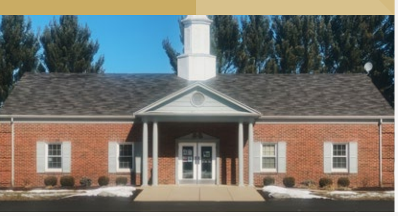
2021
ANNUAL REPORT

Proud to be called Your Community Bank!



F&M BANCORP

Our Wholly Owned Subsidiary
FARMERS & MERCHANTS BANK
Established 1923

The 2021 Annual Shareholders Meeting will be held on:

Wednesday, April 20, 2022
6:00 p.m.

Location:

Farmers & Merchants Bank
41 South 1st St.
Miamisburg, OH 45342

Information on F&M Bancorp Stock may be obtained by contacting:

F & M Bancorp

Attention:
Cindy Spencer, SVP
41 South 1st St.
Miamisburg, OH 45342
937-866-2455

Community Banc Investments, Inc.

Attention:
Jennifer McFarland, President
176 Valley Drive, SE
Newark, Ohio 43056
1-800-224-1013

Shareholders wishing to contact our Board, Audit Committee or outside directors, may do so by writing to the following address:

Board of Directors
P.O. Box 152
Miamisburg, Ohio 45343

DIRECTORS & OFFICERS

Board of Directors:

Dr. Keith Basinger
Gregory R. Bell
T. Daniel Epperson
Danielle L. Kuehnle
Dawn M. Leonard
Shon B. Myers Chairman
Michael E. Stover Secretary

Directors Emeritus:

Raymond E. Shambrock Past President
Lois F. Campbell
John E. Dempsey
Richard D. Myers

Bancorp & Bank Officers:

Shon B. Myers	President & CEO
Gregory G. Eagan	Senior Vice President Chief Financial Officer & Treasurer
Clint G. Morton	Senior Vice President & Chief Lending Officer
Cynthia K. Spencer	Senior Vice President

Bank Officers:

Elaine Allison	Vice President Commercial Loan Officer
Rhonda Johnston	Vice President Agricultural Lender
Lynn A. Hamilton	Vice President Information Technology & Operations
Melissa Renner	Vice President Commercial Loan/Agricultural Lender
Deanna Boggs	Assistant Vice President Branch Operations Specialist
Amanda Bradford	Assistant Vice President Credit Analyst
Erica Shade	Assistant Vice President Branch Manager & Compliance Officer
Matthew Smith	Assistant Vice President Branch Manager

2021 ANNUAL REPORT

F&M BANCORP

Chairman's Message to Shareholders:

The year of 2021 ended up being another year dealing with the Corona Virus Pandemic. While we had to deal with the variety of issues a pandemic brings about for another full year, we were also able to help hundreds of local small businesses with the second round of the government's Payroll Protection Program loans. Our willingness to work hard, and again help so many existing and new customers, proved our value of being a true community bank and translated into another year of record growth. F&M Bancorp, and its subsidiary Farmers & Merchants Bank, set new growth records in many categories, primarily as a result of the Payroll Protection Program loans. The results reflected within this annual report show these accomplishments and are highlighted below. We continue to set our goals high and have proven the ability to remain a strong community bank with amazing growth and success even through the continued global pandemic.

Net income was $3,329,393, as of December 31, 2021, compared to $2,712,578 at year end 2020 on an after-tax basis. Net earnings were up 22.74% for the year. F&M Bancorp grew in 2021 with total assets reaching $266,128,242 as of December 31, 2021, or a significant 17.23% increase over the prior year. Deposits grew 19.45% to $223,239,994 and loans increased 7.13%, to $168,445,193 for the year.

This past year we achieved a new record in dividend payments to shareholders with total dividends paid of $1.55 per share for 2021, including the additional one-time special year-end dividend of $0.55 per share. Shareholders saw an increase of 5.78% in the fair market value of F&M Bancorp stock for the year. The price at year end 2021 was $90.45 per share, compared to $85.50 at year-end 2020. It should also be noted, that as of the production of this report the price increased to $93.25 per share on February 2, 2022. If you have an interest in expanding your ownership, or participating in our Dividend Reinvestment Program (DRIP), please contact Cindy Spencer at F&M Bancorp at 937-866-2455. You may also continue to contact our "market maker," Jennifer McFarland with Community Banc Investments, Inc. at 1-800-224-1013 for stock sales and purchases. Please feel free to reach out to me personally at smyers@bankwithfm.com with any questions at any time, and we thank you for your investment in F&M Bancorp.

Sincerely,

Shon B. Myers

Shon Myers
Chairman, President and Chief Executive Officer

DIXON, DAVIS, BAGENT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
1205 WEAVER DRIVE • GRANVILLE, OHIO 43023 • 740-321-1000 • FAX 740-321-1100

INDEPENDENT AUDITOR'S REPORT

The Audit Committee of the Board of Directors
F & M Bancorp, Inc. and Subsidiaries • Miamisburg, Ohio

We have audited the accompanying consolidated financial statements of F & M Bancorp, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of F & M Bancorp, Inc. and Subsidiaries as of December 31, 2021 and 2020, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Dixon, Davis, Bagent & Company

