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FARMERS & MERCHANTS BANK

2009 ANNUAL REPORT

FARMERS & BANK MERCHANTS

◆ *THE "COMMUNITY" BANK THAT PUTS PEOPLE FIRST* ◆

Member FDIC

March 15, 2010

Dear Stockholders, Customers, and Friends:

We are very pleased to report that your Bank is strong and profitable. In 2009 we celebrated 90 years in business and we continue to provide the safety and soundness that is important in today's difficult economic times. The Bank exceeds the FDIC criteria to be classified as a well capitalized bank. We provide outstanding service to our customers and continue to meet the loan and deposit needs of our community. Our staff is sensitive to your financial needs in these difficult times and we encourage you to contact us to assist you.

Net income for the year ended December 31, 2009 increased over 75% to $1,237,772 or $1.63 per share compared to $704,763 or $0.94 per share in 2008. The increase is a result of the widening in our net interest margin and a decrease in other real estate owned expenses and other noninterest expenses. Cash dividends paid to shareholders in 2009 decreased to $0.60 per common share from $0.99 per common share in 2008. We are confident that reducing dividends to preserve capital was a prudent decision in this very volatile economy and in light of increased regulatory emphasis on capital levels.

Total assets continued to grow at a significant rate during 2009. The year-end total of $215 million represented a 9% increase from $197 million at December 31, 2008. Loans outstanding increased 13% to $161 million at December 31, 2009 from $142 million at the end of 2008. Deposits also experienced a double digit increase of 14%, growing to $176 million at December 31, 2009 from $154 million at December 31, 2008.

The brokerage firm of RBC Wealth Management makes a market in our common stock. If you have an interest in buying or selling any Farmers and Merchants Bank common stock and you would like the assistance of RBC Wealth Management, please call Mr. Charles Luck or Mr. Derek Ehman at 1-800-247-7223. The Bank's common stock is traded through NASDAQ's Over-the-Counter Bulletin Board (trading symbol: FMFG), and market information may be obtained at www.otcbb.com.

The Bank offers a wide variety of loan products including commercial and residential real estate, installment, and lines of credit. Also, the Bank offers competitive deposit accounts such as free checking, money market accounts and certificates of deposit. Please visit us at one of our many locations in the community or review our newly updated website at www.fmb1919.com .

We are proud of the financial performance of Farmers and Merchants Bank in 2009. The Board of Directors and staff thank you for your confidence in and your continued support of our excellent community bank.

We wish you all the best in 2010!

Sincerely yours,

Glenn D Cassell   Jas R. Bosley Jr

Glenn D. Cassell
Chairman

James R. Bosley, Jr.
President

Main Office	Hampstead Branch	Greenmount In-Store Branch	Reisterstown Branch	Owings Mills Branch
15226 Hanover Pike	735 Hanover Pike	2205 Hanover Pike	25 Westminster Pike, P.O. Box 249	9320 Lakeside Blvd.
Upperco, MD 21155	Hampstead, MD 21074	Hampstead, MD 21074	Reisterstown, MD 21136	Owings Mills, MD 21117
(410) 833-6600 • (410) 429-1919	(410) 239-4448 • (410) 374-4125	(410) 374-3436	(410) 517-3060	(410) 356-8200
FAX (410) 526-3835	FAX (410) 374-4240		FAX (410) 517-3061	FAX (410) 356-5456

www.farmersandmerchantsbk.com

About The Bank

General

Farmers and Merchants Bank (the "Bank") was incorporated October 24, 1919 under the laws of Maryland. The Bank is a Federal Deposit Insurance Corporation ("FDIC") insured independent community bank headquartered in Upperco, Maryland. The Bank currently has seven branch locations in Carroll and Baltimore Counties. The Bank's general market area runs along the Route 30 and Route 795 corridors south from Owings Mills and north to the Pennsylvania state line including the areas of Reisterstown, Upperco, Hampstead and Manchester.

Services of the Bank

The Bank provides comprehensive commercial and retail banking services to small and medium-sized businesses and to individuals. The following types of services are offered by the Bank:

Commercial Services

- Loans, including commercial mortgages, lines of credit, a wide range of demand, term, and time loans, for purposes such as fixed asset purchases, as well as loans guaranteed by the Small Business Administration ("SBA") and the Farm Services Agency ("FSA")
- Commercial checking accounts and Remote Deposit Banking services
- Certificates of Deposit and other interest-bearing accounts
- Direct deposit of payroll
- Merchant credit card services
- Letters of Credit.

Consumer Services

- Transaction accounts, including checking and NOW accounts
- Savings accounts
- Certificates of Deposit
- Money Market Accounts
- Individual Retirement Accounts
- Holiday and Vacation Club accounts
- Mortgages (Permanent and Construction)
- Home Equity loans
- Installment and Line of Credit loans
- Land loans
- Car and truck loans
- Agricultural loans
- Educational loans
- VISA Debit cards

The Bank offers 24 hour ATMs, including access to the Allpoint Network, on-line banking, safe deposit boxes, Visa travel cards, money orders, savings bonds, official checks, night depository, 24 hour Dial-A-Bank Telephone Access System and wire transfers. The Bank does not offer general trust services.

Farmers and Merchants Bank
Directors
2009

Glenn D. Cassell, Chairman
Chairman of the Board of
Communications Electronics, Inc.

Paul F. Wooden, Jr.
Vice Chairman
President, Taylor Technologies, Inc.

James R. Bosley, Jr.
President and CEO
Farmers and Merchants Bank

Roger D. Cassell
President
Communications Electronics, Inc.

Kenneth W. Hoffmeyer
Associate Controller,
Johns Hopkins University

Ronald W. Hux
President, Douron, Inc.

T. Edward Lippy
President, Lippy Brothers, Inc.

J. Lawrence Mekulski
Principal
KLNB, LLC

Rudolph W. Nechay
President
Industrial Refrigeration Services, Inc.
General Refrigeration, Inc.
Polytemp Corporation

Bruce L. Schindler
President, Bob Davidson Ford Lincoln
Mercury, Inc.

John J. Schuster, Jr.
President, Schuster Enterprises, Inc.

W. Ralph Wisner
Vice President and Secretary
Wisner Farms, Inc.

Farmers and Merchants Bank
Officers
2009

James R. Bosley, Jr.
President and CEO

Christopher T. Oswald
Senior Vice President,
Chief Operations Officer

Mark C. Krebs
Senior Vice President,
Chief Financial Officer

Senior Vice Presidents

Julie A. Harris-Hare............Data Processing
Cheryl Y. Lewis ....Lending
J. Ritchie Solter...........Commercial Lending
Yvonne G. Zeminski...Branch Administration

Vice Presidents

Lynnette Kitzmiller..........Corporate Secretary
Kevin P. Bankert.....Commercial Loan Officer
Gary A. Harris........Commercial Loan Officer

Other Bank Officers

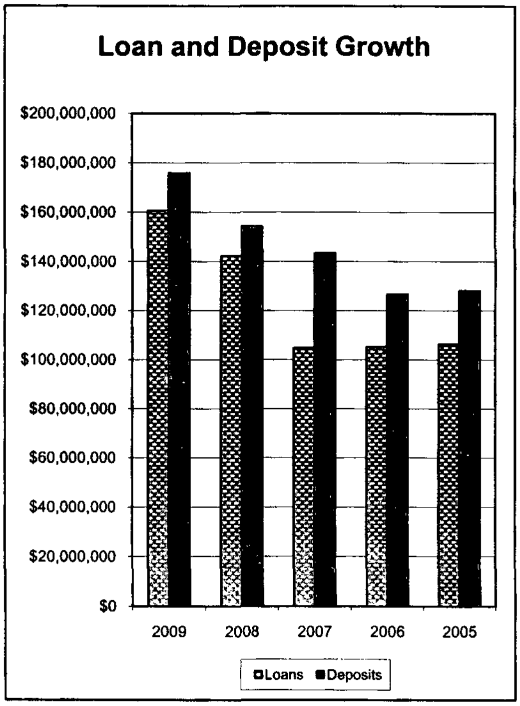
Paul A. Davolos..Commercial Banking Officer
T. Jeffrey Horner..........................Controller
Mark W. Lutrey..................................Auditor
J. Thomas Turner..............Mortgage Officer

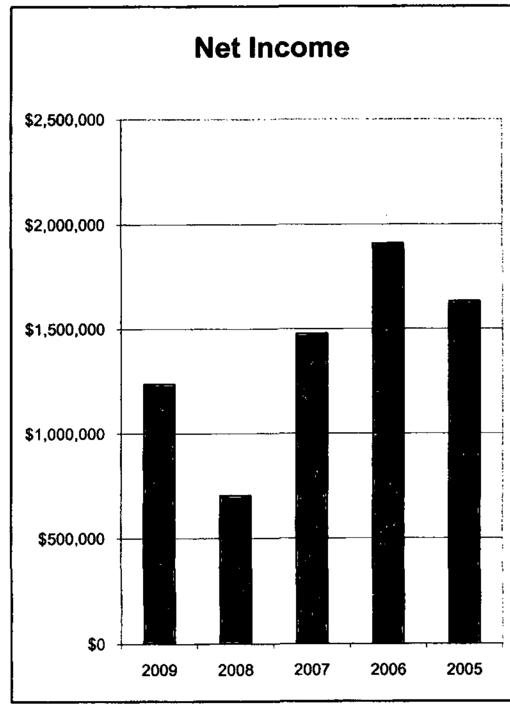
Assistant Vice Presidents
Loan Officers

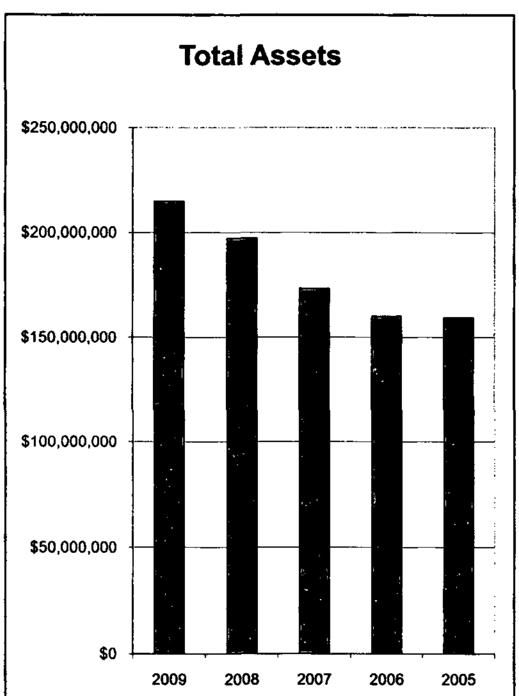
Debora A. Smith
Betty J. Higgs-Swartz

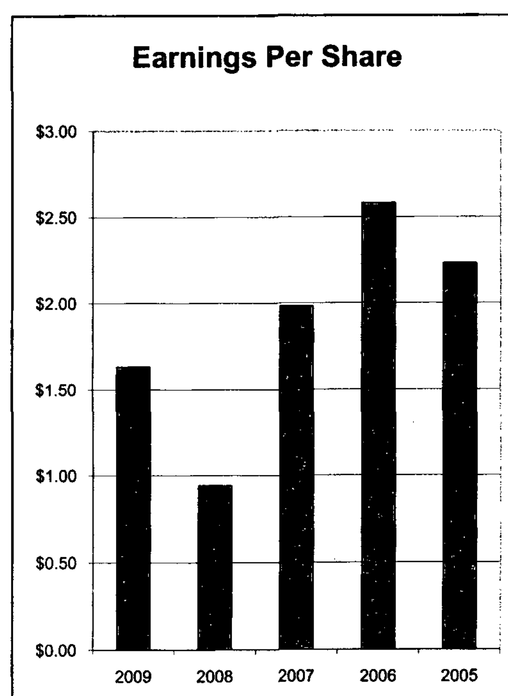
Assistant Vice Presidents
Branch Managers

Douglas A. Belfield.............Reisterstown
Shannon M. Panek-Close......Main Office
Rachel L. Heird.................Owings Mills
Kelly P. Johnson..................Hampstead
Amy L. Collins......................Greenmount


Loan and Deposit Growth
$200,000,000
$180,000,000
$160,000,000
$140,000,000
$120,000,000
$100,000,000
$80,000,000
$60,000,000
$40,000,000
$20,000,000
$0
2009
2008
2007
2006
2005
Loans
Deposits


Net Income
$2,500,000
$2,000,000
$1,500,000
$1,000,000
$500,000
$0
2009
2008
2007
2006
2005


Total Assets
$250,000,000
$200,000,000
$150,000,000
$100,000,000
$50,000,000
$0
2009
2008
2007
2006
2005


Earnings Per Share
$3.00
$2.50
$2.00
$1.50
$1.00
$0.50
$0.00
2009
2008
2007
2006
2005

Farmers and Merchants Bank
Selected Consolidated Financial Data

	2009	2008	2007	2006	2005
OPERATING DATA					
Interest income	$ 10,716,699	$ 9,817,939	$ 10,144,507	$ 9,427,118	$ 8,248,468
Interest expense	3,196,670	3,384,201	3,510,242	2,577,445	2,038,292
Net interest income	7,520,029	6,433,738	6,634,265	6,849,673	6,210,176
Provision for loan losses	750,000	520,000	340,000	165,000	-
Net interest income after provision for loan losses	6,770,029	5,913,738	6,294,265	6,684,673	6,210,176
Noninterest income	1,768,407	1,799,602	1,667,148	1,524,317	1,342,237
Noninterest expenses	6,653,728	6,774,376	5,748,785	5,333,744	5,128,970
Income before income taxes	1,884,708	938,964	2,212,628	2,875,246	2,423,443
Income taxes	646,936	234,201	735,508	966,413	791,405
Net income	$ 1,237,772	$ 704,763	$ 1,477,120	$ 1,908,833	$ 1,632,038
PER SHARE DATA					
Net income (Basic)	$1.63	$0.94	$1.98	$2.58	$2.23
Dividends	$0.60	$0.99	$0.95	$0.90	$0.85
Book value per share	$27.37	$26.53	$26.27	$25.19	$23.40
Dividend payout ratio	36.81%	105.17%	47.98%	34.88%	38.01%
KEY RATIOS					
Return on average assets	0.59%	0.39%	0.87%	1.20%	1.07%
Return on average equity	6.02%	3.52%	7.58%	10.51%	9.78%
Net interest margin	3.95%	3.88%	4.30%	4.71%	4.48%
Efficiency ratio	71.63%	82.28%	69.25%	63.69%	67.91%
Average equity to average assets	9.88%	11.09%	11.53%	11.43%	10.93%
AT PERIOD END					
Total assets	$ 214,703,396	$ 197,271,437	$ 173,211,324	$ 159,981,417	$ 159,243,281
Loans, net and loans held for sale	162,086,511	142,375,750	104,779,706	105,182,335	106,286,590
Cash, federal funds sold, and other interest-earning deposits	14,737,250	12,887,914	24,688,671	19,246,824	16,014,890
Securities	24,978,938	29,828,781	30,812,781	24,977,379	26,528,478
Deposits	175,914,655	154,332,920	143,460,039	126,691,741	128,160,760
Borrowings	17,235,751	21,968,438	9,268,451	13,983,051	13,323,136
Stockholders' equity	20,911,870	20,045,076	19,703,260	18,765,720	17,229,503
SELECTED AVERAGE BALANCES					
Total assets	$ 208,096,804	$ 180,780,956	$ 168,941,480	$ 158,915,004	$ 152,661,379
Loans	155,472,880	122,890,944	110,630,577	107,648,491	102,874,491
Federal funds sold, and other interest-earning deposits	7,578,188	11,810,737	17,653,887	12,079,672	10,086,820
Securities	27,395,016	31,208,413	26,344,512	25,557,866	25,696,102
Deposits	142,287,154	144,044,763	138,289,943	126,746,281	124,240,898
Borrowings	18,874,328	16,030,065	10,420,512	13,359,432	11,185,910
Stockholders' equity	20,566,797	20,047,843	19,485,116	18,167,290	16,688,224
ASSET QUALITY					
Nonperforming assets	$ 2,203,332	$ 2,786,678	$ 2,500,068	$ 1,311,851	$ -
Nonperforming assets/total assets	1.03%	1.41%	1.44%	0.82%	0.00%
Allowance for loan losses/total loans	1.21%	1.05%	1.14%	1.16%	0.93%

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion is qualified in its entirety by the more detailed information and the financial statements and notes thereto appearing elsewhere in this Annual Report. In addition to the historical information contained herein, the discussion in this Annual Report contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Bank's plans, strategies, objectives, expectations and intentions, including, among other statements, statements involving the Bank's projected loan and deposit growth, loan collateral values, collectability of loans, anticipated changes in noninterest income, payroll and branching expenses, branch, office, and product expansion of the Bank and its affiliates, and liquidity and capital levels. These statements may be identified by such forward-looking terminology as "expect," "believe," "anticipate," or by expressions of confidence such as "continuing," or "strong," or similar statements or variations of such terms. The Bank's actual results could differ materially from those discussed herein and involve certain risks and uncertainties. These risks and uncertainties include, but are not limited to, general economic conditions and competition in the geographic and business areas in which the Bank and its subsidiaries operate, inflation, fluctuations in interest rates, legislation, and government regulation. These and other risks are discussed in more detail in Item 1A of Part I of the Bank's Annual Report on Form 10-K for the year ended December 31, 2009. The cautionary statements made in this Annual Report are applicable to all related forward-looking statements wherever they appear in this Annual Report.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Bank are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the industry in which the Bank operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Estimates, assumptions, and judgments are necessary when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not carried on the consolidated financial statements at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability needs to be recorded contingent upon a future event. Carrying assets and liabilities at fair value inherently results in more financial statement volatility. The fair values and information used to record valuation adjustments for certain assets and liabilities are based either on quoted market prices or are provided by other third-party sources, when available.

The most significant accounting policies followed by the Bank are presented in Note 1 to the consolidated financial statements presented elsewhere in this Annual Report. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for loan losses as the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for loan losses represents management's estimate of probable loan losses inherent in the loan portfolio. Determining the amount of the allowance for loan losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on impaired loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheet. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for loan losses.

RECENT DEVELOPMENTS

As an FDIC member institution, the Bank's deposits are insured through the Deposit Insurance Fund (the "DIF"), which is administered by the FDIC, and the Bank is required to pay quarterly deposit insurance premium assessments to the FDIC. In February, 2009, the FDIC's Board of Directors made a series of decisions to ensure that the nation's deposit insurance system remains sound. On November 12, 2009, the FDIC adopted a final rule requiring insured depository institutions to prepay their estimated quarterly risk-based deposit assessments for the fourth quarter of 2009, and for all of 2010, 2011, and 2012, on December 30, 2009, along with each institution's risk based deposit insurance assessment for the third quarter of 2009. It was also announced that the assessment rate will increase by 3 basis points effective January 1, 2011. The prepayment will be accounted for as a prepaid expense to be amortized quarterly. The prepaid assessment will qualify for a zero risk weight under the risk-based capital requirements. The Bank paid $1,006,196 on December 30, 2009 of which $887,930 was the three year prepayment.

On May 22, 2009, the Federal Deposit Insurance Corporation (the "FDIC") announced a final rule to implement an emergency special assessment of 5 basis points on all insured depository institution's assets, less its Tier 1 capital, in order to restore the Deposit Insurance Fund to an acceptable level. The special assessment, which was paid on September 30, 2009, in the amount of $94,783, was in addition to an increase in the premium rate. Additionally, the proposed rule provides that, after June 30, 2009, if the reserve ratio of the Deposit Insurance Fund falls to a level that the FDIC believes would adversely affect public confidence or to a level which is close to or less than zero at the end of a calendar quarter, then an additional emergency special assessment may be imposed on all insured depository institutions.

On October 14, 2008, the FDIC's Transaction Account Guarantee Program ("TAG") became effective. The TAG program provides unlimited insurance for noninterest-bearing accounts at participating banks through December 31, 2009. During 2009, the program was extended until June 30, 2010. The Bank has been a participant and will remain so through the extended deadline.

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 was enacted to temporarily raise the basic limit on federal deposit insurance coverage from $100,000 to $250,000 per depositor. The expiration of the temporary limit was extended during 2009 to December 31, 2013. The coverage for retirement accounts did not change and remains at $250,000.

FINANCIAL CONDITION

Total assets increased by $17,431,959 or 8.8% to $214,703,396 at December 31, 2009 from $197,271,437 at December 31, 2008. The increase resulted primarily from an increase of $18,292,888 in loans. Other significant changes included an increase in loans held for sale of $1,417,873, in increase in cash of $5,134,740, a decrease in federal funds sold and Federal Home Loan Bank ("FHLB") deposits of

$3,285,404, and a decrease in investment securities of $4,849,843. Other assets also increased by $810,155 due to the prepaid special FDIC assessment of $887,930.

Total liabilities increased $16,565,165 or 9.3% to $193,791,526 at December 31, 2009 from $177,226,361 at December 31, 2008. The increase was primarily due to an increase in deposits of $21,581,735, offset by a decrease in securities sold under repurchase agreements ("REPOs") of $1,732,687 and a decrease in Federal Home Loan Bank advances of $3,000,000. The increase in deposits was primarily due an increase of $12,806,299 in time deposits, an increase of $3,383,618 in money market accounts, a $2,658,910 increase in savings accounts, and a $2,391,026 increase in noninterest-bearing accounts.

Stockholders' equity increased by $866,794 to $20,911,870 at December 31, 2009 from $20,045,076 at December 31, 2008. The increase was due primarily to net income for the period of $1,237,772, offset by dividends paid of $454,311.

Loans

Loans increased by $18,292,888 or 12.8% to $160,668,638 at December 31, 2009 from $142,375,750 at December 31, 2008. The increase was primarily attributable to an increase in commercial real estate loans of $31,616,607 offset by decreases in residential real estate loans of $5,988,506, construction loans of $3,663,287, demand loans of $2,432,595 and home equity loans of $1,006,262. The allowance for loan losses increased $466,060 in 2009 and deferred loan fees increased $883 in 2009.

The following table sets forth the Bank's loan portfolio and loans held for sale at December 31,

	2009 Amount	%	2008 Amount	%
Real Estate				
Commercial	$113,029,995	69.37%	$81,413,388	56.47%
Residential	26,634,740	16.35%	32,623,246	22.63%
Construction	6,409,784	3.93%	10,073,071	6.99%
Home equity	5,033,568	3.09%	6,039,830	4.19%
Installment	3,886,874	2.38%	3,636,080	2.52%
Demand	7,866,913	4.83%	10,299,509	7.14%
Other	76,782	0.05%	93,701	0.06%
	162,938,656	100.00%	144,178,825	100.00%
Less:				
Allowance for loan losses	1,973,298		1,507,238	
Deferred loan fees, net	296,720		295,837	
	$160,668,638		$142,375,750	

The following table sets forth at December 31, 2009 and 2008 the maturity and rate repricing distribution of the loan portfolio. Demand loans and overdrafts are reported as due in one year or less. The table does not include prepayment and scheduled principal repayment assumptions, which could shorten the average loan life.

	2009	2008
Variable rate	$19,631,680	$11,353,595
Due within 1 year	27,155,419	26,215,665
Due over 1-5 years	100,857,256	94,789,086
Due over 5 years	15,294,301	11,820,479
	$162,938,656	$144,178,825

The Bank has adopted policies and procedures that seek to mitigate credit risk and to maintain the quality of the loan portfolio. These policies include underwriting standards for new credits as well as the continuous monitoring and reporting of asset quality and the adequacy of the allowance for loan losses. These policies, coupled with continuous training efforts, have provided effective checks and balances for the risk associated with the lending process. Lending authority is based on the level of risk, size of the loan, and the experience of the lending officer. The Bank's policy is to make the majority of its loan commitments in the market area it serves. This tends to reduce risk because management is familiar with the credit histories of loan applicants and has in-depth knowledge of the risk to which a given credit is subject. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

It is the policy of the Bank to place a loan in nonaccrual status whenever there is substantial doubt about the ability of the borrower to pay principal or interest on any outstanding credit. Management considers such factors as payment history, the nature of the collateral securing the loan, and the overall economic situation of the borrower when making a nonaccrual decision. Management closely monitors nonaccrual loans. A nonaccruing loan is restored to current status when the prospects of future contractual payments are not in doubt. At December 31, 2009, the Bank had two nonaccrual loans to two borrowers totaling $2,203,332. The loans were collateralized by real estate and personal guaranties. Gross interest income of $74,333 would have been recorded in 2009 if the nonaccrual loans had been current and performing in accordance with its original terms. The Bank has allocated $575,068 of its allowance for loan losses for these nonaccrual loans. At December 31, 2008, the Bank had three nonaccrual loans to three borrowers totaling $2,786,678 with an allowance for loan losses of $227,032. In 2009, the Bank collected $743,205 and charged off $160,616 for two of the loans. The third loan is included in nonaccrual loans at December 31, 2009.

