



Session One: Intro to Banking

CORE VALUES

Core Values

*Following this page, please find supplemental information
related to "CORE VALUES"*

(from page 12 in Andy Davies' presentation of September 17,2020)

VBA Management Development Program
In-Class Assignment, Session One, Part Two
MDP Session 2019-2020 September 19, 2019

In teams of six, Create “Core Values” for a bank.

Core Values:

- . Integrity
- . Honesty
- . Trustworthiness
- . Community-Minded
- . Passion for Excellence
- . Transparency (for employees and customers)
- . Always do the Right Thing
- . Teamwork
- . Communication

Core Values:

- . Be Involved in Our Communities
- . Create a Cohesive Environment
- . Employees are our Company’s Most Valuable Assets
- . Be Courteous and Engaging

Core Values:

- . Our Employees are Family
- . Be a Team Player
- . Demonstrate Knowledge

- . Invest in Our Communities
- . Provide a Fun Place to Work

Core Values:

- . Energetic
- . Relatable (to employees, customers, communities)
- . Community-Focused
- . Accessible
- . Integrity

Core Values:

- . Respect
- . Adaptability (in touch with times)
- . Community
- . Ownership
- . Fun



Session One: Intro to Banking VISION STATEMENT

Vision Statement

*Following this page, please find supplemental information
related to "VISION Statement"*

(from page 16 in Andy Davies' presentation of September 17, 2020)

VBA Management Development Program
In-Class Assignment, Session One, Part Two
MDP Session 2019-2020 September 19, 2019

In teams of six, Create a Vision Statement for a bank.

These Vision Statements were created:

VISION STATEMENT:

"We strive to be the best community bank in our area by investing in our employees, communities and shareholders."

VISION STATEMENT:

"We commit to be the standard of excellence in all aspects among community banks in Virginia."

VISION STATEMENT:

"We will cultivate our community by providing financial inspiration through our actions within our communities."

VISION STATEMENT:

"We strive to be the standard by which all community banks are measured."

VISION STATEMENT:

"We will exceed all expectations by building loyal relationships and becoming the most dependable community bank."



Session One: Intro to Banking

Shareholder Letter
and Annual Report

Shareholder Letter and Annual Report

*Following this page, please find supplemental information
related to "Sample Bank's Shareholder Letter and Annual Report"
(from page 9 in Andy Davies' presentation of September 17, 2020)*

↓↓↓ and →→→

Members of the Class of 2020-2021, VBA Management Development Program
From Andy Davies

Sample Annual Report, Including Shareholder Letter

Including Financial Slides from Shareholders' Meeting

F&M Bank Corp (parent of F&M Bank)

Timberville, VA (Harrisonburg MSA)

Points to observe when reviewing this material:

- . very 'community' oriented*
- . easy to read*
- . incorporates Values, Mission, Vision Statement*

- . highlights community (advisory) boards*
- . features customers*
- . highlights team members and those with service anniversaries*
- . addresses community support*
- . highlights loan information and deposit information*



ANNUAL REPORT

2019



01

WELCOME

AN INTRODUCTION BY F&M BANK PRESIDENT & CEO MARK HANNA

Dear Stockholder,

We are pleased to share our 2019 financial performance which includes earnings for the year of \$4.613 million. While our financial performance fell short of our lofty expectations, we accomplished several key strategic initiatives in the past year to position F&M for future success. Those include significantly growing core deposits, reducing our non-performing assets, and enhancing deposit product technology.

As you review our financial performance, it is important to note that our 2019 earnings were negatively impacted by \$7.4 million in additional loan loss provisioning related to disposing of problem credits and changes in the methodology. Additionally, the Bank incurred several non-recurring expenses related to dealer deferred cost amortization, pension costs and severance benefits.

Despite a very challenging environment to grow core deposits to fund our asset growth, total deposits increased over \$50 million for the year. And, while asset quality has negatively weighed on earnings, F&M made great progress in addressing our problem assets and reducing our non-performing assets 43% from \$12.648 million (1.62%) at 12/31/18 to just \$7.217 million (0.89%) at 12/31/19. Additionally, 2019 saw F&M Mortgage and VS Title make significant contributions to our financial success as both organizations achieved significant growth and notable profitability.

With our improving asset quality and the growth of core deposit relationships, we are excited about the opportunities that lie ahead. Going forward, we aim to grow and succeed as a dynamic, high-performing financial institution focused on serving the needs of the communities in the Shenandoah Valley.



Mark C. Hanna
President & CEO



GROWTH 02

EXPANSION AND DEPOSIT GROWTH

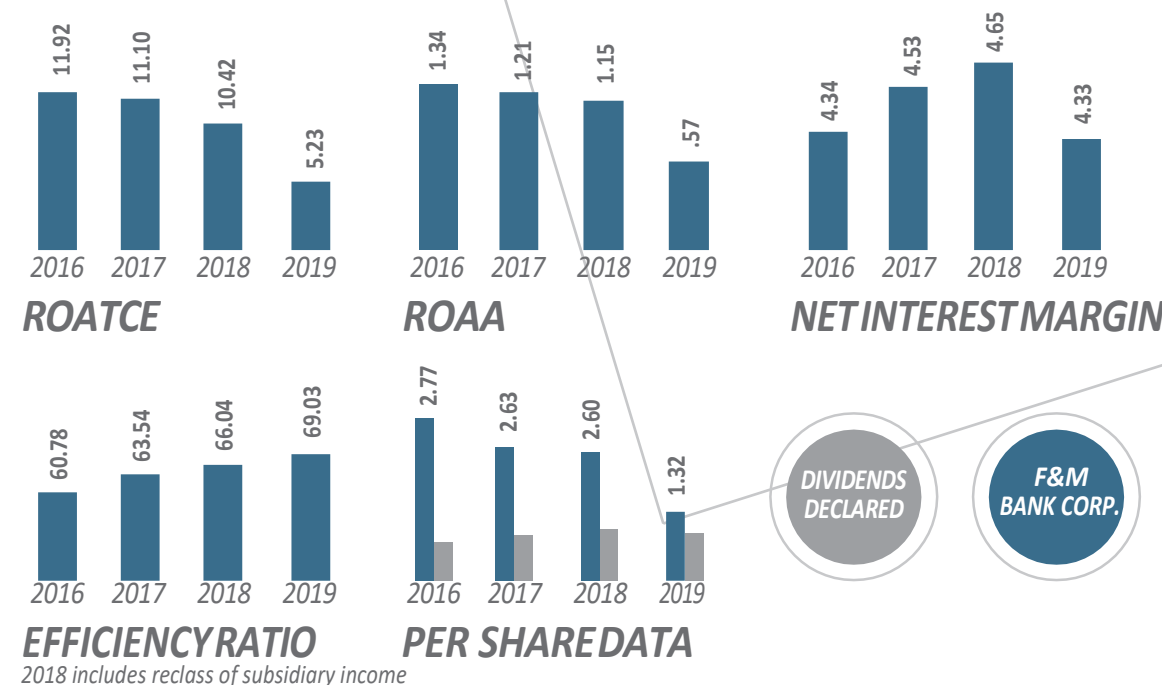
2019 was a year of deposit growth for F&M Bank. Total deposits increased \$50.4 million, fueled by the extremely competitive 1.79% APY Money Market special. The promotion brought new deposits into branches thus giving F&M Bank associates the opportunity to cross-sell additional products and services.

Deposits were also an area of focus for commercial lenders. The business development team re-committed to gaining deposit relationships while working through the loan process with new and existing clients.

F&M Bank extended its presence in the Augusta County market, opening its 14th branch location in Stuarts Draft. During the month of August, branch opening was promoted through four weeks of giveaways all leading up to a grand opening ceremony co-hosted by the Greater Augusta Regional Chamber of Commerce.

FINANCIALS

FINANCIAL HIGHLIGHTS OF 2019



03 AGRICULTURAL

AND RURAL PROGRAMS

F&M Bank was founded in 1908 as a local venture to serve the financial needs of both farmers and merchants. Going back to its roots, F&M Bank renewed its commitment to agriculture in 2019.

