



ANNUAL USE OF CAPITAL SURVEY - 2009

NAME OF INSTITUTION

(Include Holding Company Where Applicable)

FARMERS AND MERCHANTS FINANCIAL CORPORATION

Person to be contacted regarding this report:	Leon A. Drouhard
UST Sequence Number:	997
CPP Funds Received:	442,000
CPP Funds Repaid to Date:	0
Date Funded (first funding):	Mar 20, 2009
Date Repaid ¹ :	N/A

RSSD: (For Bank Holding Companies)	1059694
Holding Company Docket Number: (For Thrift Holding Companies)	NA
FDIC Certificate Number: (For Depository Institutions)	17719
City:	ARGONIA
State:	Kansas

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP). To answer that question, Treasury is seeking responses that describe generally how the CPP investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP investment was deployed or how many CPP dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP funds were outstanding).

<input checked="" type="checkbox"/>	Increase lending or reduce lending less than otherwise would have occurred.	Lending increased from \$16,438,000 at the end of 2008 to \$18,089,000 at the end of 2009.
<input checked="" type="checkbox"/>	To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).	Majority of increase in lending was to small business commercial and farm businesses. Residential financing also increased
<input type="checkbox"/>	Increase securities purchased (ABS, MBS, etc.).	

<input checked="" type="checkbox"/>	Make other investments	\$100,000 was injected directly into the subsidiary bank to increase its Tier 1 Capital level.
<input type="checkbox"/>	Increase reserves for non-performing assets	
<input checked="" type="checkbox"/>	Reduce borrowings	\$300,000 of the \$442,000 CPP funds was used to reduce earlier borrowings incurred by the holding company to inject capital into the subsidiary bank.
<input type="checkbox"/>	Increase charge-offs	
<input type="checkbox"/>	Purchase another financial institution or purchase assets from another financial institution	
<input type="checkbox"/>	Held as non-leveraged increase to total capital	

What actions were you able to avoid because of the capital infusion of CPP funds?

We were able to not curtail our lending business during this severe recession.

What actions were you able to take that you may not have taken without the capital infusion of CPP funds?

We would not have been able to continue our existing level of lending nor increase our lending. This would have severely impacted our community, small businesses and farm customers

Please describe any other actions that you were able to undertake with the capital infusion of CPP funds.

We actually increased our lending at a time when lending was being severely curtailed by most lending institutions.