as of the beginning of the annual period containing the adoption date. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides a practical expedient that permits the Company to measure defined benefit plan assets and obligations using the month-end that is closest to the Company’s fiscal year-end. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In April 2015, the FASB issued guidance which provides guidance to customers about whether a cloud computing arrangement includes a software license. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted. The Company does not expect these amendments to have a material effect on its financial statements.

In June 2015, the FASB issued amendments to clarify the Accounting Standards Codification (“ASC”), correct unintended application of guidance, and make minor improvements to the ASC that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities. The amendments were effective upon issuance (June 12, 2015) for amendments that do not have transition guidance.

Amendments that are subject to transition guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted, including adoption in an interim period. The Company does not expect these amendments to have a material effect on its financial statements.

In August 2015, the FASB deferred the effective date of ASU 2014-09, Revenue from Contracts with Customers. As a result of the deferral, the guidance in ASU 2014-09 will be effective for the Company for reporting periods beginning after December 15, 2017. Management is currently analyzing the impact of the adoption of this guidance on the Company's consolidated financial statements. The Company does not expect these amendments to have a material effect on its financial statements.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Recent Accounting Pronouncements, continued

In September 2015, the FASB amended the Business Combinations topic of the Accounting Standards Codification to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015, with early adoption permitted for financial statements that have not been issued. All entities are required to apply the amendments prospectively to adjustments to provisional amounts that occur after the effective date. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance prospectively. The Company does not expect these amendments to have a material effect on its financial statements.

In January 2016, the FASB amended the Financial Instruments topic of the Accounting Standards Codification to address certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. The amendments will be effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company will apply the guidance by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values will be applied prospectively to equity investments that exist as of the date of adoption of the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In February 2016, the FASB issued new guidance to change accounting for leases and that will generally require most leases to be recognized on the balance sheet. The new lease standard only contains targeted changes to accounting by lessors, however, lessees will be required to recognize most leases in their balance sheets as lease liabilities for lease payments and right-of-use assets representing the lessee’s rights to use the underlying assets for the lease terms for lease arrangements longer than 12 months. Under this approach, a lessee will account for most existing capital/finance leases as Type A leases and most existing operating leases as Type B leases. Type A and Type B leases have unique accounting and disclosure requirements. Existing sale-leaseback guidance, including guidance for real estate, will be replaced with a new model applicable to both lessees and lessors. The new guidance will be effective for fiscal years (and interim periods within those fiscal years) beginning after December 15, 2018. Early adoption is permitted for all companies and organizations. Management is currently analyzing the impact of the adoption of this guidance on the Company’s consolidated financial statements, including assessing changes that might be necessary to information technology systems, processes and internal controls to capture new data and address changes in financial reporting.

Standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company’s financial position, results of operations or cash flows.

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.

F & M Bank Corp. and Subsidiaries
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December 31, 2015 and 2014

NOTE 3 CASH AND DUE FROM BANKS:

The Bank is required to maintain average reserve balances based on a percentage of deposits. The average balance of cash, which the Federal Reserve Bank requires to be on reserve, was $25,000 for the years ended December 31, 2015 and 2014.

NOTE 4 INVESTMENT SECURITIES:

The amortized cost and fair value of securities held to maturity are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2015				
U. S. Treasuries	$125,043	$-	$-	$125,043
December 31, 2014				
U. S. Treasuries	$125,150	$-	$-	$125,150

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, 2015				
U. S. Treasuries	$4,015,440	$5,840	$-	$4,021,280
Government sponsored enterprises	8,080,540	3,780	10,600	8,073,720
Mortgage-backed obligations of federal agencies	810,802	6,143	-	816,945
Marketable equities	135,000	-	-	135,000
Total Securities Available for Sale	$13,041,782	$15,763	$10,600	$13,046,945
December 31, 2014				
U. S. Treasuries	$4,025,740	$-	$6,100	$4,019,640
Government sponsored enterprises	8,039,540	8,940	9,880	8,038,600
Mortgage-backed obligations of federal agencies	1,011,092	10,780	-	1,021,872
Marketable equities	135,000	-	-	135,000
Total Securities Available for Sale	$13,211,372	$19,720	$15,980	$13,215,112

The amortized cost and fair value of securities at December 31, 2015, 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	$125,043	$ 125,043	$4,015,440	$ 4,021,280

Due after one year through five years	-	-	8,080,540	8,073,720
Due after five years	-	-	945,802	951,945
Total	$125,043	$ 125,043	$13,041,782	$ 13,046,945

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 4 INVESTMENT SECURITIES (CONTINUED):

There were no sales of debt or equity securities during 2015, 2014 or 2013.

The carrying value (which approximates fair value) of securities pledged by the Bank to secure deposits and for other purposes amounted to $12,912,000 at December 31, 2015 and $13,080,000 at December 31, 2014.

Other investments consist of investments in nineteen low-income housing and historic equity partnerships (carrying basis of $7,213,000), stock in the Federal Home Loan Bank (carrying basis of $3,441,000), and various other investments (carrying basis of $1,503,000). 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 value as of December 31, 2015. At December 31, 2015, the Company was committed to invest an additional $4,358,041 in eight low-income housing limited partnerships. These funds will be paid as requested by the general partner to complete the projects. This additional investment has been reflected in the above carrying basis and in accrued liabilities on the balance sheet.

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, to see if adjustments are needed. The primary concern in a loss situation is the credit quality of the business behind the instrument. Bonds deteriorate in value due to credit quality of the individual issuer and changes in market conditions. These losses relate to market conditions and the timing of purchases.

A summary of these losses (in thousands) is as follows:

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2015						
U. S. Treasuries	$-	$-	$-	$-	$-	$-
Government sponsored enterprises	6,056	(11)	-	-	6,056	(11)
Mortgage-backed obligations	-	-	-	-	-	-
Total	$6,056	$(11)	$-	$-	$6,056	$(11)
2014						
U. S. Treasuries	$4,020	$(6)	$-	$-	$4,020	$(6)
Government sponsored enterprises	2,004	(2)	1,991	(8)	3,995	(10)
Mortgage-backed obligations	-	-	-	-	-	-
Total	$6,024	$(8)	$1,991	$(8)	$8,015	$(16)

Explanation of Responses:

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 4 INVESTMENT SECURITIES (CONTINUED):

Management evaluates securities for other-than-temporary impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than the cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of fair value. The Company does not intend to sell these securities and it is more likely than not that the Company will not be required to sell these securities before recovery of their amortized cost. The Company did not recognize any other-than-temporary impairment losses in 2015, 2014 or 2013.

