

FARMERS AND MERCHANTS BANCSHARES, INC.
FARMERS AND MERCHANTS BANK
Code of Ethics

Introduction

Earning the trust and confidence of our customers, investors, and fellow employees is a responsibility each of us shares. That means every director, officer, and employee has an obligation to comply with our Code of Ethics and with laws and regulations, which apply to our industry and us.

The Code of Ethics is a set of general principles, and, therefore, must be used together with your good judgment.

If ever you are unsure about whether you are properly following the Code, or if a rule is unclear or ambiguous, you are urged to consult with your supervisor, or with the executive management of FARMERS AND MERCHANTS BANK.

Take responsibility for making sure those around you follow the Code of Ethics, too. If you believe a director, fellow employee, or supervisor is violating the Code, you must report it. Discuss it with your supervisor, or with an executive officer or director. Doing so should not be considered an act of disloyalty, but an action which shows your sense of responsibility and fairness to other employees, our customers and shareholders. You also help safeguard the reputation and the assets of FARMERS AND MERCHANTS BANK.

Reporting violations of the Code is also necessary because in some cases, failure to report an illegal act by another person is itself a criminal act for which you could be prosecuted.

Executive Officers

This Code of Ethics covers all of the directors, officers and employees of the Bank. In particular, the executive officers of the Bank are included in this policy. The executive officers are the president, and designated executive vice presidents including the chief operations officer and the chief financial officer.

The Code of Ethics promotes ethical conduct in the practice of financial management of the institution. Executive officers hold an important role within the corporate structure. While members of the management team, they are responsible to ensure that stockholders' interests are appropriately balanced, protected and preserved. This code provides principles that senior management is expected to adhere and advocate. It includes rules regarding individual and peer responsibilities, as well as responsibilities to the Bank, customers and stockholders. Violations of this code will be subject to discipline as determined by the Bank's board of directors.

Executive Officers Will:

- Act with honesty and integrity, avoiding actual and apparent conflicts of interest in personal and professional relationships;

- Provide coworkers with information that is accurate, complete, objective, relevant, timely, and understandable;
- Comply with all applicable government rules and regulations;
- Act in good faith, responsibly, with due care, competence and diligence, without misrepresenting material facts:
- Respect the confidentiality of information acquired;
- Proactively promote ethical behavior.

I. "CONFLICT OF INTEREST" AND HOW TO AVOID IT

A "conflict of interest" occurs in any situation in which you aren't able to remain impartial or maintain objectivity in choosing between the interests of the Bank and the interests of yourself or others.

A conflict of interest also takes place when you or a member of your immediate family can benefit, directly or indirectly, from a relationship with a supplier, a customer, a competitor, or other person or company who deals with FARMERS AND MERCHANTS BANK.

You must manage your personal and business affairs to avoid conflicts of interest, or even the appearance of a conflict.

If you become involved in a situation which might cause a conflict, or even the appearance of a conflict, immediately tell your supervisor or an appropriate member of FARMERS AND MERCHANTS BANK management. In many cases, just disclosing the situation alone may eliminate the conflict.

Examples of Conflict of Interest

A. Gifts or Special Treatment from Customers or Suppliers

By law, you are not allowed to ask for or receive "anything of value" from a customer, supplier, director, fellow employee, other person or company, if the intention is to influence or reward any business decision or transaction involving FARMERS AND MERCHANTS BANK.

A "business transaction" includes awarding business to a supplier, extensions of credit, underwriting transactions, investment advice, deposit accounts, and any other transactions involving customers and suppliers. And the rules apply to both before and after a particular transaction is discussed or completed.

It's important to remember that the Bank Bribery Act applies to both the person who received the thing of value, as well as to the person who offers it. A violation of the Bank Bribery Act can result in substantial penalties, fines and/or imprisonment.

Don't accept "anything of value"

The definition of "anything of value" includes (but isn't limited to) lavish or expensive gifts, the Board of Directors has defined lavish or expensive as a gift that has a value of more than \$50.00 including the use of vacation homes, hunting lodges, villas, hotel accommodations, airplane fares or any other travel expenses.

This includes expenses in connection with a trip to evaluate a potential customer transaction with FARMERS AND MERCHANTS BANK or to select a supplier for FARMERS AND MERCHANTS BANK. These expenses should never be accepted unless there is prior written approval from your supervisor or

other designated source of approval. But the most important rule of thumb about gifts is: Always decline any gift (regardless of value) for you or your family if it appears to, or is intended to, influence decisions you make for FARMERS AND MERCHANTS BANK.

