



F&M FINANCIAL CORPORATION

EXCESSIVE OR LUXURY EXPENDITURE POLICY

SEPTEMBER 9, 2009

(Revised August 26, 2010)

This Policy fulfills the requirements under the American Recovery and Reinvestment Act of 2009 (ARRA) enacted February 17, 2009. ARRA requires each recipient of funds under the Capital Purchase Program (CPP) of the Troubled Assets Relief Program (TARP) to have in place a company-wide policy regarding excessive or luxury expenditures, as identified by the Secretary of the Department of the U.S. Treasury.

F&M Financial Corporation prohibits excessive or luxury expenditures on entertainment and events, office or facility renovations, aviation or other transportation services or other activities or events that are not reasonable expenditures for conferences, staff development, reasonable performance incentives or other similar measure conducted in the normal course of business operations.

Renovations

Renovations of facilities and office spaces should be relative to the approved project and current profit plan of the Company. An exception to this can be allowed if management must deal with an emergency situation, such as an act of nature, and the expenditure is necessary to make the facility operational for customer use. At no time should renovations be done that would have the appearance of being extraordinary, or excessive from a shareholder perspective.

Entertainment

Entertainment is defined as an activity that an Employee or Executive would use corporate funds for business development purposes relating to a current customer or prospective customer, or to further enhance the Company's marketing efforts.

Our Policy is that all expenses incurred to the Bank would be for Company purposes, and used to drive business to the Bank. Taking customers or prospects to restaurants, or taking them to various events is a necessary part of the Company's marketing efforts and is not deemed as "luxury" or a violation of this policy. These expenses should be documented and detailed as to the benefit derived by the Bank through the normal accounts payable process.

Conferences

We encourage our staff to attend conferences that are appropriate educational opportunities. These conferences must be related to the financial services industry and have a direct correlation to their job. Although rarely, at times it may be appropriate that a spouse would travel to these conferences with Company attendees. The Bank may pay the cost for spouses to attend for employees other than executive officers with the approval of the CEO. The Bank may pay for spouses to attend for executive officers with the approval of the Chairman of the Board of F&M Bank. These conferences may be sponsored by vendors, banking associations, or other industry related entities.

Employee Recognition/Holiday Parties

We feel that employee recognition/parties are part of an employee appreciation process. These events should be local in geographic nature, and costs should be factored in relation to the benefit derived.

Board/Management Retreats

Retreats shall only be used for educational or business planning purposes, and should be kept in consideration and looked at in the same view and discretion as all other expenses. Board education is a vital part of maintaining, and keeping a dynamic director base, and this Policy should not limit a retreat that is focused on strategic planning or education.

Aviation Services

Transportation for Company staff to outlying locations, including bank locations, conferences, business development purposes and merger and acquisition research, should be conducted in the most cost appropriate way for the Company. Modes of transportation to be used may consist of vehicle, commercial air or rail service. The selection of transportation services will factor in cost, efficiency and timeliness of travel. Private air services are not allowed.

Expenditures for Activities and Events

The Chief Executive Officer's or Chief Operating Officer's prior approval is required for expenditures for a Company activity or event, such as a holiday party or retreat, with a total cost that exceeds \$20,000. If the cost exceeds \$50,000, prior approval of the Board of Directors is required.

Documentation

All Company expenditures, including those expenditures covered by this Policy, shall be documented, reported, supported by written invoices and receipts, and subject to audit in accordance with standard, uniformly-applied Company policies and procedures. Any item that is pre-approved in accordance with this Policy by an executive officer of the Company or the Board of Directors must be documented in writing, including by electronic mail, by the approving party and copies of such documentation shall be forwarded to both the Chief Executive Officer and the Chief Financial Officer.

Administration

The CFO is responsible for the day-to-day administration of this policy, and the CEO is accountable for overall adherence to this policy and must approve any exceptions. Strict adherence to this Policy is mandated for all Company employees. Violations of this Policy shall be promptly reported to the Board of Directors. Compliance with this policy is a condition of employment, and any violations thereof may result in disciplinary action up to and including discharge.

This Policy, and any amendments hereto, shall be provided to the U.S. Department of the Treasury and the FDIC.



A Century Strong