

F & M BANCSHARES, INC.
Excessive and Luxury Expenditure Policy

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 Bancshares, Inc. (the "Company") 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, and tracked within the capital expenditure policy 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 expectation is that all expenses incurred by the Company would be for business purposes, and used to drive business to the Company. Occasional events such as taking customers or prospects on trips, playing golf, eating dinner, or taking them to other events the customer/prospect would find pleasurable 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 Company through the normal accounts payable process.

Events and parties focused on customers for the purpose of attracting their business would not fall under this policy.

Conferences:

We encourage our staff to attend conferences that are appropriate educational opportunities. These conferences should be related to the financial services industry and have a direct correlation to their job. At times it may be appropriate that a spouse would travel to these conferences with Company attendees. Typically these conferences are sponsored by vendors, banking associations, or other industry related entities.

Employee Recognition/Holiday Parties:

We feel that employee recognition/holiday parties are part of an employee appreciation process. These events should be local in geographic nature, and would include costs for such things as service awards and nominal door prizes. An event should not cost the sponsoring business unit more than an average day's payroll per employee.

Board/Management Retreats:

Retreats should 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 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 without the approval of the Chairman of the Company's Board of Directors.

Adopted July 8th, 2009