Granville, Ohio
February 4, 2022

CONSOLIDATED BALANCE SHEET

	Years Ended December 31,	
ASSETS	**2021**	**2020**
Cash and due from bank	$ 7,179,340	$ 3,318,413
Federal funds sold	23,715,000	17,192,000
Cash and cash equivalents	30,894,340	20,510,413
Time deposits	100,000	600,000
Securities available for sale	57,545,536	40,231,495
Loans, net of allowance for loan losses of $2,340,604 and $2,367,401 for 2021 and 2020, respectively	168,445,193	157,231,864
Accrued interest receivable	871,255	989,887
Property and equipment, net	3,572,330	3,405,934
Bank-owned life insurance	3,703,585	3,609,411
Deferred income taxes	686,999	262,003
Other assets	309,004	168,534
Total assets	$266,128,242	$227,009,541

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES		
Deposits	$223,239,994	$186,898,438
Borrowed funds	16,000,000	16,000,000
Accrued interest payable	40,259	58,413
Other liabilities	997,988	682,386
Total liabilities	240,278,241	203,639,237
SHAREHOLDERS' EQUITY		
Common stock, no par value; 5,000,000 shares authorized 325,237 shares issued and outstanding at stated value	500	500
Additional paid-in capital	3,114,642	2,805,906
Retained earnings	22,392,961	19,558,037
Treasury stock, 4,225 and 4,168 shares, at cost, for 2021and 2020, respectively	(118,794)	(115,511)
Accumulated other comprehensive income (loss)	460,692	1,121,372
Total shareholders' equity	25,850,001	23,370,304
Total liabilities and shareholders' equity	$266,128,242	$227,009,541

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

	Years Ended December 31, 2021	2020
INTEREST INCOME		
Loans	$ 9,339,474	$ 8,448,964
Investment securities		
Taxable	510,526	383,889
Nontaxable	441,954	502,721
	10,291,954	9,335,574
Interest on federal funds sold	3,962	5,088
Interest on deposits with banks	16,017	26,956
Total interest income	10,311,933	9,367,618
INTEREST EXPENSE		
Interest on deposits and borrowed funds	819,295	903,885
Net interest income	9,492,638	8,463,733
PROVISION FOR LOAN LOSSES	500,000	635,000
Net interest income after provision for loan losses	8,992,638	7,828,733
OTHER INCOME (EXPENSE)		
Service charges on deposit accounts	235,844	717,489
Other service charges and fees	448,063	(3,603)
Life insurance income	94,173	115,027
Other income	101,090	30,735
	879,170	859,648
OTHER EXPENSE		
Salaries and employee benefits	2,924,930	2,777,192
Occupancy expense	348,469	313,722
Equipment and data processing	878,849	1,101,070
Outside services	216,542	293,359
Supplies, postage and communication	257,413	162,191
Taxes	187,589	163,017
FDIC insurance expense	5,752	40,327
Other operating expense	907,592	539,981
	5,797,136	5,390,859
INCOME BEFORE FEDERAL INCOME TAX	4,074,672	3,297,522
Federal income tax expense	745,279	584,944
NET INCOME	$ 3,329,393	$ 2,712,578
NET INCOME APPLICABLE TO COMMON STOCK		
Earnings per average shares outstanding	$ 10.45	$ 8.60

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2021	**2020**
NET INCOME	$ 3,329,393	$ 2,712,578
OTHER COMPREHENSIVE INCOME NET OF TAX:		
Unrealized net holding gain (loss) on securities available-for-sale, net of income taxes of $(170,579) and $190,571 for the years ended December 31, 2021 and 2020, respectively	(660,680)	716,911
OTHER COMPREHENSIVE INCOME	(660,680)	716,911
COMPREHENSIVE INCOME	$ 2,668,713	$ 3,429,489

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total
BALANCES, JANUARY 1, 2020	$ 500	$2,657,149	$17,319,344	$(134,985)	$ 404,461	$20,246,469
Comprehensive income:						
Net income			2,712,578			2,712,578
Other comprehensive income, net of tax:						
Unrealized gains on securities					716,911	716,911
Total comprehensive income						3,429,489
Purchase of treasury stock (1,066 shares)				(77,566)		(77,566)
Sale of treasury stock (1,199 shares)				97,040		97,040
Issuance of stock DRIP (1,752 shares)		148,757				148,757
Cash dividends paid, $1.50 per share			(473,885)			(473,885)
BALANCES, DECEMBER 31, 2020	500	2,805,906	19,558,037	(115,511)	1,121,372	23,370,304
Comprehensive income:						
Net income			3,329,393			3,329,393
Other comprehensive income, net of tax:						
Unrealized gains (losses) on securities					(660,680)	(660,680)
Total comprehensive income						2,668,713
Purchase of treasury stock (455 shares)				(39,198)		(39,198)
Sale of treasury stock (398 shares)				35,915		35,915
Issuance of common stock DRIP (3,485 shares)		308,736				308,736
Cash dividends paid, $1.55 per share			(494,469)			(494,469)
BALANCES, DECEMBER 31, 2021	$ 500	$3,114,642	$22,392,961	$(118,794)	$ 460,692	$ 25,850,001