The first step was hiring Paul Eberly, Senior Vice President and Agricultural & Rural Programs Leader. The Agricultural Division, consisting of Paul Eberly, Jordan Dean, Tom Campbell and Matt Hill, put boots on the ground and have been actively involved in the community making farm visits and attending agriculture-centered events.

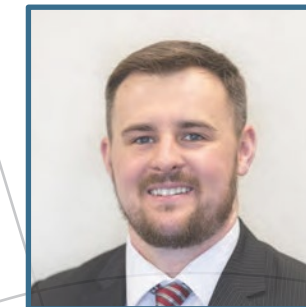
To assist with agriculture referrals, Paul Eberly established an agriculture community board. This group of knowledgeable, established industry professionals meet quarterly with the Division.



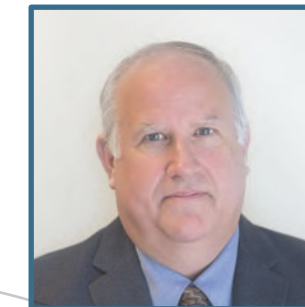
PAUL EBERLY



MATT HILL



JORDAN DEAN

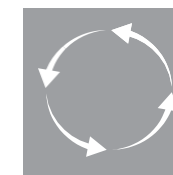


TOM CAMPBELL



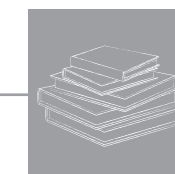
\$27M+

THE BANK HAD STRONG GROWTH IN THE AGRICULTURAL SECTOR IN 2019, WITH NEW LOANS ORIGINATED DIRECTLY TO FARMERS OR OTHER AGRICULTURAL ENTERPRISES TOTALING OVER \$27M.



DEVELOPED AGRICULTURE SWEEP PROGRAM ALLOWING CUSTOMERS TO SWEEP FUNDS BETWEEN AN OPERATING ACCOUNT, LINE OF CREDIT AND INTEREST SAVINGS.

VOLUNTEERED DURING AGRICULTURE LITERACY WEEK READING BOOKS ABOUT THE INDUSTRY TO LOCAL ELEMENTARY STUDENTS IN ROCKINGHAM AND SHENANDOAH COUNTIES.



F&M'S GEOGRAPHIC FOOTPRINT ENCOMPASSES 4 OF THE 5 TOP PRODUCING AGRICULTURAL MARKETS IN VIRGINIA.



05 COMMUNITY

OUR LOCAL PROMISE

One of F&M Bank's core values is community – to make the communities we serve better. In 2019, our dedication to community was illustrated through our commitment to education, philanthropy and volunteerism.

One of the organization's greatest wins during the year was being selected as the regionally exclusive Affinity Banking Partner of the James Madison University Alumni Association. In addition to serving as the preferred financial institution, F&M Bank is an engaged and responsive Purple Partner, with active participation at various events on campus. F&M Bank associates are excited to continue involvement with current students, alumni, and faculty and staff of JMU through special promotions, engagement opportunities, educational events and more.

F&M Bank continues to support the community through donations and sponsorships. Through the F&M Bank Community Fund managed by area Community Foundations, F&M Bank distributed \$30K in grants to various nonprofits. The bank continues to sponsor and attend numerous nonprofit galas, little league teams and events, county fairs, community festivals and more.



33 AREA SENIOR CITIZENS ADOPTED IN DECEMBER FOR THE SANTA TO A SENIOR DRIVE.

2019 NAMED CORPORATE PHILANTHROPIST BY THE ASSOCIATION OF FUNDRAISING PROFESSIONALS SHENANDOAH CHAPTER.

44 COMMUNITY EVENTS SUPPORTED BY F&M BANK'S SOLAR POWERED MOBILE ATM SERVICE.

\$5,500 RAISED BY EMPLOYEES FOR AREA NONPROFITS THROUGH OUR "DRESS DOWN" FRIDAYS.

39 LOCAL STUDENTS LEARNED ABOUT COMMUNITY BANKING AS PART OF BANK DAY SCHOLARSHIP PROGRAM INITIATIVE.

2019 PLATINUM SPONSORS OF THE HARRISONBURG-ROCKINGHAM GREAT COMMUNITY GIVE.

BUILDING COMMERCIAL RELATIONSHIPS

Building commercial relationships was a strategic goal for F&M Bank in 2019. Current employees Sarah Prusak and Mary Pavlovskaya transitioned to become the business deposit services team in an effort to increase commercial deposits. The marketing department worked alongside the business deposit services team to repackage and rebrand current treasury management tools and introduced the Business Solutions suite.

To boost awareness for locally owned businesses and to market to potential commercial customers, F&M Bank hosted its first "Local Business You Love" contest in August. Residents in the bank's market area were asked to nominate their favorite local businesses on social media to win a \$10,000 grand prize. The top 10 businesses with the most nominations were then invited to a reception at the Capital Ale House in Harrisonburg to celebrate the winner announcement.

From the 3,400 public nominations, three businesses emerged in close competition. In addition to the top prize award of \$10,000, President Mark Hanna surprised guests with a \$1,500 award for second place and a \$1,000 award for third runner up.

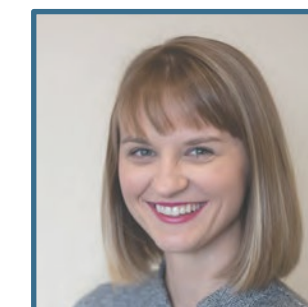
1st Place - Pufferbellies Toys & Books, 568 votes

2nd Place - Overlook Farms & Produce LLC, 492 votes

3rd Place - Massanutten Produce LLC, 477 votes



SARAH PRUSAK



MARY PAVLOVSKAYA



LOCAL BUSINESS YOU LOVE CONTEST RECEIVED COVERAGE ON TV-3 NEWS, TV-3 SOCIAL MEDIA, AND NEWS RELEASE PUBLISHED IN THE DAILY NEWS RECORD

942

BUSINESS NOMINATIONS RECEIVED FOR 1ST ROUND OF LOCAL BUSINESS YOU LOVE CONTEST.

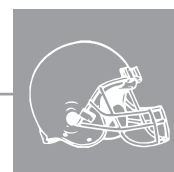
2,475



FACEBOOK ADVERTISING FOR THE LOCAL BUSINESS YOU LOVE CONTEST REACHED 17,379 PEOPLE, AND 3,227 PEOPLE ENGAGED WITH THE ADVERTISEMENT.

BUSINESS VOTES RECEIVED FOR 2ND ROUND OF LOCAL BUSINESS YOU LOVE CONTEST.

HOSTED THE LARGEST RECORDED ORGANIZED CORPORATE TAILGATE FOR COMMERCIAL CLIENTS IN JAMES MADISON UNIVERSITY HISTORY.



SOLUTIONS 10

A FOCUSED APPROACH ON INTEGRATED SOLUTIONS

F&M FINANCIAL SERVICES

The Wealth Management division experienced great success in 2019. Financial Advisors, Calan Jansen and Matt Robinson, were both ranked in the top 10% of Infinex Advisors nationwide. F&M Financial Services as a program is ranked 4th out of 33 banks in the same asset class.

Through partnership with Infinex Investments, Inc., Calan and Matt manage 2,700 investment accounts and guide clients through retirement planning, personal insurance and short-term financial goals to create a committed plan.

DEALER FINANCE DIVISION

The Dealer Finance Division of F&M Bank continues to perform at a superior level year after year. In 2019, the division originated \$59.6M from 4,019 loans, an increase of 238 Dealer Finance Division loans from 2018.

F&M MORTGAGE

The combination of low interest rates and a hot housing market led to a record year for the bank's mortgage division. In 2019, F&M Mortgage closed 600 loans, generating \$124M in loan volume compared to 465 loans and \$91M in volume one year prior.

The division also established a community advisory board consisting of well-known realtors, builders and developers serving the Shenandoah Valley. This experienced team will be a valuable source of industry knowledge and referrals for F&M Mortgage in the 2020 calendar year.

VSTITLE

VSTitle experienced a year of growth in 2019. Offering real estate settlement services and title insurance, the division increased total revenue 16% from one year prior. The annual revenue goal for the year was \$1.4M, but VSTitle finished the year at \$1.5M. Closed transactions also increased 11%, from 1,049 in 2018 to 1,165 in 2019. To help manage the significant increase in business, VSTitle added 6 experienced staff members to the team throughout the year.



11K SOCIAL MEDIA FOLLOWERS.

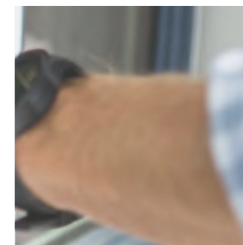
6th BY ROAE (AMONG VIRGINIA BANKS) ON THE AMERICAN BANKER'S TOP 200 PUBLICLY TRADED COMMUNITY BANKS LIST.

#1 HELD THE TOP SPOT IN DEPOSIT SHARE IN THE HARRISONBURG-ROCKINGHAM COUNTY MARKET FOR A THIRD CONSECUTIVE YEAR.

2019 EDINBURG BRANCH RELOCATES TO STONEY CREEK BOULEVARD, ALLOWING CUSTOMERS A MORE SPACIOUS, CONTEMPORARY SETTING.

+30% NEW ORGANIC WEBSITE VISITORS FROM VIRGINIA INCREASED. REPRESENTING AN INCREASE OF OVER 13,000 NEW WEBSITE VISITORS.

2019 CORPORATE OFFICE COMPLETES ITS REMODEL FOLLOWING THE TIMBERVILLE BRANCH MOVE, CREATING ADDITIONAL OFFICE AND MEETING SPACE.



INVESTMENT AND INSURANCE PRODUCTS AND SERVICES ARE OFFERED THROUGH INFINEX INVESTMENTS, INC., MEMBER FINRA/SIPC. F&M FINANCIAL SERVICES, INC. IS A NONBANK SUBSIDIARY OF F&M BANK. INFINEX IS NOT AFFILIATED WITH EITHER ENTITY.

Not Guaranteed by the Bank	Not FDIC Insured	Not a Deposit
Not Insured by Any Federal Government Agency	May Lose Value Including Loss of Principal	

11 MILESTONES

OVER 110 YEARS OF WORKING TOGETHER

Congratulations to **Jean Estep** on her retirement after 66 years of service. Jean joined F&M Bank in 1953 as a teller and worked her way through the ranks. In 1973 she was promoted to Assistant Cashier, Assistant Vice President in 1975, Vice President in 1978, and in 2008 she transitioned into an operations role within the bank's customer support center.

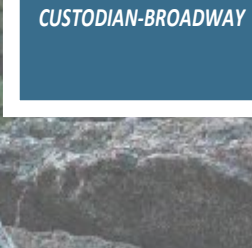
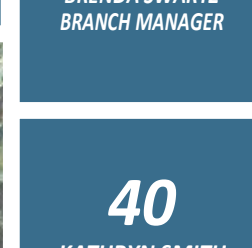
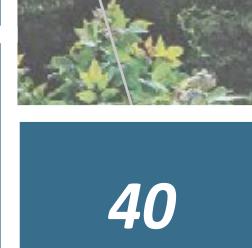
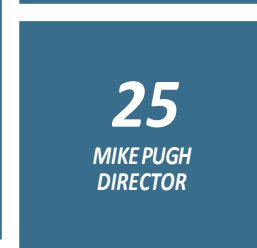
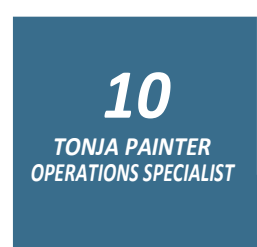
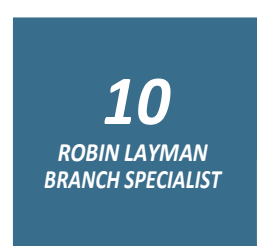
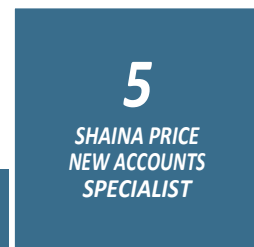
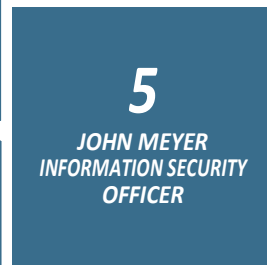
Chuck Foltz, Senior Operations Officer, retired after 37 years of service.

Betty Bryant, Senior Teller, retired after 15 years of service.

Cathy Lindamood, Branch Manager, retired after 14 years of service.

Victoria Young, Branch Specialist, retired after 13 years of service.

Vickie Shifflett, Teller, retired after 6 years of service.



13 OUR VALUES

MISSION, VISION & VALUES

At F&M Bank, we create value in every service we offer and product we sell. We apply sound banking principles to encourage our local economy and strengthen our relationships. From comprehensive personal and commercial banking to loan options for individuals and businesses, our team is committed to building brighter futures in the community we call home.

OUR MISSION

F&M Bank will be a strong, independent financial organization committed to solid shareholder value, exceptional customer service, active community involvement and a fulfilling employee experience.

OUR VISION

Building our loyal customer base by developing lasting relationships in order to be the strongest bank in our communities.

OUR VALUES

Making the communities we serve better.
Providing flexible financial solutions.
Responding quickly to all requests and opportunities.
Bringing enthusiasm and a positive attitude to our endeavors.
Adding fun into banking and our workplace!

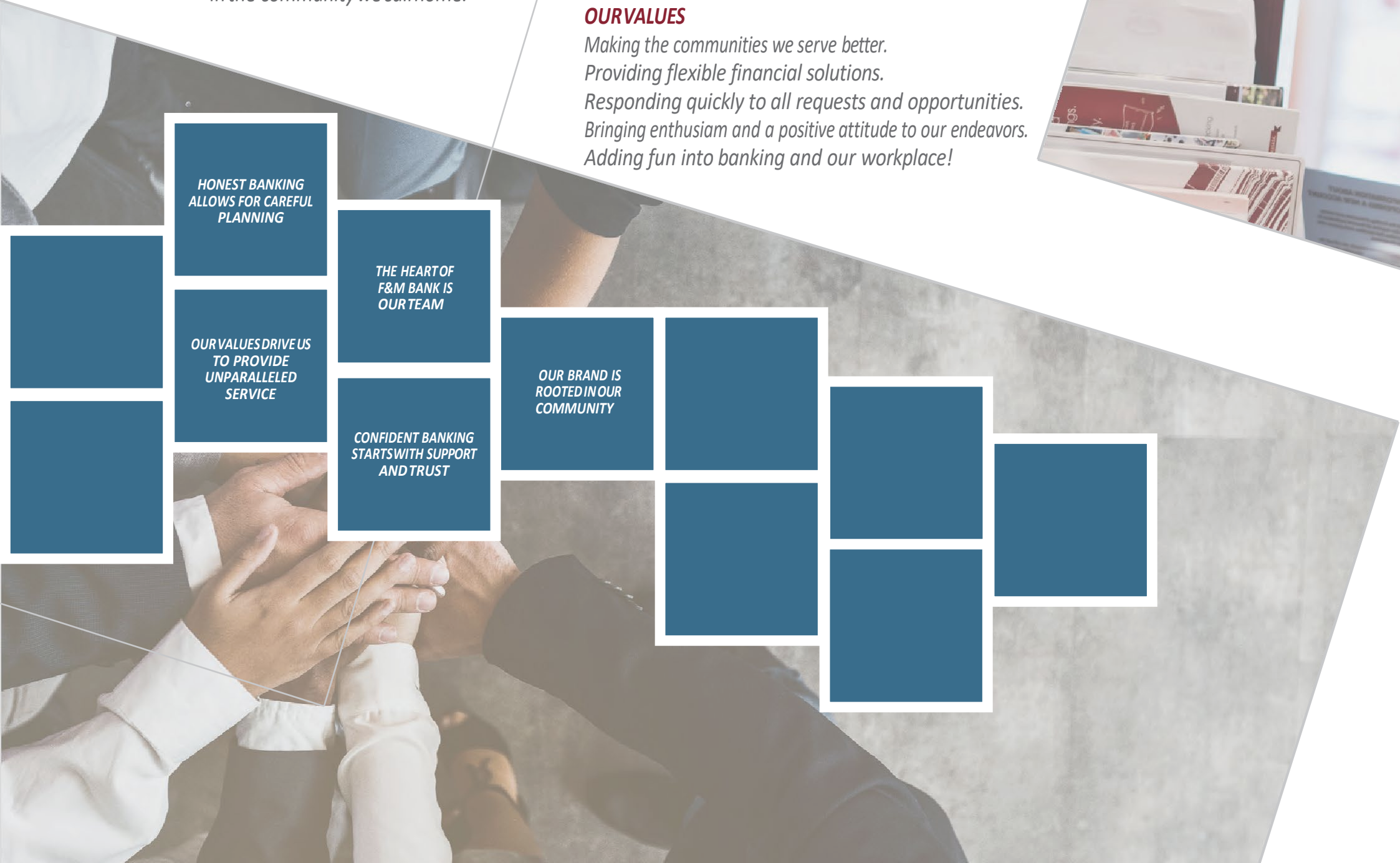
HONEST BANKING
ALLOWS FOR CAREFUL
PLANNING