NOTE 5 LOANS:

Loans held for investment as of December 31:

	2015	2014
Construction/Land Development	$69,759,401	$67,180,467
Farmland	13,377,740	12,507,446
Real Estate	166,586,877	162,248,606
Multi-Family	7,558,460	11,775,205
Commercial Real Estate	128,031,686	122,305,417
Home Equity – closed end	9,135,433	9,393,805
Home Equity – open end	56,599,337	52,181,679
Commercial & Industrial – Non-Real Estate	27,954,171	28,160,584
Consumer	8,219,391	9,109,994
Dealer Finance	54,085,791	40,633,086
Credit Cards	2,745,190	2,745,190
Total	$544,053,477	$518,201,574

The Company has pledged loans as collateral for borrowings with the Federal Home Loan Bank of Atlanta totaling $182,312,000 and $183,483,000 as of December 31, 2015 and 2014, respectively. The Company maintains a blanket lien on its entire residential real estate portfolio and also began pledges commercial and home equity loans.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 5 LOANS (CONTINUED):

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

December 31, 2015	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	$1,361	$1,499	$-	$3,622	$73
Farmland	-	-	-	-	-
Real Estate	1,097	1,097	-	734	58
Multi-Family	-	-	-	-	-
Commercial Real Estate	307	307	-	874	17
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	1,159	1,159	-	1,513	82
Commercial & Industrial – Non-Real Estate	181	181	-	186	10
Consumer	18	18	-	7	-
Credit Cards	-	-	-	-	-
Dealer Finance	4	4	-	1	4
	4,127	4,265	-	6,937	244
Impaired loans with a valuation allowance					
Construction/Land Development	11,534	11,534	2,373	12,884	299
Farmland	-	-	-	-	-
Real Estate	324	324	238	699	46
Multi-Family	-	-	-	-	-
Commercial Real Estate	890	890	18	900	15
Home Equity – closed end	-	-	-	-	-
Home Equity – open end	1,414	1,414	269	613	75
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	68	68	17	38	5
	14,230	14,230	2,915	15,134	440
Total impaired loans	$18,357	$18,495	$2,915	$22,071	$684

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 5 LOANS (CONTINUED):

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

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

December 31, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	$ 4,982	$ 5,402	$ -	$ 5,412	$ 251
Farmland	-	-	-	1,163	-
Real Estate	141	141	-	85	5
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,159	1,459	-	1,450	66
Home Equity – closed end	-	-	-	123	-
Home Equity – open end	1,649	1,649	-	330	57
Commercial & Industrial – Non-Real Estate	191	191	-	237	11
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	8,122	8,842	-	8,800	390
Impaired loans with a valuation allowance					
Construction/Land Development	12,976	14,749	1,469	12,056	326
Farmland	-	-	-	-	-
Real Estate	926	926	101	988	105
Multi-Family	-	-	-	-	-
Commercial Real Estate	938	938	47	1,030	4
Home Equity – closed end	-	-	-	72	-
Home Equity – open end	-	-	-	40	-
Commercial & Industrial – Non-Real Estate	-	-	-	-	-
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-
Dealer Finance	-	-	-	-	-
	14,840	16,613	1,617	14,186	435
Total impaired loans	$ 22,962	$ 25,455	$ 1,617	$ 22,986	$ 825

Loans held for sale consists of loans originated by VBS Mortgage and the Bank's commitment to purchase residential mortgage loan participations from Gateway Bank and Northpointe Bank. The volume of loans purchased 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, 2015 and 2014 were $57,805,529 and $13,381,941, respectively.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 6 ALLOWANCE FOR LOAN LOSSES:

A summary of changes in the allowance for loan losses is shown in the following schedule:

December 31, 2015 (in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,738	$ 156	$ 85	$ (225)	$ 4,442	$ 2,373	$ 2,069
Farmland	-	-	-	95	95	-	95
Real Estate	623	25	37	171	806	238	568
Multi-Family	-	-	-	71	71	-	71
Commercial Real Estate	126	-	65	254	445	18	427
Home Equity – closed end	188	26	6	6	174	-	174
Home Equity – open end	154	51	-	531	634	269	365
Commercial & Industrial – Non-Real Estate	1,211	-	62	(218)	1,055	-	1,055
Consumer	214	32	32	(106)	108	-	108
Dealer Finance	1,336	251	24	(273)	836	17	819
Credit Cards	135	60	46	(6)	115	-	115
Total	$8,725	$ 601	$ 357	$ 300	$ 8,781	$ 2,915	$ 5,866

A summary of changes in the allowance for loan losses is shown in the following schedule:

December 31, 2014 (in thousands)	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Allowance for loan losses:							
Construction/Land Development	$4,007	$1,611	$223	$2,119	$4,738	$1,469	$3,269
Farmland	(2)	-	-	2	-	-	-
Real Estate	400	208	-	431	623	101	522
Multi-Family	-	-	-	-	-	-	-
Commercial Real Estate	777	-	108	(759)	126	47	79
	157	-	-	31	188	-	188

Home Equity – closed end							
Home Equity – open end	476	80	-	(242)	154	-	154
Commercial & Industrial – Non-Real Estate	1,464	385	356	(224)	1,211	-	1,211
Consumer	156	33	33	58	214	-	214
Dealer Finance	628	107	6	809	1,336	-	1,336
Credit Cards	121	46	35	25	135	-	135
Total	$8,184	$2,470	$761	$2,250	$8,725	$1,617	$7,108

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

Recorded Investment in Loan Receivables (in thousands):

December 31, 2015	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$69,759	$12,895	$56,864
Farmland	13,378	-	13,378
Real Estate	166,587	1,421	165,167
Multi-Family	7,559	-	7,559
Commercial Real Estate	128,032	1,197	126,835
Home Equity – closed end	9,135	-	9,135
Home Equity –open end	56,599	2,573	54,026
Commercial & Industrial – Non-Real Estate	27,954	181	27,773
Consumer	8,219	18	8,201
Dealer Finance	54,086	72	54,013
Credit Cards	2,745	-	2,745
	$544,053	$18,357	$525,696
Total			