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31, 2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,329,393	$ 2,712,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization, net	235,987	195,257
Depreciation	130,514	128,962
Provision for loan losses	500,000	635,000
Deferred tax (benefit)	(249,372)	(218,717)
Change in value of bank-owned life insurance	(94,174)	(115,026)
Change in cash arising from increase and decrease in assets and liabilities:		
Accrued interest receivable and other assets	(21,837)	(226,817)
Accrued interest payable and other liabilities	297,442	112,033
Net cash provided by (used in) operating activities	4,127,953	3,223,270
CASH FLOW FROM INVESTING ACTIVITIES		
Purchase of FHLB stock	-	(39,200)
Change in time deposits	500,000	500,000
Purchases of securities available for sale	(25,963,151)	(10,232,137)
Maturities or call of securities available for sale	7,576,821	5,992,246
Sales of securities available for sale	-	313,320
Net decrease (increase) in loans	(11,713,327)	(23,623,058)
Purchase of property and equipment	(296,909)	(1,761,314)
Net cash provided by (used in) investing activities	(29,896,566)	(28,850,143)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in deposits	36,341,556	35,617,405
Proceeds from borrowed funds	-	5,000,000
Purchase of treasury stock	(39,198)	(77,566)
Proceeds from sale of treasury stock	35,915	97,040
Issuance of stock for DRIP	308,736	148,757
Cash dividends paid	(494,469)	(473,885)
Net cash (used in) provided by financing activities	36,152,540	40,311,751
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	10,383,927	14,684,878
Cash and cash equivalents, beginning of year	20,510,413	5,825,535
CASH AND CASH EQUIVALENTS, END OF YEAR	$30,894,340	$ 20,510,413
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 837,458	$ 907,154
Income taxes, net	868,949	816,268

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

F & M Bancorp, Inc. (the Company) is a financial holding company. The Company's wholly owned subsidiaries are the Farmers & Merchants Bank of Miamisburg, Ohio, (the Bank) and F & M Insurance, LLC. The Farmers & Merchants Bank operates as an independent state-chartered bank. Its deposits are insured by the Federal Deposit Insurance Corporation (FDIC). The Bank is subject to regulation by the Ohio Department of Commerce – Division of Financial Institutions and the FDIC. F & M Insurance, LLC is an entity that participates in the selling of insurance products. The Company is regulated by the Federal Reserve Bank. The area served by the Bank consists primarily of southern Montgomery County, Ohio.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of change that is reasonably possible cannot be estimated.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary. Significant intercompany accounts and transactions have been eliminated in consolidation.

Concentrations of Credit Risk

All of the Bank's loans and commitments to extend credit have been granted to customers in the Bank's market area. The Bank generally, as a matter of policy, does not extend credit to any single borrower or group of related borrowers in excess of fifteen percent of shareholders' equity. The Bank does not have any significant concentrations to any one industry or customer. The Bank's loans are generally collateralized by specific items including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

Other financial instruments which subject the Bank to concentrations of credit risk include due from banks, federal funds sold, investment securities, and life insurance policies. To limit this risk, the Bank's investment policy limits investing activities to high credit quality financial institutions and sets diversification practices.

Cash Equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include cash on hand, due from banks, including interest-bearing deposits, and federal funds sold. The Bank is required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank.

Investment Securities

A bank may classify its investment securities into held-to-maturity or available-for-sale. Held-to-maturity securities are those which a bank has the positive intent and ability to hold to maturity, and are reported at amortized cost; purchase premiums and discounts are recognized in interest income using the interest method over the period to maturity. Available-for-sale securities are those which a bank could sell for liquidity, asset-liability management, or other reasons even if a bank does not presently intend such sale. Available-for-sale securities are reported at fair value, with unrealized gains or losses reported in other comprehensive income.

The Company and the Bank classify all of their investment securities as available-for-sale. Realized gains and losses on the sale of securities are determined on the specific identification method and are included as other income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Declines in the fair value of individual securities below their cost that are other than temporary result in write-downs of the individual securities to their fair value and recognition on the statement of income as loss from investment securities. In estimating the other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Loans and Allowance for Loan Losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting (i) FASB ASC 450, Contingencies, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, Receivables, which requires that losses on impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability 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 shortfall 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 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.

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans.

These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor in addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment or the debt or in its restoration to a current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put in a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Bank is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Foreclosed Assets

Assets acquired through foreclosure or other proceedings are initially recorded at fair value at the date of foreclosure less estimated costs of disposal, which establishes a new cost. After foreclosure, valuations are periodically performed by management and foreclosed assets held for sale are carried at the lower of cost or fair value less estimated costs of disposal. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan and lease losses. Property is evaluated regularly to ensure the recorded amount is supported by its current fair value and valuation allowance to reduce the carrying amount to fair value less estimated costs to dispose are recorded as necessary. Revenue and expense from the operations of foreclosed assets and changes in the valuation allowances are included in the other operating expenses.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation computed using straight-line and accelerated methods over the estimated useful lives of the assets ranging from five to thirty-nine years. Maintenance and repairs are charged to expense as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations. Impairment is recognized when the carrying value of property and equipment is not recoverable.

Bank-Owned Life Insurance

Bank-owned life insurance is carried at cash surrender value of underlying insurance contracts. No deferred income tax provision for potential taxes on the accumulated increase in surrender value is made because the Bank intends to hold the policies to maturity and thereby recover the asset without tax consequences.

Advertising Costs

Advertising and promotion costs are expensed as incurred. Advertising and promotion costs totaled $60,014 in 2021 and $198,693 in 2020.

Income Taxes

Income taxes are provided for the tax effects reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of available-for-sale securities, allowance for loan losses, accumulated depreciation, and accrued employee benefits. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Company files consolidated income tax returns with its subsidiary on a calendar year basis.

The Company does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Company's policy is to recognize interest and penalties on income taxes in other noninterest expenses.

The Company remains subject to examination for income tax returns for the years ending after December 31, 2017.

Treasury Stock

The cost method is followed in accounting for treasury stock.

Off-Balance Sheet Financial Instruments

In the ordinary course of business the Bank has entered into off balance sheet financial instruments consisting of commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded or related fees are incurred or received.

Earnings per Share

Basic earnings per share are computed by dividing net income by the weighted average number of common shares outstanding during the period.

