FEDERAL DEPOSIT INSURANCE CORPORATION

WASHINGTON, D.C.

In the Matter of	)	
	)	
FARMERS & MERCHANTS BANK EATONTON, GEORGIA	)	CONSENT ORDER
	)	FDIC-09-316b
(INSURED STATE NONMEMBER BANK)	)	

The Federal Deposit Insurance Corporation ("FDIC") is the appropriate Federal banking agency for Farmers & Merchants Bank, Eatonton, Georgia ("Bank"), under 12 U.S.C. § 1813(q).

The Bank, by and through its duly elected and acting Board of Directors ("Board"), has executed a "Stipulation to the Issuance of a Consent Order" ("Stipulation"), dated January 12, 2010, that is accepted by the FDIC and the Georgia Department of Banking and Finance ("Department"). The Department may issue an order pursuant to section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985).

With this Stipulation, the Bank has consented, without admitting or denying any charges of unsafe or unsound banking practices, or violations of law or regulation relating to weaknesses in asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk, to the issuance of this Consent Order ("ORDER") by the FDIC and the Department.

Having determined that the requirements for issuance of an order under 12 U.S.C. § 1818(b) and section 7-1-91 of the Official Code of Georgia Annotated, GA Code Ann. Section 7-1-91 (1985) have been satisfied, the FDIC and the Department hereby order that:

BOARD OF DIRECTORS

1. Beginning with the effective date of this ORDER, the Board shall increase its participation in the affairs of the Bank, assuming full responsibility for the approval of sound policies and objectives and for the supervision of all of the Bank's activities, consistent with the role and expertise commonly expected for directors of banks of comparable size. This participation shall include meetings to be held no less frequently than monthly at which, at a minimum, the following areas shall be reviewed and approved: reports of income and expenses; new, overdue, renewal, insider, charged-off, and recovered loans; investment activity; operating policies; and individual committee actions. Board minutes shall document these reviews and approvals, including the names of any dissenting directors.

COMPLIANCE WITH ORDER

2. Within 30 days from the effective date of this ORDER, the Board shall establish a Board committee ("Directors' Committee"), consisting of at least four members, to oversee the Bank's compliance with the ORDER. Three of the members of the Directors' Committee shall not be officers of the Bank. The Directors' Committee shall receive from Bank management monthly reports detailing the Bank's actions with respect to compliance with the ORDER. The Directors' Committee shall present a report detailing the Bank's adherence to the ORDER to the Board at each regularly scheduled

Board meeting. Such report shall be recorded in the appropriate minutes of the Board's meeting and shall be retained in the Bank's records. Establishment of this committee does not in any way diminish the responsibility of the entire Board to ensure compliance with the provisions of this ORDER.

MANAGEMENT

3. (a) Within 60 days from the effective date of this ORDER, the Bank shall have and retain qualified management. Each member of management shall have qualifications and experience commensurate with his or her duties and responsibilities at the Bank. Each member of management shall be provided appropriate written authority from the Bank's Board, with such authority recorded in the Board minutes, to implement the provisions of this ORDER. Management shall include:

(i) a chief executive officer with proven ability in managing a bank of comparable size and complexity and in effectively implementing lending, investment and operating policies in accordance with sound banking practices;

(ii) a senior lending officer with a significant amount of appropriate lending, collection, and loan supervision experience, and experience in upgrading a low quality loan portfolio;

(iii) a chief operations officer with a significant amount of appropriate experience in managing the operations of a bank of similar size and complexity in accordance with sound banking practices; and

(iv) a chief financial officer with qualifications and experience commensurate with his or her responsibilities and duties at the Bank, which duties shall include monitoring liquidity and sensitivity to market risk.

(b) The qualifications of management shall be assessed on its ability to:

(i) comply with the requirements of this ORDER;

(ii) operate the Bank in a safe and sound manner;

(iii) comply with applicable laws and regulations; and

(iv) restore all aspects of the Bank to a safe and sound condition, including asset quality, earnings, capital adequacy, management effectiveness, risk management, liquidity and sensitivity to market risk.