December 31, 2014	Loan Receivable	Individually Evaluated for Impairment	Collectively Evaluated for Impairment
Construction/Land Development	$67,181	$17,958	$49,223
Farmland	12,507	-	12,507
Real Estate	162,249	1,067	161,182
Multi-Family	11,775	-	11,775
Commercial Real Estate	122,305	2,097	120,208
Home Equity – closed end	9,394	-	9,394
Home Equity –open end	52,182	1,649	50,533
Commercial & Industrial – Non-Real Estate	28,161	191	27,970
Consumer	9,110	-	9,110
Dealer Finance	40,633		40,633
Credit Cards	2,705	-	2,705
	$518,202	$22,962	$495,240
Total			

Aging of Past Due Loans Receivable (in thousands)

	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable

			(excluding non-accrual)				
December 31, 2015							
Construction/Land Development	$104	$-	$ -	$ 4,688	$4,792	$64,967	$69,759
Farmland	-	-	-	-	-	13,378	13,378
Real Estate	2,684	1,332	272	1,010	5,298	161,289	166,587
Multi-Family	-	-	-	-	-	7,559	7,559
Commercial Real Estate	340	241	-	-	581	127,451	128,032
Home Equity – closed end	41	7	-	-	48	9,087	9,135
Home Equity – open end	918	46	107	40	1,111	55,488	56,599
Commercial & Industrial – Non-Real Estate	114	3	25	109	251	27,703	27,954
Consumer	120	10	-	-	130	8,089	8,219
Dealer Finance	905	183	152	108	1,348	52,738	54,086
Credit Cards	10	13	15	-	38	2,707	2,745
Total	$5,236	$1,835	$ 571	$ 5,955	$13,597	$530,456	$544,053

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

December 31, 2014	30-59 Days Past due	60-89 Days Past Due	Greater than 90 Days (excluding non-accrual)	Non-Accrual Loans	Total Past Due	Current	Total Loan Receivable
Construction/Land Development	$205	$166	$ -	$ 4,508	$4,879	$62,302	$67,181
Farmland	-	-	-	-	-	12,507	12,507
Real Estate	5,085	635	-	973	6,693	155,556	162,249
Multi-Family	-	-	-	-	-	11,775	11,775
Commercial Real Estate	747	-	-	1,165	1,912	120,393	122,305
Home Equity – closed end	162	15	-	10	187	9,207	9,394
Home Equity – open end	730	25	-	143	898	51,284	52,182
Commercial & Industrial – Non-Real Estate	-	-	-	14	14	28,147	28,161
Consumer	290	9	-	-	299	8,811	9,110
Dealer Finance	696	189	-	161	1,046	39,587	40,633
Credit Cards	36	-	1	-	37	2,668	2,705
Total	$7,951	$1,039	$ 1	$ 6,974	$15,965	$502,237	$518,202

CREDIT QUALITY INDICATORS (in thousands)
AS OF DECEMBER 31, 2015
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	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	$ -	$ 485	$ 8,410	$ 31,783	$ 14,260	$ 3,216	$ 11,605	$ -	$ 69,759
Farmland	66	-	2,615	3,768	4,952	1,977	-	-	13,378
Real Estate	-	955	54,400	76,545	23,695	8,334	2,658	-	166,587
Multi-Family	-	391	3,925	3,046	197	-	-	-	7,559
Commercial Real Estate	-	2,087	25,889	74,337	20,271	4,149	1,299	-	128,032
	-	-	3,549	3,792	1,661	114	19	-	9,135

Home Equity – closed end									
Home Equity – open end	-	1,657	15,043	31,455	4,827	398	3,219	-	56,599
Commercial & Industrial (Non-Real Estate)	896	646	6,423	17,053	2,281	517	138	-	27,954
Total	$ 962	$ 6,221	$ 120,254	$ 241,779	$ 72,144	$ 18,705	$ 18,938	$ -	$ 479,003

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,730	$62,046
Non performing	15	259
Total	$2,745	$62,305

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 6 ALLOWANCE FOR LOAN LOSSES (CONTINUED):

CREDIT QUALITY INDICATORS (in thousands)
AS OF DECEMBER 31, 2014
Corporate Credit Exposure
Credit Risk Profile by Creditworthiness Category

	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	$-	$165	$8,460	$ 24,227	$ 9,605	$3,815	$ 20,909	$-	$67,181
Farmland	68	-	1,640	3,451	5,228	-	2,120	-	12,507
Real Estate	-	629	60,290	66,464	23,934	7,083	3,849	-	162,249
Multi-Family	-	468	4,145	2,183	4,979	-	-	-	11,775
Commercial Real Estate	-	1,687	22,800	65,653	19,058	10,571	2,536	-	122,305
Home Equity – closed end	-	-	4,327	3,090	1,812	154	11	-	9,394
Home Equity – open end	-	1,555	13,433	28,425	4,309	1,936	2,524	-	52,182
Commercial & Industrial (Non-Real Estate)	643	74	4,692	18,039	3,948	735	30	-	28,161
Total	$711	$4,578	$119,787	$ 211,532	$ 72,873	$24,294	$ 31,979	$-	$465.754

Consumer Credit Exposure
Credit Risk Profile Based on Payment Activity

	Credit Cards	Consumer
Performing	$2,704	$49,582
Non performing	1	161
Total	$2,705	$49,743

Description of 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.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

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: The loan has 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.

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 figure into the environmental factors associated with the allowance. 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 restructured loans evaluated individually.

During the twelve months ended December 31, 2015, the Bank modified 16 loans that were considered to be troubled debt restructurings. These modifications include 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.

(in thousands)		December 31, 2015	
Troubled Debt Restructurings	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial	1	$ 974	$ 974
Real Estate	5	1,408	1,408
Home Equity	4	1,414	1,414
Consumer	6	73	73
Total	16	$ 3,869	$ 3,869

As of December 31, 2015, 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.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 7 TROUBLED DEBT RESTRUCTURING (CONTINUED):

During the twelve months ended December 31, 2014, the Bank modified 3 loans that were considered to be troubled debt restructurings. These modifications include 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.