Comprehensive Income

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

The components of other comprehensive income and the related tax effects are as follows:

	Years Ended December 31,	
	2021	**2020**
Unrealized gains (losses) arising during the year	$ (836,304)	$ 907,482
Reclassification adjustment for gains (losses) included in net income	-	-
Net unrealized gains (losses)	831,258	907,482
Tax effect	175,624	(190,571)
Net-of-tax amount	$ (660,680)	$ 716,911

The components of accumulated other comprehensive income, included in shareholders' equity, are as follows:

	Years Ended December 31,	
	2021	2020
Net unrealized gain (loss) on securities available for sale	$ 583,155	$ 1,419,458
Tax effect	(122,463)	(298,086)
Total	$ 460,692	$ 1,121,372

Fair Value Measurements

The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Reclassifications

Certain amounts reported in the previous year's consolidated financial statements have been reclassified to conform to the current year's presentation.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 4, 2022, which is the date the consolidated financial statements were available to be issued.

NOTE 2 INVESTMENT SECURITIES

The amortized cost and estimated fair values of investment securities available for sale are summarized as follows:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency	$ 13,557,889	$ 72,270	$ (179,234)	$ 13,450,925
Mortgage-backed	13,726,748	135,630	(151,607)	13,710,771
Municipal	27,565,984	873,622	(167,526)	28,272,080
Commercial	1,250,000	0	0	1,250,000
Equity	831,760	0	0	831,760
Total	$ 56,932,381	$ 1,081,522	$ (498,367)	$ 57,515,536

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. Government agency	$ 9,088,117	$ 183,748	$ (17,185)	$ 9,254,680
Mortgage-backed	6,161,265	245,639	(4,328)	6,402,576
Municipal	22,264,032	1,021,961	(19,604)	23,266,389
Commercial	491,122	9,228	-	500,350
Equity	807,500	-	-	807,500
Total	$ 38,812,036	$ 1,460,576	$ (41,117)	$ 40,231,495

Mortgage-backed securities consist of pass-through certificates of the FHLMC and FNMA.

Investment securities with amortized cost of $31,218,884 and $24,736,247 were pledged to collateralize public deposits at December 31, 2021 and 2020, respectively. Fair value of these securities was $31,838,330 and $25,822,131 at December 31, 2021 and 2020, respectively.

Proceeds from the sale or call of investment securities in 2021 and 2020 amounted to $0 and $4,308,320, respectively. Gross realized gains were $0 and $8,275 in 2021 and 2020, respectively. Gross realized losses were $0 and $5,518 in 2021 and 2020, respectively.

The following table shows the maturity distribution of securities at December 31, 2021. Mortgage-backed securities are included in the table based upon contractual maturity.

	Available-for-Sale	
	Amortized Cost	*Estimated Fair Value*
Due in one year or less	$ 508,382	$ 517,533
Due from one year to five years	4,296,551	4,429,540
Due from five to ten years	24,450,722	24,484,863
Due after ten years	26,844,966	27,251,840
Equity	831,760	831,760
	$ 56,932,381	$ 57,515,536

The following table shows the gross unrealized losses and fair value of securities in the available-for-sale portfolio at December 31, 2021 and 2020, by length of time that individual securities in each category have been in a continuous loss position. Because the declines in fair value were due to changes in market interest rates, not in estimated cash flows or credit quality, and because management has the ability to hold these securities until maturity or for the foreseeable future, no other-than-temporary impairment has been recognized.

	Less Than 12 Months		***12 Months or More***		***Total***	
December 31, 2021	*Gross Unrealized Losses*	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*
U.S. Government Agency	$ (102,788)	$ 6,898,220	$ (76,446)	$ 1,984,720	$ (179,234)	$ 8,882,940
Mortgage-backed	(140,474)	9,508,953	(11,133)	793,749	(151,607)	10,302,702
Commercial	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Municipal	(154,834)	9,122,102	(12,692)	772,810	(167,526)	9,894,912
Total	$ (398,096)	$25,529,275	$ (100,271)	$ 3,551,279	$ (498,367)	$29,080,554

	Less Than 12 Months		***12 Months or More***		***Total***	
December 31, 2020	*Gross Unrealized Losses*	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*	*Gross Unrealized Losses*	*Fair Value*
U.S. Government Agency	$ (17,185)	$ 2,054,045	$ -	$ -	$ (17,185)	$ 2,054,045
Mortgage-backed	(4,329)	1,058,902	-	-	(4,329)	1,058,902
Commercial	-	-	-	-	-	-
Equity	-	-	-	-	-	-
Municipal	(19,603)	1,244,927	-	-	(19,603)	1,244,927
Total	$ (41,117)	$ 4,357,874	$ -	$ -	$ (41,117)	$ 4,357,874

NOTE 3 LOANS

Major classifications of loans are as follows:

	Years Ended December 31,	
	2021	**2020**
Real estate loans	$ 123,008,364	$ 106,549,576
Government guaranteed loans	1,928,852	2,217,828
Lines of credit	3,265,609	7,192,318
Business installment loans	10,571,043	15,504,753
Collateral loans	2,236,790	2,253,836
Consumer loans	1,437,670	2,020,267
Indirect loans	-	-
Other loans	28,826,883	23,860,687
Subtotal	171,275,211	159,599,265
Less: Allowance for loan losses	(2,830,018)	(2,367,401)
Loans, net	$ 168,445,193	$ 157,231,864

Changes in the allowance for loan losses are as follows:

	Years Ended December 31,	
	2021	**2020**
Balance, beginning of year	$ 2,367,401	$ 1,758,244
Provision for loan losses	500,000	635,000
Loans charged off	(46,665)	(32,998)
Recoveries	9,282	7,155
Balance, end of year	$ 2,830,018	$ 2,367,401

