

PUBLIC DISCLOSURE

August 13, 2007

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**Farmers & Merchants Bank
Centre, Alabama**

**RSSD ID Number: 470836
SEN: 667199**

**FEDERAL RESERVE BANK OF ATLANTA
1000 Peachtree Street, N.E.
Atlanta, Georgia 30309-4470**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to the institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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INSTITUTION'S CRA RATING

INSTITUTION'S CRA RATING

This institution is rated: Satisfactory

Farmers & Merchants Bank's average loan-to-deposit (LTD) ratio for the past nine quarters ended March 31, 2007 is **REASONABLE** given the institution's size, financial condition, and competition within the assessment area. A **MAJORITY** of the bank's loans were extended to businesses inside its assessment area. The bank's lending reflects a **REASONABLE** penetration among businesses of different incomes and sizes. The geographic distribution of loans reflects a **REASONABLE** dispersion throughout the assessment area. The bank has received no CRA related complaints since the previous examination. In addition, the bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

DESCRIPTION OF INSTITUTION

Farmers & Merchants Bank is a small community bank headquartered in Centre, Alabama. The bank operates two full-service facilities and one cash-only ATM in Cherokee County, Alabama. The bank is a wholly-owned subsidiary of F & M Bancorporation in Centre, Alabama. The bank has not opened or closed any branches since the previous examination. According to the Consolidated Reports of Condition and Income (Call Report), between January 1, 2005 and March 31, 2007, the bank's total assets increased by 4.9 percent from \$62.2 million to \$65.3 million. During this same time period, total loans outstanding increased by 5.9 percent from \$33.5 million to \$35.5 million and total deposits increased by 3.2 percent from \$53.1 million to \$54.8 million.

Farmers & Merchants Bank is a full-service bank that offers a wide variety of credit products to meet community credit needs. Credit products offered by the bank include consumer, residential mortgage, home equity, business, and commercial real estate loans. The bank is not subject to the reporting requirements of Regulation C – Home Mortgage Disclosure. The bank's business strategy encourages residential, consumer, and small business lending.

The composition of the loan portfolio according to the March 31, 2007 Call Report is displayed in the following table:

COMPOSITION OF LOAN PORTFOLIO						
Loan Type	3/31/2007		12/31/2006		12/31/2005	
	\$ (000s)	Percent	\$ (000s)	Percent	\$ (000s)	Percent
Construction and Development	3,840	11.0%	3,813	10.7%	2,798	7.9%
Secured by One- to Four- Family Dwellings	8,749	25.1%	9,177	25.8%	8,801	24.9%
Other Real Estate:						
Farmland	119	0.3%	147	0.4%	322	0.9%
Multifamily	493	1.4%	483	1.4%	553	1.6%
Nonfarm nonresidential	6,782	19.4%	6,739	19.0%	7,744	22.0%
Commercial and Industrial	7,933	22.7%	8,311	23.4%	8,224	23.3%
Loans to Individuals	6,790	19.5%	6,725	18.9%	5,962	16.9%
Agricultural Loans	171	0.5%	165	0.5%	872	2.5%
Total	\$34,877	100.00%	\$35,560	100.00%	\$35,276	100.00%

* This table does not include the entire loan portfolio. Specifically, it excludes loans to depository institutions, bankers acceptances, lease financing receivables, obligations of state and political subdivisions, and other loans that do not meet any other category. Contra assets are also not included in this table.

As illustrated by the table above, the bank's loan portfolio primarily consists of loans secured by one-to-four-family dwellings, commercial and industrial loans, nonfarm nonresidential loans, and loans to individuals. This is consistent with the bank's strategy, which promotes both commercial and consumer lending. The bank's loan portfolio composition has remained consistent during the review period. The bank received a satisfactory CRA rating at its previous evaluation, conducted by the Federal Reserve Bank of Atlanta, dated July 14, 2003.