(in thousands)	Number of Contracts	December 31, 2014 Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Troubled Debt Restructurings			
Real Estate	2	$ 179	$ 179
Consumer	1	22	22
	3	$ 201	$ 201

As of December 31, 2014, there was one loan restructured in the previous twelve months, in default. This was a real estate loan totaling $97,000. 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:

	2015	2014
Land	$1,868,709	$1,418,003
Buildings and improvements	7,209,427	6,793,644
Furniture and equipment	7,397,173	6,479,815
	16,475,309	14,691,462
Less - accumulated depreciation	(8,933,231)	(8,233,208)
Net	$7,542,078	$6,458,254

Provisions for depreciation of $709,237 in 2015, $612,116 in 2014, and $581,625 in 2013 were charged to operations.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 9 OTHER REAL ESTATE OWNED

The tables below reflect OREO activity for 2015 and 2014:

Other Real Estate Owned

	2015	2014
Balance as of January 1	$3,507,153	$2,628,418
Property acquired at foreclosure	125,000	2,914,958
Capital improvements on foreclosed property	98,929	48,961
Sale of other real estate owned financed by Bank	(328,129)	(780,097)
Sales of foreclosed properties	(737,663)	(1,029,452)
Write down of OREO	(537,605)	(275,635)
Balance as of December 31	$2,127,685	$3,507,153

NOTE 10 DEPOSITS:

The composition of deposits at December 31, 2015 and 2014 was as follows:

	December 31, 2015	December 31, 2014
Noninterest bearing demand deposits	$134,786,875	$112,197,722
Savings and interest bearing demand deposits:		
Interest checking accounts	108,459,597	119,593,529
Savings accounts	90,383,486	64,249,199
Time Deposits:		
Balances of less than $100,000	107,415,244	115,651,329
Balances of $100,000 and more	53,624,554	79,812,757
Total Deposits	$494,669,756	$491,504,536

The Company’s deposits over $250,000 were not readily available from their data processing system.

At December 31, 2015, the scheduled maturities of time deposits are as follows:

2016	$68,800,143
2017	38,529,664
2018	27,310,066
2019	12,595,076
2020 and after	13,804,849
Total	$161,039,798

F& M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 11 SHORT-TERM DEBT:

Short-term debt, all maturing within 12 months, information is summarized as follows:

	Maximum Outstanding at any Month End	Outstanding at Year End	Average Balance Outstanding	Weighted Average Interest Rate		Year End Interest Rate	
2015							
Federal funds purchased	$ 8,843,000	$959,217	$833,907	.02	%	.78	%
FHLB short term	45,000,000	20,000,000	26,739,726	.16	%	.19	%
Securities sold under agreements to repurchase	4,697,341	3,994,834	4,443,753	.04	%	.25	%
Totals		$24,954,051	$32,017,386	.21	%	.22	%
2014							
Federal funds purchased	$ 491,000	$-	$7,704	.001	%	.61	%
FHLB short term	10,000,000	10,000,000	27,397	.001	%	.17	%
Securities sold under agreements to repurchase	5,066,238	4,358,492	3,837,612	.23	%	.24	%
Totals		$14,358,492	$3,872,713	.23	%	.23	%

Repurchase agreements are secured transactions with customers and generally mature the day following the date sold. Federal funds purchased are unsecured overnight borrowings from other financial institutions. FHLB daily rate credit, which is secured by the loan portfolio, is a variable rate loan that acts as a line of credit to meet financing needs.

As of December 31, 2015, the Company had unsecured lines of credit with correspondent banks totaling $26,000,000, which may be used in the management of short-term liquidity.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 12 LONG-TERM DEBT:

The Company borrowed $40,000,000 from the Federal Home Loan Bank of Atlanta (FHLB) in 2015 to fund loan growth and extend maturities of long term debt at lower rates. They borrowed $10,000,000 in 2014 and there were no new borrowings from FHLB in 2013. The interest rates on the notes payable 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 2.33% at December 31, 2015 and 2014, respectively. The balance of these obligations at December 31, 2015 and December 31, 2014 were $48,161,000 and $9,875,000, respectively. The long-term debt is secured by qualifying mortgage loans owned by the Company.

The maturities of long-term Federal Home Loan Bank borrowings as of December 31, 2015 are as follows:

2016	$3,929,000
2017	3,929,000
2018	8,929,000
2019	6,429,000
2020	13,929,000
Thereafter	11,016,000
Total	$48,161,000

NOTE 13 INCOME TAX EXPENSE:

The components of the income tax expense are as follows:

	2015	2014	2013
Current expense			
Federal	$3,227,013	$1,777,598	$482,912
Deferred (benefit) expense			
Federal	(340,941)	505,684	636,452
State	-	9,854	(67,594)
Total Deferred (benefit) expense	(340,941)	515,538	568,858
Total Income Tax Expense	$2,886,072	$2,293,136	$1,051,770

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 13 INCOME TAX EXPENSE (CONTINUED):

The components of the deferred taxes as of December 31 are as follows:

Deferred Tax Assets:	2015	2014
Allowance for loan losses	$ 2,564,214	$ 2,201,291
Split Dollar Life Insurance	4,440	4,440
Nonqualified deferred compensation	702,440	594,132
Low income housing partnerships losses	210,107	308,539
Core deposit amortization	176,605	72,188
Other real estate owned	269,610	3,746
Pension plan	1,382,268	1,199,686
Total Assets	$ 5,309,684	$ 4,384,022

Deferred Tax Liabilities:	2015	2014
Unearned low income housing credits	$418,416	$523,769
Depreciation	359,406	320,743
Pension	1,988,736	1,864,964
Goodwill tax amortization	901,340	853,880
Securities available for sale	1,757	1,272
Total Liabilities	3,669,655	3,564,628
Net Deferred Tax Asset (included in Other Assets on Balance Sheet)	$1,640,029	$819,394

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

	2015	2014	2013
Tax expense at federal statutory rates	$3,843,048	$2,959,056	$2,251,851
Increases (decreases) in taxes resulting from:			
State income taxes, net of federal benefit	8,087	8,659	9,229
Partially tax-exempt income	(46,348)	(54,529)	(44,676)
Tax-exempt income	(222,672)	(190,192)	(197,482)
Prior year LIH credits	(132,028)	(21,787)	(61,768)
LIH and historic credits	(568,854)	(484,955)	(611,795)
Deferred Tax Asset Valuation Allowance - reversal	-	396,440	-
Other	4,840	(112,714)	(2,710)
Total Income Tax Expense	$2,886,072	$2,293,136	$1,051,770

Management evaluated the likelihood of recognizing the Company's deferred tax asset. Based on the evidence supporting this asset, it was decided to record a partial valuation allowance against the asset on the Company's books in the amount of $582,778 for the years ended 2015 and 2014. A deferred tax asset is created from the difference between book income using Generally Accepted Accounting Principles and taxable income.