Nonaccrual loans at December 31, 2021 and 2020, totaled $1,632,000 and $1,718,000, respectively. Total loans greater than 90 days past due with interest still accruing were $0 and $164,000 at December 31, 2021 and 2020, respectively. At December 31, 2021 and 2020, the total recorded investment in impaired loans, all of which had allowances determined in accordance with generally accepted accounting principles, amounted to $2,634,905 and $2,847,198. The allowance for loan losses related to impaired loans amounted to approximately $612,801 at December 31, 2021 ($668,229 at December 31, 2020). The Bank has no commitments to loan additional funds to borrowers whose loans have been modified. The average recorded investment in impaired loans amounted to $2,741,052 and $2,356,022 for the years ended December 31, 2021 and 2020, respectively. Interest income on impaired loans of $68,001 and $72,698 was recognized for cash payments received in 2021 and 2020, respectively.

December 31, 2021

	(Dollars in thousands)			
	Commercial and Industrial	Consumer	Real Estate	Total
Allowance for credit losses:				
Beginning balance	$ 138	$ 39	$ 2,190	$ 2,367
Charge-offs	(32)	(15)	-	(47)
Recoveries	-	5	4	9
Provision	72	5	423	500
Ending balance	$ 178	$ 35	$ 2,617	$ 2,830

December 31, 2020

	(Dollars in thousands)			
	Commercial and Industrial	Consumer	Real Estate	Total
Allowance for credit losses:				
Beginning balance	$ 41	$ 35	$ 1,682	$ 1,758
Charge-offs	-	(33)	-	(33)
Recoveries	-	5	2	7
Provision	97	32	506	635
Ending balance	$ 138	$ 39	$ 2,190	$ 2,367

Impaired loans at December 31, 2021

	(Dollars in thousands)			
	Recorded Investments	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
With an allowance recorded:				
Residential	$ 720	$ 720	$ 181	$ 30
Investment property	125	125	26	8
Commercial	1,790	1,790	406	30
Total	$ 2,635	$ 2,635	$ 613	$ 68

Impaired loans at December 31, 2020

	(Dollars in thousands)			
	Recorded Investments	*Unpaid Principal Balance*	*Related Allowance*	*Interest Income Recognized*
With an allowance recorded:				
Residential	$ 742	$ 742	$ 213	$ 30
Investment property	204	204	49	10
Commercial	1,901	1,901	406	14
Total	$ 2,847	$ 2,847	$ 668	$ 54

Schedule of past due loans as of December 31, 2021:

	(Dollars in thousands)			
	30-89 Days Past Due	*90 Days and Accruing*	*Nonaccrual*	*Total Past Due*
Loans secured by real estate	$ 18	$ -	$ 68	$ 86
Commercial	-	-	1,564	1,564
Consumer loans	-	-	-	-
Other loans	-	-	-	-
Total	$ 18	$ -	$ 1,632	$ 1,650

Schedule of past due loans as of December 31, 2020:

	(Dollars in thousands)			
	30-89 Days Past Due	*90 Days and Accruing*	*Nonaccrual*	*Total Past Due*
Loans secured by real estate	$ -	$ -	$ 73	$ 73
Commercial	164	-	1,645	1,718
Consumer loans	-	-	-	-
Other loans	-	-	-	-
Total	$ 164	$ -	$ 1,718	$ 1,791

During the year ending December 31, 2021, the terms of certain loans were modified as troubled debt restructurings. The modification of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan or a restructure of future payments through maturity, which could also include a stated rate of interest lower than the current market rate for new debt with similar risk.

The following table presents loans by class modified as troubled debt restructurings that were outstanding for the year ending December 31, 2021.

	(Dollars in thousands)	
	Number of Loans	*Post Modification Balance at December 31, 2021*
Troubled Debt Restructurings:		
Real estate mortgage:		
Residential	8	$ 996
Commercial	2	1,578
Agriculture	-	-
Total	10	$ 2,574

The troubled debt restructurings described above had specific reserves of $571,000 at December 31, 2021 and resulted in no charge offs during the year ended December 31, 2021.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debts in the foreseeable future without modification.

Credit Quality Information

The Bank's internally assigned grades are as follows:

Pass loans are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral. There are three subgrades within the Pass category to further distinguish the loan.

Special Mention loans are loans for which a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard loans have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful loans have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

NOTE 3 LOANS: Continued

Loss loans are considered uncollectible, or of such value that continuance as an asset is not warranted.

The following table represents credit exposures by internally assigned grades for the years ended December 31, 2021 and 2020. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

	(Dollars in thousands)	
	2021	**2020**
Special Mention	$ -	$ -
Substandard	3,024	3,199
Doubtful	-	-
Ending balance	$ 3,024	$ 3,199

NOTE 4 PROPERTY AND EQUIPMENT

Major classifications of these assets are as follows:

	Years Ended December 31,	
	2021	**2020**
Land and land improvements	$ 1,202,048	$ 1,709,666
Buildings	1,712,660	1,712,660
Furniture and banking equipment	628,502	564,472
Leasehold improvements	16,458	16,458
Construction in process	1,491,777	751,280
Total, at cost	5,051,445	4,754,535
Accumulated depreciation	(1,479,115)	(1,348,601)
Depreciated cost	$ 3,572,330	$ 3,405,934

Depreciation expense amounted to $130,514 and $128,962 for the years ended December 31, 2021 and 2020, respectively.