(c) During the life of this ORDER, the Bank shall notify the FDIC's Atlanta Regional Office ("Regional Director") and the Commissioner of the Department (collectively, "Supervisory Authorities") as determined at subsequent examinations and/or visitations in writing when it proposes to add any individual to the Bank's Board or employ any individual as a senior executive officer, as that term is defined in section 303.102 of the FDIC's Rules and Regulations, 12 C.F.R. § 303.102. The notification should include a description of the background and experience of the individual or individuals to be added or employed and must be received at least 30 days before such addition or employment is intended to become effective. If the Regional Director issues a notice of disapproval pursuant to section 32 of the Act, 12 U.S.C. § 1831i, with respect to any proposed individual, then such individual may not be added or employed by the Bank.

CAPITAL

4. (a) Within 60 days from the effective date of this ORDER, the Bank shall have Tier 1 Capital in such an amount as to equal or exceed 8% percent of the Bank's Total Assets, and Total Risk-Based Capital in such an amount as to equal or exceed 10% of the Bank's Total Risk-Weighted Assets. Thereafter, during the life of this ORDER, the Bank shall maintain Tier 1 Capital and Total Risk-Based Capital ratios in such an amount as to equal or exceed 8% and 10%, respectively.

(b) Within 60 days from the effective date of this ORDER, the Bank shall develop and adopt a plan to meet the minimum risk-based capital requirements for a well-capitalized bank, as described in the FDIC Statement of Policy on Risk-Based Capital contained in Appendix A to Part 325 of the FDIC's Rules and Regulations, 12 C.F.R. Part 325, Appendix A. The Plan shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(c) The level of Tier 1 Capital to be maintained during the life of this ORDER pursuant to paragraph 4(a) shall be in addition to a fully funded Allowance for Loan and Lease Losses ("ALLL"), the adequacy of which shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(d) Any increase in Tier 1 Capital necessary to meet the requirements of Paragraph 4(a) of this ORDER may not be accomplished through a reduction from the Bank's ALLL.

(e) For the purposes of this ORDER, the terms "Tier 1 Capital", "Total Assets", "Total Risk-Weighted Asset" and "Total Risk-Based Capital Ratio" shall have the meanings ascribed to them in 12 C.F.R. Part 325.

ALLOWANCE FOR LOAN AND LEASE LOSSES

5. (a) Immediately upon entry of this ORDER, the Board shall make a provision to replenish the ALLL which, as of the date of the Report of Examination of the Bank dated October 14, 2008 ("REPORT"), is underfunded as set forth on page 4 of the REPORT.

(b) Within 30 days from the effective date of this ORDER, the Board shall review the adequacy of the ALLL and establish a comprehensive policy for determining the adequacy of the ALLL. For the purpose of this determination, the adequacy of the ALLL shall be determined after the charge-off of all loans or other items classified "Loss". The policy shall provide for a review of the ALLL at least once each calendar quarter. Said review should be completed at least ten (10) days prior to the end of each quarter in order that the findings of the Board with respect to the ALLL may be properly reported in the quarterly Reports of Condition and Income. The review should focus on the results of the Bank's internal loan review, loan and lease loss experience, trends of delinquent and non-accrual loans, an estimate of potential loss exposure of significant credits, concentrations of credit, and present and prospective economic conditions. A deficiency in the ALLL shall be remedied in the calendar quarter it is discovered, prior to submitting the Report of Condition and Income, by a charge to current operating earnings. The minutes of the Board meeting at which such review is undertaken shall indicate the results of the review. The Bank’s policy for determining the adequacy of the ALLL and its implementation shall be satisfactory to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

LIQUIDITY AND FUNDS MANAGEMENT

6. (a) Within 60 days from the effective date of this ORDER, the Bank shall review, revise and adopt its written liquidity, contingency funding and funds management policy to provide effective guidance and control over the Bank's funds management activities, which policy shall include, at a minimum, revisions to address all items of criticism enumerated on pages 6 and 15 of the REPORT. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations. The revised policy shall provide for a periodic review of the Bank's deposit structure. Such review shall include the volume and trend of total deposits and the volume and trend of the various types of deposits offered, the maturity distribution of time deposits, rates being paid on each type of deposit, rates being paid by trade area competition, caps on large time deposits, public funds, out-of-area deposits, and any other information needed.

(b) Within 30 days from the effective date of this ORDER, the Bank shall implement adequate models for managing liquidity.

(c) The Bank shall calculate monthly the liquidity and dependency ratios, following the format utilized internally, and provide the calculations to the Board for review with such review noted in the Board minutes.

BROKERED DEPOSITS

7. (a) Throughout the effective life of this ORDER, the Bank shall not accept, renew, or rollover any brokered deposit, as defined by 12 C.F.R. § 337.6(a)(2), unless it is in compliance with the requirements of 12 C.F.R. § 337.6(b), governing solicitation and acceptance of brokered deposits by insured depository institutions.

(b) The Bank shall comply with the restrictions on the effective yields on deposits as described in 12 C.F.R. § 337.6

NO MATERIAL GROWTH WITHOUT PRIOR NOTICE

8. While this ORDER is in effect, the Bank shall notify the Supervisory Authorities, at least, 60 days prior to undertaking asset growth to ten percent (10%) or more per annum or initiating material changes in asset or liability composition. In no event shall asset growth result in noncompliance with the capital maintenance provisions of this ORDER unless the Bank receives prior written approval from the Supervisory Authorities.

RESTRICTIONS ON CERTAIN PAYMENTS

9. (a) While this ORDER is in effect, the Bank shall not declare or pay dividends or any other form of payment representing a reduction in capital without the prior written approval of the Supervisory Authorities. All requests for prior approval shall be received at least 30 days prior to the proposed dividend declaration date (at least 5 days with respect to any request filed within the first 30 days after the date of this Order) and shall contain, but not be limited to, an analysis of the impact such dividend or other payment would have on the Bank's capital position, cash flow, concentrations of credit, asset quality and allowance for loan and lease loss needs. The Supervisory Authorities will approve a dividend or any other form of payment representing a reduction in capital provided that the Supervisory Authorities determine that such dividend or payment will not have an unacceptable impact on the Bank's capital position, cash flow, concentrations of credit, asset quality and allowance for loan and lease loss needs.

(b) While this ORDER is in effect, the Bank shall not make any distributions of interest, principal or other sums on subordinated debentures, if any, without the prior written approval of the Supervisory Authorities.

CHARGE-OFF AND REDUCTION OF CLASSIFIED ITEMS

10. (a) Immediately upon the effective date of this ORDER, the Bank shall eliminate from its books, by charge-off or collection, all assets or portions of assets classified "Loss" that have not been previously collected or charged off. Elimination of these assets through proceeds of other loans made by the Bank is not considered collection for purposes of this paragraph.

(b) Additionally, while this ORDER remains in effect, the Bank shall, within 10 days of the receipt of any official Report of Examination of the Bank from the Supervisory Authorities, eliminate from its books, by collection, charge-off, or other proper entries, the remaining balance of any assets classified "Loss" and, to the extent consistent with Financial Accounting Standard No. 114, 50% of those classified "Doubtful", unless otherwise approved in writing by the Supervisory Authorities.

(c) (i) Within 180 days from the effective date of this ORDER, the Bank shall reduce by 20% the Adversely Classified Items Coverage Ratio (Coverage Ratio) shown on page 22 of the REPORT. For purposes of paragraphs 10(c)(i) through 10(c)(iv), the Coverage Ratio should be calculated by dividing total adversely classified Loans and Leases, Securities, Other Real Estate Owned, Other Assets, Other Transfer Risk and Contingent Liabilities listed on page 22 of the REPORT, by Tier 1 Capital and the Allowance for Loan and Lease Losses as reported in the Bank's most recent Report of Condition and Income.

(ii) Within 360 days from the effective date of this ORDER, the Bank shall have reduced the Coverage Ratio by 30%.

(iii) Within 540 days from the effective date of this ORDER, the Bank shall have reduced the Coverage Ratio by 45%.

(iv) Within 720 days from the effective date of this ORDER, the Bank shall have reduced the Coverage Ratio by 65%.

(d) The requirements of this paragraph are not to be construed as standards for future operation of the Bank. Following compliance with the reduction schedule, the Bank shall continue to reduce the total volume of adversely classified assets. Reduction of these assets through proceeds of other loans made by the Bank is not considered collection for the purpose of this paragraph. As used in paragraph~~s~~ 10(c), the word "reduce" means:

(i) to collect;

(ii) to charge-off; or

(iii) to sufficiently improve the quality of assets adversely classified to warrant removing any adverse classification, as determined by the Supervisory Authorities.

(e) Within 60 days of the effective date of this ORDER, the Bank shall develop a plan to correct all deficiencies in the assets listed for Special Mention. The Bank shall submit the plan to the Supervisory Authorities for review and comment. Within 20 days from receipt of any comment from the Supervisory Authorities, and after due consideration of any recommended changes, the Bank shall approve the plan and shall record approval of such plan in the minutes of the board meeting.