The Corporation 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 Corporation and its subsidiaries file federal income tax returns and state income tax returns. With few exceptions, the Corporation is no longer subject to federal or state income tax examinations by tax authorities for years before 2012.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 14 EMPLOYEE BENEFITS:

Defined Benefit Pension Plan

The Bank 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 following table provides a reconciliation of the changes in the benefit obligations and fair value of plan assets for 2015, 2014 and 2013:

	2015	2014	2013
Change in Benefit Obligation			
Benefit obligation, beginning	$10,777,415	$7,933,568	$8,931,940
Service cost	648,334	501,032	599,933
Interest cost	410,944	377,706	350,314
Actuarial gain (loss)	(137,048)	2,030,583	(1,300,094)
Benefits paid	(754,987)	(65,474)	(648,525)
Benefit obligation, ending	$10,944,658	$10,777,415	$7,933,568
Change in Plan Assets			
Fair value of plan assets, beginning	$11,683,845	$9,687,226	$8,123,437
Actual return on plan assets	(640)	562,093	1,462,314
Employer contribution	750,000	1,500,000	750,000
Benefits paid	(754,987)	(65,474)	(648,525)
Fair value of plan assets, ending	11,678,218	11,683,845	9,687,226
Funded status at the end of the year	$733,560	$906,430	$1,753,658

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

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

Defined Benefit Pension Plan, continued

	2015	2014	2013
Amount recognized in the Balance Sheet			
Accrued prepaid benefit cost	$4,799,051	$4,434,917	$3,136,277
Unfunded pension benefit obligation under ASC 325-960	(4,065,491)	(3,528,487)	(1,382,619)
Amount recognized in accumulated other comprehensive income			
Net Gain/(Loss)	$(4,137,855)	$(3,616,087)	$(1,485,455)
Prior service cost	72,364	87,600	102,836
Amount recognized	(4,065,491)	(3,528,487)	(1,382,619)
Deferred Taxes	1,382,267	1,199,686	470,090
Amount recognized in accumulated comprehensive income	$(2,683,224)	$(2,328,801)	$(912,529)
(Accrued) Prepaid benefit detail			
Benefit obligation	$(10,944,658)	$(10,777,415)	$(7,933,568)
Fair value of assets	11,678,218	11,683,845	9,687,226
Unrecognized net actuarial loss	4,137,855	3,616,087	1,485,455
Unrecognized prior service cost	(72,364)	(87,600)	(102,836)
Prepaid (accrued) benefits	$4,799,051	$4,434,917	$3,136,277
Components of net periodic benefit cost			
Service cost	$648,334	$501,032	$599,933
Interest cost	410,944	377,706	350,314
Expected return on plan assets	(838,818)	(698,252)	(636,081)
Amortization of prior service cost	(15,236)	(15,236)	(15,236)
Recognized net actuarial (gain) loss	180,642	36,110	203,183
Net periodic benefit cost	$385,866	$201,360	$502,113
Additional disclosure information			
Accumulated benefit obligation	$7,601,249	$7,543,340	$5,474,048
Vested benefit obligation	$7,539,365	$7,408,014	$5,388,808
Discount rate used for net pension cost	4.00%	5.00%	4.00%
Discount rate used for disclosure	4.25%	4.00%	5.00%
Expected return on plan assets	7.50%	7.50%	8.00%
Rate of compensation increase	3.00%	3.00%	3.00%
Average remaining service (years)	13	14	14

Funding Policy

The Company's contributions for 2015, 2014 and 2013 were $750,000, $1,500,000, and $750,000, respectively. Due to the current funding status of the plan, the Company will not make a contribution in 2016. The net periodic pension cost of the plan for 2016 will be approximately $438,000.

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 14 EMPLOYEE BENEFITS (CONTINUED):

Defined Benefit Pension Plan, continued

Long-Term Rate of Return

The plan sponsor selects the expected long-term rate of return on assets assumption in consultation with their advisors and the plan actuary, and with concurrence from their auditor. 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 – 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 40% fixed income and 60% 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, 2015 and 2014 were 60% equity and 40% fixed and 61% equity and 39% fixed, respectively.

Estimated Future Benefit Payments

2016	$582,606
2017	48,333
2018	1,249,321
2019	662,704
2020	543,814
2021-2025	4,568,645
	$7,655,423

Employee Stock Ownership Plan (ESOP)

The Company sponsors an ESOP which provides stock ownership to substantially all employees of the Bank. 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 Bank. 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 $420,000 in 2015, $360,000 in 2014, and $360,000 in 2013 to the Plan and charged this expense to operations. The shares held by the ESOP totaled 188,596 and 188,396 at December 31, 2015 and 2014, respectively.

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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% (in the third year this increases by 1% per year up to 6%) of their salary unless elected otherwise. The Company matches a 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 $211,987, $190,057 and $183,468 in 2015, 2014 and 2013, 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 $110,000 in 2015, $100,000 in 2014 and $90,000 in 2013.

NOTE 15 CONCENTRATIONS OF CREDIT:

The Company had cash deposits in other commercial banks totaling $2,156,006 and $1,731,223 at December 31, 2015 and 2014, respectively.

The Company grants commercial, residential real estate and consumer loans to customers located primarily in the northwestern portion of the State of Virginia. Loan concentration areas greater than 25% of capital include land development. 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. Approximately 83% of the loan portfolio is 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 balance sheet. As of the balance sheet dates, the Company had the following commitments outstanding:

	2015	2014
Commitments to loan money	$135,138,834	$120,922,771
Standby letters of credit	1,344,191	2,077,870

The Company uses the same credit policies in making commitments to lend money and issue standby letters of credit as it does for the loans reflected in the 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.

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NOTE 16 COMMITMENTS (CONTINUED):

The Bank leases four of its branch offices and both of its loan production offices under long term lease arrangements which had initial terms of either three, five or ten years. Lease expense was $164,294, $120,728 and $121,025 for 2015, 2014 and 2013, respectively. As of December 31, 2015, the required lease payments for the next five years are as follows:

2016	$160,882
2017	116,899
2018	73,226
2019	74,349
2020	75,500

NOTE 17 ON BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES:

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 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 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.

The Company issues to customers 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 certificate 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.