DESCRIPTION OF ASSESSMENT AREA: Cherokee County
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Overview

The bank's assessment area includes all of Cherokee County, Alabama, which is not located within an MSA. The bank operates two offices in Cherokee County: one full service facility in Centre, Alabama, and one branch office in Leesburg, Alabama. The Leesburg branch is primarily a paying and receiving branch. The bank's assessment area is comprised of five middle-income census tracts.

Demographic Data by Census Tracts

The following table provides key demographic information from the 2000 census that was used in analyzing the bank's CRA performance. Certain components of the data in the table are discussed in the evaluation as they apply to particular parts of the analysis.

DESCRIPTION OF ASSESSMENT AREA: Cherokee County (Continued)

Assessment Area Demographics

Assessment Area: Cherokee County

Income Categories	Tract Distribution		Families by Tract Income		Families < Poverty Level as % of Families by Tract		Families by Family Income	
	#	%	#	%	#	%	#	%
Low-income	0	0.0	0	0.0	0	0.0	1,434	19.9
Moderate-income	0	0.0	0	0.0	0	0.0	1,199	16.6
Middle-income	5	100.0	7,215	100.0	849	11.8	1,747	24.2
Upper-income	0	0.0	0	0.0	0	0.0	2,835	39.3
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	5	100.0	7,215	100.0	849	11.8	7,215	100.0
	Housing Units by Tract	Housing Types by Tract						
		Owner-Occupied			Rental		Vacant	
		#	%	%	#	%	#	%
Low-income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate-income	0	0	0.0	0.0	0	0.0	0	0.0
Middle-income	14,025	7,942	100.0	56.6	1,777	12.7	4,306	30.7
Upper-income	0	0	0.0	0.0	0	0.0	0	0.0
Unknown-income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	14,025	7,942	100.0	56.6	1,777	12.7	4,306	30.7
	Total Businesses by Tract	Businesses by Tract & Revenue Size						
		Less Than or = \$1 Million		Over \$1 Million		Revenue Not Reported		
		#	%	#	%	#	%	
Low-income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate-income	0	0.0	0	0.0	0	0.0	0	0.0
Middle-income	771	100.0	684	100.0	41	100.0	46	100.0
Upper-income	0	0.0	0	0.0	0	0.0	0	0.0
Unknown-income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	771	100.0	684	100.0	41	100.0	46	100.0
	Percentage of Total Businesses:			88.7		5.3		6.0

Based on 2000 Census Information.

DESCRIPTION OF ASSESSMENT AREA: Cherokee County (Continued)
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Housing Characteristics

The majority of the housing units in the assessment area were owner-occupied (56.6 percent); however, 30.7 percent of the units were vacant. This is due to the presence of both second and vacation homes located in Cherokee County. 2000 census data indicates that the median value of housing units in the assessment area was \$63,500, which is below the median housing value for the state at \$76,700. The median age of housing in the assessment area is 18 years compared to the state of Alabama at 25 years.

Income Characteristics

At the time of the 2000 census, there were 7,215 families in the assessment area. Of total families in the assessment area, 19.9 percent were low-income, 16.6 percent were moderate-income, 24.2 percent were middle-income, and 39.3 were upper-income. Of total families in the assessment area, 849 families (11.8 percent) have incomes below the poverty level. According to HUD, the State Non-Metro median family incomes for Alabama in 2005 and 2006 were \$42,800 and \$45,200, respectively

Employment Statistics

According to 2006 data from REIS, Cherokee County's employment was primarily dependent on manufacturing, retail trade and government agencies. The 2005 annualized unemployment rate for Cherokee County was 3.8 percent compared to the state of Alabama at 3.9 percent. In 2006, the county's unemployment rate was 3.7 percent compared to the state's at 3.6 percent.

Competition

According to the June 30, 2006 FDIC/OTS Summary of Deposits Report, the bank's assessment area is a fairly competitive banking market due to the presence of three other banks in the market, including large regional banks. Farmers & Merchants Bank ranked third out of four financial institutions in Cherokee County at 21.9 percent market share. The bank operates two branches in the assessment area. Regions Bank also has two branches in the assessment area and has the single largest deposit market share of all insured institutions in Cherokee County, Alabama, at 44.1 percent. Local competition does not appear to have hampered the bank's ability to serve the credit needs of its assessment area.

