

**Farmers &  
Merchants Bank**  
MEMBER FDIC

# 314

March 2, 2009

Special Inspector General- TARP  
1500 Pennsylvania Avenue, N.W., Suite 1064  
Washington, D.C. 20220

**RE: USE OF TARP FUNDS, and IMPLEMENTATION OF EXECUTIVE  
COMPENSATION REQUIRMENTS**

Gentlemen:

Please be advised that I am in receipt of your letter dated February 6, 2009. With regard to the use of TARP funds, I report as follows:

A.

**b(4), b(8)**

B.

**(b) (8)**

1. \$20,000,000.00 in Student Loans were purchased on January 2, 2009. After the receipt of the TARP funding and ending on February 9, 2009, an additional \$25,000,000.00 in student loans were purchased resulting in an overall purchase of student loans totaling \$45,000,000.00. The aggregate total of student loans purchased is evidenced by the "Participation Certificate" a copy of which is attached hereto and marked Exhibit B. On February 24, 2009, an additional \$12,000,000.00 in Government Guaranteed Student Loans were purchased under the terms of a "Guaranteed Student Loan Participation Agreement" a copy of which is

Milford

617 1st St., P.O. Box E  
Milford, NE 68405-0615

Phone: (402) 761-7600  
Fax: (402) 761-2437  
Fax: (402) 761-3665  
www.bankfmb.com

attached hereto and marked Exhibit C.

(b) (8)

(b) (8)

a.

b(4), b(8)

b.

(b) (4)

- c. As further evidence of the Banks use of TARP funds and leveraging thereof, I am enclosing Statements of Condition for November 30, 2008 (Exhibit E) and February 24, 2009 (Exhibit F). The November 30, 2008 statement was used as a benchmark because Alt A Mortgage Backed Securities were purchased during the month of December in anticipation of receipt of TARP funding. Please note the only appearance of student loans in the November 30, 2008 statement is in the loan category and marked "PART. PURCHASED-NELNET S.L." and totaled \$8,000,000.00. The February 24, 2009 statement contains two additional items indicating the purchase of student loans as follows:

<u>Descriptions</u>	<u>Amount</u>
PART PURCH-CERT DTD 1/02/09	\$45,000,000.00
GUARANTEED STUDT LNS PURCHASED SL	\$12,000,000.00
	<u>\$57,000,000.00</u>

- d. TARP funds were used to purchase student loans as the originators of those loans were experiencing a lack of liquidity. By

purchasing student loans, the originators of those loans were able to make additional student loans, thus student loan consumers were benefited.

2. Please note that between November 30, 2008 and February 24, 2009, the Bank increased its holdings of Mortgaged Backed Securities by approximately \$8,770,000.00. This change is evidenced by the difference between totals shown in the November 30, 2008 Statement of Condition and the February 24, 2009 Statement of Condition, in the line entitled "US AGENCY CMO & REMIC-AFS." The Bank has committed to the purchase of an additional \$1,500,000.00 in Mortgage Backed Securities which will close on February 28, 2009, bringing the total of purchased Mortgage Backed Securities to \$10,270,000.00. As mentioned earlier, the

**b(4), b(8)**

3. The Bank also leveraged TARP funds to purchase approximately \$1,500,000.00 in Municipal Bonds issued by Nebraska Political Subdivisions which will close during the month of March 2009. By committing to the purchase of this type of bond, the Bank is supporting Nebraska Communities.

C. The Bank leveraged TARP funds **(b) (8)**

**(b) (8)** by issuing an additional \$57,340,080.00 in Brokered Time Certificates. Please note the change in the line marked "Brokered Deposits 100>" in the Statements of Condition marked Exhibit E and Exhibit F. This line occurs in the Total Time Deposit category in the Liability Section of the Statements of Condition enclosed. Brokered Time Certificates issued in **(b) (8)** are evidenced by copies of the actual certificates which are attached and marked as Exhibit G.