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:

	2015	2014
Notional amount	$189,629	$87,782
Fair market value of contracts	15,162	32,795

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NOTE 18 TRANSACTIONS WITH RELATED PARTIES:

During the year, officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. 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:

	2015	2014
Total loans, beginning of year	$7,449,140	$7,786,058
New loans	5,226,432	5,249,565
Relationship change	(44,948)	-
Repayments	(5,450,520)	(5,586,483)
Total loans, end of year	$7,180,104	$7,449,140

Deposit of executive officers and directors and their affiliates were $4,529,503 and $3,430,336 on December 31, 2015 and 2014 respectively. 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 and 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, 2015, approximately $10,494,000 was available for dividend distribution without permission of the Board of Governors. Dividends paid by the Bank to the Company totaled $2,500,000 in 2015, $1,300,000 in 2014 and $1,550,000 in 2013.

NOTE 20 DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS:

ASC 825 "Financial Instruments" (formerly SFAS 107) defines the fair value of a financial instrument as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced liquidation or sale. As the majority of the Bank's financial instruments lack an available trading market, significant estimates, assumptions and present value calculations are required to determine estimated fair value. 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, 2015 and December 31, 2014. This table excludes financial instruments for which the carrying amount approximates the fair value, which would be Level 1; inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets. All financial instruments below are considered Level 2 (except for impaired loans which are level 3); inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

	2015		2014	
	Estimated	Carrying	Estimated	Carrying

	Fair Value	Value	Fair Value	Value
Financial Assets (in thousands)				
Loans	$555,762	$544,053	$551,338	$518,202
Financial Liabilities				
Time deposits	162,524	161,040	196,826	195,464
Long-term debt	48,565	48,161	9,862	9,875

The carrying value of cash and cash equivalents, other investments, deposits with no stated maturities, short-term borrowings, and accrued interest approximate fair value. The fair value of securities was calculated using the most recent transaction price or a pricing model, which takes into consideration maturity, yields and quality. The remaining financial instruments were valued based on the present value of estimated future cash flows, discounted at various rates in effect for similar instruments entered into during the month of December of each year.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 21 FAIR VALUE MEASUREMENTS

Accounting Standards Codification (ASC 820), "Fair Value Measurement Disclosures" (formerly "FAS No. 157"), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following sections provide a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

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.

Loans Held for Sale: Loans held for sale are short-term loans purchased at par for resale to investors at the par value of the loan. These loans are generally repurchased within 15 days. Because of the short-term nature and fixed repurchased price, the book value of these loans approximates fair value.

Impaired Loans: ASC 310 applies to loans measured for impairment using the practical expedients permitted by SFAS No. 114, "Accounting by Creditors for Impairment of a Loan," including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the cost related to liquidation of the collateral.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are initially measured at fair value less cost to sell. We believe that the fair value component in its valuation follows the provisions of ASC 310.

For level 3 assets and liabilities measured at fair value on a recurring basis or non-recurring basis as of December 31, 2015 and 2014 significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at December 31,	Valuation Technique	Significant Unobservable Inputs	Range

	2015			
Impaired Loans	$ 11,315	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55 %
Other Real Estate Owned	$ 2,128	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55 %

	Fair Value at December 31, 2014	Valuation Technique	Significant Unobservable Inputs	Range
Impaired Loans	$ 13,223	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55 %
Other Real Estate Owned	$ 3,507	Discounted appraised value	Discount for selling costs and age of appraisals	15%-55 %

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NOTE 21 FAIR VALUE MEASUREMENTS (CONTINUED):

Assets and Liabilities Recorded at Fair Value on a Recurring Basis (in thousands)

December 31, 2015	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$4,021	$-	$4,021	$-
Government sponsored enterprises	8,074	-	8,074	-
Mortgage-backed obligations of federal agencies	817	-	817	-
Marketable equities	135	-	135	-
Investment securities available for sale	13,047	-	13,047	-
Total assets at fair value	$13,047	$-	$13,047	$-
Total liabilities at fair value	$-	$-	$-	$-
Derivative financial instruments at fair value	$15	$-	$15	$-

December 31, 2014	Total	Level 1	Level 2	Level 3
U. S. Treasuries	$4,020	$-	$4,020	$-
Government sponsored enterprises	8,038	-	8,038	-
Mortgage-backed obligations of federal agencies	1,022	-	1,022	-
Marketable equities	135	-	135	-
Investment securities available for sale	13,215	-	13,215	-
Total assets at fair value	$13,215	$-	$13,215	$-
Total liabilities at fair value	$-	$-	$-	$-
Derivative financial instruments at fair value	$33	$-	$33	$-

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis (in thousands)

December 31, 2015	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$2,128	-	-	$2,128
		-	-	
Construction/Land Development	9,161	-	-	9,161
Farmland	-	-	-	-
Real Estate	85	-	-	85
Multi-Family	-	-	-	-
Commercial Real Estate	872	-	-	872
Home Equity – closed end	-	-	-	-
Home Equity – open end	1,145	-	-	1,145
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-

Credit cards	-	-	-	-
Dealer Finance	52	-	-	52
Impaired loans	11,315	-	-	11,315
Total assets at fair value	$13,443	-	$-	$13,443
Total liabilities at fair value	$-	$-	$-	$-

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F & M Bank Corp. and Subsidiaries
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NOTE 21 FAIR VALUE MEASUREMENTS, CONTINUED

Assets and Liabilities Recorded at Fair Value on a Non-Recurring Basis (in thousands)

The table below presents the recorded amount of assets and liabilities measured at fair value on a non-recurring basis.

December 31, 2014	Total	Level 1	Level 2	Level 3
Other Real Estate Owned	$3,507	-	-	$3,507
		-	-	
Construction/Land Development	11,507	-	-	11,507
Farmland	-	-	-	-
Real Estate	825	-	-	825
Multi-Family	-	-	-	-
Commercial Real Estate	891	-	-	891
Home Equity – closed end	-	-	-	-
Home Equity – open end	-	-	-	-
Commercial & Industrial – Non-Real Estate	-	-	-	-
Consumer	-	-	-	-
Credit cards	-	-	-	-
Dealer Finance	-	-	-	-
Impaired loans	13,223	-	-	13,223
Total assets at fair value	$16,730	-	$-	$16,730
Total liabilities at fair value	$-	$-	$-	$-

There were no significant transfers between levels 1 and 2. Level 3 assets consist of Other Real Estate Owned and Impaired loans. These assets have been valued based on Managements' estimate. These estimates were derived from a review of appraisals, tax assessments and discussions with appraisers and realtors.

