



Farmers & Merchants Bank

Policy on Luxury Expenditures Compliance with Treasury TARP Standards

Farmers and Merchants Bank employees are prohibited from incurring excessive or luxury expenditures. Excessive or luxury expenditures include but are not limited to; entertainment and events, office and facility renovations, aviation or transportation services. Also prohibited are activities or events that are unreasonable for staff development, unreasonable performance incentives or excessive expenses incurred. Transportation and room/board may be provided to bank owners as long as these types of expenses meet the guidelines under the TARP Standards for Compensation. Requests for travel, room/board, entertainment and/or transportation that exceed \$10,000 must be approved in advance by the executive management committee. Requests for office and facility renovations that exceed \$150,000 must be approved in advance by the executive management committee. Requests for approval must be in written form to the Chief Financial Officer and will be forwarded to the executive management committee as deemed in the approval process described above.

Any violation of the terms of this policy should be directly reported in written form to any member of the bank's executive management committee or any board director. All employees of Farmers and Merchants Bank are held accountable for adherence to this policy. An employee who violates this policy will trigger the Positive Performance Discipline Policy of the Farmers and Merchants Bank Employee Handbook and its subsequent consequences listed within said policy.

Policy To Be Adopted by Board of Directors on Next Regular Meeting
Scheduled October 28, 2010



Board Secretary

08-23-10

Date Signed