There are some types of gifts, favors or entertainment which you MAY accept under certain circumstances, including but not limited to (these are examples):

1. Meals and other entertainment: You may occasionally accept meals, refreshments, and other entertainment from a supplier, customer, attorney, or vendor if they are of reasonable value and the purpose of the meeting is to discuss business matters.

Entertainment of reasonable value (like attending a local football game) is also acceptable if it is a normal business practice generally offered to other customers, suppliers or vendors.

2. "Nominal" gifts: You may occasionally accept small gifts or favors of nominal value, the Board of Directors has defined nominal as a gift with a value of less than \$50.00, offered as advertising or promotional material (e.g., pens, pencils, note pads, calendars, food). But remember, it isn't acceptable to take a gift or favor even of nominal value if it is in direct relationship with a business decision or transaction, and the gift is used to exert special influence over you. And, gifts of nominal value are not allowed if they are given on a regular basis. Over time, that would qualify as "lavish and expensive." If you receive a gift and are unsure if it qualifies as one of "nominal value," immediately consult with your senior management official since circumstances vary.

3. Personal gifts: You may accept gifts of nominal value when they are related to recognized special occasions such as a graduation, promotion, new job, wedding, birth of a child, retirement, or a holiday.

If a gift is given based on an obvious family or close personal relationship and is unrelated to the business involved between the individuals, this is also acceptable.

4. Gift rewarding service or accomplishment: If you receive a gift from a civic, charitable, or religious organization specifically because of your service or accomplishment, you may accept it.

5. Discounts or rebates: You may take advantage of any discount on banking services or products if they are the standard discounts offered to all employees (except better loan terms for directors and executive officers-see "Better loan terms" below). You may also accept discounts or rebates on merchandise or services you buy for yourself from a customer or supplier only if they are the same as those offered to other customers or suppliers.

On a case-by-case basis, FARMERS AND MERCHANTS BANK may approve other circumstances that aren't addressed above. But approval of those situations will usually be required in writing.

Report it when you get an improper gift

If someone sends you a gift which doesn't comply with the rules stated here, and you were not able to decline it personally, report it to your supervisor for direction about what to do with it.

B. Preferential Treatment in Transactions

It is a conflict of interest if, in making banking or business decisions for the company, you favor the interests of certain customers, suppliers or fellow employees over what would be standard practice or accepted policy for the general public.

For instance, if you cash a check for a friend without following the normal procedures required for that transaction, you have created a conflict of interest. Of course, extra efforts to provide superior service for customers are encouraged, as long as your efforts fall within standard personnel or banking policies.

Here are some other examples of conflicts involving "preferential treatment" you should avoid:

1. Better loan terms: Directors and executive officers of FARMERS AND MERCHANTS BANK, may not receive preferential interest rates, terms or waived fees on any kind of extension of credit from the FARMERS AND MERCHANTS BANK. Other employees may receive better loan terms, but only if they're the standard discounts offered to all employees.

2. Special treatment because you know someone: You cannot give special treatment to a director, fellow employee, customer, or supplier because of your personal relationship with that individual.

C. Taking Business Opportunities

It is a conflict of interest if you take for yourself a business opportunity which belongs to FARMERS AND MERCHANTS BANK.

These opportunities rightfully belong to the company when the company has pursued the opportunity, when it's been offered to FARMERS AND MERCHANTS BANK, when it's the kind of business FARMERS AND MERCHANTS BANK competes in, when FARMERS AND MERCHANTS BANK has funded it, or when FARMERS AND MERCHANTS BANK has devoted facilities or personnel to develop it.

For instance, if, as an employee, you helped develop a training program or software package, then started a small business to sell those services to other companies outside FARMERS AND MERCHANTS BANK, you would be taking a business opportunity belonging to FARMERS AND MERCHANTS BANK.

A director, officer or employee must not take these opportunities.

D. Giving Tax or Legal Advice

Giving tax, legal or certain kinds of financial advice often presents a conflict of interest. In addition, federal laws prohibit us from giving some types of advice. Yet many employees are often asked by their customers for these services.

You should avoid giving advice unless it is an inherent part of your job, such as the financial counseling a commercial lender would engage in. And generally, you should not give tax advice or financial advice which you aren't both qualified and authorized to provide. Only employees specifically licensed or otherwise authorized should give advice about registered securities within the limits of industry regulations.

When you need to refer a customer to an attorney, tax expert, accountant, stockbroker, real estate or insurance agent, be sure you furnish a bank-authorized list of several individuals. This avoids the appearance of favoritism or potential influence over the decisions of customers.

Remember the basic rule of conflict of interest. You should not personally benefit (or appear to benefit) from a referral.

E. Receiving a Bequest or Acting as a Fiduciary

In order to prevent the appearance of conflicts, you should generally not agree to serve as an executor, trustee, personal trust advisor, guardian or other position for anyone except a member of your immediate family. If you aren't sure if a particular situation presents a conflict of interest, get clarification from your senior management or the Board of Directors.

Also, employees are not allowed to receive any bequests from a FARMERS AND MERCHANTS BANK customer or supplier. In this situation, you must take whatever legal steps necessary to renounce any bequest you may receive of this kind. Again, this is to avoid the appearance of a conflict of interest.

Exceptions must have written approval of the President or other designated source of approval. Even in these cases, you will only be given approval if it is clear that the bequest resulted from a close personal relationship unrelated to your employment with FARMERS AND MERCHANTS BANK.

II. HOLDING ANOTHER JOB OUTSIDE FARMERS AND MERCHANTS BANK

Yes, you can have another job or own a business outside FARMERS AND MERCHANTS BANK. But full-time employees must get prior written approval from their senior manager, President, or Board of Directors to do so. Since it is common for many part-time employees to hold an additional job, it is more practical for those employees to get approval from their direct supervisors. But in both cases, the following issues are considered before approval is given:

- Is there a conflict of interest?
- Will it adversely affect FARMERS AND MERCHANTS BANK?
- Is the business relationship in direct competition with the company?
- Will the job interfere with the time and attention the employee must devote to his or her job at FARMERS AND MERCHANTS BANK?
- Will corporate property or equipment, or use of proprietary information (such as mailing lists, business information, or computer systems) be involved?

A "yes" answer to any of these questions means you should not accept the second job.

III. USING BANK PROPERTY FOR YOUR PERSONAL USE

You cannot use corporate property for personal benefit without prior written approval from your senior management, President, or Board of Directors. An example is using bank facilities, personnel and postage to reproduce flyers for a college reunion, or taking a bank camera on a personal vacation.

IV. THE CONSEQUENCES OF STEALING OR BREAKING THE LAW

As a FARMERS AND MERCHANTS BANK director or employee, you must comply with all laws and regulations, including those specific to our industry. You could lose your job or face consequences for violation of laws.

If you specifically violate any applicable banking industry laws (such as check-kiting, embezzlement, accepting or making fraudulent statements, making fictitious loans), you will lose your job and, in many cases, suffer the consequences of criminal prosecution.

In fact, numerous federal and state laws make it a crime to defraud or steal from FARMERS AND MERCHANTS BANK. This could result in substantial fines and many years of imprisonment.

Among other things, these laws prohibit:

1. Taking any money, funds, credits, assets, securities, software, or other property from the bank, including embezzlement or misappropriation of funds.
2. Taking gifts, favorable treatment, bribes, or anything of value in conjunction with general business decisions or banking transactions.
3. Making false entries in accounting records, reports, financial statements or other documents.

Again, you can expect severe consequences for any fraudulent or illegal activity, either related or unrelated to banking, that you might get involved in while you are an employee or director of FARMERS AND MERCHANTS BANK.

V. YOUR OBLIGATION TO KEEP THINGS CONFIDENTIAL

It is your responsibility to safeguard information you have about FARMERS AND MERCHANTS BANK, its customers, suppliers, shareholders, and employees.

Examples of this kind of information include knowledge of a financial condition of a company or a person, the status or prospect of a business deal which might take place, or even the fact that an individual does business with FARMERS AND MERCHANTS BANK. It might also include internal correspondence, computer passwords, codes or software, and reports written by regulatory agencies.

This kind of proprietary (FARMERS AND MERCHANTS BANK-owned or controlled) information must not be released to anyone outside FARMERS AND MERCHANTS BANK who doesn't need to have the information in order to perform his or her duties.

"Insider" Information - What is it?

Some kinds of confidential information are called "insider information." If you improperly use or share "insider information," you are breaking the law.

Insider information is the kind of information which could affect the judgment of investors who might buy, sell, or hold FARMERS AND MERCHANTS BANCSHARES stock or the stock of another company. Insider information is also that which can influence the market price of the stock.

Some examples include: information about potential acquisitions, earnings estimates, dividend increases or decreases, expected competitive advantages, upcoming litigation, extraordinary management changes, or other activities.

The rule against giving out insider information also extends to information you may have about other companies, loans, investments, or trust and asset management activities.