NOTE 22 REGULATORY MATTERS

The Company and its subsidiary bank are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off balance-sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation, to ensure capital adequacy, require the Company 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, 2015, that the Company and its subsidiary bank meet all capital adequacy requirements to which they are subject.

As of the most recent notification from the Federal Reserve Bank Report of Examination (which was as of February 23, 2015), the subsidiary bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 22 REGULATORY MATTERS (CONTINUED):

The Company's actual consolidated capital ratios are presented in the following table (dollars in thousands):

	Analysis of Capital At December 31, 2015	2014	2013	Regulatory Requirements Adequately Capitalized	Well Capitalized
Tier1 capital:					
Preferred stock	$ 9,425	$ 9,425	$ -		
Common stock	16,427	16,459	12,559		
Retained earnings	59,205	53,815	42,089		
Intangible assets	(2,670)	(2,670)	(2,670)		
Accumulated other comprehensive income	(2,680)	-	-		
Total Tier 1 Capital	$ 79,707	$ 77,029	$ 51,978		
Tier 2 capital:					
Qualifying subordinated debt	$ -	$ -	$ 8,487		
Allowance for loan losses	7,073	6,018	5,389		
Unrealized gains on AFS equity securities	-	-	-		
Total risked based capital	$ 86,780	$ 83,047	$ 65,854		
Common Equity Tier 1 Capital (Tier 1 less preferred stock)	$ 70,282	$ -	$ -		
Risk-weighted assets	$ 564,106	$ 478,725	$ 428,349		
Capital ratios:					
Total risk-based ratio	15.38 %	17.35 %	15.37 %	8.00 %	10.00%
Tier 1 risk-based ratio	14.13 %	16.09 %	12.13 %	4.00 %	6.00%
Common equity tier 1	12.46 %			4.5 %	6.5%
Total assets leverage ratio	12.18 %	12.88 %	9.37 %	3.00 %	5.00%

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

	Analysis of Capital At December 31, 2015	2014	2013	Regulatory Requirements Adequately Capitalized	Well Capitalized
Common Equity Tier 1 capital:					
Common stock	$500	$500	$500		
Capital surplus	37,971	37,971	18,971		
Retained earnings	45,855	40,114	35,361		
Intangible assets	(2,670)	(2,670)	(2,670)		
Accumulated other comprehensive income	(2,680)	-	-		
Total Common Equity Tier 1 Capital	$78,976	$75,915	$52,162		

Explanation of Responses:

Tier 2 capital:										
Qualifying subordinated debt	$-		$-		$8,487					
Allowance for loan losses	7,077		6,006		5,384					
Unrealized gains on AFS securities	-		-		-					
Total risked based capital	$86,053		$81,921		$66,033					
Risk-weighted assets	$564,469		$478,512		$427,957					
Capital ratios:										
Total risk-based ratio	15.24	%	17.12	%	15.43	%	8.00	%	10.00	%
Tier 1 risk-based ratio	13.99	%	15.86	%	12.19	%	4.00	%	6.00	%
Common equity tier 1	13.99	%					4.5	%	6.5	%
Total assets leverage ratio	12.06	%	12.70	%	9.41	%	3.00	%	5.00	%

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F & M Bank Corp. and Subsidiaries
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NOTE 23 INTANGIBLES:

Goodwill associated with the purchase of the Edinburg and Woodstock branches and VBS Mortgage totaled $2,638,677 and $30,840, respectively, at the acquisition date.

NOTE 24 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.

NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$1,907,581	$1,214,140
Investment in subsidiaries	81,646,312	76,684,121
Securities available for sale	135,000	135,000
Income tax receivable (including due from subsidiary)	-	453,585
Total Assets	$83,688,893	$78,486,846
Liabilities		
Other liabilities	$-	$137,977
Income tax payable (including due form subsidiary)	847,001	-
Deferred income taxes	301,870	383,125
Demand obligations for low income housing investment	162,290	167,341
Total Liabilities	$1,311,161	$688,443
Stockholders' Equity		
Preferred stock par value $5 per share, 400,000 shares authorized, issued and outstanding	$9,425,123	$9,425,123
Common stock par value $5 per share, 6,000,000 shares authorized, 3,285,404 and 3,291,766 shares issued and outstanding for 2015 and 2014, respectively	16,427,020	16,458,830
Retained earnings	59,205,404	53,814,416
Noncontrolling interest	-	426,365
Accumulated other comprehensive income (loss)	(2,679,815)	(2,326,331)
Total Stockholders' Equity	82,377,732	77,798,403
Total Liabilities and Stockholders' Equity	$83,688,893	$78,486,846

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F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

Statements of Net Income
For the years ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Income			
Dividends from affiliate	$2,500,000	$1,300,000	$1,550,000
Interest Income	-	-	5
Net limited partnership income (loss)	4,792	-	(65,165)
Total Income	2,504,792	1,300,000	1,484,840
Expenses			
Other expense	21,316	7,100	-
Administrative expenses	-	-	60,209
Total Expenses	21,316	7,100	60,209
Net income before income tax expense (benefit)			
and undistributed subsidiary net income	2,483,476	1,292,900	1,424,631
Income Tax Expense (Benefit)	(191,494)	243,492	(239,908)
Income before undistributed subsidiary			
net income	2,674,970	1,049,408	1,664,539
Undistributed subsidiary net income	5,742,039	4,752,201	3,051,254
Net Income F&M Bank Corp.	$8,417,009	$5,801,609	$4,715,793

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
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NOTE 25 PARENT CORPORATION ONLY FINANCIAL STATEMENTS (CONTINUED):