THE HEART OF
F&M BANK IS
OUR TEAM

OUR VALUES DRIVE US
TO PROVIDE
UNPARALLELED
SERVICE

CONFIDENT BANKING
STARTS WITH SUPPORT
AND TRUST

OUR BRAND IS
ROOTED IN OUR
COMMUNITY



BOARDS 16

COMMUNITY BOARDS FOR BUSINESS DEVELOPMENT

AUGUSTA COUNTY

ANGELA V. WHITESELL
Esquire, Vellines, Glick & Whitesell, P.C.

CAROLYN BRAGG
Retired
Augusta County Board of Supervisors

GREG SEE
General Manager
Ironwood Country Club

JEFF SLAVEN
Owner, Cattleman's Supply

LARRY HOWDYSELL
Retired
Shenandoah Valley Electric Cooperative

RICHARD "DICKIE" BELL
Retired
VA 20th District House of Delegates

RICK WILLIAMS
President, R.G. Williams Insurance Agency, Inc. representing Rockingham Insurance

STEVE MCDONOUGH
Owner, McDonough Toyota

THOMAS WHITE
Vice President & CPA
White, Withers & Masencup

HARRISONBURG/ROCKINGHAM

ABBEY DOBES
Owner, Siren Song Marketing Group

ADAM SHIFFLETT
Co-owner, Brothers Craft Brewing

ANDY MYERS
General Manager, Dick Myers
Chrysler Dodge Jeep Ram

BRAYDON HOOVER
Director of Development & Annual Giving
Eastern Mennonite University

CHRISTIAN HERRICK
CEO, Randy's Do It Best Hardware

HANNAH HUTMAN
Partner & Creditor/Debtor Rights Attorney
Hoover Penrod, PLC

LINDSAY KING
Marketing Lecturer
James Madison University

BYARD LUEBBEN
Owner, Edge, ITM

MORGAN SLAVEN
Public Affairs
Shenandoah Valley Electric Cooperative

NICK LANGRIDGE
Vice President, University Advancement
James Madison University

QUINTON CALLAHAN
Partner, Business Law & Litigation Attorney
Clark & Bradshaw, P.C.

RENEE WHITMORE
Realtor & Associate Broker
Old Dominion Realty

AGRICULTURE

BETH BAZZLE
Owner, Mountain Valley Farm

BUFF SHOWALTER
Vice President, Poultry Specialties Inc.
Beef & Poultry Farmer

DOUG BERRY
Accountant, Specializing in Income Tax Preparation; Owner/Operator,
Wolf Run Farms, LLC

JARED BURNER
Vice President, Trio Farms, Inc.
Owner, Burner's Beef LLC

JOHN BOWMAN
Realtor/Auctioneer

LARRY POWELL
Owner/Operator, L P Solutions, Beef Farmer

LEWIS HORST
Agriculture Community Board Member

RICK REEVES
Agriculture Community Board Member

WILLIAM MEYERHOEFFER
Dairy Nutritionist

MORTGAGE

BERNARD HAMANN
Owner, Realtor & CMCA
Rocktown Realty

GARY CRUMMETT
Owner, Gary Crummett & Sons, LLC

JILL MCGLAUGHLIN
President, Classic Kitchen & Bath

JM MONGER
Owner, R.S. Monger & Sons Inc.

JM SNELL
Executive Vice President, Valley Renovators, Inc.

NATALIE CAMPBELL
Real Estate Broker Associate
Old Dominion Realty

RONALD FLORES
Realtor, Funkhouser Real Estate Group

SCOTT WILLIAMS
Managing Partner
Crescent Development Group



17 OUR

OFFICERS AND DIRECTORS

DIRECTORS

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Board Chair, President, Old Dominion Realty, Inc; VP, Colonial Appraisal Service, Inc

DEAN WITHERS

Vice Board Chair

LARRY CAPLINGER

Retired EVP, F&M Bank

RAY BURKHOLDER

Owner, Balzer & Associates, Inc.

JOHN CRIST

Partner, HooverPenrod, PLC-Attorneys

DANIEL HARSHMAN

Manager, Town of Edinburg

RICHARD MYERS

President, Dick Myers Chrysler Dodge Jeep Ram

CHRISTOPHER RUNION

President, Eddie Edwards Signs, Inc.

RONALD WAMPLER

Partner, Dove Ohio Farms, LLC and WWTD Ohio Farms, LLC

PETER WRAY

Principal Broker, Triangle Realtors

ANNE KEELER

Vice President for Finance and Treasurer Bridgewater College

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CARRIE COMER

EVP/Chief Financial Officer

STEPHANIE SHILLINGBURG

EVP/Chief Banking Officer

EDWARD STRUNK

EVP/Chief Credit Officer

BARTON BLACK

EVP/Chief Strategy & Risk Officer

JEFFREY LAM

SVP/Retail Loan Administrator

CYNTHIA SHERMAN

SVP/Loan Operations Manager

KEVIN RUSSELL

SVP/President F&M Mortgage

GREG BERKSHIRE

SVP/Dealer Finance Manager

J.T. BISHOP

SVP/Market Leader

MELODY EMSWILER

SVP/Director of HR

AARON GREEN

SVP/Market Leader

KATE PASCARELLA

SVP/Senior Credit Officer

KAREN ROSE

SVP/Deposit Operations

KRISTA SUTER

SVP/Senior Risk Officer

DALE SHOOP

President, VSTitle

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DEBORAH ANDES

SARA BERRY

JACQUELINE BURNER

KAY DEAN

SARA BERRY

KEITH DEEDS

CAROLYN DOVE

PAUL EBERLY

CHRIS GUNTER

TERESA HELMICK

JOHN MEYER

KITTY PURCELL

SEAN RYMAN

GREGORY SPITLER

NATALIE STRICKLER-ALT

HOLLY THORNE

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MATTHEW BEAHM

LEIGH BLEVINS

DONNA BROWN

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JOSEPH ERICKSON

KATHY GRUBBS

RENEE HARTLESS

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ANTHONY KEYSER

GLENNA LAWHORN

RYAN MAY

CHARLES NESLER

SARAH PRUSAK

MATTHEW ROBINSON

BRENDA SWARTZ

BANK OFFICERS

MARY CAMPBELL

JOHN COFFMAN

JORDAN DEAN

KELSEY DEAN

SHARRIE HARRISON

DEBRA KOOGLER

ASHLEY LAM

JESSICA LUCE

ASHLEY MCCLURE

YVETTE MCCOY

DONNA O'BYRNE

ANGELA SMITH

LOCATIONS

F&M BANK BRANCHES AND OFFICES

BRANCHES

Bridgewater

100 Plaza Drive
540-828-6300

Broadway

126 Timber Way
540-896-7071

Craigsville

125 West Craig Street
540-997-4162

Edinburg

300 Stoney Creek Boulevard
540-984-4128

Elkton

127 West Rockingham Street
540-298-1251

Grottoes

200 Augusta Avenue
540-249-7237

Harrisonburg

80 Cross Keys Road
540-433-7575

2030 Legacy Lane
540-433-0112

Luray

700 East Main Street
540-743-1130

Staunton

2813 N. Augusta Street
540-213-8686

30 Gosnell Crossing
540-946-8160

Stuarts Draft

2782 Stuarts Draft Highway
540-609-2363

Timberville

165 New Market Road
540-896-1716

Woodstock

161 South Main Street
540-459-3707

OFFICES

Headquarters

205 South Main Street
Timberville, VA
540-896-8941
NMLS# 414464

F&M Mortgage

2040 Deyerle Avenue, Suite 207
Harrisonburg, VA
540-442-8583

19 Myers Corner Drive, Suite 105
Staunton, VA
540-446-8540

161 South Main Street
Woodstock, VA
540-459-3707

NMLS# 275173

Dealer Finance Division

4759 Spotswood Trail
Penn Laird, VA
540-437-3480

VS Title Agency

410 Neff Avenue
Harrisonburg, VA
540-434-8571

1707 Jefferson Highway
Fishersville, VA
540-213-0419

154 Hansen Road
Charlottesville, VA
434-202-4336

INVESTOR INFORMATION

Transfer Agent for F&M Bank Corp. Stock (FMBM)

Broadridge Corporate Issuer Solutions
P.O. Box 1342

Brentwood, NY 11717

P: 844-318-0135

F: 215-553-5402

E: shareholder@broadridge.com

W: <http://shareholder.broadridge.com/FMBM>



NMLS# 414464 / NMLS# 275173



WWW.FMBANKVA.COM



FARMERSAND
MERCHANTSBANK



FMBANKVA



FMGOLOCAL



DOWNLOAD APP FROM
THE APP STORE
OR GOOGLE PLAY

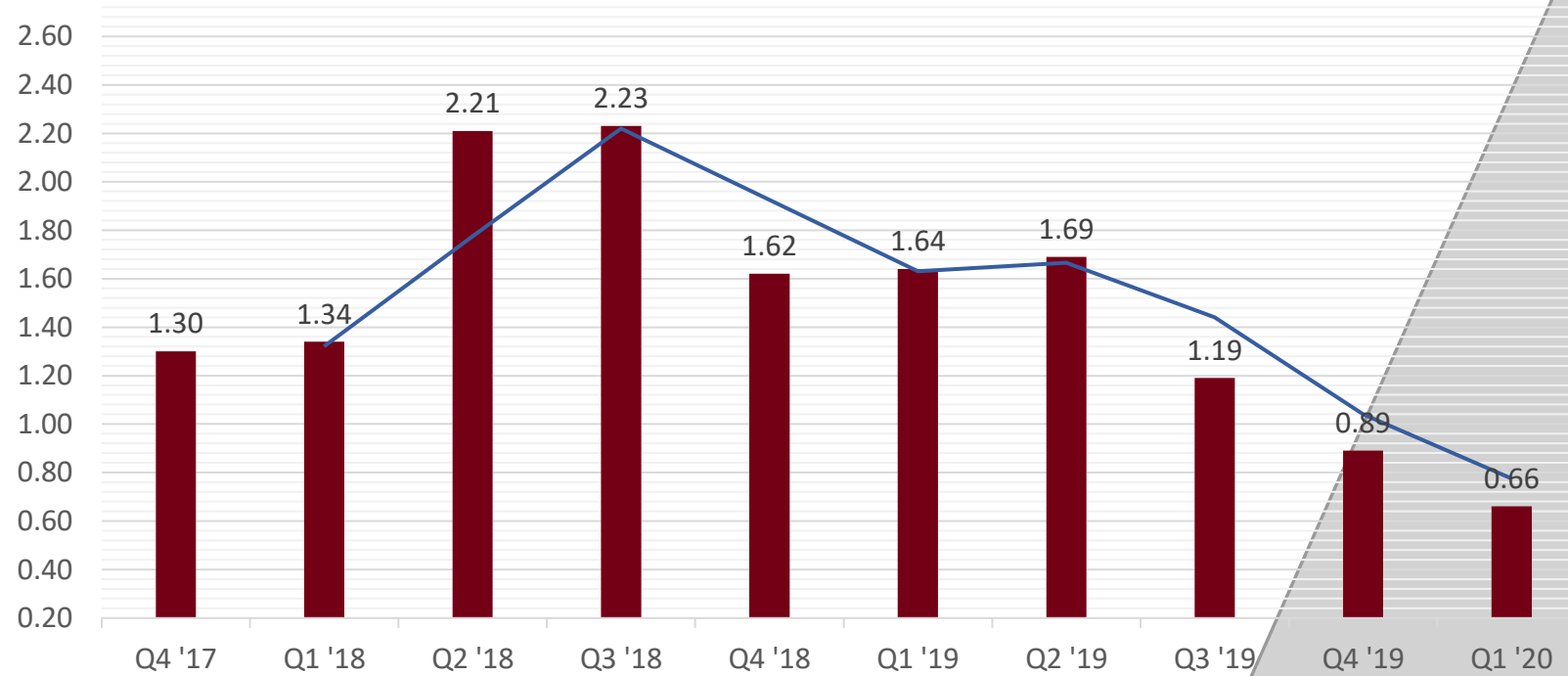


FMBANKVA



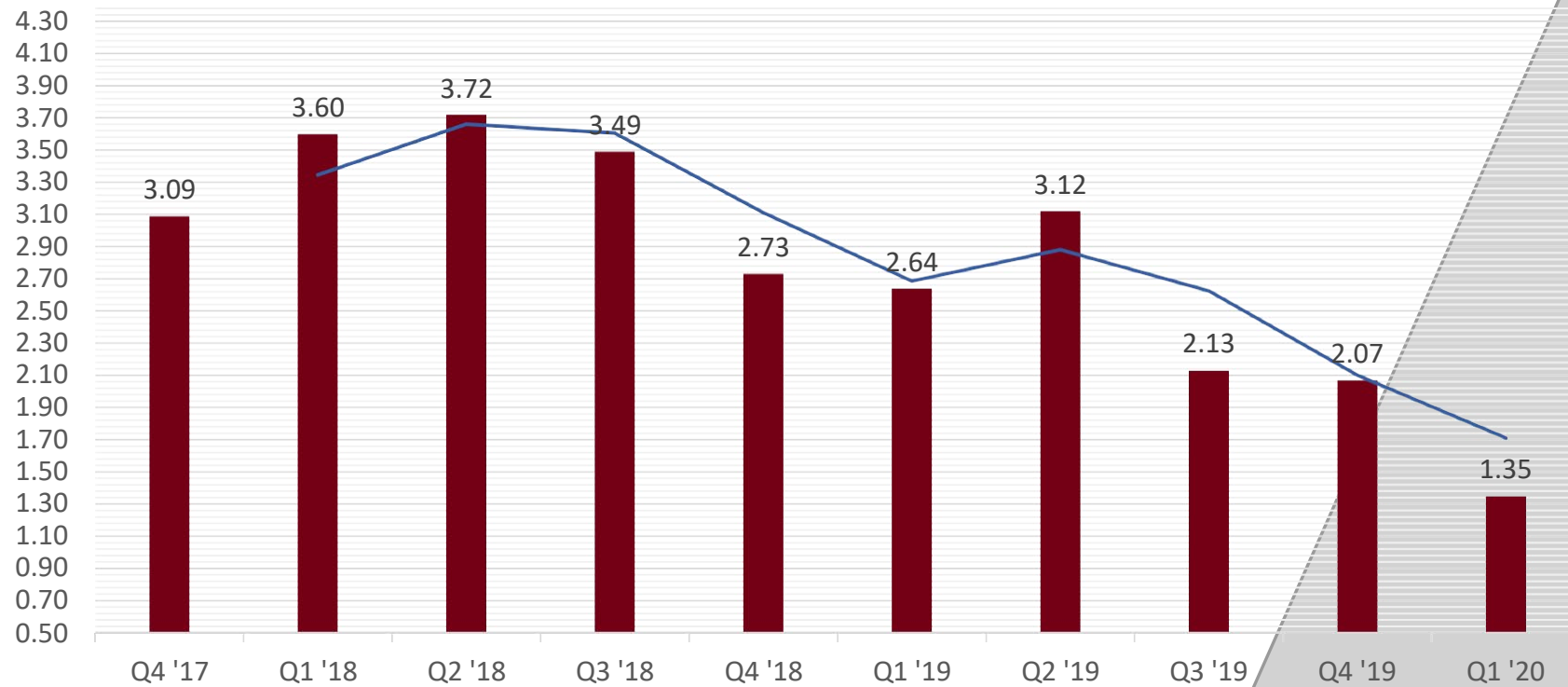
FARMERS-&
MERCHANTS-
BANK-OF-VIRGINIA

NON-PERFORMING ASSETS AS A % OF TOTAL ASSETS



F&M Bank Corp.