1. In addition to the \$45,000,000.00 in Brokered Time Certificated which were issued to fund student loans as set forth in Exhibit D, an additional \$12,000,000.00 in Brokered Certificates were issued for terms of five years and 10 years. The funding provided by this source will be used to fund long-term real estate loans. As real estate loans are made, it is anticipated that the holdings of short-term student loans will be reduced. Although the investment in short-term student loans does not cover the cost of the longer term brokered time certificates, this leveraging of TARP funds will better serve the consumer. The purchase of Mortgage Backed Securities supports the mortgage market, as the use of TARP Leveraged Funds in this way provides a more direct benefit to the consumer. Please note that since December 1, 2008, the Bank has made \$2,221,338.76 in long-term real estate loans (Exhibit H).

- D. On January 30, 2009, \$5,000,000.00 of the \$7,525,000.00 of TARP funding received was moved down to the Farmers & Merchants Bank as a Capital Injection. \$351,486.00 of the TARP funding was used to repay a loan to me, which I made in order that the Bank meet the Total Risk Based Capital Standard

on December 30, 2008. The Bank was short on Total Risk Based Capital because of the purchase of Mortgage Backed Securities in December which were made in anticipation of the TARP funding. The remaining TARP funds, totaling \$2,173,514.00, will be retained by Country Bank Shares, Inc. to service debt and make interest payments on the preferred stock issued as a part of the TARP funding. Please see Exhibit I. Exhibit I indicates that Country Bank Shares, Inc. injected \$1,000,000.00 to the Bank as capital on December 30, 2008, \$350,000.00 of which was funded by a loan at 5% made by me to Country Bank Shares, Inc.

1. Bank earnings after dividends for the year 2008 and Bank earnings for January 2009 total \$2,594,377.00 as summaries in Exhibit J. As can be seen, Bank earnings by the date TARP funds were received exceed TARP funds retained by Country Bank Shares, Inc. Retaining funds for debt service at Country Bank Shares, Inc. appeared to be more efficient than to move all TARP funding to the Bank and then dividend earnings back to Country Bank Shares, Inc. Earnings at the Bank level that have dividends were 2008 and January 2009 exceed TARP funding retained by Country Bank Shares, Inc. in the amount of \$420,863.00. Alternatively, it could be argued that Country Bank Shares, Inc. would be entitled to recover the \$1,000,000.00 in capital injected into the Bank at the end of 2008 to capitalize the purchase of assets (b) (8) and when that injection is added to the earnings after dividend for 2008 and January 2009, the sum of which is \$3,594,377.00, the TARP funds retained at Country Bank Shares, Inc. are exceeded. In order to support statements made in this sub-paragraph, I am including as Exhibit K, a Profit and Loss Statement of Country Bank Shares, Inc. which indicates that dividend income totals \$2,300,000.00. Please note that Kearney State Bank, which was owned by Country Bank Shares, Inc., was merged into the Farmers & Merchants Bank in February, 2008. The Bank Statement of Condition for December 31, 2008 is attached as Exhibit L. Please note that on the last page of the Statement of Condition Year-to-Date Income appears on the line marked "YTD INCOME." On the same line on Exhibit M, which is the Statement of Condition for the Bank as of January 31, 2009, Year-to-Date Earnings are specified as being \$470,856.00.

E

(b) (4)

- F. Attached and marked as Exhibit O is a memo which I prepared and circulated through the officer core of the Farmers & Merchants Bank. This memo was

circulated after preliminary approval was received and all receiving it were cautioned to keep the document confidential. Exhibit P is the News Release prepared disclosing the TARP funding and delivered to the *Milford Free Press*, Milford, Nebraska and the *Kearney Hub*, Kearney, Nebraska. Exhibit Q is the Press Release prepared by the United States Treasury.

With regard to the implementation of the Executive Compensation Requirements, I indicate as follows:

A. A charter is being drawn establishing a Board of Directors Compensation Committee which will be presented to the Board of Directors of the Farmers and Merchants Bank on the next scheduled Board of Directors Meeting on April 30, 2009.

B.