Statements of Cash Flows
For the years ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$ 8,417,009	$ 5,801,609	$4,715,793
Adjustments to reconcile net income to net			
cash provided by operating activities:			
Undistributed subsidiary income	(5,742,039)	(4,752,201)	(3,051,254)
Deferred tax (benefit) expense	(81,256)	279,928	8,577
Decrease (increase) in other assets	1,300,586	(444,885)	(174,367)
Increase (decrease) in other liabilities	(143,028)	137,817	(1,109,728)
Net change in deferred tax credits	-	-	(27,918)
Amortization of limited partnership investments	-	-	65,165
Net Cash Provided by Operating Activities	3,751,272	1,022,268	426,268
Cash Flows from Investing Activities			
Change in loans receivable	-	-	1,000,000
Purchase of securities available for sale	-	(135,000)	-
Net Cash Provided by (Used in) Investing Activities	-	(135,000)	1,000,000
Cash Flows from Financing Activities			
Capital contributed to subsidiary	-	(19,000,000)	-
Proceeds from issuance of preferred stock	-	9,425,123	-
Repurchase of common stock	(289,119)	-	-
Proceeds from issuance of common stock	146,418	12,055,709	213,429
Dividends paid in cash	(2,915,130)	(2,231,912)	(1,705,881)
Net Provided by (Cash Used) in Financing Activities	(3,057,831)	248,920	(1,492,452)
Net Increase (decreases) in Cash and Cash Equivalents	693,441	1,136,188	(66,184)
Cash and Cash Equivalents, Beginning of Year	1,214,140	77,952	144,136
Cash and Cash Equivalents, End of Year	$ 1,907,581	$ 1,214,140	$77,952

F & M Bank Corp. and Subsidiaries
Notes to the Consolidated Financial Statements
December 31, 2015 and 2014

NOTE 26 INVESTMENT IN VBS MORTGAGE, LLC

On November 3, 2008, the Bank acquired a 70% ownership interest in VBS Mortgage, LLC (formerly Valley Broker Services, DBA VBS Mortgage). VBS originates both conventional and government sponsored mortgages for sale in the secondary market. As of December 31, 2015 and 2014, VBS' summarized balance sheet and income statement were as follows:

Balance Sheets
December 31, 2015 and 2014

	2015	2014
Assets		
Cash and cash equivalents	$1,071,293	$610,973
Loans Receivable	763,534	818,054
Property and equipment, net	79,038	45,600
Other Assets	266,073	162,304
Total Assets	$2,179,938	$1,636,931
Liabilities		
Other liabilities	271,004	215,713
Total Liabilities	$271,004	$215,713
Equity		
Capital	219,634	219,634
Retained earnings	1,689,300	1,201,584
Total Equity	$1,908,934	$1,421,218
Total Liabilities and Equity	$2,179,938	$1,636,931

Statements of Income
For the years ended December 31, 2015, 2014 and 2013

	2015	2014	2013
Income			
Mortgage origination income	$2,645,235	$1,907,804	$2,528,108
Other Income	51,175	53,528	42,092
Total Income	2,696,410	1,961,332	2,570,200
Expenses			
Salaries and employee benefits	1,413,107	1,105,902	1,461,797
Occupancy and equipment expense	212,858	177,014	164,717
Management and professional fees	290,102	321,053	301,558
Other	231,757	205,188	284,845
Total Expenses	2,147,824	1,809,157	2,212,917
Net income(loss)	$548,586	$152,175	$357,283

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
F&M Bank Corp. and Subsidiaries
Timberville, Virginia

We have audited the accompanying consolidated balance sheets of F&M Bank Corp. and subsidiaries (“the Company”) as of December 31, 2015 and 2014, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, 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 such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of F&M Bank Corp. and subsidiaries as of December 31, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles.

/s/ Elliott Davis Decosimo, LLC

Richmond, Virginia
March 29, 2016

Elliott Davis Decosimo | www.elliottdavis.com

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, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015 to ensure that information required to be disclosed by the Company in reports that it files or submits 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.

Management's Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting (as such term is defined in Rule 13a-15(f) and Rule 15d – 15(f) under the Exchange Act). Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on the financial statements.

Because of the inherent limitations in any internal control, no matter how well designed, misstatements may occur and not be prevented or detected. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Further, the evaluation of the effectiveness of internal control over financial reporting was made as of a specific date, and continued effectiveness in future periods is subject to the risks that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies and procedures may decline.

Management conducted an evaluation of the effectiveness of our system of internal control over financial reporting as of December 31, 2015 based on the framework set forth in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Based on its evaluation, management concluded that, as of December 31, 2015, F&M's internal control over financial reporting was effective.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Changes in Internal Control over Financial Reporting. There were no changes in the Company's internal control over financial reporting during the Company's quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

None.

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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 2016 Annual Meeting of Shareholders to be held May 14, 2016 ("Proxy Statement"), under the captions "Election of Directors," "Board of Directors and Committees," and "Executive Officers."

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

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

Item 11. Executive Compensation

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

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

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

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

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

Item 14. Principal Accounting Fees and Services

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

PART IV

Item 15. Exhibits and Financial Statement Schedules

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

(a)(1) Financial Statements

The following consolidated financial statements and reports of independent auditors of the Company are in Part II, Item 8 on pages 38 thru 79:

(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, Annual Report on Form 10-K, filed March 8, 2002.
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.
21.0	Subsidiaries of the Registrant
23.1	Consent of Elliott Davis Decosimo, LLC
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.
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The following materials from F&M Bank Corp.'s Annual Report on Form 10-K for the year ended December 31, 2015, 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).

Shareholders may obtain, free of charge, a copy of the exhibits to this Report on Form 10-K by writing Larry A. Caplinger, 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/ Dean W. Withers Dean W. Withers Director, President and Chief Executive Officer	March 29, 2016 Date
By: /s/ Carrie A. Comer Carrie A. Comer Senior Vice President and Chief Financial Officer	March 29, 2016 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 29, 2016
/s/ Thomas L. Cline Thomas L. Cline	Director, Chairman	March 29, 2016
/s/ John N. Crist John N. Crist	Director	March 29, 2016
/s/ Ellen R. Fitzwater Ellen R. Fitzwater	Director	March 29, 2016
/s/ Daniel J. Harshman Daniel J. Harshman	Director	March 29, 2016
/s/ Richard S. Myers Richard S. Myers	Director	March 29, 2016
/s/ Michael W. Pugh	Director	March 29, 2016

Michael W. Pugh

/s/ Christopher S. Runion Christopher S. Runion	Director	March 29, 2016
/s/ Ronald E. Wampler Ronald E. Wampler	Director	March 29, 2016
/s/ E. Ray Burkholder E. Ray Burkholder	Director	March 29, 2016

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Exhibit 21 List of Subsidiaries of the Registrant

Farmers & Merchants Bank (incorporated in Virginia)
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 (a Virginia Limited Liability Company), a subsidiary of Farmers & Merchants Bank

Explanation of Responses: