

F&M BANK CORP
Form 10-Q
August 06, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014.

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

Commission File Number: 000-13273

F & M BANK CORP.

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

P. O. Box 1111
Timberville, Virginia
22853
(Address of Principal
Executive Offices) (Zip
Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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Large accelerated filer Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

State the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class	Outstanding at August 4, 2014
Common Stock, par value - \$5	3,289,052 shares

F & M BANK CORP.

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Part I Financial Information
Item 1 Financial Statements

F & M BANK CORP.
Consolidated Statements of Income

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

	Three Months Ended June 30,	
	2014	2013
Interest income		
Interest and fees on loans held for investment	\$6,552	\$6,387
Interest and fees on loans held for sale	49	54
Interest on federal funds sold	12	9
Interest on interest bearing deposits	-	1
Interest on debt securities	61	58
Total interest income	6,674	6,509
Interest expense		
Interest on demand deposits	169	221
Interest on savings accounts	29	12
Interest on time deposits over \$100,000	150	197
Interest on other time deposits	280	398
Total interest on deposits	628	828
Interest on short-term debt	2	2
Interest on long-term debt	289	398
Total interest expense	919	1,228
Net interest income	5,755	5,281
Provision for loan losses	750	1,125
Net interest income after provision for loan losses	5,005	4,156
Noninterest income		
Service charges	254	277
Insurance and other commissions	154	286
Other	411	452
Income on bank owned life insurance	115	126
Total noninterest income	934	1,141
Noninterest expense		
Salaries	1,692	1,622
Employee benefits	457	534
Occupancy expense	155	160
Equipment expense	138	135
FDIC insurance assessment	180	164
Other	1,179	950
Total noninterest expense	3,801	3,565

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Income before income taxes	2,138	1,732
Income tax expense	642	552
Consolidated net income	1,496	1,180
Net income - Noncontrolling interest (income) loss	(12)	(47)
Net Income – F & M Bank Corp	\$1,484	\$1,133
Per share data		
Net income (basic and dilutive)	\$.45	\$.45
Cash dividends	\$.17	\$.17
Weighted average shares outstanding	3,288,277	2,501,956

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F & M BANK CORP.
Consolidated Statements of Income

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

	Six Months Ended June 30,	
	2014	2013
Interest income		
Interest and fees on loans held for investment	\$12,778	\$12,443
Interest and fees on loans held for sale	64	543
Interest on federal funds sold	24	19
Interest on interest bearing deposits	-	2
Interest on debt securities	99	101
Total interest income	12,965	13,108
Interest expense		
Interest on demand deposits	336	410
Interest on savings accounts	57	62
Interest on time deposits over \$100,000	308	404
Interest on other time deposits	584	825
Total interest on deposits	1,285	1,701
Interest on short-term debt	4	19
Interest on long-term debt	580	786
Total interest expense	1,869	2,506
Net interest income	11,096	10,602
Provision for loan losses	1,500	2,025
Net interest income after provision for loan losses	9,596	8,577
Noninterest income		
Service charges	511	538
Insurance and other commissions	176	469
Other	792	776
Income on bank owned life insurance	231	252
Total noninterest income	1,710	2,035
Noninterest expense		
Salaries	3,347	3,188
Employee benefits	977	1,110
Occupancy expense	315	320
Equipment expense	282	270
FDIC insurance assessment	360	366
Other	2,258	1,914
Total noninterest expense	7,539	7,168
Income before income taxes	3,767	3,444
Income tax expense	1,118	1,020
Consolidated net income	2,649	2,424

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Net income - Noncontrolling interest (income) loss	18	(75)
Net Income – F & M Bank Corp	\$2,667	\$2,349
Per share data		
Net income (basic and dilutive)	\$.91	\$.94
Cash dividends	\$.34	\$.34
Weighted average shares outstanding	2,945,363	2,501,218