INTERNAL LOAN REVIEW

11. Within 30 days from the effective date of this Order, the Bank shall revise, adopt and implement an effective internal loan review grading system to provide for periodic review of the Bank's loan portfolio in order to identify and categorize the Banks loans, and other extensions of credit which are carried on the Bank's books as loans, on the basis of credit quality. Such system and its implementation shall insure the accuracy of the Watch List and shall be satisfactory to the FDIC as determined at its initial review and subsequent examinations and/or visitations.

NO ADDITIONAL CREDIT

12. (a) Beginning with the effective date of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been charged off or classified, in whole or in part, "Loss" or "Doubtful" and is uncollected. The requirements of this paragraph shall not prohibit the Bank from renewing (after collection in cash of interest due from the borrower) any credit already extended to any borrower.

(b) Additionally, during the life of this ORDER, the Bank shall not extend, directly or indirectly, any additional credit to, or for the benefit of, any borrower who has a loan or other extension of credit from the Bank that has been classified, in whole or part, "Substandard", or is listed for "Special Mention" and is uncollected.

(c) Paragraph 12(b) shall not apply if the Bank's failure to extend further credit to a particular borrower would be detrimental to the best interests of the Bank. Prior to the extending of any additional credit pursuant to this paragraph, either in the form of a renewal, extension, or further advance of funds, such additional credit shall be approved by a majority of the Board, or a designated committee thereof, who shall certify, in writing:

(i) why the failure of the Bank to extend such credit would be detrimental to the best interests of the Bank;

(ii) that the Bank's position would be improved thereby; including an explanatory statement of how the Bank's position would be improved; and

(iii) an appropriate workout plan has been developed and will be implemented in conjunction with the additional credit to be extended.

(d) The signed certification shall be made a part of the minutes of the Board or designated committee, and a copy of the signed certification shall be retained in the borrower's credit file.

LENDING AND COLLECTION POLICIES

13. (a) Within 90 days from the effective date of this ORDER, the Bank shall revise, adopt, and implement a written lending, underwriting and collection policy to provide effective guidance and control over the Bank's lending function, which policy shall include, at a minimum, revisions to address criticisms and recommendations enumerated on pages 2 through 4 and 12 through 16 of the REPORT pertaining to the administration of acquisition, development and construction (“ADC”) loans as well as commercial real estate lending and specific guidelines for placing loans on a nonaccrual basis. In addition, the Bank shall obtain adequate and current documentation for all loans in the Bank's loan portfolio. Such policy and its implementation shall be in a form and manner acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(b) Within 90 days from the effective date of this ORDER, the Board shall adopt and implement a policy limiting the use of loan interest reserves. Such policy shall confine the use of interest reserves to properly underwritten ADC loans where development or building plans have specific timetables that commence within a reasonable time of the loan's approval and that include realistic completion dates. Interest reserves shall be used only for payment of interest on ADC loans for projects that are progressing according to their timetables. Interest reserves may be supplemented only with the prior written approval of the Board or a committee thereof, so long as the approval documents a prudent reason for the supplement.

REDUCE CONCENTRATIONS OF CREDIT

14. Within 90 days from the effective date of this ORDER, the Bank shall perform a risk segmentation analysis with respect to the concentrations of credit listed on pages 37 through 40 of the REPORT. Concentrations should be identified by product type, geographic distribution, underlying collateral, or other asset groups, which are considered Economically related and in the aggregate represent a large portion of the Bank's Tier 1 Capital. A copy of the analysis shall be provided to the Supervisory Authorities and the Board shall develop a plan to reduce any segment of the portfolio which the Supervisory Authorities deem to be an undue concentration of credit in relation to the Bank's Tier 1 Capital. The plan and its implementation shall be in a form and manner acceptable to the Supervisory Authorities.

PLAN FOR EXPENSES AND PROFITABILITY

15. (a) Within 60 days from the effective date of this ORDER, the Bank shall formulate and fully implement a written plan and a comprehensive budget for all categories of income and expense. The plan and budget required by this paragraph shall include formal goals and strategies, consistent with sound banking practices and taking into account the Bank's other written policies, to improve the Bank's net interest margin, increase interest income, reduce discretionary expenses, control overhead, and improve and sustain earnings of the Bank. The plan shall include a projected balance sheet and a description of the operating assumptions that form the basis for and adequately support major projected income and expense components. Thereafter, the Bank shall formulate such a plan and budget by November 30 of each subsequent year. The plan and budget required by paragraph 15(a) of this ORDER shall be acceptable to the Supervisory Authorities as determined at subsequent examinations and/or visitations.