Avoid an "Insider" conflict if you buy stock

To avoid even the appearance of impropriety, it's best for employees who plan to purchase FARMERS AND MERCHANTS BANCSHARES stock (especially those with access to insider information) to wait to make those purchases until after the market has had enough time to react to the release of annual or quarterly financial reports.

In general, all employees and directors should be extremely careful about discussing any of the company's activities with outsiders, especially with shareholders and others who do not have a right to that information before it's made available to the general public. This extends to any insider information you may have about other companies' activities as a result of serving as that customer's lender, trust officer, an investment banker, etc.

VI. YOUR INVOLVEMENT IN THE COMMUNITY, POLITICS, AND OTHER BUSINESSES

Your participation in community and political activities outside specific FARMERS AND MERCHANTS BANK projects or activities is encouraged as long as your involvement meets certain criteria:

- your involvement must be undertaken in a legal manner, in accordance with public policy
- it can't interfere with your ability to do your job with FARMERS AND MERCHANTS BANK
- your involvement must be such that you do not appear to represent or make decisions on behalf of FARMERS AND MERCHANTS BANK

Running for Office

You can run for an elected political office, or accept an appointment to a federal, state, or local government office with the written approval of the President or Board of Directors. One criteria for approval is determination if running or holding office would interfere with your ability to do your job with FARMERS AND MERCHANTS BANK.

Other appointments which require that you get prior written approval from the President or Board of Directors include:

1. Corporate directorships, election or appointment to commissions and boards or other organizations

2. A position involving a regional or state-level corporation, public body or business enterprise, or one outside the immediate county or trade area of the FARMERS AND MERCHANTS BANK

Unless you've been asked by FARMERS AND MERCHANTS BANK to serve in any of these positions because of your employment at FARMERS AND MERCHANTS BANK, you won't be "indemnified" (meaning legally protected) by FARMERS AND MERCHANTS BANK for any liability or costs which result from the elected or appointed position.

Political contributions

You are encouraged, if you wish, to become involved in the election of qualified candidates for political office.

But the Code of Ethics and federal law don't permit using corporate funds, property, or resources for running political campaigns or raising campaign funds.

That's why FARMERS AND MERCHANTS BANK isn't permitted to give money, goods, special services, or other resources to political parties or candidates.

Loans to candidates or parties aren't permitted either, except when they are made in the ordinary course of business and follow federal and state laws.

VII. MANAGING YOUR PERSONAL FINANCES ETHICALLY

In order to protect the public image of and the community confidence in the FARMERS AND MERCHANTS BANK you should always make sure that your personal finances are handled responsibly. For example, you must avoid overdrafts, late payment of your bills, misuse of your bank accounts, or kiting checks etc.

Should personal financial difficulties arise, the following measures shall be taken:

- A. The filing of personal bankruptcy by an Officer or Director of the Bank shall call for the immediate resignation of the individual.
- B. The filing of corporate bankruptcy by a company that is majority owned and controlled by an Officer or Director of the Bank shall call for the immediate resignation of the individual.
- C. An unpaid obligation, by an Officer or Director to the Bank, in the form of delinquent loan payments or an overdrawn account, for a period of more than 60 days, shall call for the immediate resignation of the individual. Should the resignation not be accepted by the Board of Directors, following a review by the Board, administrative sanctions may be placed on the individual until the situation is corrected. Sanctions may be in the form of removal from Board Committees, loss of lending authority, etc.
- D. Should an Officer or Director be charged and/or convicted of criminal activity, following review by the Board of Directors, appropriate administrative sanctions may be placed on the individual. Those sanctions may include a request for resignation.

There are also some special guidelines for investing in other businesses. As an employee, unless you have prior written permission from the President, you shouldn't invest directly or indirectly in ...

- the stock or business of a competitor, supplier or customer unless that company's shares are publicly traded on a stock exchange or in the over-the-counter market
- a company, business or other investment opportunity made available to you by a customer or supplier of FARMERS AND MERCHANTS BANK
- any company or business where your ownership would be 10% or more

VIII. RULES ABOUT BORROWING AND LENDING MONEY

Borrowing is an essential function of our company. But as a director or employee, you must be careful how you conduct personal borrowing or lending activities. Following the guidelines here will prevent conflicts of interest, as well as make sure you do not break federal law.

1. Employees and directors should not borrow from a FARMERS AND MERCHANTS BANK customer or borrow personally from each other. You also should not co-sign, endorse or assume liability for borrowings of any customer (except if it's a member of your family, such as co-signing your daughter's car loan).

