DOGWOOD RESEARCH LLC

F & M Bank Corp. (FMBM – OTCQX)

Investor Relations Report

October 28, 2015

Record Quarterly and YTD Earnings; Dividend Increased

A potent mix of a strong net interest margin, lower credit costs and loan growth has enabled F & M Bank Corp. to grow earnings that have reached record levels for the company in 2015. Through the first nine months of the year, F & M Bank Corp. has been able to increase net income to common shareholders by 38.2% compared to the prior year, an admirable accomplishment made all the more impressive when considering that many community banks have struggled to grow earnings meaningfully this year.

The boost in earnings, when combined with an improved credit profile and sound capital position, supported the decision by the Board of Directors to increase the common dividend to an annualized rate of $0.76 per share, up from $0.72 per share previously. The dividend now yields approximately 3.4%.

Due to the continued growth in earnings and our expectation for a similarly strong fourth quarter, we are bumping our 2015 earnings per share estimate to $2.40. The revised estimate is 6.7% higher than our previous estimate of $2.25 per share and makes our initial estimate at the start of the year (1.90 per share) appear woefully inadequate. Our initial take on earnings in 2016 is for additional growth; however, we do not anticipate the rapid growth experienced so far in 2015 to be matched due to what will likely be a flattening net interest margin and the lack of the tailwind that lower loan loss provision expense has provided in the current year.

After weakening in late August along with broader market, the ABA (American Bankers Association) NASDAQ Community Bank Index bounced back nicely in September and early October. The index has appreciated by approximately 19.4% from the recent lows put in towards the end of January through October 23rd, which helps to confirm our belief that investors' appetite for community bank stocks is growing. FMBM shares have appreciated by approximately 14.1% on a year-to-date basis and by approximately 27.2% over the past two years.

Company Overview

F & M Bank Corp. is the holding company for Farmers & Merchants Bank. The bank operates ten branches throughout Western Virginia, including Augusta County, Rockingham County, Shenandoah County and Page County. The bank provides a full suite of commercial and consumer banking products, as well as financial services through Farmers & Merchants Financial Services, mortgage banking services through VBS Mortgage and insurance products through TEB Life Insurance Company. At quarter-end, the bank had $656.1 million in assets.

F & M Bank Corp.'s common stock trades on the OTCQX exchange under the ticker FMBM.

Last Price: $22.25
Market Capitalization: $73.3 million

52 Week Range:
$19.00 - $24.60

Annual Dividend: $0.76
Dividend Yield: 3.4%

Book Value: $22.05
Tangible Book Value: $21.24

EPS Actuals and Estimates
FY2013A: $1.88
FY2014A: $1.82
FY2015E: $2.40

Price/Earnings (P/E)
2013A: 11.8x
2014A: 12.2x
2015E: 9.3x

Price/Book Value: 1.0x
Price/Tangible Book Value: 1.0x

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See second page for
important disclosures

Steady All-Around Performance Pushes Earnings Higher

F & M Bank Corp. reported third quarter net income to common shareholders of nearly $2.1 million, which was up from $1.6 million in last year's third quarter. On a per share basis, the quarterly earnings totaled $0.63 compared to $0.47 in last year's third quarter and were up from $0.62 in the second quarter. On a year-to-date basis, net income to common shareholders came in at $5.9 million ($1.78 per share), up $1.6 million or 38.2% from the same period last year ($1.38 per share). The third quarter and year-to-date results set yet another record for F & M Bank Corp. As mentioned on the first page, we do not see any reason that the momentum cannot continue in the near-term and we expect 2016 to be another year of earnings and dividend growth for F & M Bank Corp.

Earnings Benefit From F & M's Strong Margin

Readers have likely become accustomed to hearing about F & M Bank Corp.'s strong net interest margin, but it bears repeating each quarter because it has really helped to support the record earnings delivered by F & M Bank Corp. Many community banks have struggled to support adequate net interest margins in the low interest rate and highly competitive operating environments, but F & M Bank Corp.'s strong deposit base and entrenched position in the community has enabled the bank to produce a top of the line net interest margin. That said, until interest rates increase it will likely be tough for F & M Bank Corp. to push the margin much higher, which we saw in the third quarter when the margin slid slightly to 4.41% from 4.46% in the second quarter. However, that is certainly not a knock on F & M Bank Corp. as most banks would be elated to boast a 4.41% net interest margin.

Capital Position Remains Healthy

F & M Bank Corp. continues to enjoy a healthy capital base that benefits each quarter from the company's steady earnings. At quarter-end, F & M Bank Corp. boasted an equity-to-assets ratio of nearly 12.5% and stockholders' equity has increased by $12.9 million, or 18.8% over the past year.

Steady Loan Growth Again in Q3

F & M has enjoyed steady loan growth in recent quarters, which has helped to drive earnings growth. Loans held for investment increased by just over $7.6 million in the third quarter and nearly $33.6 million, or approximately 6.6%, over the past year. The Dealer Division has contributed significantly to the overall loan growth in recent quarters; however, this business line is beginning to mature, so F & M may have to look towards other growth avenues (such as the new branches – discussed below) to see similar growth rates in 2016.

Further Credit Improvement

Nonaccrual loans dropped in Q3 as F & M's focus on driving problem loan levels lower over the past couple of years continues to pay off. At Sept. 30th, F & M's nonaccrual loan balance totaled $6.4 million versus $7.3 million at June 30th and $7.1 million one year ago. While quarterly fluctuations are to be expected, we anticipate further improvement throughout 2016. The consistent improvement in credit quality has resulted in lower loan loss provision expense in recent quarters. On a year-to-date basis, F & M Bank Corp.'s loan loss provision expense has totaled a low $300 thousand, which is down significantly from nearly $2.3 milion during the same period last year.

New Branches = New Opportunities

F & M Bank Corp. has recently received approval to open two new branches, which will help to expand the bank's reach and provide new opportunities for growth. One of the new branches will be located in the under-banked market of Craigsville, VA and is expected to be open in the next few months. The second new branch will be located in Fishersville, VA, which is a market that F & M Bank Corp. has been servicing with a loan production office. The new Fishersville office is expected to be open in late 2016. As a reminder, F & M Bank Corp. recently opened a branch in Staunton, VA, so it is very apparent that management has an eye toward future growth with the recent and expected new branch openings.

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