

F&M BANK CORP
Form 10-Q
November 14, 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 September 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 Incorporation or Organization) (I.R.S. Employer Identification No.)

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)

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

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

Class	Outstanding at November 12, 2014
Common Stock, par value - \$5	3,290,273 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 September 30,	
	2014	2013
Interest income		
Interest and fees on loans held for investment	\$6,665	\$6,320
Interest and fees on loans held for sale	164	80
Interest on federal funds sold	7	17
Interest on interest bearing deposits	-	2
Interest on debt securities	37	39
Total interest income	6,873	6,458
Interest expense		
Interest on demand deposits	165	198
Interest on savings accounts	31	29
Interest on time deposits over \$100,000	145	197
Interest on other time deposits	273	378
Total interest on deposits	614	802
Interest on short-term debt	2	3
Interest on long-term debt	292	389
Total interest expense	908	1,194
Net interest income	5,965	5,264
Provision for loan losses	750	1,000
Net interest income after provision for loan losses	5,215	4,264
Noninterest income		
Service charges	275	307
Insurance and other commissions	202	235
Other	400	387
Income on bank owned life insurance	118	128
Total noninterest income	995	1,057
Noninterest expense		
Salaries	1,767	1,670
Employee benefits	514	521
Occupancy expense	150	148
Equipment expense	160	134
FDIC insurance assessment	180	180
Other	1,152	1,009
Total noninterest expense	3,923	3,662

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Income before income taxes	2,287	1,659
Income tax expense	726	445
Consolidated net income	1,561	1,214
Net income - Noncontrolling interest (income) loss	8	(31)
Net Income – F & M Bank Corp	\$1,569	\$1,183
Per share data		
Net income (basic and dilutive)	\$.48	\$.47
Cash dividends	\$.17	\$.17
Weighted average shares outstanding	3,289,743	2,503,509

See notes to unaudited consolidated financial statements

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F & M BANK CORP.
Consolidated Statements of Income

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

	Nine Months Ended September 30,	
	2014	2013
Interest income		
Interest and fees on loans held for investment	\$19,443	\$18,763
Interest and fees on loans held for sale	228	623
Interest on federal funds sold	31	36
Interest on interest bearing deposits	-	4
Interest on debt securities	136	140
Total interest income	19,838	19,566
Interest expense		
Interest on demand deposits	501	608
Interest on savings accounts	88	91
Interest on time deposits over \$100,000	453	601
Interest on other time deposits	857	1,203
Total interest on deposits	1,899	2,503
Interest on short-term debt	6	22
Interest on long-term debt	872	1,175
Total interest expense	2,777	3,700
Net interest income	17,061	15,866
Provision for loan losses	2,250	3,025
Net interest income after provision for loan losses	14,811	12,841
Noninterest income		
Service charges	786	845
Insurance and other commissions	378	704
Other	1,192	1,163
Income on bank owned life insurance	349	380
Total noninterest income	2,705	3,092
Noninterest expense		
Salaries	5,114	4,858
Employee benefits	1,491	1,631
Occupancy expense	465	468
Equipment expense	442	404
FDIC insurance assessment	540	546
Other	3,410	2,923
Total noninterest expense	11,462	10,830
Income before income taxes	6,054	5,103
Income tax expense	1,844	1,465
Consolidated net income	4,210	3,638

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Net income - Noncontrolling interest (income) loss	26	(106)
Net Income – F & M Bank Corp	\$4,236	\$3,532

Per share data

Net income (basic and dilutive)	\$1.38	\$1.41
Cash dividends	\$.51	\$.51
Weighted average shares outstanding	3,061,432	2,501,990

See notes to unaudited consolidated financial statements

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

	Nine Months Ended September 30,		Three Months Ended September 30,	
	2014	2013	2014	2013
Net Income:				
Net Income – F & M Bank Corp	\$4,236	\$ 3,532	\$ 1,569	\$ 1,183
Net Income (loss) attributable to noncontrolling interest	(26)	106	(8)	31
	4,210	3,638	1,561	1,214
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities	20	(60)	25	52
Tax effect	7	(20)	9	18
Unrealized holding gain (loss), net of tax	13	(40)	16	34
Total other comprehensive income (loss)	13	(40)	16	34
Comprehensive income	\$4,223	\$ 3,598	\$ 1,577	\$ 1,248