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

	Six Months Ended June 30,		Three Months Ended June 30,	
	2014	2013	2014	2013
Net Income:				
Net Income – F & M Bank Corp	\$2,667	\$2,349	\$1,484	\$1,133
Net Income (loss) attributable to noncontrolling interest	(18)	75	12	47
	2,649	2,424	1,496	1,180
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities				
	(5)	(112)	(23)	(91)
Tax effect	2	38	8	31
Unrealized holding gain (loss), net of tax	(3)	(74)	(15)	(60)
Total other comprehensive income (loss)	(3)	(74)	(15)	(60)
Comprehensive income	\$2,646	\$2,350	\$1,481	\$1,120

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

	June 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Cash and due from banks	\$8,414	\$5,835
Money market funds	935	708
Federal funds sold	3,337	2
Cash and cash equivalents	12,686	6,545
Securities:		
Held to maturity – fair value of \$100 in 2014 and \$106 in 2013	100	106
Available for sale	11,313	30,266
Other investments	7,712	8,114
Loans held for sale	13,697	3,804
Loans held for investment	495,306	478,453
Less allowance for loan losses	(7,995)	(8,184)
Net loans held for investment	487,311	470,269
Other real estate owned	4,059	2,628
Bank premises and equipment, net	6,458	6,525
Interest receivable	1,524	1,498
Goodwill	2,670	2,670
Bank owned life insurance	12,349	12,122
Other assets	9,564	8,241
Total assets	\$ 569,443	\$ 552,788
Liabilities		
Deposits:		
Noninterest bearing	\$ 103,465	\$ 92,397
Interest bearing:		
Demand	91,393	92,562
Money market accounts	24,766	24,894
Savings	58,892	58,292
Time deposits over \$100,000	71,543	69,674
All other time deposits	122,191	126,330
Total deposits	472,250	464,149
Short-term debt	3,295	3,423
Accrued liabilities	8,390	9,384
Subordinated debt	10,191	10,191
Long-term debt	7,500	11,500
Total liabilities	501,626	498,647
Stockholders' Equity		
Common stock, \$5 par value, 6,000,000 shares authorized,		

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3,288,974 and 2,511,735 shares issued and outstanding in 2014 and 2013, respectively	16,445	12,559
Retained earnings	51,937	42,089
Noncontrolling interest	363	418
Accumulated other comprehensive loss	(928)	(925)
Total stockholders' equity	67,817	54,141
Total liabilities and stockholders' equity	\$ 569,443	\$ 552,788

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

	Six Months Ended June 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$2,667	\$2,349
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	294	292
Amortization of security premiums, net	46	17
Loans held for sale originated	(22,636)	(46,599)
Sale of loans held for sale originated	21,114	53,855
Provision for loan losses	1,500	2,025
(Increase) Decrease in interest receivable	(26)	134
(Increase) Decrease in other assets	(1,795)	(416)
Increase (decrease) in accrued expenses	(572)	(814)
Amortization of limited partnership investments	304	294
Income from life insurance investment	(231)	(252)
Gain on Other Real Estate Owned	47	7
Net adjustments	(1,955)	8,543
Net cash provided by operating activities	712	10,892
Cash flows from investing activities		
Purchase of investments available for sale	(8,275)	(6,067)
Proceeds from maturity of investments available for sale	27,276	7,901
Purchase of investments held to maturity	(100)	-
Proceeds from maturity of investments held to maturity	106	-
Net (increase) decrease in loans held for investment	(20,706)	(7,330)
Net (increase) decrease in loans held for sale participations	(8,371)	53,209
Proceeds from the sale of other real estate owned	686	256
Purchase of property and equipment	(227)	(226)
Net cash provided by (used in) investing activities	(9,611)	47,743
Cash flows from financing activities		
Net change in demand and savings deposits	10,371	5,759
Net change in time deposits	(2,270)	(4,235)
Net change in short-term debt	(128)	(31,585)
Cash dividends paid	(986)	(851)
Proceeds from issuance of common stock	12,053	55
Repayment of long-term debt	(4,000)	(10,857)
Net cash provided by (used in) financing activities	15,040	(41,714)
Net Increase in Cash and Cash Equivalents	6,141	16,921
Cash and cash equivalents, beginning of period	6,545	8,997
Cash and cash equivalents, end of period	\$12,686	\$25,918
Supplemental disclosure		

