

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION
(Include Holding Company Where Applicable)

Farmers & Merchants Bank-F&M Bancshares, Inc

Point of Contact:	J Barry Cary	RSSD: (For Bank Holding Companies)	1135806
UST Sequence Number:	650	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	8,144,000	FDIC Certificate Number: (For Depository Institutions)	8439
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	January 31, 2009	City:	Trezevant
Date Repaid ¹ :	N/A	State:	Tennessee

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) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI 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/CDCI investment was deployed or how many CPP/CDCI 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/CDCI 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/CDCI funds were outstanding).

Increase lending or reduce lending less than otherwise would have occurred.

CPP Funding continues to aid this bank's effort to boost lending and produce economic growth and job creation within its rural service areas.

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.).

All segments have grown with residential mortgages up approximately \$5 Million due to the Express Mortgage promotion earlier this year. The Agricultural segment continues to prosper but input costs are up thus funds have been very helpful in accommodating larger requests.

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Increase securities purchased (ABS, MBS, etc.).

Empty response box for 'Increase securities purchased (ABS, MBS, etc.).'

Make other investments.

Empty response box for 'Make other investments.'

Increase reserves for non-performing assets.

Reserve building is a key objective of Farmers & Merchants Bank; however, it has been necessary to charge down problem assets. Elevated provision expense is anticipated throughout 2011 but should diminish mid-way through 2012.

Empty response box for 'Increase reserves for non-performing assets.'

Reduce borrowings.

Empty response box for 'Reduce borrowings.'

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Increase charge-offs.

Charge offs were slightly over \$1.4 Million in 2010 and are expected to remain at this level in the current year.

Purchase another financial institution or purchase assets from another financial institution.

\$2 Million has been used to purchase another branch office in an existing market. This action double market share in Trenton, Tennessee and expanded product mix and credit availability to roughly 1600 more clients.

Held as non-leveraged increase to total capital.

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

Helped to divert credit crisis for F&M customers and kept the flow of credit to small businesses and farmers. CPP helped Farmers & Merchants to add new high quality clients as weaker institutions turned them away.

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

It caused the bank to loan more money to small businesses and farmers. Additionally, mortgage promotions were held as secondary market resources dried up throughout the trade area.

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

It helped to strengthen the balance sheet and provide greater customer confidence in the soundness and viability.