See notes to unaudited consolidated financial statements

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

	September 30, 2014 (Unaudited)	December 31, 2013 (Audited)
Assets		
Cash and due from banks	\$6,156	\$5,835
Money market funds	1,039	708
Federal funds sold	16,165	2
Cash and cash equivalents	23,360	6,545
Securities:		
Held to maturity – fair value of \$125 in 2014 and \$106 in 2013	125	106
Available for sale	11,275	30,266
Other investments	7,898	8,114
Loans held for sale	16,131	3,804
Loans held for investment	506,846	478,453
Less allowance for loan losses	(8,601)	(8,184)
Net loans held for investment	498,245	470,269
Other real estate owned	3,956	2,628
Bank premises and equipment, net	6,468	6,525
Interest receivable	1,536	1,498
Goodwill	2,670	2,670
Bank owned life insurance	12,465	12,122
Other assets	10,444	8,241
Total assets	\$594,573	\$552,788
Liabilities		
Deposits:		
Noninterest bearing	\$110,700	\$92,397
Interest bearing:		
Demand	91,669	92,562
Money market accounts	25,222	24,894
Savings	63,401	58,292
Time deposits over \$100,000	78,311	69,674
All other time deposits	118,338	126,330
Total deposits	487,641	464,149
Short-term debt	3,784	3,423
Accrued liabilities	9,043	9,384
Subordinated debt	10,191	10,191
Long-term debt	15,000	11,500
Total liabilities	525,659	498,647
Stockholders' Equity		
Common stock, \$5 par value, 6,000,000 shares authorized,		

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3,290,381 and 2,511,735 shares issued and outstanding in 2014 and 2013, respectively	16,452	12,559
Retained earnings	52,967	42,089
Noncontrolling interest	407	418
Accumulated other comprehensive loss	(912)	(925)
Total stockholders' equity	68,914	54,141
Total liabilities and stockholders' equity	\$ 594,573	\$ 552,788

See notes to unaudited consolidated financial statements

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

	Nine Months Ended September 30,	
	2014	2013
Cash flows from operating activities		
Net income	\$4,236	\$3,532
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	449	433
Amortization of security premiums, net	61	28
Loans held for sale originated	(41,385)	(68,116)
Sale of loans held for sale originated	39,799	77,541
Provision for loan losses	2,250	3,025
(Increase) Decrease in interest receivable	(38)	188
(Increase) Decrease in other assets	(2,492)	702
Increase (decrease) in accrued expenses	(65)	888
Amortization of limited partnership investments	456	438
Income from life insurance investment	(348)	(380)
Gain on Other Real Estate Owned	43	(4)
Net adjustments	(1,270)	14,743
Net cash provided by operating activities	2,966	18,275
Cash flows from investing activities		
Purchase of investments available for sale	(8,614)	(7,067)
Proceeds from maturity of investments available for sale	27,323	8,446
Purchase of investments held to maturity	(125)	-
Proceeds from maturity of investments held to maturity	106	-
Net (increase) decrease in loans held for investment	(10,740)	(16,239)
Net (increase) decrease in loans held for sale participations	(32,376)	65,005
Proceeds from the sale of other real estate owned	779	525
Purchase of property and equipment	(391)	(365)
Net cash (used in) investing activities	(24,038)	50,305
Cash flows from financing activities		
Net change in demand and savings deposits	22,845	12,700
Net change in time deposits	646	(4,728)
Net change in short-term debt	361	(31,117)
Cash dividends paid	(1,545)	(1,277)
Proceeds from issuance of common stock	12,080	82
Proceeds from long-term debt	10,000	
Repayment of long-term debt	(6,500)	(21,036)
Net cash provided by (used in) financing activities	37,887	(45,376)
Net Increase in Cash and Cash Equivalents	16,815	23,204
Cash and cash equivalents, beginning of period	6,545	8,997
Cash and cash equivalents, end of period	\$23,360	\$32,201

Supplemental disclosure

Cash paid for:

Interest expense	\$2,745	\$2,600
Income taxes	1,300	800
Transfers from loans to Other Real Estate Owned	2,930	416
Noncash exchange of other real estate owned	(780)	409