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Cash paid for:		
Interest expense	\$1,831	\$2,472
Income taxes	800	500
Transfers from loans to Other Real Estate Owned	2,618	382
Noncash exchange of other real estate owned	(455)	173

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

	Six Months Ended June 30,	
	2014	2013
Balance, beginning of period	\$54,141	\$49,384
Comprehensive income		
Net income – F & M Bank Corp	2,667	2,349
Net income attributable to noncontrolling interest	(18)	75)
Net change in unrealized appreciation on securities available for sale, net of taxes	(3)	(74)
Total comprehensive income	2,646	2,350
Minority Interest Capital Distributions		
Issuance of common stock	12,053	55
Dividends declared	(986)	(851)
Balance, end of period	\$67,817	\$50,887

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 1. Accounting Principles

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

The consolidated financial statements conform to accounting principles generally accepted in the United States of America and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2014 and the results of operations for the quarters ended June 30, 2014 and 2013. The notes included herein should be read in conjunction with the notes to financial statements included in the 2013 annual report to shareholders of F & M Bank Corp.

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

Comprehensive Income

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

Subsequent Events

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

Loans

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

Allowance for Loan Losses

The provision for loan losses charged to operations is an amount sufficient to bring the allowance for loan losses to an estimated balance that management considers adequate to absorb potential losses in the portfolio. Loans are charged against the allowance when management believes the collectability of the principal is unlikely. Recoveries of amounts previously charged-off are credited to the allowance. Management’s determination of the adequacy of the allowance is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, and other risk factors. Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions, particularly those affecting real estate values. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company’s allowance for loan losses. Such agencies may require the Company to recognize additions to the allowance based on their judgments about information available to them at the time of their

examination.

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F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 1. Accounting Principles, continued

Allowance for Loan Losses, continued

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Nonaccrual Loans

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

Note 2. Investment Securities

Investment securities available for sale are carried in the consolidated balance sheets at their approximate market value, amortized cost and unrealized gains and losses at June 30, 2014 and December 31, 2013 are reflected in the table below. The amortized costs of investment securities held to maturity are carried in the consolidated balance sheets and their approximate market values at June 30, 2014 and December 31, 2013 are as follows (in thousands):

	2014		2013	
	Cost	Market Value	Cost	Market Value
Securities held to maturity				
U. S. Treasury and agency obligations	\$100	\$100	\$ 106	\$106
Total	\$100	\$100	\$ 106	\$106
		June 30, 2014		
		Unrealized		
	Cost	Gains	Losses	Market Value
Securities available for sale				
U. S. Treasury	\$4,031	\$-	\$-	\$4,031
Government sponsored enterprises	6,061	14	44	6,031
Mortgage-backed securities	1,108	8	-	1,116
Corporate equities	135	-	-	135
Total	\$11,335	\$22	\$44	\$11,313

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	Cost	December 31, 2013		Market Value
		Unrealized Gains	Unrealized Losses	
Securities available for sale				
Government sponsored enterprises	\$29,076	\$11	\$22	\$29,065
Mortgage-backed securities	1,209	-	8	1,201
Total	\$30,285	\$11	\$30	\$30,266

F & M BANK CORP.
Notes to (unaudited) Consolidated Financial Statements

Note 2. Investment Securities, continued

The amortized cost and fair value of securities at June 30, 2014, by contractual maturity are shown below (in thousands). 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	\$-	\$-	\$-	\$-
Due after one year through five years				