DESCRIPTION OF ASSESSMENT AREA: Cherokee County (Continued)
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Community Contacts

As part of the CRA evaluation, information was obtained from one community contact regarding local economic conditions and community credit needs. The contact was helpful and knowledgeable of the economic conditions in Cherokee County. The contact generally had positive comments regarding the degree of involvement of the financial institutions in the community; however, they stressed a need for market rate rental housing.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

SCOPE OF EXAMINATION

Farmers & Merchants Bank’s CRA performance review was based on CRA activities within its assessment area using the small bank examination procedures. The evaluation included an analysis of small business loans originated from January 1, 2005, through December 31, 2006. As previously stated, the bank is not subject to the reporting requirements of Regulation C – Home Mortgage Disclosure.

The following table shows Farmers & Merchants Bank’s lending performance in the Cherokee County Assessment Area. Certain components of the data are discussed on the following pages as they apply to particular parts of the analysis.

Loan Distribution Table
 Assessment Area: Farmers & Merchants Bank

	Commercial Loans			
	#	%	\$(000s)	%
	By Tract Income			
Low	0	0.0%	0	0.0%
Moderate	0	0.0%	0	0.0%
<i>Low/Moderate Total</i>	<i>0</i>	<i>0.0%</i>	<i>0</i>	<i>0.0%</i>
Middle	69	100.0%	7,081	100.0%
Upper	0	0.0%	0	0.0%
Unknown	0	0.0%	0	0.0%
Total	69	100.0%	7,081	100.0%
	By Revenue			
Total \$1 Million or Less	58	84.1%	5,727	80.9%
Over \$1 Million	11	15.9%	1,352	19.1%
Not Known	0	0.0%	0	0.0%
Total	69	100.0%	7,079	100.0%
	By Loan Size			
\$100,000 or less	44	63.8%	1,672	23.6%
\$100,001 - \$250,000	17	24.6%	2,243	31.7%
\$250,001 - \$1 Million	8	11.6%	3,165	44.7%
Over \$1 Million	0	0.0%	0	0.0%
Total	69	100.0%	7,081	100.0%
	By Loan Size and Revenues \$1 Million or Less			
\$100,000 or less	40	69.0%	1,519	26.5%
\$100,001 - \$250,000	12	20.7%	1,542	26.9%
\$250,001 - \$1 Million	6	10.3%	2,664	46.5%
Over \$1 Million	0	0.0%	0	0.0%
Total	58	100.0%	5,725	100.0%

Originations and Purchases

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

Loan-to-Deposit Ratio

Farmers & Merchants Bank’s average loan-to-deposit (LTD) ratio for the nine-quarter period ended March 31, 2007, was 64.9 percent and is considered **REASONABLE** given the institution’s size, financial condition, and assessment area credit needs. There were no local financial institutions in the assessment area that had a similar asset size for comparison. The LTD ratio for the bank ranged from a high of 69.2 percent as of September 30, 2005, to a low of 62.1 percent as of December 31, 2005.

Assessment Area Concentration

An analysis of the bank’s record of lending inside its assessment area was conducted. The review consisted of an analysis of 106 small business loans originated by the bank from January 1, 2005 through December 31, 2006. The following table shows the levels of lending inside and outside the assessment area for each loan.

Lending Inside and Outside the Assessment Area

Loan Type	Inside				Outside			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Commercial	69	65.1	\$7,081	63.5	37	34.9	\$4,071	36.5
TOTAL LOANS	69	65.1	\$7,081	63.5	37	34.9	\$4,071	36.5

A **MAJORITY** of Farmers & Merchants Bank’s small business loans are **IN** the bank’s assessment area. As illustrated in the table above, 65.1 percent of the bank’s small business loans and 63.5 percent of the loan dollars associated with these loans were originated in the assessment area.