See notes to unaudited consolidated financial statements

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

	Nine Months Ended September 30,	
	2014	2013
Balance, beginning of period	\$54,141	\$49,384
Comprehensive income		
Net income – F & M Bank Corp	4,236	3,532
Net income attributable to noncontrolling interest	(26)	106
Net change in unrealized appreciation on securities available for sale, net of taxes	13	(40)
Total comprehensive income	4,223	3,598
Minority Interest Capital Distributions		
Issuance of common stock	12,080	82
Dividends declared	(1,545)	(1,277)
Balance, end of period	\$68,914	\$51,736

See notes to unaudited consolidated financial statements

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 September 30, 2014 and the results of operations for the quarters and nine month periods ended September 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 September 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 September 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	\$ 125	\$ 125	\$ 106	\$ 106
Total	\$ 125	\$ 125	\$ 106	\$ 106

	September 30, 2014			
	Cost	Unrealized		Market Value
		Gains	Losses	
Securities available for sale				
U. S. Treasury	\$4,029	\$-	\$8	\$4,021
Government sponsored enterprises	6,050	11	7	6,054
Mortgage-backed securities	1,060	5	-	1,065
Corporate equities	135	-	-	135
Total	\$11,274	\$16	\$15	\$11,275

		December 31, 2013		
	Cost	Unrealized Gains	Unrealized Losses	Market Value
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 September 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	\$125	\$125	\$-	\$-
Due after one year through five years	-	-	10,079	10,075
Due after five years	-	-	1,195	1,200
Total	\$125	\$125	\$11,274	\$11,275

There were no gains and losses on sales of securities in the third quarter or nine month period ended September 30 of 2014 or 2013. There were also no securities with an other than temporary impairment.

The fair value and gross unrealized losses for securities, segregated by the length of time that individual securities have been in a continuous gross unrealized loss position, at September 30, 2014 and December 31, 2013 were as follows (dollars in thousands):

	Less than 12 Months		More than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2014						
U. S. Treasury	\$4,021	\$(8)	\$-	\$-	\$4,021	\$(8)
Government sponsored Enterprises	1,996	(4)	2,008	(3)	4,004	(7)
Total	\$6,017	\$(12)	\$2,008	\$(3)	\$8,025	\$(15)
December 31, 2013						
Government sponsored Enterprises	\$4,984	\$(22)	\$-	\$-	\$4,984	\$(22)
Mortgage backed obligations	1,191	(8)	-	-	1,191	(8)
Total	\$6,175	\$(30)	\$-	\$-	\$6,175	\$(30)

Other investments, which consist of stock of correspondent banks and investments in low income housing projects, decreased since December 31, 2013. This decrease is due to FHLB stock repurchases which were partially offset with an increase in the Federal Reserve Bank Stock holding requirement.

	2014	2013
Construction/Land Development	\$69,654	\$68,512
Farmland	11,955	13,197
Real Estate	155,302	154,628

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Multi-Family	11,461	11,797
Commercial Real Estate	120,939	113,415
Home Equity – closed end	9,519	10,228
Home Equity – open end	51,446	47,358
Commercial & Industrial – Non-Real Estate	26,454	25,903
Consumer	9,980	10,163
Dealer Finance	37,610	20,572
Credit Cards	2,526	2,680
Total	\$506,846	\$478,453

Note 3. Loans Held for Investment

Loans outstanding at September 30, 2014 and December 31, 2013 are summarized as follows (in thousands):

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

Note 3. Loans Held for Investment, continued

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

September 30, 2014	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Impaired loans without a valuation allowance:					
Construction/Land Development	\$4,547	\$5,130	\$-	\$5,726	\$110
Farmland	1,444	1,445	-	1,457	42
Real Estate	142	142	-	286	4
Multi-Family	-	-	-	-	-
Commercial Real Estate	1,448	1,747	-	1,283	60
Home Equity – closed end	-	-	-	221	-
Home Equity – open end	-	-	-	20	-
Commercial & Industrial – Non-Real Estate	194	194	-	205	8
Consumer	-	-	-	-	-
Credit cards	-	-	-	-	-