DOGWOOD RESEARCH LLC

F & M Bank Corp. (FMBM – OTCQX)

Investor Relations Report

February 1, 2016

Another Year of Record Earnings in 2015

For the second year in a row, F & M Bank Corp. achieved record earnings. The company's core strengths – a robust net interest margin, strong credit quality and expense management – were all on display in 2015 and contributed to the strong performance. F & M Bank Corp. has executed quite consistently in recent years, which should give shareholders confidence as we begin 2016.

Now that the turmoil and fallout created by the financial crisis appears to have nearly completely faded away, management can completely focus on the future of the organization. Some of this focus has been on expanding the bank's footprint. Specifically, F & M Bank Corp. recently opened new branches in Craigsville, VA and Staunton, VA and has received approval to open a new branch 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. The new branches should help to drive future loan growth and enhance the bank's already strong deposit base.

Looking out to 2016, we anticipate additional earnings growth, although it will be tough for F & M Bank Corp. to match the rate of growth achieved in 2015 versus 2014. F & M Bank Corp.'s loan loss provision expense came way down in 2015 when compared to 2014, which contributed quite a bit to the earnings growth. While we expect the company's provision expense to remain low in 2016, the comparison will be tougher given the low provision expense experienced in 2015. Our initial 2016 earnings per share estimate is $2.50, which represents modest expansion off of the $2.40 per share earned in 2015.

Community bank stocks have traded lower since the beginning of December of 2015 alongside a swoon in the broader market. FMBM shares have faired better than the broader market during this period and currently trade at just over 1.0 times tangible book value and 9.2 times our 2016 earnings per share estimate. Over the past year, FMBM shares have appreciated by approximately 15.6%.

Company Overview

F & M Bank Corp. is the holding company for Farmers & Merchants Bank. The bank operates eleven 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 year-end, the bank had $665.1 million in assets.

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

Last Price: $23.00
Market Capitalization: $75.7 million

52 Week Range:
$19.30 - $24.60

Annual Dividend: $0.76
Dividend Yield: 3.3%

Book Value: $22.38
Tangible Book Value: $22.31

EPS Actuals and Estimates
FY2014A: $1.82
FY2015A: $2.40
FY2016E: $2.50

Price/Earnings (P/E)
2014A: 12.6x
2015A: 9.6x
2016E: 9.2x

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

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See second page for
important disclosures

Earnings Climb on Margin Strength and Lower Credit Costs

F & M Bank Corp. reported full year 2015 net income to common shareholders of $7.9 million or $2.40 per share. This represents a $2.2 million, or 39.4%, increase over the $5.7 million, or $1.82 per share, earned in 2014. F & M Bank Corp.'s returns on average assets and average equity were 1.33% and 10.6%, respectively. As you might expect, those profitability level ratios are quite healthy and are higher than most community bank peers. Fourth quarter earnings spiked $589 thousand to approximately $2.1 million, a 40.2% increase. On a per share basis, fourth quarter earnings totaled $0.62 versus $0.44 a year ago.

Loan Growth Achieved Despite Competition

F & M Bank Corp. booked solid loan growth in 2015; however, management noted that loan demand waned a bit relative to 2014. In general, competition for quality loans remains elevated, which resulted in F & M Bank Corp. passing on potential deals that carried less favorable terms for the bank. This discipline should result in more profitable lending opportunities in the future, but resulted in lower loan growth rates in 2015 than what could have been achieved. For the full year, loans held for investment grew by $25.9 million, an increase of 5.0% over 2014.

Credit Improves in 2015

During the year, nonperforming assets, which includes foreclosed assets, declined by just over $1.8 million, or 7.4%, to $8.7 million. F & M Bank Corp.'s year-end nonperforming assets to total assets ratio stood at 1.30%, down from 1.73% a year ago. Another indicator of F & M Bank Corp.'s improvement in credit quality was the decline in net charge-offs from $1.7 million in 2014 to $0.2 million in 2015. The improvement in credit quality and drop in net charge-offs resulted in a much lower loan loss provision expense in 2015 compared to 2014. Specifically, provision expense totaled $0.3 million in 2015 versus $2.3 million in 2014, which helped to drive the increase in earnings. The allowance for potential loan losses ended the year at 1.61% of loans.

Net Interest Margin Shines

F & M Bank Corp.'s net interest margin remains one the highest in the industry, which contributed to the boost in earnings in 2015. In 2015, F & M Bank Corp.'s margin pushed higher to 4.43% from an already strong 4.30% in 2014. Late in 2014, F & M Bank Corp. retired the company's subordinated debt, which reduced interest expense and contributed to the margin improvement during the year. Management expects the higher interest rate environment will help to support the bank's net interest margin.

Expense Management Remains Solid

Management has done an admirable job keeping expenses under control, which is not much of a surprise since strong expense management has been a hallmark of F & M Bank Corp. for as long as we have been following the company. F & M Bank Corp.'s efficiency ratio, which measures noninterest expenses as a percentage of net interest income and noninterest income, remained just below 60.0% in 2015, roughly flat versus 2014. On an absolute basis, noninterest expenses were up $2.3 million, or 14.9%, in 2015 versus 2014. We expect noninterest expenses to climb in 2016 as a result of the bank's new branches.

Book Value Climbs Higher

We expect F & M Bank Corp.'s capital position to remain strong for the foreseeable future. Book value per share ended the year at $22.38, up from $20.77 at the end of last year – a 7.8% increase. One item to note is that F & M Bank Corp.'s convertible preferred stock recently satisfied the conversion provision whereby F & M Bank Corp. has the option to convert the preferred shares into common stock if the closing price of the common stock exceeds $22.50 for at least twenty trading days in any thirty trading day period. If they choose to convert the preferred stock into common stock it would result in approximately 444.4 thousand new shares outstanding and eliminate the preferred stock dividend. All else equal, the conversion would initially be dilutive to common shareholders.

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