Lending to Businesses of Different Sizes

For this analysis, the distribution of small business lending across business revenue sizes was compared with available demographic information. Performance context issues were also considered, as well as the performance of other banks.

Of the 69 loans to businesses in the assessment area, 84.1 percent were originated to businesses with reported gross annual revenues of \$1 million or less (which are considered small businesses for CRA purposes). This is slightly less than the percentage of businesses in the assessment area with gross annual revenues of \$1 million

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA (Continued)

or less at 88.7 percent. In addition, the bank originated a majority (69.0 percent) of its small business loans in the sample for amounts of \$100,000 or less, which typically indicates a willingness to lend to small businesses.

Based on these factors and the level of competition in the assessment area, Farmers & Merchants Bank's record of lending to borrowers of different incomes and businesses of different sizes is considered **REASONABLE**.

Geographic Distribution of Loans

The bank's assessment area does not contain any low-, moderate-, or upper-income census tracts; however, Farmers & Merchants Bank's performance with regard to the geographic distribution of small business lending reflects **REASONABLE** dispersion throughout the assessment area based on a review of loan customer addresses.

Complaints

No complaints to the bank's compliance with CRA have been reviewed since the last examination.

Compliance With Antidiscrimination Laws

The bank is in compliance with the substantive provisions of the antidiscrimination laws and regulations.

APPENDIX A – SCOPE OF EXAMINATION

TIME PERIOD REVIEWED			
January 1, 2005 – March 31, 2007			
FINANCIAL INSTITUTION			PRODUCTS REVIEWED
Farmers and Merchants Bank, Centre, Alabama			Small Business Loans
AFFILIATE(S)	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED	
None	Not Applicable	None	
LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
<i>ASSESSMENT AREA</i>	<i>TYPE OF EXAMINATION</i>	<i>BRANCHES VISITED</i>	<i>OTHER INFORMATION</i>
Cherokee County, Alabama	Full Scope	Main Office and Leesburg	

APPENDIX B: GENERAL INFORMATION AND DEFINITIONS

General Information

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

This document is an evaluation of the Community Reinvestment Act (CRA) performance of Farmers & Merchants Bank prepared by the Federal Reserve Bank of Atlanta, the institution's supervisory agency, as of August 13, 2007. The agency evaluates performance in assessment area(s), as they are delineated by the institution, rather than individual branches. This assessment area evaluation may include visits to some, but not necessarily all, of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 228.

ABBREVIATIONS

ATM -	Automated Teller Machine
FDIC -	Federal Deposit Insurance Corporation
HMDA-	Home Mortgage Disclosure Act
HUD -	Department of Housing and Urban Development
LTD -	Loan-to-Deposit Ratio
MSA -	Metropolitan Statistical Area
OTS -	Office of Thrift Supervision
REIS -	Regional Economic Information System

ROUNDING CONVENTION

Because percentages presented in tables were rounded to the nearest whole number in most cases, some columns may not total exactly 100 percent.

APPENDIX C: GLOSSARY

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Consumer loan(s): A loan(s) to one or more individuals for household, family, or other personal expenditures. A consumer loan does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into 'male householder' (a family with a male householder and no wife present) or 'female householder' (a family with a female householder and no husband present).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include such data as the race, gender, and the income of applications, the amount of loan requested, and the disposition of the application (for example, approved, denied, and withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan area/assessment area.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

APPENDIX C – GLOSSARY (Continued)

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Small loan(s) to business(es): A loan included in 'loans to small businesses' as defined in the Consolidated Report of Condition and Income (Call Report) and the Thrift Financial Reporting (TFR) instructions. These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or are classified as commercial and industrial loans. However, thrift institutions may also exercise the option to report loans secured by nonfarm residential real estate as "small business loans" if the loans are reported on the TFR as nonmortgage, commercial loans.

Small loan(s) to farm(s): A loan included in 'loans to small farms' as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland, or are classified as loans to finance agricultural production and other loans to farmers.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.