At December 31, 2009, the Bank had one loan delinquent greater than 90 days of $197,095 other than the nonaccrual loans noted above. This loan was paid off in January 2010. At December 31, 2008, there were no other loans greater than 90 days. As of December 31, 2009, the Bank had $198,173 of loans other than the nonaccrual and delinquent greater than 90 days loans noted above on a watch list for which the borrowers have the potential for experiencing financial difficulties. As of December 31, 2008, the Bank had $434,283 of such loans. These loans are subject to ongoing management attention and their classifications are reviewed regularly.

The following table sets forth information regarding the Bank's allowance for loan losses during the years ended December 31,

	2009	2008
Balance at beginning of period	$1,507,238	$1,199,270
Provision for loan losses	750,000	520,000
	2,257,238	1,719,270
Recoveries	60,397	16,278
Charge-offs:		
Installment	-	(228,310)
Commercial real estate	(344,337)	-
Net (charge-offs) recoveries	(283,940)	(212,032)
Balance at end of period	$1,973,298	$1,507,238

	2009	2008
Allowance for loan losses to total loans outstanding	1.21%	1.05%
Ratio of net (charge-offs) recoveries to average loans outstanding during the period	(0.18)%	(0.17)%

The Bank recorded $283,940 in net charge-offs in 2009 versus $212,032 in net chargeoffs for 2008. The provision for loan losses was $750,000 for 2009 compared to $520,000 in 2008. The increase in the provision and the related allowance for loan losses resulted from the increase in the loan portfolio and the Bank's recent loan loss experience.

The Bank's allowance for loan losses is established through a provision for loan losses based on management's evaluation of the risks inherent in its loan portfolio and the general economy. The allowance for loan losses is maintained at the amount management considers adequate to cover estimated losses in loans receivable that are deemed probable and estimable based on information currently known to management. The allowance is based upon a number of factors, including current economic conditions, actual loss experience, diversification and size of the portfolio, adequacy of the collateral, the amount of nonperforming loans, and industry trends. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. Such agencies may require the Bank to make additional provisions for estimated loan losses based upon judgments different from those of management.

Although management believes that, based on information currently available, the Bank's allowance for loan losses is sufficient to cover losses inherent in its loan portfolio at this time, no assurances can be given that the Bank's level of allowance for loan losses will be sufficient to cover future loan losses incurred by the Bank or that future adjustments to the allowance for loan losses will not be necessary if economic and other conditions differ substantially from the economic and other conditions at the time management determined the current level of the allowance for loan losses.

The allocation of the allowance for loan losses by type of loan is as follows at December 31:

	2009		2008	
	Amount	Percent of allowance in each category to total allowance	Amount	Percent of allowance in each category to total allowance
Real Estate				
Commercial	$1,489,222	75.47%	$816,014	54.15%
Residential	143,430	7.27%	94,055	6.24%
Construction	139,418	7.07%	436,164	28.94%
Home Equity	24,480	1.24%	32,615	2.16%
Installment	19,191	0.97%	26,543	1.76%
Demand	110,204	5.58%	96,815	6.42%
Other	47,353	2.40%	5,032	0.33%
	$1,973,298	100.00%	$1,507,238	100.00%

Other Real Estate Owned

Other real estate owned at December 31, 2009 included one property with a total carrying value of $760,000. The property is land in Cecil County, Maryland. This property was acquired through foreclosure in 2007 and consists of 40 unimproved lots on 10.43 acres earmarked for townhouse and single family residential housing development. Based on a December 2008 appraisal of $800,000 and projected sales costs of $40,000, the property was written down to $760,000. The property was re-appraised in 2009 at $820,000. This property is currently being marketed for sale.

Other real estate owned at December 31, 2008 included two properties with a total carrying value of $1,005,000. The first property is the above-mentioned property in Cecil County, Maryland with a carrying value of $760,000. The second property was acquired through foreclosure in 2007 and consisted of 15 lots in Baltimore City, Maryland with a carrying value of $245,000. The property was sold in 2009 at a loss of $35,000.

Investment Securities

Investment securities decreased $4,849,843 or 16.3% to $24,978,938 at December 31, 2009 from $29,828,781 at December 31, 2008. At December 31, 2009, the Bank had classified 56.3% of the investment portfolio as available for sale, compared to 49.6% at December 31, 2008.

Securities classified as available for sale are held for an indefinite period of time and may be sold in response to changing market and interest rate conditions as part of the Bank's asset/liability management strategy. Available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of income taxes. Securities classified as held to maturity, which management has both the positive intent and ability to hold to maturity, are reported at amortized cost. The Bank does not currently follow a strategy of making security purchases with a view to near-term sales, and, therefore, does not own trading securities. The Bank manages the investment portfolio within policies that seek to achieve desired levels of liquidity, manage interest rate sensitivity, meet earnings objectives, and provide required collateral for deposit and borrowing activities.

The following table sets forth the carrying value of investment securities at December 31,

	2009	2008
Available for sale		
U.S. government agency	$ 992,501	$ -
State and municipal	3,257,707	2,807,175
	4,250,208	2,807,175
Mortgage-backed securities	9,801,158	11,954,203
Equity security	20,000	20,000
Total	$14,071,366	$14,781,378

	2009	2008
Held to maturity		
U.S. government agency	$242,490	$1,299,577
State and municipal	1,695,025	1,696,599
	1,937,515	2,996,176
Mortgage-backed securities	8,970,057	12,051,227
Total	$10,907,572	$15,047,403

The following table sets forth the scheduled maturities of investment securities at December 31, 2009,

	Available for Sale			Held to Maturity		
	Amortized Cost	Fair Value	Yield	Amortized Cost	Fair Value	Yield
Within 1 year	$ 290,015	291,235	4.29%	$ 590,787	$594,507	3.07%
Over 1 to 5 years	928,517	940,855	2.93%	1,346,728	1,424,666	4.52%
Over 5 to 10 years	2,993,482	3,018,118	4.37%	-	-	-
	4,212,014	4,250,208		1,937,515	2,019,173	
Mortgage-backed Securities	9,507,573	9,801,158	4.90%	8,970,057	9,477,083	5.05%
Equity security	20,000	20,000	-	-	-	-
	$13,739,587	$14,071,366		$10,907,572	$11,496,256	

Deposits

Total deposits increased by $21,581,735 or 14.0% to $175,914,655 at December 31, 2009 from $154,332,920 at December 31, 2008. The increase in deposits was primarily due an increase of $12,806,299 in time deposits, an increase of $3,383,618 in money market accounts, a $2,658,910 increase in savings accounts, and a $2,391,026 increase in noninterest-bearing accounts. The following table shows the average balances and average costs of deposits for the years ended December 31:

	2009 Average Balance	Cost	2008 Average Balance	Cost
Noninterest bearing demand deposits	$25,516,432	0.00%	$24,141,683	0.00%
Interest bearing demand deposits	18,567,960	0.24%	16,607,469	0.24%
Savings deposits	40,632,702	0.63%	37,628,852	0.81%
Time deposits	83,086,492	2.98%	65,666,758	3.96%
	$167,803,586	1.71%	$144,044,762	2.04%

As of December 31, 2009 and 2008, certificates of deposit of $100,000 or more mature as follows:

	2009	2008
2009	-	$19,911,116
2010	$28,378,469	8,491,134
2011	5,781,296	915,537
2012	1,158,246	872,758
2013	654,573	536,094
2014	709,322	-
Total	$36,681,906	$30,726,639

Off-Balance Sheet Arrangements and Contractual Obligations

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, lines of credit, including home-equity lines and commercial lines, and letters of credit. Loan commitments generally have interest rates at current market values, fixed expiration dates, and may require a fee. Lines of credit generally have variable interest rates and do not necessarily represent future cash flow requirements because it is unlikely that all customers will draw upon their lines in full at any one time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit, lines of credit, and letters of credit is represented by the contractual notional amount of these instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

At December 31, 2009, the Bank's off-balance sheet financial instruments were as follows:

Loan commitments	$ 8,404,841
Unused lines of credit	$ 18,337,676
Letters of credit	$ 1,624,514

Management does not believe that any of the foregoing arrangements are reasonably likely to have a materially adverse effect on the Bank's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Borrowings and Other Contractual Obligations

The Bank's contractual obligations consist primarily of borrowings and operating leases for various facilities.

Securities sold under agreements to repurchase represent overnight borrowings from customers. Securities owned by the Bank which are used as collateral for these borrowings are primarily U.S. government agency securities.

Specific information about the Bank's borrowings and contractual obligations is set forth in the following table:

	At December 31,	
	2009	2008
Amount outstanding at year-end:		
Securities sold under repurchase agreements	$14,235,751	$15,968,438
Federal Home Loan Bank advances	3,000,000	6,000,000
Weighted average rate paid at December 31:		
Securities sold under repurchase agreements	1.80%	2.52%
Federal Home Loan Bank advances	0.85%	2.92%

	For years ended December 31, 2009	2008
Maximum amount of borrowings outstanding at any month end:		
Securities sold under repurchase agreements	$15,299,904	$17,593,185
Federal Home Loan Bank advances	6,000,000	10,000,000
Borrowings from commercial banks	-	-
Average amount of borrowings outstanding with respect to:		
Securities sold under repurchase agreements	$14,789,396	$12,625,694
Federal Home Loan Bank advances	4,084,932	3,387,978
Borrowings from commercial banks	-	16,393
Weighted average rate paid for the year:		
Securities sold under repurchase agreements	2.18%	2.71%
Federal Home Loan Bank advances	2.37%	2.86%
Borrowings from commercial banks	-	2.48%

The terms of the Bank's operating leases, including the future minimum payments under those leases, are disclosed in Note 7 to the consolidated financial statements presented elsewhere in this Annual Report.

RESULTS OF OPERATIONS

Overview

The Bank reported net income of $1,237,772 for the year ended December 31, 2009 compared to $704,763 for the year ended December 31, 2008. The increase of $533,009 was due primarily to an increase of $1,086,291 in net interest income and a decrease of $120,648 in noninterest expense, offset by increases of $230,000 in the provision for loan losses and $412,735 in income taxes.

Net Interest Income

The primary source of income for the Bank is net interest income, which is the difference between interest income on interest-earning assets, such as investment securities and loans, and interest expense incurred on interest-bearing sources of funds, such as deposits and borrowings. The level of net interest income is determined primarily by the average balance of interest-earning assets and funding sources and the various rate spreads between the interest-earning assets and the Bank's funding sources.

The Bank's net interest income increased $1,086,291 to $7,520,029 for 2009 compared to $6,433,738 for 2008. The increase was primarily attributable to a faster decline in the cost of interest-bearing liabilities than the decline in the yield on interest-earning assets in 2009. The yield on interest-earning assets for 2009 decreased 30 basis points to 5.62% from 5.92% in 2008. The cost of interest-bearing liabilities decreased 51 basis points to 1.98% in 2009 compared to 2.49% in 2008. The Bank's interest rate spread for 2009 increased 21 basis points to 3.64% from 3.43% for 2008.

Total interest income increased $898,760 to $10,716,699 for 2009 compared to $9,817,939 for 2008. The increase was primarily due to the increase in average interest earning assets of $24,535,990 to $190,446,084 in 2009 from $165,910,094 in 2008 offset by a decrease of 30 basis points in the average yield of interest-earning assets to 5.62% for 2009 compared to 5.92% for 2008.

Interest income from loans increased $1,354,393 to $9,416,103 for 2009 compared to $8,061,710 for 2008. This increase was attributable to an increase of $32,581,936 in the average balance of loans to $155,472,880 for 2009 from $122,890,944 for 2008 offset by a 50 basis point decrease in the average yield on loans to 6.06% in 2009 from 6.56% in 2008.

Interest income on securities and other interest-earning assets (FHLB stock and certificates of deposit) decreased $222,802 to $1,281,120 for 2009 compared to $1,503,922 for 2008. The decrease was due to a 15 basis point decrease in the average yield to 4.56% in 2009 from 4.71% in 2008, and a $3,850,240 decrease in the average balance to $28,109,828 during 2009 from $31,960,068 during 2008.

Interest income on federal funds sold and FHLB deposits decreased $232,831 to $19,476 for 2009 compared to $252,307 for 2008. The decrease was due to a $4,195,706 decrease in the average balance of federal funds sold and FHLB deposits to $6,863,376 for 2009 from $11,059,082 for 2008 and a 200 basis point decrease in the average yield to 0.28% in 2009 from 2.28% in 2008. Management held a lower amount in these short-term investments due to the growth of loans.

Total interest expense decreased $187,531 to $3,196,670 for 2009 compared to $3,384,201 for 2008. The decrease was primarily due to a 51 basis point decrease in the average cost of interest-bearing liabilities to 1.98% for 2009 from 2.49% for 2008 and was offset by an increase of $25,228,337 in the average balance of interest-bearing liabilities to $161,161,482 for 2009 from $135,933,145 for 2008.

Interest paid on NOW, savings, and money market deposit accounts decreased $45,334 to $300,273 for 2009 compared to $345,607 for 2008. The decrease was due to a 13 basis point decrease in average interest rate to 0.51% in 2009 from 0.64% in 2008 offset by a $4,964,340 increase in the average balance of deposits to $59,200,662 for 2009 from $54,236,322 for 2008.

Interest paid on time deposits decreased $121,426 to $2,477,354 for 2009 compared to $2,598,780 for 2008. The decrease in interest expense was attributed to a decrease of 98 basis points in the average rate paid to 2.98% for 2009 from 3.96% for 2008 offset by an increase of $17,419,734 in the average balance to $83,086,492 for 2009 from $65,666,758 for 2008.

Interest paid on securities sold under repurchase agreements decreased $20,813 to $321,775 for 2009 compared to $342,588 for 2008. This decrease was attributable to a decrease of 53 basis points in the average rate to 2.18% for 2009 from 2.71% for 2008, offset by a $2,163,702 increase in average balances of securities sold under repurchase agreements to $14,789,396 for 2009 from $12,625,694 for 2008.

Interest paid on FHLB advances and commercial bank borrowings increased $42 to $97,268 in 2009 from $97,226 in 2008. The average balance increased by $680,561 to $4,084,932 from $3,404,371 for 2008, offset by a decrease of 0.48% in the average interest rate to 2.38% in 2009 from 2.86% in 2008.

The following table sets forth certain information relating to the Bank's average interest-earning assets and interest-bearing liabilities for the periods indicated. The yields are calculated by dividing interest income or expense by the average daily balance of assets or liabilities, respectively.

Average Balance Sheet, Interest and Yields

	For the Years Ended December 31,					
	2009			2008		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Assets:						
Loans (1)	$155,472,880	$9,416,103	6.06%	$122,890,944	$8,061,710	6.56%
Securities, taxable	22,614,811	1,066,991	4.72%	27,039,355	1,300,765	4.81%
Securities, tax exempt	4,780,205	212,170	4.44%	4,169,058	179,693	4.31%
Federal funds sold and FHLB deposit	6,863,376	19,476	0.28%	11,059,082	252,307	2.28%
Other interest-earning assets	714,812	1,959	0.27%	751,655	23,464	3.12%
Total interest-earning assets	190,446,084	10,716,699	5.62%	165,910,094	9,817,939	5.92%
Noninterest-earning assets	17,650,720			14,870,862		
Total assets	$208,096,804			$180,780,956		
Liabilities and Stockholders' Equity:						
NOW, savings, and money market	$59,200,662	$300,273	0.51%	$54,236,322	$345,607	0.64%
Certificates of deposit	83,086,492	2,477,354	2.98%	65,666,758	2,598,780	3.96%
Securities sold under repurchase agreements	14,789,396	321,775	2.18%	12,625,694	342,588	2.71%
FHLB advances and other borrowings	4,084,932	97,268	2.38%	3,404,371	97,226	2.86%
Total interest-bearing liabilities	161,161,482	3,196,670	1.98%	135,933,145	3,384,201	2.49%
Noninterest-bearing deposits	25,516,432			24,141,683		
Noninterest-bearing liabilities	852,093			658,285		
Total liabilities	187,530,007			160,733,113		
Stockholders' equity	20,566,797			20,047,843		
Total liabilities and stockholders' equity	$208,096,804			$180,780,956		
Net interest income		$7,520,029			$6,433,738	
Interest rate spread			3.64%			3.43%
Net yield on interest-earning assets			3.95%			3.88%
Ratio of average interest-earning assets to Average interest-bearing liabilities			118.17%			122.05%

(1) Includes nonaccrual loans and deferred loan fees.

The following table sets forth the dollar amount of changes in interest income and interest expense for the major categories of the Bank's interest-earning assets and interest-bearing liabilities. The table distinguishes between (1) changes in net interest income attributed to volume (change in volume multiplied by the prior year's interest rate), and (2) changes in net interest income attributed to rate (change in rate multiplied by the prior year's volume). The change in interest due to the combined rate and volume changes is allocated proportionally to the change in volume and rate.

RATE/VOLUME ANALYSIS

	Year ended December 31, 2009 compared to 2008 Change due to variance in			Year ended December 31, 2008 compared to 2007 Change due to variance in		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Loans	$2,010,147	$(655,754)	$1,354,393	$847,520	$(860,497)	$(12,977)
Securities, taxable	(209,185)	(24,589)	(233,774)	213,435	51,924	265,359
Securities, tax exempt	26,993	5,483	32,476	16,699	(2,254)	14,445
Federal funds sold and FHLB deposit	(70,385)	(162,446)	(232,831)	(221,994)	(351,319)	(573,313)
Other interest-earning assets	(1,097)	(20,407)	(21,504)	(6,695)	(13,387)	(20,082)
Total interest-earning assets	1,756,473	(857,713)	898,760	848,965	(1,175,533)	(326,568)
Interest expense:						
NOW, savings, and money Market	29,635	(74,969)	(45,334)	(1,670)	(140,926)	(142,596)
Certificates of deposit	601,291	(722,717)	(121,426)	212,985	(352,577)	(139,592)
Securities sold under repurchase agreements	53,315	(74,128)	(20,813)	59,839	(918)	58,921
FHLB advances	17,672	(17,630)	42	97,226	-	97,226
Total interest-bearing liabilities	701,913	(889,444)	(187,531)	368,380	(494,421)	(126,041)
Change in net interest income	$1,054,560	$31,731	$1,086,291	$480,585	$(681,112)	$(200,527)

Noninterest Income

Total noninterest income decreased $31,195 or 1.8% to $1,768,407 for 2009 from $1,799,602 for 2008. Service charges on deposit accounts decreased $198,954 to $1,078,221 for 2009 from $1,277,175 for 2008. Fees from NSF and returned checks decreased $189,115 in 2009 when compared to 2008. The Bank experienced a $233,142 increase in mortgage division fees during 2009 when compared to 2008 as a result of a higher volume of residential loan originations and refinancing due to a lower interest rate environment. Management expects mortgage division fees to decrease in 2010 as a result of decreased refinance activity and the continuation of a depressed housing market. The Bank experienced a decrease of $96,809 in income attributable to the value of its bank-owned life insurance ("BOLI") to $74,512 for 2009 from $171,321 for 2008. This decrease was primarily caused by the overall decrease in the interest rate environment throughout 2009 when compared to 2008. The tax exempt return for 2009 was 1.8% on an average BOLI investment of $4,391,772 versus a tax exempt return of 4.0% on an average BOLI investment of $4,263,619 for 2008. Net gains on available for sale securities increased $68,909 in 2009 over 2008 due to an $84,496 gain on one security. Management expects gains in 2010 to approximate 2008 levels.

Noninterest Expense

Total noninterest expense decreased by $120,468 or 1.8% to $6,653,728 for 2009 from $6,774,376 for 2008. The primary factors contributing to this decrease was a decrease in other expenses of $374,927, offset by an increase in salary and employee benefit expense of $278,137.

Salary and benefit expense increased $278,137, or 8.3%, to $3,634,011 compared to $3,355,874 for 2008. The increase was due primarily to merit increases in salaries paid to existing staff, higher commissions paid to commercial and residential lenders as a result of higher origination volumes, higher social security tax expenses, higher health care costs and higher 401(k) matching contribution expense.

Occupancy and furniture and equipment expenses decreased $23,858 or 2.3% to $1,028,082 for 2009 compared to $1,051,940 for 2008.

Federal deposit insurance premiums increased $247,384 to $347,807 in 2009 from $100,423 in 2008, a 246% increase as a result of increased assessment rates and special assessments.

Other expenses decreased by $622,311 or 27.5% to $1,643,828 for 2009 compared to $2,266,139 for 2008. Other real estate owned expense decreased $452,461 to $112,285 in 2009 from $564,746 in 2008. In December 2008, the Bank wrote down the value of two other real estate owned properties by $576,889. Professional services expenses decreased $108,258 to $191,861 in 2009 from $300,119 in 2008 due to lower legal and consulting fees.

Further information about this category of expenses is contained in Note 12 to the consolidated financial statements.

Income Taxes

The effective tax rate for the Bank increased to 34.3% in 2009 compared to 25.0% in 2008. The increase in 2009 was due to a lower percentage of Federal tax-exempt income (primarily tax exempt interest income on state and municipal investments and bank owned life insurance cash value increases) as a percentage of net income before income tax expense in 2009 when compared to 2008. Note 13 to the consolidated financial statements provides additional information about the Bank's taxes, including a reconciliation of the Federal tax expense computed using the Federal Statutory rate of 34%.

INTEREST RATE RISK

The Bank's principal market risk is exposure to interest rate risk that arises from its lending, investing and deposit-taking activities and this interest rate risk has a direct impact on the Bank's net interest income. Net interest income is susceptible to interest rate risk when deposits and other short-term liabilities have different repricing intervals than do loans, investments and other interest-earning assets. When interest-earning assets mature or reprice faster than interest-bearing liabilities, a decline in interest rates may cause a decline in net interest income. Conversely, when interest-bearing liabilities mature or reprice faster than interest-earning assets, an increase in interest rates may cause a decline in net interest income.

In order to mitigate the impact of changing interest rates, the Board of Directors has established policies and procedures that include acceptable parameters for the relationship between rate sensitive assets to rate sensitive liabilities. The Asset/Liability Committee reviews rate sensitivity measures on a quarterly basis. Material deviations from policy parameters are reported to the Board of Directors and corrective action is initiated and monitored.

The Bank uses a static gap analysis to monitor interest rate risk. The static gap analysis measures the difference, or gap, between interest-earning assets and interest-bearing liabilities maturing during specific time intervals. In addition, the Bank performs a rate shock analysis to estimate the changes in net interest income in rising and falling rate environments.

The Bank's net interest rate spread increased to 3.64% in 2009 from 3.43% in 2008.

LIQUIDITY MANAGEMENT

Liquidity describes the ability of the Bank to meet financial obligations that arise out of the ordinary course of business. Liquidity is primarily needed to meet borrower and depositor withdrawal requirements, to fund loans, and to fund the Bank's other debts and obligations as they come due in the normal course of business. The Bank maintains its asset liquidity position internally through short-term investments, the maturity distribution of the investment portfolio, loan repayments, and income from earning assets. In addition, the Bank can also use the proceeds from the sale of securities available for sale if additional liquidity is needed. On the liability side of the balance sheet, liquidity is affected by the timing of maturing liabilities and the ability to generate new deposits or borrowings as needed. The Bank is approved to borrow 75% of eligible pledged single family residential loans and 50% of eligible pledged commercial loans, or approximately $23.9 million under a secured line of credit with the FHLB and has available lines of credit of $9,000,000 in overnight federal funds line of credit from commercial banks. FHLB advances of $3,000,000 and $6,000,000 were outstanding as of December 31, 2009 and 2008, respectively. There were no borrowings from commercial banks at December 31, 2009 and 2008. The Bank believes that it has adequate liquidity sources to meet all anticipated liquidity needs over the next twelve months. Management knows of no trend or event which is likely to have a material impact on the Bank's ability to maintain liquidity at satisfactory levels.

Information about the various financial obligations, including contractual obligations and commitments that may require future cash payments, to which the Bank is subject is set forth above under the captions "Off-Balance Sheet Transactions" and "Borrowings and Other Contractual Obligations".

CAPITAL RESOURCES AND ADEQUACY

One measure of the Bank's capital adequacy is the leverage ratio, which is calculated by dividing Tier 1 capital by the average total assets for the most recent quarter. The regulatory minimum for this ratio is 4.0%, with 5.0% being the regulatory minimum to be classified as well capitalized. The Tier 1 leverage capital ratio for the Bank as of December 31, 2009 was 9.69%.

Another measure of capital adequacy is the risk-based capital ratio, or the ratio of total capital to risk weighted assets. Total capital is composed of both core capital (Tier 1) and supplemental capital (Tier 2), including a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specific risk percentages are applied to each category of asset and to off-balance sheet items such as letters of credit. The regulatory minimum for the risk-based capital ratio is 8%, with 10.0% being the regulatory minimum to be classified as well capitalized. The ratio of total capital to risk weighted assets ratio for the Bank as of December 31, 2009 was 12.97%. According to FDIC capital guidelines, the Bank is considered to be "well capitalized." Further information about the Bank's regulatory capital levels can be found in Note 14 to the consolidated financial statements.

The Bank intends to fund future growth primarily with cash, federal funds, maturities of investment securities and deposit growth. Management knows of no other trend or event that will have a material impact on capital.

RECENT ACCOUNTING PRONOUNCEMENTS

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Bank are described in the notes to the consolidated financial statements.

On July 1, 2009, the Financial Accounting Standards Board ("FASB") adopted Accounting Standards Codification ("ASC") as the officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), the Emerging Issues Task Force ("EITF") and related literature. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies.

The following accounting guidance has been approved by the Financial Accounting Standards Board and would apply to the Bank if the Bank entered into an applicable activity. Some of these new pronouncements become effective in 2010.

FASB ASC Topic 320, "Investments-Debt and Equity Securities" changes existing guidance for determining whether an impairment is other than temporary to debt securities and replaces the existing requirement that the entity's management assert it has both the intent and ability to hold an impaired security until recovery with a requirement that management assert: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. Under ASC Topic 320, declines in the fair value of held-to-maturity and available-for-sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses to the extent the impairment is related to credit losses. The amount of the impairment related to other factors is recognized in other comprehensive income. Adoption of ASC Topic 320 was effective in the first quarter of 2009 and did not have a significant impact on the Bank's financial statements.

FASB ASC Topic 715, "Compensation - Retirement Benefits" provides guidance related to an employer's disclosures about plan assets of defined benefit pension or other post-retirement benefit plans. Under ASC Topic 715, disclosures should provide users of financial statements with an understanding of how investment allocation decisions are made, the factors that are pertinent to an understanding of investment policies and strategies, the major categories of plan assets, the inputs and valuation techniques used to measure the fair value of plan assets, the effect of fair value measurements using significant unobservable inputs on changes in plan assets for the period and significant concentrations of risk within plan assets. Adoption of the disclosure requirements of ASC topic 715 were effective beginning with the financial statements for the year-ended December 31, 2009 and did not have a significant impact on the Bank's financial statements.

Accounting Standards Update No. 2009-5, under FASB ASC Topic 820, "Fair Value Measurement and Disclosures," provides authoritative guidance for measuring the fair value of a liability in circumstances in which a quoted price in an active market for the identical liability is not available. In such a case, the reporting company must measure fair value utilizing a valuation technique that uses (i) the quoted price of the identical liability when traded as an asset, (ii) quoted prices for similar liabilities or similar liabilities when traded as assets, or (iii) another valuation technique that is consistent with the existing principles of ASC Topic 820, such as an income approach or market approach. The new authoritative accounting guidance also clarifies that when estimating the fair value of a liability, a reporting entity is not required to include a separate input or adjustment to other inputs relating to the existence of a restriction that prevents the transfer of the liability. The new authoritative accounting guidance under ASC Topic 820 was effective for the Bank's financial statements beginning October 31, 2009, and did not have a significant impact on the Bank's financial statements.

FASB ASC Topic 855, "Subsequent Events" establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. ASC Topic 855 defines (i) the period after the balance sheet date during which a reporting entity's management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements (ii) the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements, and (iii) the disclosures an entity should make about events or transactions that occurred after the balance sheet date. ASC Topic 855 became effective for periods ending after June 15, 2009, and did not have a significant impact on the Bank's financial statements.

FASB ASC Topic 860, "Transfers and Servicing" enhances reporting about transfers of financial assets, including securitizations, and where companies have continuing exposure to the risks related to transferred financial assets. This new guidance eliminates the concept of a "qualifying special-purpose entity" and changes the requirements for derecognizing financial assets. It also requires additional disclosures about all continuing involvements with transferred financial assets including information about gains and losses resulting from transfers during the period. ASC Topic 860 is effective January 1, 2010 and has not had a significant impact on the Bank's financial statements.

The accounting policies adopted by management are consistent with authoritative U.S. generally accepted accounting principles and are consistent with those followed by peer Banks.

ROWLES
&Company, LLP
Certified Public Accountants

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Farmers & Merchants Bank
Upperco, Maryland

We have audited the accompanying consolidated balance sheets of Farmers & Merchants Bank and Subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Bank is not required to have, and we were not engaged to perform, an audit of the Bank's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Farmers & Merchants Bank and Subsidiaries as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the years then ended in conformity with accounting principles generally accepted in the United States of America.

Rowles & Company, LLP

Baltimore, Maryland
March 15, 2010

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Farmers & Merchants Bank
and Subsidiaries

Consolidated Balance Sheets

December 31,	2009	2008
Assets		
Cash and due from banks	$ 10,642,976	$ 5,508,236
Federal funds sold and Federal Home Loan Bank deposit	4,094,274	7,379,678
Certificate of deposit in other banks	100,000	100,000
Securities available for sale	14,071,366	14,781,378
Securities held to maturity	10,907,572	15,047,403
Federal Home Loan Bank stock, at cost	625,300	581,800
Loans held for sale	1,417,873	-
Loans, less allowance for loan losses of $1,973,298 and $1,507,238	160,668,638	142,375,750
Premises and equipment	4,310,097	4,540,606
Accrued interest receivable	714,907	621,571
Deferred income taxes	674,652	498,941
Other real estate owned	760,000	1,005,000
Bank owned life insurance	4,427,589	4,353,077
Other assets	1,288,152	477,997
	$ 214,703,396	$ 197,271,437
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	$ 27,592,297	$ 25,201,271
Interest-bearing	148,322,358	129,131,649
Total deposits	175,914,655	154,332,920
Securities sold under repurchase agreements	14,235,751	15,968,438
Federal Home Loan Bank of Atlanta advances	3,000,000	6,000,000
Accrued interest payable	451,537	582,806
Income taxes payable	85,081	80,127
Other liabilities	104,502	262,070
	193,791,526	177,226,361
Stockholders' equity		
Common stock, par value $10 per share, authorized 5,000,000 shares; issued and outstanding 764,006.934 shares in 2009 and 755,571.376 shares in 2008	7,640,069	7,555,714
Surplus	7,755,167	7,668,111
Undivided profits	5,315,726	4,532,265
Accumulated other comprehensive income	200,908	288,986
	20,911,870	20,045,076
	$ 214,703,396	$ 197,271,437

The accompanying notes are an integral part of these consolidated financial statements.

Farmers & Merchants Bank
and Subsidiaries

Consolidated Statements of Income

Years Ended December 31,	2009	2008
Interest income		
Loans, including fees	$ 9,416,103	$ 8,061,710
Investment securities - taxable	1,068,950	1,324,229
Investment securities - tax exempt	212,170	179,693
Federal funds sold and Federal Home Loan Bank deposit	19,476	252,307
Total interest income	10,716,699	9,817,939
Interest expense		
Deposits	2,777,627	2,944,387
Securities sold under repurchase agreements	321,775	342,588
Federal Home Loan Bank advances and other borrowings	97,268	97,226
Total interest expense	3,196,670	3,384,201
Net interest income	7,520,029	6,433,738
Provision for loan losses	750,000	520,000
Net interest income after provision for loan losses	6,770,029	5,913,738
Noninterest income		
Service charges on deposit accounts	1,078,221	1,277,175
Mortgage banking income	451,149	218,007
Bank owned life insurance cash surrender value increase	74,512	171,321
Net gain (loss) on available for sale securities	84,496	15,587
Other fees and commissions	80,029	117,512
Total noninterest income	1,768,407	1,799,602
Noninterest expense		
Salaries	3,012,511	2,794,497
Employee benefits	621,500	561,377
Occupancy	485,331	508,666
Furniture and equipment	542,751	543,274
Federal Deposit Insurance premiums	347,807	100,423
Other	1,643,828	2,266,139
Total noninterest expense	6,653,728	6,774,376
Income before income taxes	1,884,708	938,964
Income taxes	646,936	234,201
Net income	$ 1,237,772	$ 704,763
Earnings per share - basic and diluted	$ 1.63	$ 0.94

The accompanying notes are an integral part of these consolidated financial statements.

Farmers & Merchants Bank
and Subsidiaries

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2009 and 2008

	Common stock			Undivided	Accumulated other comprehensive	Total stockholders'
	Shares	Par value	Surplus	profits	income	equity
Balance, December 31, 2007	**749,743.897**	**$ 7,497,439**	**$ 7,593,453**	**$ 4,575,692**	**$ 36,676**	**$ 19,703,260**
Cumulative-effect adjustment for split dollar insurance(EITF 06-04) net of income taxes of $4,553	-	-	-	(6,990)	-	(6,990)
Net income	-	-	-	704,763	-	704,763
Unrealized gain on securities available for sale net of income taxes of $165,167	-	-	-	-	252,310	252,310
Comprehensive income						957,073
Cash dividends, $0.99 per share	-	-	-	(741,200)	-	(741,200)
Dividends reinvested	11,803.228	118,032	182,992	-	-	301,024
Common stock repurchased	(5,975.749)	(59,757)	(108,334)	-	-	(168,091)
Balance, December 31, 2008	**755,571.376**	**7,555,714**	**7,668,111**	**4,532,265**	**288,986**	**20,045,076**
Net income	-	-	-	1,237,772	-	1,237,772
Unrealized gain on securities available for sale net of income taxes of $130,870	-	-	-	-	(88,078)	(88,078)
Comprehensive income						1,149,694
Cash dividends, $0.60 per share	-	-	-	(454,311)	-	(454,311)
Dividends reinvested	9,193.756	91,937	96,746	-	-	188,683
Common stock repurchased	(758.198)	(7,582)	(9,690)	-	-	(17,272)
Balance, December 31, 2009	**764,006.934**	**$ 7,640,069**	**$ 7,755,167**	**$ 5,315,726**	**$ 200,908**	**$ 20,911,870**

The accompanying notes are an integral part of these consolidated financial statements.

Farmers & Merchants Bank
and Subsidiaries

Consolidated Statements of Cash Flows

Years Ended December 31,		2009		2008
Cash flows from operating activities				
Interest received	$	10,624,246	$	9,891,386
Fees and commissions received		1,609,076		1,612,694
Interest paid		(3,327,939)		(3,357,220)
Proceeds from sale of mortgage loans held for sale		34,492,868		13,003,573
Origination of mortgage loans for sale		(35,910,741)		(12,582,573)
Cash paid to suppliers and employees		(7,362,530)		(6,341,758)
Income taxes paid		(760,321)		(464,841)
		(635,341)		1,761,261
Cash flows from investing activities				
Proceeds from maturity and call of securities				
Available for sale		2,658,551		2,102,301
Held to maturity		4,150,366		5,431,363
Proceeds from sale of securities				
Available for sale		1,318,742		2,526,480
Purchase of securities				
Available for sale		(3,331,572)		(8,634,718)
Maturity (purchase) of certificate of deposit		-		100,000
Loans made to customers, net of principal collected		(19,811,180)		(38,628,871)
(Purchase) redemption of stock in Federal Home Loan Bank of Atlanta		(43,500)		(293,800)
Proceeds of sale of other real estate owned		947,841		580,511
Write-off of other real estate owned		71,014		576,889
Disbursements for other real estate owned, net		(6,446)		8,016
Proceeds from disposal of premises and equipment		2,584		-
Purchases of premises, equipment and software		(37,871)		(94,789)
		(14,081,471)		(36,326,618)
Cash flows from financing activities				
Net increase (decrease) in				
Noninterest-bearing deposits		2,391,026		1,191,602
Interest-bearing deposits		19,190,709		9,681,279
Securities sold under repurchase agreements		(1,732,687)		6,699,987
Federal Home Loan Bank of Atlanta advances		(3,000,000)		6,000,000
Dividends paid, net of reinvestments		(265,628)		(440,177)
Common stock repurchased		(17,272)		(168,091)
		16,566,148		22,964,600
Net increase in cash and cash equivalents		1,849,336		(11,600,757)
Cash and cash equivalents at beginning of year		12,887,914		24,488,671
Cash and cash equivalents at end of year	$	14,737,250	$	12,887,914

The accompanying notes are an integral part of these consolidated financial statements.

Farmers & Merchants Bank
and Subsidiaries

Consolidated Statements of Cash Flows
(Continued)

Years Ended December 31,	2009	2008
Reconciliation of net income to net cash provided by operating activities		
Net income	$ 1,237,772	$ 704,763
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	336,133	385,807
Provision for loan losses	750,000	520,000
Net (gain) loss on disposal of investment securities	(84,496)	(15,587)
Net (gain) loss on disposal of premises and equipment	(171)	158
Decrease (increase) in mortgage loans held for sale	(1,417,873)	421,000
Deferred income taxes	(118,339)	(490,306)
Amortization of premiums and accretion of discounts, net	(7,198)	(8,362)
Increase (decrease) in		
Deferred loan fees	883	91,827
Accrued interest payable	(131,269)	26,981
Income taxes payable	4,954	80,127
Other liabilities	(157,568)	38,321
Decrease (increase) in		
Accrued interest receivable	(93,336)	(18,380)
Bank owned life insurance cash surrender value	(74,512)	(171,321)
Prepaid income taxes	-	179,539
Other assets	(880,321)	16,694
	$ (635,341)	$ 1,761,261

Noncash transactions for the transfer of loans to other real estate owned totaled $767,409 in the year ended December 31, 2009.

The accompanying notes are an integral part of these consolidated financial statements.

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of commitments and contingent liabilities at the balance sheet date, and revenues and expenses during the year. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. The Bank has evaluated subsequent events for potential recognition and/or disclosure through March 15, 2010, the date the consolidated financial statements were issued.

Accounting Standards Codification

On July 1, 2009, the Financial Accounting Standards Board ("FASB") adopted Accounting Standards Codification ("ASC") as the officially recognized source of authoritative U.S. generally accepted accounting principles ("GAAP") applicable to all public and non-public non-governmental entities, superseding existing FASB, American Institute of Certified Public Accountants ("AICPA"), the Emerging Issues Task Force ("EITF") and related literature. Rules and interpretive releases of the Securities and Exchange Commission (the "SEC") under the authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. All other accounting literature is considered non-authoritative. The switch to the ASC affects the way companies refer to U.S. GAAP in financial statements and accounting policies.

Principles of consolidation

The consolidated financial statements include the accounts of Farmers & Merchants Bank ("the Bank") and its subsidiaries, Reliable Community Financial Services, Inc. and Community Real Estate Holdings, Inc. Intercompany balances and transactions have been eliminated.

Business

The Bank provides banking services to individuals and businesses located in Baltimore County, Maryland, Carroll County, Maryland and surrounding areas of northern Maryland.

Reliable Community Financial Services, Inc. can provide a wide range of investment and insurance products to its customers.

Community Real Estate Holdings, Inc. owns and manages assets that are acquired by the Bank as the result of foreclosure or other loan defaults.

Reclassifications

Certain reclassifications have been made to the 2008 financial statements to conform to the current year presentation. These reclassifications had no effect on net income.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Comprehensive income

Comprehensive income includes net income and the unrealized gains or loss on investment securities available for sale, net of income taxes.

1. **Summary of Significant Accounting Policies** (Continued)

Investment securities

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Securities held to meet liquidity needs or which may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Gains and losses on disposal are determined using the specific-identification method. The Bank amortizes premiums and accretes discounts using the interest method.

Loans and allowance for loan losses

Loans are stated at the current amount of unpaid principal, adjusted for deferred origination costs, deferred origination fees, and the allowance for loan losses. Interest on loans is accrued based on the principal amounts outstanding. Origination fees and costs are amortized to income over the terms of loans. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full.

Loans are considered impaired when, based on current information, management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued. If collection of principal is evaluated as loss, all payments are applied to principal.

The allowance for loan losses represents an amount which, in management's judgment, will be adequate to absorb probable losses on existing loans and other extensions of credit that may become uncollectible. Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectibility of loans. Management performs an ongoing review of its portfolio, maintaining a watch list of problem loans. These problem loans are graded and assigned risk-based factors for probable losses. The balances of the loans are assigned risk based factors based on delinquency and loan type, without a detailed current review of the individual credits. An unallocated component is maintained to reflect the unknown losses that could affect management's estimate of the allowance for loan losses. The unallocated component of the allowance reflects the lack of information for unknown losses in the underlying assumptions used for estimating specific and general losses in the portfolio. The total allowance is evaluated based on past loan loss experience and current economic conditions. The amounts ultimately collected on these loans could differ materially from the estimated collections. Loan losses are charged to the allowance when management believes that collection is unlikely. Collections of loans previously charged off are added to the allowance at the time of recovery.

Loans held for sale

Loans held for sale are carried at the lower of aggregate cost or market value based on the current fair market value of each outstanding loan. Sales of loans are recorded when the proceeds are received, with any gain or loss recorded in mortgage banking income.

Premises and equipment

Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation on buildings and equipment is computed over the estimated useful lives of the assets using the straight-line and accelerated methods. Leasehold improvements are amortized using the straight-line method over the term of the lease or the estimated useful lives of the asset, whichever is shorter.

1. **Summary of Significant Accounting Policies** (Continued)

Other real estate owned

Real estate acquired through foreclosure is recorded at the lower of cost or fair market value on the date acquired. Losses incurred at the time of acquisition of the property are charged to the allowance for loan losses. Subsequent reductions in the estimated value of the property are included in other operating expense.

Advertising costs

The Bank expenses advertising costs as incurred.

Income taxes

The provision for income taxes includes income taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement bases and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

Per share data

Earnings per share are determined by dividing net income by the weighted average number of shares of common stock outstanding, giving retroactive effect to any stock dividends. Weighted average shares were **757,546.750** and 750,120.741 for 2009 and 2008, respectively.

2. **Cash and Equivalents**

The Bank normally carries balances with other banks that exceed the federally insured limit. However, during 2009, the other banks where Farmers and Merchants Bank maintained accounts participated in the Transaction Account Guarantee Program of the Federal Deposit Insurance Corporation ("FDIC") which provides full insurance on each noninterest bearing account regardless of the amount. Average balances carried in excess of the limit during 2008 were $2,019,691. The Bank sold federal funds to other banks, excluding the Federal Home Loan Bank ("FHLB") of Atlanta on an unsecured basis that averaged **$6,775,526** and $9,129,002 for 2009 and 2008, respectively.

Banks are required to carry noninterest-bearing cash reserves of specified percentages of deposit balances. The Bank's normal balances of cash on hand and on deposit with other banks are sufficient to satisfy the reserve requirements.

Farmers & Merchants Bank
and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

3. Investment Securities

Investment securities are summarized as follows:

December 31, 2009	Amortized cost	Unrealized gains	Unrealized losses	Fair value
Available for sale				
U. S. government agency	$ 998,827	$ 938	$ 7,264	$ 992,501
State and municipal	3,213,187	61,158	16,638	3,257,707
	4,212,014	62,096	23,902	4,250,208
Mortgage-backed securities	9,507,573	302,281	8,696	9,801,158
Equity security	20,000	-	-	20,000
	$ 13,739,587	$ 364,377	$ 32,598	$14,071,366
Held to maturity				
U. S. government agency	$ 242,490	$ 13,983	$ -	$ 256,473
State and municipal	1,695,025	67,675	-	1,762,700
	1,937,515	81,658	-	2,019,173
Mortgage-backed securities	8,970,057	510,225	3,199	9,477,083
	$ 10,907,572	$ 591,883	$ 3,199	$11,496,256

December 31, 2008				
Available for sale				
State and municipal	$ 2,774,768	$ 61,912	$ 29,505	$ 2,807,175
Mortgage-backed securities	11,509,382	459,358	14,537	11,954,203
Equity security	20,000	-	-	20,000
	$ 14,304,150	$ 521,270	$ 44,042	$ 14,781,378
Held to maturity				
U. S. government agency	$ 1,299,577	$ 13,654	$ -	$ 1,313,231
State and municipal	1,696,599	49,541	-	1,746,140
	2,996,176	63,195	-	3,059,371
Mortgage-backed securities	12,051,227	713,045	9,047	12,755,225
	$ 15,047,403	$ 776,240	$ 9,047	$ 15,814,596

3. **Investment Securities** (Continued)

Contractual maturities, shown below, will differ from actual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale		Held to Maturity	
December 31, 2009	Amortized cost	Fair value	Amortized cost	Fair value
Within one year	$ 290,015	$ 291,235	$ 590,787	$ 594,507
Over one to five years	928,517	940,855	1,346,728	1,424,666
Over five to ten years	2,993,482	3,018,118	-	-
	4,212,014	4,250,208	1,937,515	2,019,173
Mortgage-backed securities, due in monthly installments	9,507,573	9,801,158	8,970,057	9,477,083
Equity security	20,000	20,000	-	-
	$ 13,739,587	$ 14,071,366	$ 10,907,572	$ 11,496,256
December 31, 2008				
Within one year	$ 412,902	$ 426,272	$ 499,973	$ 501,875
Over one to five years	720,011	742,605	1,392,159	1,409,330
Over five to ten years	1,641,855	1,638,298	1,104,044	1,148,166
	2,774,768	2,807,175	2,996,176	3,059,371
Mortgage-backed securities, due in monthly installments	11,509,382	11,954,203	12,051,227	12,755,225
Equity security	20,000	20,000	-	-
	$ 14,304,150	$ 14,781,378	$ 15,047,403	$ 15,814,596

The equity security of $20,000 represents an investment in a Maryland bank that provides services for other banks in Maryland and surrounding states. The equity is carried at cost, does not pay dividends and the stock is not actively traded.

Securities with a carrying value of **$20,531,160** and $22,232,868 as of December 31, 2009 and 2008, respectively, were pledged as collateral for government deposits and securities sold under repurchase agreements

In 2009, the Bank realized a gross gain of **$84,496** on the sale of one available for sale security. Proceeds of the sale of the one security in 2009 were **$1,318,743.**

In 2008, the Bank realized a gross gain of $20,118 on the call of one available for sale security and the sale of three available for sale securities and a gross loss of $4,531 on the sale of two available for sale securities and the call of one held to maturity security. Proceeds of the calls and sales of the seven securities in 2008 were $3,218,380.

3. **Investment Securities** (Continued)

The following table sets forth the Bank's gross unrealized losses on a continuous basis for investment securities, by category and length of time at December 31, 2009.

		Less than 12 months		12 months or more		Total	
Description of investments	Number of securities	Fair value	Unrealized loss	Fair value	Unrealized loss	Fair value	Unrealized loss
U.S. government agency	1	$ -	$ -	$ 491,563	$ 7,264	$ 491,563	$ 7,264
State and municipal	3	-	-	1,104,157	16,638	1,104,157	16,638
Mortgage-backed securities	6	-	-	964,165	11,895	964,165	11,895
Total	10	$ -	$ -	$ 2,559,885	$ 35,797	$ 2,559,885	$ 35,797

The gross unrealized losses are not considered by management to be other-than-temporary impairments. The obligations of government agency or government sponsored mortgaged-backed securities are all rated AAA. Management knows of no credit quality problems related to any securities it owns. Management has the ability to hold these securities until maturity. Each security is expected to be redeemed at face value at, or prior to, maturity. In most cases, temporary impairment is caused by market interest rate fluctuations.

4. **Related Party Transactions**

Certain executive officers and directors of the Bank, including their immediate families and companies in which they are significant owners (more than 10%), were indebted to the Bank. The loans were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with unrelated borrowers. During the years ended December 31, 2009 and 2008, the activity of these loans is as follows:

	2009	2008
Balance, beginning of year	**$ 7,168,012**	$ 5,137,409
Additions	**6,734,323**	4,405,110
Deductions:		
Amounts collected	**(3,871,025)**	(2,374,507)
Balance, end of year	**$10,031,310**	$ 7,168,012

Unused lines of credit to related parties totaled **$1,860,907**and $686,357 at December 31, 2009 and 2008, respectively. Two directors were issued letters of credit at December 31, 2009 and 2008 in the aggregate amount of **$158,361**.

Deposits at the Bank from directors, officers and related parties totaled **$8,196,870** and $10,714,218 at December 31, 2009 and 2008, respectively.

5. Loans

Major categories of loans are as follows:

	2009	2008
Real estate		
Commercial	$ 113,029,995	$ 81,413,388
Residential	26,634,740	32,623,246
Construction	6,409,784	10,073,071
Home equity	5,033,568	6,039,830
Installment	3,886,874	3,636,080
Demand	7,866,913	10,299,509
Other	76,782	93,701
	162,938,656	144,178,825
Less: Allowance for loan losses	1,973,298	1,507,238
Deferred origination fees net of costs	296,720	295,837
	$ 160,668,638	$ 142,375,750

The maturity and rate repricing distribution of the loan portfolio as of December 31, 2009 and 2008, is as follows:

Variable rate, immediately	$ 19,631,680	$ 11,353,595
Due within one year	27,155,419	26,215,665
Due over one to five years	100,857,256	94,789,086
Due over five years	15,294,301	11,820,479
	$ 162,938,656	$ 144,178,825

Transactions in the allowance for loan losses were as follows:

Beginning balance	$ 1,507,238	$ 1,199,270
Provision charged to operations	750,000	520,000
Recoveries	60,397	16,278
	2,317,635	1,735,548
Loans charged off	344,337	228,310
Ending balance	$ 1,973,298	$ 1,507,238
Loans past due 90 days or more	$ 2,400,427	$ 2,786,678
Loans past due 90 days or more and accruing interest	$ 197,095	$ -

As of December 31, 2009, the Bank had two nonaccrual loans to two borrowers totaling $2,203,332. The loans are collateralized by real estate and personal guaranties. Gross interest income of $74,333 would have been recorded in 2009 if these nonaccrual loans had been current and performing in accordance with its original terms. The Bank has allocated $575,068 of its allowance for loan losses for these nonaccrual loans.

5. **Loans** (Continued)

Loans with a balance of approximately **$44.5** million were pledged as collateral to the Federal Home Loan Bank of Atlanta as of December 31, 2009. At December 31, 2009 and 2008, the Bank serviced loans for others totaling **$13.6** and $10.3 million, respectively.

The Bank makes loans to customers located primarily in the Baltimore County, Maryland, Carroll County, Maryland and in surrounding areas of northern Maryland. Although the loan portfolio is diversified, many loans are secured by real estate and its performance will be influenced by the economy of the region, including local real estate markets.

6. **Premises and Equipment**

A summary of premises and equipment is as follows:

	Useful lives	2009	2008
Land and improvements	-	**$1,619,713**	$1,619,713
Buildings and improvements	15-39 years	**4,371,544**	4,360,433
Furniture and equipment	3-10 years	**2,133,915**	2,138,814
		8,125,172	8,118,960
Accumulated depreciation and amortization		**3,815,075**	3,578,354
		$4,310,097	$4,540,606
Depreciation and amortization expense		**$ 286,367**	$ 304,284

7. **Lease Commitments**

The Bank has an operating lease for the land on which the Hampstead branch is located. The initial term of the lease expired on September 30, 2009 and the lease was renewed for a five year term. The lease has options to renew for an additional seven consecutive five-year terms. The Bank has an operating license for certain facilities where the Greenmount branch is located. The term of the agreement is five years and expires on November 30, 2011. The Bank has an operating lease for its Atrium branch facility. The initial term of the lease is one year, with nine one-year renewals. The Bank has an operating lease for its North Oaks facility. The initial term of the lease is three years and expires on September 16, 2010, with options to renew for five additional three-year terms.

Future minimum payments under the agreements are as follows:

Year	Amount
2010	87,288
2011	80,405
2012	39,216
2013	40,307
2014	31,564
	$278,780

Rent expense was **$90,446** and $91,577 in 2009 and 2008, respectively.

8. Credit Commitments

Outstanding loan commitments, unused lines of credit, and letters of credit as of December 31, are as follows:

	2009	2008
Loan commitments		
Construction and land development	$ 474,531	$ 2,488,719
Other mortgage loans	7,930,310	10,731,388
	$ 8,404,841	$ 13,220,107
Unused lines of credit		
Home-equity lines	$ 4,054,323	$ 4,637,965
Commercial lines	14,283,353	19,253,809
	$18,337,676	$ 23,891,774
Letters of credit	$ 1,624,514	$ 1,488,627

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss that is likely to be incurred as a result of funding its credit commitments.

9. Retirement Plan

The Bank has a profit sharing plan qualifying under Section 401(k) of the Internal Revenue Code. All employees age 21 or more with six months of service and 1,000 annual employment hours are eligible for participation in the plan.

The Bank matches employee contributions up to 4% of total compensation and may make additional discretionary contributions. Prior to 2008 the Bank matched 3%. Employee contributions are 100% vested when made. Employer contributions vest immediately for contributions made after December 31, 2007 and over six years beginning after one full year of service for contributions made prior to January 1, 2008. All contributions are 100% vested upon disability, death, or reaching normal retirement age.

The Bank's contributions to this plan, included in expenses, were **$101,980** and $91,320 for 2009 and 2008, respectively.

9. **Retirement Plan** (Continued)

The Bank has entered into agreements with 12 employees to provide certain life insurance benefits payable in connection with policies of life insurance on those employees that are owned by the Bank. Each of the agreements provides for the amount of death insurance benefits to be paid to beneficiaries of the insured. As required by FASB EITF 06-04, the Bank recorded this liability through a change in accounting principle through a cumulative effect adjustment reducing retained earnings at January 1, 2008 in the amount of $6,990. The Bank recorded a liability of $11,543 and a deferred tax asset of $4,553. For this plan, the Bank expensed $4,535 and $4,176 in 2009 and 2008, respectively.

10. **Interest-Bearing Deposits**

Major classifications of interest-bearing deposits are as follows:

	2009	2008
NOW	**$ 18,057,668**	$ 17,715,787
Money market	**20,804,206**	17,420,587
Savings	**22,142,141**	19,483,231
Certificates of deposit, $100,000 or more	**36,681,906**	30,726,639
Other time deposits	**50,636,437**	43,785,405
	$148,322,358	$ 129,131,649

As of December 31, 2009, certificates of deposit mature as follows:

Year	Amount
2010	$ 70,482,627
2011	11,753,860
2012	2,896,192
2013	1,098,496
2014	1,087,168
	$ 87,318,343

11. Borrowed Funds

Borrowed funds consist of securities sold under repurchase agreements, which essentially represent overnight or term borrowings from customers, advances from the FHLB of Atlanta and overnight borrowings from commercial banks. The government agency securities that are the collateral for these agreements are owned by the Bank and maintained in the custody of an unaffiliated agent designated by the Bank. Additional information is as follows:

	Maturity Date	2009	2008
Amounts outstanding at year-end:			
Securities sold under repurchase agreements		**$ 14,235,751**	$15,968,438
Federal Home Loan Bank advance	May 9, 2009	**$ -**	$ 3,000,000
Federal Home Loan Bank advance	August 9, 2010	**3,000,000**	3,000,000
		$ 3,000,000	$ 6,000,000
Weighted average rate paid at December 31:			
Securities sold under repurchase agreements		**1.80%**	2.52%
Federal Home Loan Bank advances		**0.85%**	2.92%
Maximum month-end amount outstanding:			
Securities sold under repurchase agreements		**$ 15,299,904**	$ 17,593,185
Federal Home Loan Bank advance		**$ 6,000,000**	$10,000,000
Average amount outstanding:			
Securities sold under repurchase agreements		**$ 14,789,396**	$ 12,625,694
Federal Home Loan Bank advance		**$ 4,084,932**	$ 3,387,978
Borrowings from commercial banks		**$ -**	$ 16,393
Average rate paid during the year:			
Securities sold under repurchase agreements		**2.18%**	2.71%
Federal Home Loan Bank advance		**2.37%**	2.86%
Borrowings from commercial banks		**0.00%**	2.48%
Investment securities underlying the securities agreements at year end:			
Carrying value		**$18,944,512**	$20,427,076
Estimated fair value		**$19,446,127**	$20,972,750
Loans receivable underlying the Federal Home Loan Bank advances at year-end:			
Carrying value		**$44,483,659**	$33,523,416

The Bank is approved to borrow up to 75% of eligible pledged single family residential loans and 50% of eligible pledged commercial loans, or approximately $23.9 million, under a secured line of credit with the FHLB of Atlanta. The Bank also has available unsecured federal funds lines of credit of $4 million and a secured federal funds line of credit of $5 million from commercial banks.

12. **Other Noninterest Expenses**

Other noninterest expenses include the following:

	2009	2008
Automated teller machine and debit card expenses	$ 287,989	$ 273,713
Professional services	191,861	300,119
Directors fees	162,550	133,999
Postage, delivery, and armored carrier	156,555	151,517
Stationery, printing, and supplies	138,427	153,520
Advertising	132,036	169,174
Other real estate owned	112,285	564,746
Telephone	97,884	98,100
Internet banking fees	75,702	55,200
Correspondent bank services	61,543	62,073
Dues and subscriptions	28,150	47,066
Liability insurance	25,876	25,927
Maryland state assessment	25,684	15,176
Travel and conferences	24,018	25,776
Credit reports	17,003	13,430
Education and training	14,286	14,554
Other	91,979	162,049
	$1,643,828	$2,266,139

13. **Income Taxes**

The components of income tax expense are as follows:

	2009	2008
Current		
Federal	$ 600,448	$ 578,195
State	164,826	134,770
	765,274	712,965
Deferred	(118,338)	(478,764)
	$ 646,936	$ 234,201

13. **Income Taxes** (Continued)

The components of the deferred tax expense are as follows:

	2009	2008
Depreciation	**$ (38,460)**	$ (20,712)
Provision for loan losses	**(172,407)**	(215,417)
Other real estate owned allowance for loss	**113,163**	(227,554)
Nonaccrual interest	**(18,845)**	(10,475)
Post-retirement benefits	**(1,789)**	(1,647)
Deferred loan costs	**-**	(2,959)
	$(118,338)	$ (478,764)

The components of the net deferred tax asset are as follows:

Deferred tax assets		
Allowance for loan losses	**$713,361**	$ 540,954
Other real estate owned loss	**114,391**	227,554
Nonaccrual interest	**29,321**	10,475
Post-retirement benefits	**7,989**	6,200
	865,062	785,183
Deferred tax liabilities		
Depreciation	**59,539**	97,999
Unrealized gain on securities available-for-sale	**130,871**	188,243
	190,410	286,242
Net deferred tax asset	**$674,652**	$ 498,941

The differences between the federal income tax rate of 34% and the effective tax rate for the Bank are reconciled as follows:

Statutory federal income tax rate	**34.0 %**	34.0 %
Increase (decrease) resulting from:		
Federal tax-exempt income	**(4.8)**	(12.7)
State income taxes, net of federal income tax benefit	**5.1**	3.4
Nondeductible expenses	**0.1**	0.8
Other	**(0.1)**	(0.5)
	34.3 %	25.0 %

14. Capital Standards

The Federal Deposit Insurance Corporation has adopted risk-based capital standards for banking organizations. These standards require ratios of capital to assets for minimum capital adequacy and to be classified as well capitalized under prompt corrective action provisions. As of December 31, 2009 and 2008, the capital ratios and minimum and well capitalized capital requirements are as follows.

(Dollars in thousands)	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
December 31, 2009	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	**$22,684**	**12.97%**	**$13,994**	**8.0%**	**$17,493**	**10.0%**
Tier 1 capital (to risk-weighted assets)	**20,711**	**11.84%**	**6,997**	**4.0%**	**10,496**	**6.0%**
Tier 1 capital (to average assets)	**20,711**	**9.69%**	**8,545**	**4.0%**	**10,682**	**5.0%**
December 31, 2008						
Total capital (to risk-weighted assets)	$ 21,263	13.38%	$ 12,714	8.0%	$ 15,893	10.0%
Tier 1 capital (to risk-weighted assets)	19,756	12.43%	6,357	4.0%	9,536	6.0%
Tier 1 capital (to average assets)	19,756	10.04%	7,874	4.0%	9,843	5.0%

Tier 1 capital consists of common stock, surplus, and undivided profits. Total capital includes a limited amount of the allowance for loan losses. In calculating risk-weighted assets, specified risk percentages are applied to each category of asset and off-balance sheet items.