NOTE 5 DEPOSITS

Most classifications of deposits are as follows:

	Years Ended December 31,	
	2021	2020
Demand, non interest bearing	$ 73,829,664	$ 59,531,425
NOW and MMDA accounts, interest bearing	27,252,913	32,552,586
Savings	101,030,554	70,446,349
Certificates of deposit	20,421,174	24,368,078
Total deposits	$ 222,534,305	$ 186,898,438

Detail of interest expense is:

	Years Ended December 31,	
	2021	2020
NOW and MMDA accounts, interest bearing	$ 50,626	$ 27,421
Savings	289,955	275,512
Certificates of deposit	212,614	346,578
Borrowed funds	266,100	254,374
Total interest expense	$ 819,295	$ 903,885

The aggregated amount of demand deposits reclassified as loan balances are $28,508 and $56,201, at December 31, 2021 and 2020, respectively. Certificates of deposit of $250,000 or more amounted to $4,743,000 and $5,395,000, at December 31, 2021 and 2020, respectively. Certificates of deposit are expected to mature as follows: 2022 - $12,933,026; 2023 - $4,726,032; 2024 - $1,147,627; 2025 - $1,286,299 and 2026 - $328,190.

NOTE 6 COMMON STOCK

During 2021, the Company purchased 455 shares of treasury stock at $86.15 per share average and sold 398 shares at $90.24 per share average, for total proceeds of $35,915.

During 2020, the Company purchased 1,066 shares of treasury stock at $72.76 per share average and sold 1,199 shares at $80.93 per share average, for total proceeds of $97,040.

During 2020, the Company began a Dividend Reinvestment and Stock Purchase Plan (DRIP). The plan provides the opportunity to Ohio stockholders of F&M Bancorp the opportunity to acquire additional shares of common stock utilizing future dividends and optional cash contributions. Participants may elect to reinvest either 50% or 100% of any dividends that become payable and purchase additional shares of not less than $100 nor more than $2,000 per calendar quarter.

NOTE 7 FEDERAL INCOME TAX

Federal income tax expense (benefit) is as follows:	Years Ended December 31, 2021	2020
Currently (refundable) payable	$ 873,063	$ 760,133
Deferred income tax (benefit)	(127,784)	(175,189)
Federal income tax expense	$ 745,279	$ 584,944

Tax-exempt income from state and municipal investment securities and loans and bank-owned life insurance causes the current provision for federal income tax expense (benefit) to differ significantly from tax provisions expected if statutory tax rates.

Deferred income tax (benefit) is based on the following items:	Years Ended December 31, 2021	2020
Temporary differences in:		
Provision for loan losses	$ (97,150)	$ (127,923)
Loan points deferred	(11,381)	(60,478)
Depreciation	5,942	11,962
Other	(25,195)	1,250
Deferred income tax (benefit)	$ (127,784)	$ (175,189)

The components of the net deferred tax asset are as follows:

	Years Ended December 31, 2021	2020
Deferred tax assets:		
Provision for loan losses	$ 538,152	$ 441,002
AFS securities	-	-
Loan points deferred	126,943	115,562
Other	196,216	61,318
	861,311	617,882
Deferred tax liabilities:		
AFS securities	(122,462)	(298,087)
Depreciation	(51,850)	(57,792)
Other	-	-
Net deferred tax asset (liability)	$ 686,999	$ 262,003

There is no deferred tax asset valuation allowance at December 31, 2021 and 2020 because management believes that it is more likely than not that the Bank's deferred tax assets will be realized by offsetting future taxable income from reversing taxable temporary differences. The deferred taxes at December 31, 2021 and 2020 are valued at the 21% tax rate.

The Company files federal income tax returns each year. The State of Ohio currently imposes a tax on the net worth of banks operating in the state of Ohio; this tax is not "income based" and is classified in operating expenses on the consolidated statement of income. The Company does not have out of state operations, and accordingly, income tax filings are not required in other states.

NOTE 8 RETIREMENT PLANS

The Bank contributes to a multiemployer defined pension plan. The risk of participating in a multiemployer plan is different from single employer plans in the following aspects:

Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers.

If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by remaining participating employers.

If the Bank chooses to stop participating in its multiemployer plan, the Bank may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Bank's participation in this plan for the annual period ended December 31, 2021, is outlined in the table below. The "EIN/Plan Number" column provides the Employee Identification Number (EIN) and the three-digit plan number. Unless otherwise noted, the most recent Pension Protection Act (PPA) zone status available in 2021 and 2020 is for the plan's June 30, 2021 and 2020, respectively. The zone status is based on information that the bank received from the plan and is certified by the plan's actuary. Among other factors, plans in the red zone are generally less than 65 percent funded, plans in the yellow zone are less than 80 percent funded, and plans in the green zone are at least 80 percent funded. The "FIP/RP" Status Pending/Implemented" column indicates plans for which a financial improvement plan (FIP) or a rehabilitation plan (RP) is either pending or has been implemented.

					(Dollars in thousands)			
Pension Fund	EIN/Plan Number	Pension Protection Act Zone Status 2018	2017	FIP/RP Status Pending/ Implemented	Contributions 2021	2020	2019	Surcharge Imposed
Pentegra DB Plan	*13-5645888-333*	*Green*	*Green*	*No*	*$120*	*$134*	*$144*	*No*

Total contributions made to the Pentegra DB Plan, as reported on Form 5500, equal $253,198,886 and $138,321,604 the plan years ended June 30, 2020 and 2019, respectively. The Bank's contributions to the Pentegra DB Plan are not more than 5 percent of the total contributions to the Pentagon DB Plan.

The Bank also sponsors a defined contribution retirement plan [401(k) plan] that provides for Bank matching of employee contributions. The Bank contributed $160,000 and $134,445 to the plan for 2021 and 2020, respectively.

The Bank maintains a non-qualified deferred compensation program for selected management employees who, due to Internal Revenue Service guidelines, cannot take full advantage of the Bank's other qualified retirement plans. The program does not require funding. In connection with this plan, the Bank purchased single premium life insurance policies. The annual increase in the cash surrender value of these policies in excess of a predetermined threshold is used to calculate the actual amounts payable to the participants in the deferred compensation program.

NOTE 8 RETIREMENT PLANS: Continued

The estimated projected cost of these retirement benefits is being recognized ratably so that the present value of the expected benefit payable will be accrued by respective retirement dates. Accrued expense related to this program amounted to $27,846 and $46,444 at December 31, 2021 and 2020. The expense recognized in 2021 and 2020 totaled $0 and $15,952. The Bank-owned life insurance had a cash surrender value of approximately $3,703,585 and $3,609,412 at December 31, 2021 and 2020, respectively.

In addition to the retirement plans, certain medical insurance benefits are provided for eligible retired employees. The annual costs of these benefits are not material and are expensed as paid.

NOTE 9 LINE OF CREDIT ARRANGEMENTS

As part of its liquidity management program, the Bank has line of credit arrangements with United Bankers' Bank and Federal Home Loan Bank, which presently provide an aggregate borrowing capacity of approximately $10,000,000. The arrangements generally require variable rate interest charges based on market borrowing rates and are renewed annually.

Borrowed funds are comprised of the following at December 31:

	Current Interest Rate	Balance 2021	Balance 2020
Federal Home Loan Bank advances			
Fixed rate advances, due at maturity			
Advance due on 01/14/22	2.46%	$ 4,000,000	$ 4,000,000
Advance due on 04/14/23	0.89%	5,000,000	5,000,000
Advance due on 08/14/24	1.76%	7,000,000	7,000,000
Total Federal Home Loan Bank advances		16,000,000	16,000,000
Federal funds purchased		-	-
		$ 16,000,000	$ 16,000,000

The aggregate minimum future annual principal payments on FHLB advances are as follows:

2022	$ 4,000,000
2023	5,000,000
2024	7,000,000
2025	-
2026	-
Ending balance	$ 16,000,000

NOTE 10 RELATED-PARTY TRANSACTIONS

The Bank has entered into lending and depository transactions with its employees, officers, directors and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties was $3,307,391 and $1,748,809 at December 31, 2021 and 2020, respectively. During 2021 and 2020, new loans to such related parties amounted to $1,684,000 and $379,627 and repayments amounted to $395,418 and $1,230,813, respectively.

Deposits from related parties held by the Bank at December 31, 2021 and 2020 amounted to $3,317,085 and $2,199,030, respectively.

NOTE 11 RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank. However, special approval by the superintendent of financial institutions is required for the declaration of dividends and distributions if the total of those amounts would exceed the sum of the Bank's current net income for the year combined with its retained net income of the preceding two years. In addition, dividends paid by the Bank to the Company would be prohibited if the effect would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 12 COMMITMENTS

The Bank is a party to financial instruments with off-balance sheet-risk in the normal course of business to meet the financing needs of its customers. The Bank has commitments to extend credit aggregating $26,289,000 and $24,974,000 at December 31, 2021 and 2020, respectively. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank's experience has been that approximately forty percent of these commitments will be drawn upon by customers. No significant losses are anticipated as a result of these commitments. The Bank has not incurred any losses on its commitments in either 2021 or 2020.

NOTE 13 LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 14 INTEREST RATE RISK

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank's overall interest rate risk.

NOTE 15 PARENT COMPANY CONDENSED FINANCIAL STATEMENTS

The parent company condensed financial statements, which include transactions with subsidiaries, are as follows:

F & M BANCORP, INC.

BALANCE SHEET

	Years Ended December 31,	
ASSETS	**2021**	**2020**
Cash and cash equivalents	$ 218,246	$ 227,117
Securities available for sale	447,377	658,513
Investment in subsidiary, equity method	24,330,316	21,630,180
Bank-owned life insurance	983,970	957,387
Other assets	1,217	2,343
Total assets	$ 25,981,126	$ 23,475,540

	Years Ended December 31,	
LIABILITIES AND EQUITY	**2021**	**2020**
Liabilities	$ 131,125	$ 105,236
Common stock	500	500
Capital surplus	3,114,642	2,805,906
Retained earnings	22,392,961	19,558,037
Unrealized gain (loss) on securities, net of deferred tax	460,692	1,121,372
Treasury stock	(118,794)	(115,511)
Total equity	25,850,001	23,370,304
Total liabilities and equity	$ 25,981,126	$ 23,475,540

STATEMENT OF INCOME

	Years Ended December 31,	
INCOME	**2021**	**2020**
Interest income	$ 13,772	$ 23,103
Insurance contract income	26,582	26,065
Equity in undistributed earnings of subsidiary	3,361,072	2,749,403
Total income	3,401,426	2,798,571
OPERATING EXPENSES	72,033	85,993
NET INCOME	$ 3,329,393	$ 2,712,578

NOTE 15 PARENT COMPANY CONDENSED FINANCIAL STATEMENTS: Continued

STATEMENT OF CASH FLOWS

	Years Ended December 31, 2021	Years Ended December 31, 2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 3,329,393	$ 2,712,578
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(3,361,072)	(2,749,403)
Amortization, net	6,458	11,358
Change in value of corporate-owned life insurance	(26,583)	(26,064)
Net change in other assets and other liabilities	(3,051)	129,941
Net cash provided by (used in) operating activities	(54,855)	78,410
CASH FLOWS FROM INVESTING ACTIVITIES		
Call of securities available for sale	235,000	265,000
Net cash provided by (used in) investing activities	235,000	265,000
CASH FLOWS FROM FINANCING ACTIVITIES		
Purchase of treasury stock	(39,198)	(77,566)
Proceeds from sale of treasury stock	35,915	97,040
Issuance of stock for DRIP	308,736	148,757
Cash dividends paid	(494,469)	(473,885)
Net cash provided by (used in) financing activities	(189,016)	(305,654)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,871)	37,756
Cash and cash equivalents, beginning of year	227,117	189,361
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 218,246	$ 227,117

NOTE 16 REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Bank exceeds all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category. The Bank's actual capital amounts (exclusive of Parent Company capital) and ratios are also presented in the table.

					(Dollars in thousands)	
	Actual		*Minimum For Capital Adequacy Purposed*		*Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions*	
As of December 31, 2021	*Amount*	*Ratio*	*Amount*	*Ratio*	*Amount*	*Ratio*
Total Capital						
(to Risk Weighted Assets)	$ 26,133	14.5%	$ 14,472	8.0%	$ 18,090	10.0%
Tier 1 Capital						
(to Risk Weighted Assets)	23,865	13.2	10,854	6.0	14,472	8.0
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	23,865	13.2	8,140	4.5	11,758	6.5
Tier I Capital						
(to Average Assets)	23,865	8.9	10,681	4.0	13,352	5.0
As of December 31, 2020						
Total Capital						
(to Risk Weighted Assets)	$ 22,575	13.6%	$ 13,255	8.0%	$ 16,869	10.0%
Tier 1 Capital						
(to Risk Weighted Assets)	20,500	12.4	9,941	6.0	13,255	8.0
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)	20,500	12.4	7,456	4.5	10,770	6.5
Tier I Capital						
(to Average Assets)	20,500	9.1	9,027	4.0	11,284	5.0

NOTE 17 FAIR VALUE

FASB ASC 820 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used by the industry to value debt securities without relying exclusively on quoted prices for specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs).

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are typically significant and result in a Level 3 classification of the inputs in determining the value.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below:

As of December 31, 2021	*Fair Value Measurements Using*		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
ASSETS			
Available for sale securities			
U.S. Government agency	$ -	$ 13,450,925	$ -
Mortgage-backed	-	13,710,771	-
Municipal	-	28,272,080	-
Commercial	-	1,250,000	-

As of December 31, 2020	*Fair Value Measurements Using*		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
ASSETS			
Available for sale securities			
U.S. Government agency	$ -	$ 9,254,680	$ -
Mortgage-backed	-	6,402,576	-
Municipal	-	23,266,389	-
Commercial	-	500,350	-

Impaired loans, which measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,635,000 with a valuation allowance of $613,000 as of December 31, 2021.

Impaired loans, which measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $2,847,000 with a valuation allowance of $668,000 as of December 31, 2020.

In accordance with the disclosure requirements of FASB ASC 825, Financial Instruments, the estimated fair values of the Company's financial instruments are as follows:

December 31, 2021			*Fair Value Measurements*		
	Carrying Amount	*Fair Value*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
FINANCIAL ASSETS					
Cash and cash equivalents	$ 30,894,340	$ 30,894,340	$ 30,894,340	$ -	$ -
Time deposits	100,000	100,000	100,000	-	-
Investment securities					
Available-for-sale	57,545,536	57,545,536	-		
Net loans	168,445,193	169,067,000	-	-	169,067,000
FINANCIAL LIABILITIES					
Deposits	$223,239,994	$221,519,000	$ -	$ -	$221,519,000
Borrowings	16,000,000	16,000,000	-	-	16,000,000

December 31, 2020			*Fair Value Measurements*		
	Carrying Amount	*Fair Value*	*Quoted Prices (Level 1)*	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
FINANCIAL ASSETS					
Cash and cash equivalents	$ 20,510,413	$ 20,510,413	$ 20,510,413	$ -	$ -
Time deposits	600,000	600,000	600,000		
Investment securities					
Available-for-sale	40,231,495	40,231,495	-	40,231,495	-
Net loans	157,231,864	156,131,241	-	-	156,131,141
FINANCIAL LIABILITIES					
Deposits	$186,049,009	$186,551,341	$ -	$ -	$186,551,341
Borrowings	16,000,000	16,000,000	-	-	16,000,000

The following methods and assumptions were used to estimate the fair value disclosures for financial instruments as of December 31, 2021 and 2020:

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated to approximate the carrying amounts.

Investment securities and restricted stock

Fair values are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans

Fair values are estimated for portfolios of loans with similar financial characteristics. Each portfolio is further segmented into fixed and adjustable rate interest terms by performing and on-performing categories.

The fair value of performing loans is calculated by discounting estimated cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. The estimated cash flows do not anticipate prepayments.

Management has made estimates of fair value discount rates that it believes to be reasonable. However, because there is no market for many of these financial instruments, management has no basis to determine whether the fair value presented for loans would be indicative of the value negotiated in an actual sale.

Deposits

The fair value of deposits with no stated maturity, such as noninterest-bearing demand deposits, savings, NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the discounted value of contractual cash flows. The discount rate is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

The carrying amounts in the preceding table are included in the balance sheet under the applicable captions. The contract or notional amounts of the Bank's financial instruments with off-balance-sheet risk disclosed in NOTE 12.

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