DELINQUENCY % AS A % OF TOTAL LOANS



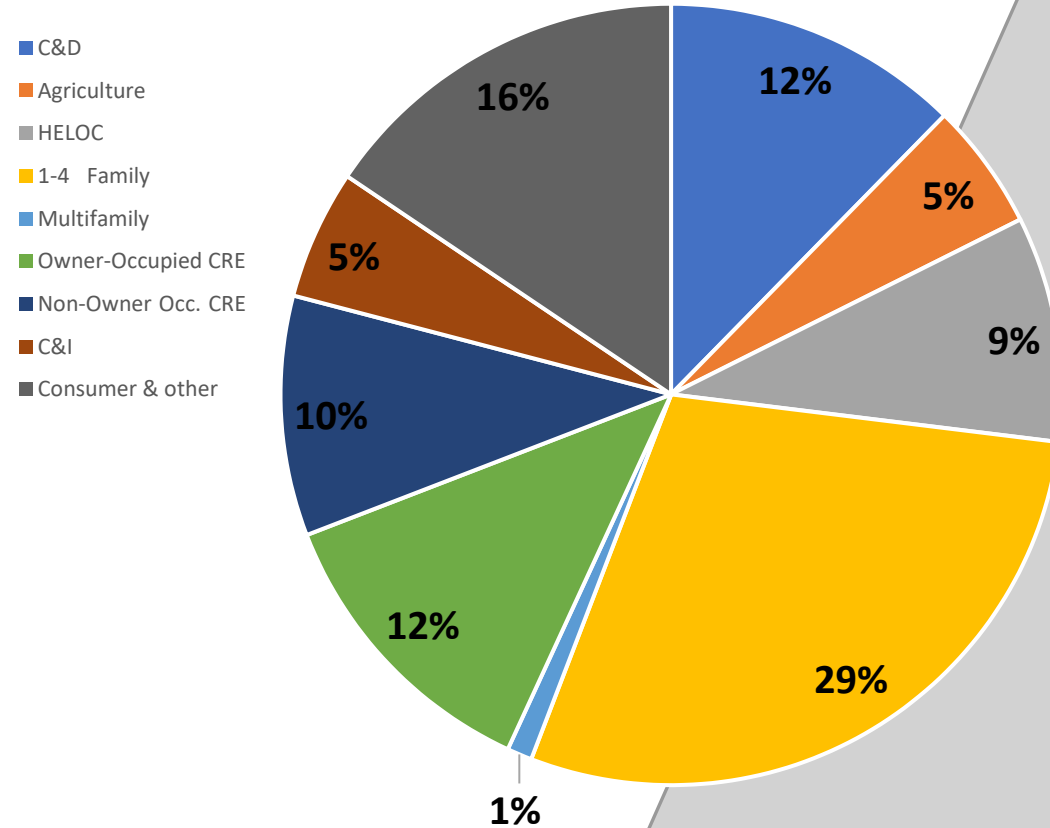
F&M Bank Corp.

LOANS HELD FOR INVESTMENT

Commentary

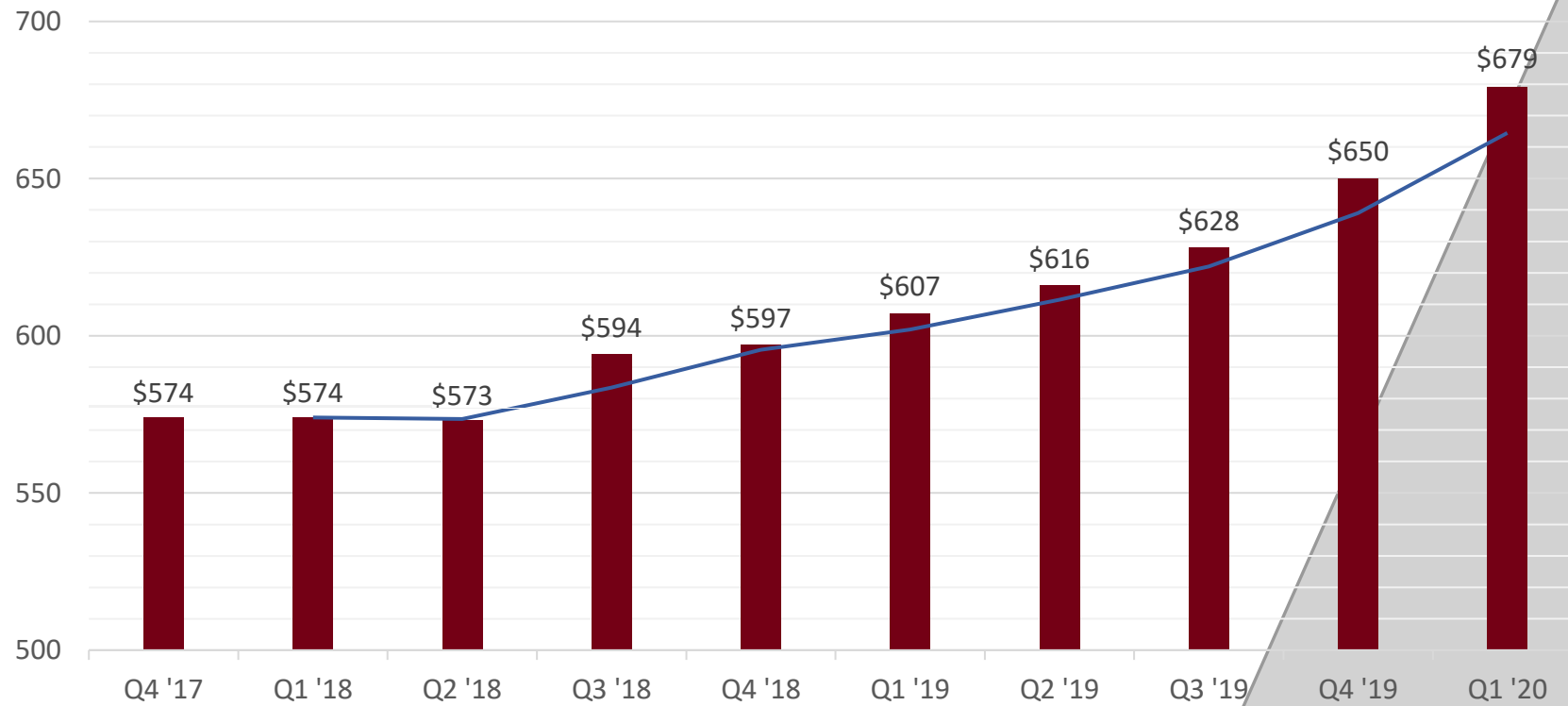
- 1-4 family comprises the largest concentration at 29%
- Total Construction and Development exposure is 12% of the portfolio
- Owner-occupied CRE loans represent 12%; Non-Owner occupied CRE loans represent 10%
- Renewed focus on Agriculture (4 of top 5 Virginia Agriculture counties in our footprint)

Mix: \$619.1 million at 3/31/20



TOTAL DEPOSITS

(\$MILLIONS)