The exception is when a loan from a FARMERS AND MERCHANTS BANK customer is a normal credit purchase made on terms which are not preferential. For instance, if the owner of a retail appliance store is a Bank customer and you purchase a television there, you could finance the television just as any other customer would be permitted to do.

Borrowing from family members is considered a personal matter and isn't covered by the Code.

2. Directors and executive officers of FARMERS AND MERCHANTS BANK, are subject to limitations of Regulation "O." Those directors and executive officers, as well as any lending officers making loans to them, are responsible for understanding and complying with Regulation "O." This is a federal regulation which covers lending to directors, executive officers, and their businesses or other interests.
3. As described in the Conflict of Interest Section, directors and executive officers are not permitted to receive preferential interest rates, terms, or waived fees on any kind of loan.

IX. CONDUCTING YOURSELF ON AND OFF THE JOB

Your personal conduct, on and off the job should always reflect favorably both on yourself and the company.

In general, your personal and financial affairs should:

- respect the personal and property rights of others
- comply with the personnel policies of the FARMERS AND MERCHANTS BANK which are explained in the company personnel manual. This includes use, possession or sale of alcohol or illegal drugs, your personal appearance, and your conduct when dealing with fellow employees, customers, and suppliers

- not present a conflict of interest with another employee that would limit your authority or credibility as a manager
- not limit your ability to perform your job, limit teamwork with co-workers, or limit the willingness of customers to do business with you

Ethical personal conduct also involves a spirit of fairness. So as a FARMERS AND MERCHANTS BANK employee or director, you should not make derogatory remarks or engage in negative behavior with respect to competitors, customers, other employees, or suppliers.

Make the workplace free from offense or discrimination

Ethical personal conduct, on and off the job, also means you should not discriminate in any way on the basis of race, color, religion, sex, age, national origin, veteran status, handicap, marital status, disability, sexual orientation, or any other bias prohibited by federal, state or local law.

In addition, an employee should not engage in any form of harassment. Harassment has the intent or effect of creating an intimidating, hostile or offensive work environment. It can include verbal, nonverbal, or physical gestures or abuse.

An example of harassment is sexual harassment. Sexual harassment can include unwanted physical touching, brushing or rubbing, or physical assault. It's also important to understand that many kinds of nonphysical behavior sometimes thought to be harmless can actually constitute sexual harassment. Examples include suggestive comments of a sexual nature, sexual innuendo, propositions, sexual jokes, whistling, or obscene gestures.

Good judgment dictates that you must avoid risks and complications which arise from becoming involved in intimate relationships with other employees.

It is especially important; in fact, it is mandatory that those relationships be avoided between supervisors and subordinates. This prevents the appearance or presence of sexual harassment which may evolve from these relationships, as well as actual or perceived favoritism between the supervisor and subordinate.

In general, illegal discrimination and harassment of any kind can cause you to lose your job.

Therefore, every employee has an ethical obligation to refrain from these activities. The FARMERS AND MERCHANTS BANK should always be maintained as a business environment free from illegal discrimination, sexual harassment or other kinds of intimidating or offensive behavior.

Reporting Harassment

You should report incidents of sexual or other harassment as soon as possible to your supervisor, or other senior officer within FARMERS AND MERCHANTS BANK.

Your report will be investigated with confidentiality and you will be protected from retaliation.

Where to Go With A Question or Concern

This Code of Ethics is only intended to be a set of general principles. It's always best to ask when you aren't sure or when you have a question about interpreting the Code.

Who Administers the Code?

If you need an explanation or you want to know if a provision of the Code applies to a particular situation, contact your supervisor.

If an interpretation or special clarification of this Code is needed, consult with the President.

Any significant events or issues surrounding the Code are to be reported to the Board of Directors by the President. Amendments to this Code must be approved by the FARMERS AND MERCHANTS BANCSHARES, INC. Board of Directors.

Annual Director Disclosure Statement

Annually each Member of the Board of Directors of the FARMERS AND MERCHANTS BANK shall update and sign a Disclosure Statement regarding compliance with the Bank's Code of Ethics.

Situations that should be disclosed include, but are not limited to, the following:

- 1. Relationships with vendors used by the Bank**
- 2. Political activities**
- 3. Elected or appointed offices held**
- 4. Other directorships held**
- 5. Involvement in other organizations that do business with the Bank**
- 6. Ownership in other organizations**
- 7. Loan guarantees for non-immediate family members**

I have read and approved of the Code of Ethics of the FARMERS AND MERCHANTS BANCSHARES, INC.. I feel that I should report the following situations:

Signed: _____

Date: _____