(b) Following the end of each calendar quarter, the Board shall evaluate the Bank's actual performance in relation to the plan and budget required by paragraph 15(a) of this ORDER and shall record the results of the evaluation, and any actions taken by the Bank, in the minutes of the Board meeting at which such evaluation is undertaken.

WRITTEN STRATEGIC PLAN

16. Within 90 days from the effective date of this ORDER, the Bank shall prepare and submit to the Supervisory Authorities its written strategic plan consisting of long-term goals designed to improve the condition of the Bank and its viability and strategies for achieving those goals. The plan shall be in a form and manner acceptable to the Supervisory Authorities, but at a minimum shall cover three years and provide specific

objectives for asset growth, market focus, earnings projections, capital needs, and liquidity position.

VIOLATIONS OF LAW AND CONTRAVENTIONS OF STATEMENTS OF POLICY

17. Within 30 days from the effective date of this ORDER, the Bank shall develop a written plan approved by its Board and acceptable to the Supervisory Authorities to eliminate and/or correct all violations of law and regulations, and all contraventions of interagency guidance and statements of policy, which are more fully set out on pages 17 through 21 of the REPORT. In addition, the Bank shall take all necessary steps to ensure future compliance with all applicable laws, regulations and statements of policy.

DISCLOSURE

18. Following the effective date of this ORDER, the Bank shall send to its shareholders or otherwise furnish a description of this ORDER in conjunction with the Bank's next shareholder communication and also in conjunction with its notice or proxy statement preceding the Bank's next shareholder meeting. The description shall fully describe the ORDER in all material respects. The description and any accompanying communication, statement, or notice shall be sent to the FDIC, Registration and Disclosure Section, Washington, D.C. 20429 and the Commissioner, Georgia Department of Banking and Finance, 2990 Brandywine Rd., Suite 200, Atlanta, Georgia 30341-5565, at least fifteen (15) days prior to dissemination to shareholders. Any changes requested to be made by the FDIC and Commissioner shall be made prior to dissemination of the description, communication, notice, or statement.

PROGRESS REPORTS

19. (a) Within 30 days of the end of the first quarter following the effective date of this ORDER, and within thirty (30) days of the end of each quarter thereafter, the Bank shall furnish written progress reports to the Supervisory Authorities detailing the form, manner, and results of any actions taken to secure compliance with this ORDER . Such written reports shall provide cumulative detail of the Bank's progress toward achieving compliance with each provision of the ORDER.

(b) The progress report requirement shall continue for the life of this ORDER unless modified or terminated in writing by the Supervisory Authorities.

(c) All progress reports and other written responses to this ORDER shall be reviewed by the Board and be made a part of the minutes of the appropriate Board meeting.

The provisions of this ORDER shall not bar, estop, or otherwise prevent the FDIC or any other federal or state agency or department from taking any other action against the Bank or any of the Bank's current or former institution-affiliated parties.

This ORDER shall become effective on the date of issuance.

The provisions of this ORDER shall be binding upon the Bank, its institution-affiliated parties, and any successors and assigns thereof.

The provisions of this ORDER shall remain effective and enforceable except to the extent that and until such time as any provision has been modified, terminated, suspended, or set aside by the FDIC.

Dated at Atlanta, Georgia, this 13th day of January, 2010.

/s/

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Doreen R. Eberley
Acting Regional Director
Atlanta Region
Federal Deposit Insurance Corporation

The Georgia Department of Banking and Finance having duly approved the foregoing ORDER, and the Bank, through its Board, agree that the issuance of said ORDER by the FDIC shall be binding as between the Bank and the Georgia Commissioner of Banking and Finance to the same degree and to the same legal effect that such ORDER would be binding if the Department had issued a separate ORDER that included and incorporated all of the provisions of the foregoing ORDER, pursuant to Official Code of Georgia Annotated § 7-1-91 (1985).

Dated this 11th day of January, 2010.

/s/

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Robert M. Braswell
Commissioner
Department of Banking and Finance
State of Georgia