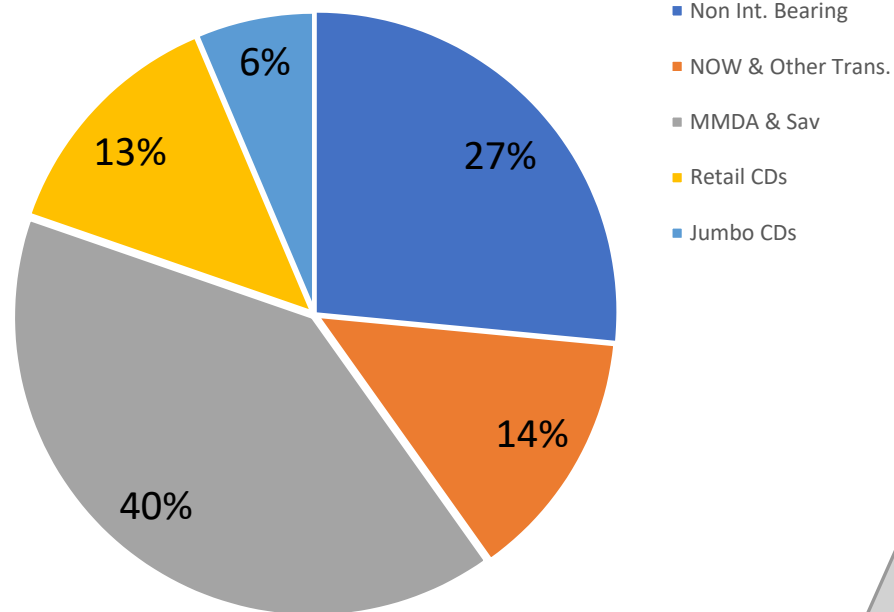
F&M Bank Corp.

DEPOSIT COMPOSITION

Commentary

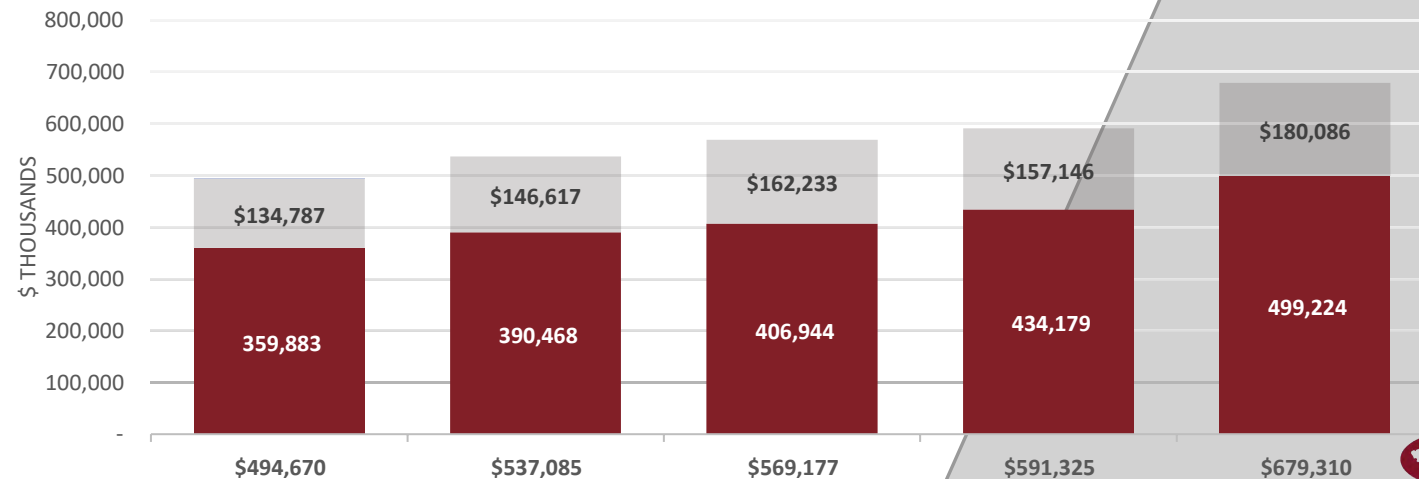
- Total Deposits of \$679 million have increased \$82 million or 13.7% since 2018-year end
- Non-Interest-Bearing Deposits have increased \$25.3 million or 15.8% since 2018 year end
- The Deposit mix is desirable, with a deposit cost of 88 basis points at 3/31/20
- F&M Bank is the deposit market share leader in the Harrisonburg / Rockingham MSA

Deposit Composition



Deposit Mix

- Total Int. Bearing
- Non Int. Bearing





Session One: Intro to Banking Leadership Article

Leadership Article

*Following this page, please find supplemental information
related to "LEADERSHIP"*

(from page 74 in Andy Davies' presentation of September 17, 2020)



Session One: Intro to Banking Leadership Article

To Members of the MDP Class of 2020-2021

From Andy Davies

“Leadership Article”

that I hope is of interest to you

“The 21 Indispensable Qualities of a Leader”

From: *"The 21 Indispensable Qualities of a Leader"*
John C. Maxwell, 2007, American author and speaker

"The 21 Indispensable Qualities of a Leader"

For Members of the 2020-2021 Class of the VBA Management Development Program
From Andy Davies

Opinion: These qualities are as relevant in 2020 as when written in 2007

*To help you be the kind of leader people want to follow:
(qualities underlined and in all caps are highlighted by Andy)*

CHARACTER:

- . how you deal with the circumstances of life
- . character is a CHOICE

CHARISMA:

- . ability to draw people to you
- . be more concerned about making others
feel good about themselves than you are
making them feel good about you
- . give people hope
- . put a "10" on every person's head

COMMITMENT:

- . separates doers from dreamers
- . starts in the heart and is tested by action

- . OPENS THE DOOR to achievement

COMMUNICATION:

- . share knowledge and ideas to transmit a SENSE OF URGENCY and enthusiasm to others
- . SIMPLIFY the message; SEE the person; SHOW the truth; SEEK a response
- . BE CLEAR AS A BELL
- . live your message

COMPETENCE:

- . it's the leader's ability to say it, plan it and DO IT in such a way that OTHERS KNOW that you know how ... and know that THEY want to FOLLOW YOU
- . keep IMPROVING
- . FOLLOW THROUGH with EXCELLENCE
- . ACCOMPLISH MORE THAN EXPECTED
- . INSPIRE OTHERS

"21 Indispensable Qualities of a Leader", continued

COURAGE:

- . begins with an inward battle
- . is about making things right and not just smoothing them over
- . inspires COMMITMENT from followers

DISCERNMENT:

- . DISCOVER ROOT ISSUES
- . enhance your problem solving
- . evaluate options for maximum impact
- . multiply your opportunities

- . ANALYZE PAST SUCCESSES
- . LISTEN TO YOUR GUT

FOCUS:

- . THE SHARPER IT IS, THE SHARPER YOU ARE
- . focus 70% on strengths
- . focus 25% on new things (growth= change)
- . focus 5% on weaknesses (and delegate these)

GENEROSITY:

- . giving is the highest level of living
- . be grateful to whatever you have
- . PUT PEOPLE FIRST
- . develop the habit of giving
- . FIND SOMEONE TO MENTOR

INITIATIVE:

- . know what you want
- . PUSH YOURSELF TO ACT
- . take risks
- . make mistakes

LISTENING:

- . A GOOD LEADER ENCOURAGES FOLLOWERS TO TELL HIM/HER WHAT HE/SHE NEEDS TO KNOW,
NOT WHAT HE/SHE WANTS TO HEAR
- . MEET PEOPLE ON THEIR TURF
- . LISTEN BETWEEN THE LINES

PASSION:

- . **CONCENTRATE ON WHAT YOU DO WELL, AND DO IT BETTER THAN ANYBODY ELSE**
- . is the first step to achievement
- . increase your willpower
- . changes you
- . makes the impossible possible

POSITIVE ATTITUDE:

- . if you believe you can, you can

PROBLEM SOLVING:

- . you can't let your problems BE a problem
- . **ANTICIPATE PROBLEMS**
- . accept the truth
- . **SEE THE BIG PICTURE**
- . handle one thing at a time
- . **DON'T GIVE UP A MAJOR GOAL WHEN DOWN**

RELATIONSHIPS:

- . if you get along, they'll go along
- . understand people
- . love people
- . help people

RESPONSIBILITY:

- . if you won't carry the ball, you can't lead the team
- . get the job done
- . go the extra mile
- . **BE DRIVEN BY EXCELLENCE**
- . produce, regardless of the situation

SECURITY:

- . **KNOW YOURSELF**
- . give away the credit
- . **GET HELP**

SELF-DISCIPLINE:

- . the first person you lead is **YOU**
- . develop and follow your priorities
- . **MAKE A DISCIPLINED LIFESTYLE YOUR GOAL**
- . **CHALLENGE YOUR EXCUSES**
- . **REMOVE REWARDS UNTIL THE JOB IS DONE**
- . **STAY FOCUSED ON RESULTS**
- . sort out your priorities
- . **GET RID OF EXCUSES**

SERVANTHOOD:

- . **TO GET AHEAD, PUT OTHERS FIRST**
- . put others ahead of your own agenda
- . possess the confidence to serve
- . serve out of love

. PERFORM THE SMALL ACTS

- . learn to walk slowly through the crowd
- . move into action

TEACHABILITY:

- . to keep leading, keep learning
- . **OBSERVE HOW YOU REACT TO MISTAKES**
- . try something new
- . learn in your areas of strength

VISION:

- . you can seize only what you can see
- . **THE FUTURE BELONGS TO THOSE WHO SEE POSSIBILITIES BEFORE THEY BECOME OBVIOUS**
- . starts within
- . draws on your history
- . meets others' needs
- . helps you gather resources
- . use it to measure yourself
- . write it down
- . do a gut check

**Members of the 2020-2021 Class of the
VBA's Management Development Program
from Andy Davies
August, 2020**

Review: What's the MDP?

from the program brochure:

**A five-month program designed for
entry level bankers who:**

- #1: have developed a passion for banking,**
- #2: want to enhance their knowledge
of the business of banking, and**
- #3: are motivated to excel in their careers and reach
their full potential.**

"The Business of Banking"

**is being impacted in historical ways
in 2020, and
all bankers need a basic understanding
of the current state of
the US economy.**

Recommendation:

**Enhance your
understanding of the
potential scenarios
affecting the current
recession and the
'shapes'
of eventual recovery.**

Recession/Recovery Shapes

"V"

"U" / "Skinny-U"

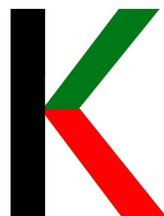
"L"

"W"

 **"Tilde"**



Nike 'Swoosh'



Recession/Recovery Shapes

“V” - Shaped Recession

Economy suffers sharp but brief period of economic decline with clearly defined trough, followed by strong recovery.

“U” - Shaped Recession, or “Skinny-U” – Shaped Recession

Recession/Recovery that resembles a U-shape when charted.

In ‘Skinny-U’ variation trough not as wide/long in duration.

Recession/Recovery Shapes

“L” - Shaped Recession

**Steep decline in economic growth
followed by slow recovery.**

“W” - Shaped Recession

Also known as ‘double-dip’ recession.

**Economy falls into recession, recovers for
short period of growth, then falls back into
recession before finally recovering, giving
a ‘down-up/down-up’ pattern.**

Recession/Recovery Shapes

N - Shaped Recession

This is based on the (~) wavy punctuation mark, called 'tilde'. It is also called a 'wavy' or 'rolling' recession/recovery scenario.

In any given quarter, GDP may grow or contract. But end result may be less a sharp "V" recovery or a gradual "U" cycle, but more a very gradual return to health.



Nike 'Swoosh' - Shaped Recession

Predicts large drop followed by painfully slow recovery. Would likely be a several-quarter, if not several-year process.

Recession/Recovery Shapes



- shaped Recession

This recession/recovery model has received attention during July/August, 2020

Characteristics of this 'shaped' recession:

From "AXIOS MARKETS", July 28,2020

- ❑ **"The COVID-driven recession is creating two parallel economic realities, and they are growing further apart by the day.**
- ❑ **What's happening? Many with financial assets and white-collar jobs have actually benefitted from the economic downturn, while the rest of the country is doing its best to stay afloat.**
- ❑ **Some Americans' fortunes rise while others fall:**
 - **wealthy/middle-class have retained or resumed their jobs and the value of their assets, like stock portfolios and homes, has risen to all-time highs. *This is seen in the RISING line of the "K".***
 - **but the average blue-collar worker or small business owner, and the half of the US population not invested in the stock market, are witnessing unprecedented job losses and business closures. *This is seen in the DECLINING line of the "K".***

Recession/Recovery Shapes



- shaped Recession, *cont.*

- as the US labor market undergoes a long-term transition and likely consolidation, this will further benefit white-collar workers, large companies and the wealthy, who happened to be disproportionate beneficiaries of the recovery following the 2008 global financial crisis.
- the housing market is on fire-US home prices have hit record highs with both new and existing home sales showing huge gains, but the recession is disproportionately hitting those who rent.”

Recession/Recovery Shapes

Statements from and about the Federal Reserve Bank

(July, 2020)

- ☐ "going to be longer road to recovery"
- ☐ "we are in a thick fog of uncertainty"
- ☐ "there is far less room to stimulate the economy than after 2008 after throwing the kitchen sink at the problem in March (2020)"
- ☐ "not even thinking about, thinking about, thinking about raising rates for probably years."

"Job Losses Threaten Lasting Damage"

(Washington Post, August 30, 2020)

"This is a period of rapid technological change.
We're changing the way business is getting done
We're changing the way we're shopping and the way we're eating
We're changing the way we're having meetings."

Statements by a nationally respected investment banking analyst to Andy Davies

June, 2020

"I think many people will fall into the camp of doing a lot less until there is a treatment or vaccine. The question is what % of the population ultimately takes that approach. If you can answer that, you can probably get a better guess on the shape of the recovery."

August, 2020

"More and more, it looks like a 'Nike Swoosh' scenario... more than a 'W'...but so much depends on getting a vaccine and the timeline for getting a vaccine."

Recession/Recovery Shapes

"10 Observations from Bankers in a Prolonged Pandemic World"

From: *"Banking Strategies Daily"* (BAI) August 24, 2020

BAI Survey conducted in March, 2020 and then again in June, 2020, asking:

"What have become standard operating procedures that were not in the plan at the beginning of 2020?"

"Where is the focus NOW and in the foreseeable FUTURE?"

"How has the pandemic impacted the payment habits of customers?"

#1: Digital growth is well above the pre-pandemic norm.

- ☐ 62% of responding banks noted an increase in digital users of between 10%-25%.
- ☐ another 11% stated this growth exceeded 25%.

#2: Nearly 50% of banks reported decreases in credit card activity.

- ☐ at same time, 49% saw increases in debit usage.
- ☐ this confirms FRB report showing credit card balances falling below \$1 trillion for first time since 2017 as consumers revert to debit to better manage their finances.

#3: Roughly 66% stated increases in 'Card Not Present' transactions

- ☐ and 76% reported same for mobile payments.

#4: Roughly half also noted a decrease in cash withdrawals.

#5: More than 25% saw increase in transaction values across all payment types.

#6: 'Expand/improve digital channels' was listed as the most critical initiative.

- ☐ 66% rate it their top priority among 5 areas of forward focus.
- ☐ even if some consumers revert to old habits, **the digital channel has a permanent forward jolt.**

#7: 'Use automation to replace manual processes' was clear (but distant) second.

#8: 'Decrease branch footprint' ranked last among the 5 proposed initiatives.

- ☐ clear that many banks are studying their commercial real estate footprint.
- ☐ more time is needed for decisions that have a more permanent mark.

#9: Nearly 50% believe pandemic's impact on their bank would be 18-24 months.

#10: More than 20% believe the economic recovery will take years.