Failure to meet the capital requirements could affect the Bank's ability to pay dividends and accept deposits and may significantly affect the operations of the Bank.

In the most recent regulatory report, the Bank was categorized as well capitalized under the prompt corrective action regulations. Management knows of no events or conditions that are likely to change this classification.

15. Fair Value of Financial Instruments

The estimated fair values of the Bank's financial instruments are summarized below. The fair values of a significant portion of these financial statements are estimates derived using present value techniques and may not be indicative of the net realizable value or liquidation values. Also, the calculation of estimated fair values is based on market conditions at a specific point in time and may not reflect current or future values.

	December 31,			
	2009		2008	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial assets				
Cash and equivalents	$14,737,250	$14,737,250	$ 12,887,914	$ 12,887,914
Certificates of deposit	100,000	100,000	100,000	100,000
Investment securities	24,978,938	25,567,622	29,828,781	30,595,974
Loans held for sale	1,417,873	1,425,621	-	-
Loans, net	160,668,638	161,030,080	142,375,750	144,395,750
Federal Home Loan Bank stock	625,300	625,300	581,800	581,800
Financial liabilities				
Noninterest-bearing deposits	$27,592,297	$27,592,297	$ 25,201,271	$ 25,201,271
Interest-bearing deposits	148,322,358	149,598,115	129,131,649	129,831,649
Securities sold under repurchase agreements	14,235,751	14,235,751	15,968,438	15,968,438
Federal Home Loan Bank advances	3,000,000	3,000,000	6,000,000	6,000,000

The fair value of fixed-rate loans is estimated to be the present value of scheduled payments discounted using interest rates currently in effect. The fair value of variable-rate loans, including loans with a demand feature, is estimated to equal the carrying amount. The valuation of loans is adjusted for possible loan losses.

The fair value of interest-bearing checking, savings, and money market deposit accounts is equal to the carrying amount. The fair value of fixed-maturity time deposits is estimated based on interest rates currently offered for deposits of similar remaining maturities.

It is not practicable to estimate the fair value of outstanding loan commitments, unused lines of credit, and letters of credit.

15. **Fair Value of Financial Instruments** (Continued)

ASC Topic 820, *Fair Value Measurements*, defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The price in the principal market used to measure the fair value of the asset or liability shall not be adjusted for transaction costs. Market participants are buyers and sellers in the principal market that are (i) independent, (ii) knowledgeable, (iii) able to transact and (iv) willing to transact.

ASC Topic 820 requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets and liabilities. The income approach uses valuation techniques to convert future amounts, such as cash flows or earnings, to a single present amount on a discounted basis. The cost approach is based on the amount that currently would be required to replace the service capacity of an asset (replacement cost). Valuation techniques should be consistently applied. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. ASC Topic 820 establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

The fair value hierarchy is as follows:

Level 1: Quoted prices (unadjusted) or identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a Bank's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Bank uses the following methods and significant assumptions to estimate fair value for financial assets and financial liabilities:

- Securities available for sale: The fair value of securities available for sale is determined by obtaining quoted prices from a nationally recognized securities pricing agent. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities. The equity security is an investment in a banker's bank and reported at cost.

- Loans held for sale: The fair value of loans held for sale is valued at the lower of cost or market based on the cost versus the price to be realized upon sale.

- Other real estate owned: Nonrecurring fair value adjustments to other real estate owned (OREO) reflect full or partial write-downs that are based on the OREO's observable market price or current appraised value of the collateral in accordance with SFAS 114, *Accounting by Creditors for Impairment of a Loan.* Since the market for impaired loans and OREO is not active, loans or OREO subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral are classified as Level 2.

15. **Fair Value of Financial Instruments** (Continued)

Carrying value at December 31, 2009

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inpts (Level 3)
Recurring				
Available for sale investment securities	$ 14,071,366	$ 14,051,366	$ -	$ 20,000
Nonrecurring				
Other real estate owned (OREO)	$ 760,000	$ -	$ 760,000	$ -

16. **Quarterly Results of Operations**

	Three Months Ended Unaudited			
2009	December 31	September 30	June 30	March 31
Interest income	**2,764,733**	**2,738,812**	**2,638,803**	**2,574,351**
Interest expense	**696,594**	**758,830**	**859,509**	**881,737**
Net interest income	**2,068,139**	**1,979,982**	**1,779,294**	**1,692,614**
Provision for loan losses	**325,000**	**225,000**	**100,000**	**100,000**
Net income	**372,134**	**309,626**	**247,782**	**308,230**
Earnings per share - basic and diluted	**0.48**	**0.41**	**0.33**	**0.41**
2008				
Interest income	$ 2,597,685	$ 2,455,999	$ 2,401,125	$ 2,363,130
Interest expense	888,839	820,713	776,870	897,779
Net interest income	1,708,846	1,635,286	1,624,255	1,465,351
Provision for loan losses	290,000	125,000	55,000	50,000
Net income	(215,294)	286,024	399,209	234,824
Earnings per share - basic and diluted	(0.29)	0.38	0.53	0.31

17. Litigation

In August 2008, Global Express Money Orders, Inc. ("Global") filed suit against the Bank, Baltimore County Savings Bank ("BCSB") and Carrollton Bank in the Baltimore City Circuit Court. Global's claims relate to the business failure and subsequent bankruptcy in June 2006 of Colleen, Inc., t/a A&B Check Cashing ("Colleen"), which resulted from the discovery that Colleen had engaged in a massive check kiting scheme and, in the process, defrauded banks and other creditors. Based on the defendants' contention that Global's claims against them were related to Colleen's bankruptcy case, the defendants removed the suit to the United States Bankruptcy Court for the District of Maryland. Global alleges that the Bank converted (and conspired and colluded with BCSB to convert) property of Global by transferring to BCSB $543,561 in allegedly collected funds on deposit in Colleen's account at the Bank. Global further asserts that these funds constituted Global's trust funds and that the Bank and BCSB acted with actual malice against Global and with knowledge that the funds constituted Global's trust funds. Global has demanded $543,561 in compensatory damages and $5.0 million in punitive damages. During 2009, the courts dismissed the claim for punitive damages.

In January 2010, the Bank, along with BCSB and Carrollton Bank, entered into a tentative settlement agreement with Global. All of the parties deny the claims and the settlement is not an admission of liability, but has been negotiated to avoid further litigation expenses. The Bank agreed to pay Global $50,000 to settle any and all claims. The direct expense to the Bank will be $10,000 with the remaining $40,000 to be paid by the Bank's insurance carrier.

In the ordinary course of its business, the Bank is periodically party to various legal actions normally associated with a financial institution. Management does not believe that any of these normal course proceedings are likely to have a material adverse effect on the financial condition or liquidity of the Bank.

MARKET FOR THE BANK'S COMMON EQUITY AND OTHER RELATED SHAREHOLDER MATTERS

The Bank's Articles of Incorporation authorize the Bank to issue up to 5,000,000 shares of common stock, par value $10.00 per share (the "Common Stock"). As of March 1, 2010 there were 763,706.934 shares of Common Stock issued and outstanding held by approximately 592 stockholders of record.

The shares of Common Stock are traded in the over-the-counter market through the NASDAQ Stock Market's Over-the-Counter Bulletin Board ("OTCBB") under the symbol "FMFG.OB". The table below sets forth, to the best of the Bank's knowledge, the per share high and low bid prices for each quarterly period during the past two years as reported through the OTCBB and the cash dividends declared by the Bank during those periods. These prices reflect inter-dealer prices, do not include retail mark-up, mark-down or commission, and may not represent actual transactions.

	High	Low	Dividend Per Share
2009			
Quarter ended December 31	$30.00	$20.15	$0.30
Quarter ended September 30	21.70	19.66	0.00
Quarter ended June 30	23.75	20.15	0.30
Quarter ended March 31	24.00	21.00	0.00
2008			
Quarter ended December 31	$25.75	$23.00	$0.50
Quarter ended September 30	28.00	22.00	0.00
Quarter ended June 30	30.50	28.00	0.49
Quarter ended March 31	32.00	30.05	0.00

As a depository institution whose deposits are insured by the FDIC, the Bank may not pay dividends or distribute any of its capital assets while it remains in default on any assessment due the FDIC. The Bank currently is not in default on any of its obligations to the FDIC. The Bank's ability to pay dividends is also limited by certain restrictions imposed on Maryland banks and corporations generally. Under Maryland law, the Bank may declare cash dividends from undivided profits or, with the prior approval of the Maryland Commissioner of Financial Regulation, out of surplus in excess of 100% of its required capital stock, and (in either case) after providing for due or accrued expenses, losses, interest and taxes. Notwithstanding the above, dividends are at the discretion of the Board of Directors, and there can be no assurance that the Bank will declare or pay cash dividends at any time. These restrictions are discussed in detail in Exhibit 99.1 to the Bank's Annual Report on Form 10-K for the year ended December 31, 2009.

The Bank has adopted a Dividend Reinvestment Plan that permits stockholders to reinvest cash dividends in shares of Common Stock. Stockholders who elect to reinvest their dividends in Common Stock will receive the number of shares equal to the amount of the dividend divided by the applicable purchase price per share.

Farmers and Merchants Bank
Stockholder Information

Corporate Headquarters
15226 Hanover Pike
Upperco, MD 21155
410-833-6600

Annual Meeting
The annual meeting of stockholders will be held
April 27, 2010 at 3:00 p.m.
at the Piney Branch Golf and Country Club,
located at 5301 Trenton Mill Road, Hampstead, Maryland 21074.
All shareholders are invited to attend.

Securities Markets
Shares of common stock of Farmers and Merchants Bank
are publicly traded on the NASDAQ Stock Market's Over-the-Counter
Bulletin Board under the trading symbol "FMFG."
The market maker is the brokerage firm of RBC Wealth Management
(formerly Ferris Baker Watts, Inc.),
100 Light Street, Baltimore, Maryland 21202.
Direct inquiries to: Charles Luck or Derek Ehman at (800) 247-7223.

Transfer Agent
American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
(212) 936-5100

General Counsel
Robert S. Glushakow, Esq.
Nolan, Plumhoff & Williams, Chtd.
502 Washington Ave., Suite 700
Towson, Maryland 21204

Securities Counsel
Andrew D. Bulgin, Esq.
Gordon, Feinblatt, Rothman
Hoffberger & Hollander, LLC
233 East Redwood Street
Baltimore, Maryland 21202

Independent Accountants
Rowles & Company, LLP
101 E. Chesapeake Avenue, Suite 300
Baltimore, Maryland 21286

Website
www.farmersandmerchantsbk.com or www.fmb1919.com

A copy of the Farmers and Merchants Bank annual report to the FDIC on Form 10-K, including financial statements, may be obtained without charge upon written request to:

Mark C. Krebs, Senior Vice President, Chief Financial Officer
Farmers and Merchants Bank
P. O. Box 249
25 Westminster Pike
Reisterstown, Maryland 21136

FARMERS AND MERCHANTS BANK

MISSION STATEMENT

The mission of Farmers and Merchants Bank is to improve the quality of life in our community by being a people-oriented, independent, profitable community bank dedicated to providing a variety of services that fulfill the financial needs of local individuals and businesses.

LOCATIONS

Main Office
15226 Hanover Pike
Upperco, MD 21155
410-833-6600

Greenmount Office
2205 Hanover Pike
Hampstead, MD 21074
410-374-3436

Owings Mills Office
9320 Lakeside Boulevard
Owings Mills, MD 21117
410-356-8200

Hampstead Office
735 Hanover Pike
Hampstead, MD 21074
410-239-4448

Reisterstown Office
P.O. Box 249
25 Westminster Pike
Reisterstown, MD 21136
410-517-3060

Atrium Village
Senior Living Community
4730 Atrium Court
Owings Mills, MD 21117
410-998-8847

North Oaks
Senior Living Community
725 Mount Wilson Lane
Pikesville, MD 21208
410-484-7442

Mortgage Division
Hampstead Office
735 Hanover Pike
Hampstead, MD 21074
410-239-9650

Commercial Loan Center
Owings Mills Office
9320 Lakeside Boulevard
Owings Mills, MD 21117
410-356-9303

Operations Center
P.O Box 249
25 Westminster Pike
Reisterstown, MD 21136
410-517-3065