C. The Bank has engaged Amalfi Consulting to assist it in meeting the terms of TARP Compensation Guidelines.

I, Gerry A. Dunlap, President of Country Bank Shares, Inc., and President of the Farmers & Merchants Bank do hereby certify that all statements, representations, and supporting information in this letter and submitted as a part of this letter are accurate to the best of my knowledge and the same are made and submitted with the understanding that the same are subject to the requirements and penalties set forth in Title 18, United States Code, Section 101.

Sincerely,

A handwritten signature in black ink, appearing to read "Gerry A. Dunlap".

GERRY A. DUNLAP  
President, Country Bank Shares, Inc.  
President, Farmers & Merchants Bank.

**(b) (6)**

Encl.



Farmers &  
Merchants Bank  
MEMBER FDIC

(b) (8)

**PARTICIPATION CERTIFICATE**

Pursuant to that certain Private Loan Participation Agreement (the "Agreement") dated January 2, 2009 by and between Farmers & Merchants Bank ("Participant") and Nelnet, Inc. ("Lender"), Lender hereby issues and delivers this Participation Certificate to evidence Participant's participation interests in student assistance loans which are identified by the schedule marked as Exhibit "A," attached hereto and incorporated herein by this reference, which loans or participation interests therein are owned by Lender and are serviced and designated a separate account, in accordance with the Agreement. This Participation Certificate shall be governed, in all respects, by the Agreement, the terms of which are incorporated herein by this reference as if fully stated herein. Participant's percentage ownership in the Private Loans is, as of the date of this Participation Certificate, 60.069165%. This Participation Certificate amends and supersedes any prior Participation Certificates.


Dated as of the 9th day of February, 2009.

Nelnet, Inc.  
("Lender")

By:   
Title: CEO

Accepted as of the same date set forth above:

Farmers & Merchants Bank  
("Participant")

By:   
Title: President

**Nelnet Private Student Loan Participation**  
**As of: February 5, 2009**

**Farmers and Merchants Bank**  
**617 1<sup>st</sup> Street**  
**Milford, NE 68405**

<b>Participation Amount:</b>	<b>\$45,000,000</b>
<b>Cumulative Loan Balance:</b>	<b>\$74,913,643.85</b>
<b>Percentage of participation:</b>	<b>60.069165%</b>
<b>Participants Current Yield:</b>	<b>(b) (4)</b>



**GUARANTEED STUDENT LOAN PARTICIPATION AGREEMENT**

This Guaranteed Student Loan Participation Agreement (the "Agreement") is made and entered into effective as of the 24<sup>th</sup> day of February, 2009, by and between Nelnet, Inc., a Nebraska corporation, and its subsidiaries and affiliates (collectively, the "Lender") and Farmers & Merchants Bank, a Nebraska state bank (the "Participant").

**(b) (4)**

## PARTICIPATION CERTIFICATE

Pursuant to that certain Guaranteed Student Loan Participation Agreement (the "Agreement") dated February 24, 2009 by and between Farmers & Merchants Bank ("Participant") and Nelnet, Inc. and its subsidiaries and affiliates ("Lender"), Lender hereby issues and delivers this Participation Certificate to evidence Participant's pro rata 100% participation interests in student assistance loans which are identified by the schedule marked as Exhibit "A," attached hereto and incorporated herein by this reference, which loans or participation interests therein are owned by Lender and are serviced and designated a separate account, in accordance with the Agreement. This Participation Certificate shall be governed, in all respects, by the Agreement, the terms of which are incorporated herein by this reference as if fully stated herein.

Dated as of the 24<sup>th</sup> day of February, 2009.

Nelnet, Inc.  
("Lender")

By: \_\_\_\_\_  
Title: \_\_\_\_\_

Accepted as of the same date set forth above:

Farmers & Merchants Bank  
("Participant")

By: \_\_\_\_\_  
Gerry Dunlap, President

FUNDING OF NELNET LOAN PURCHASE

Tuesday, February 24, 2009

NUMBER OF MONTHS	RATE		INTEREST COST
6	(b) (4)	\$7,709,000	(b) (4)
12	(b) (4)	\$9,538,000	(b) (4)
6	(b) (4)	\$2,753,000	(b) (4)
February Funding		\$0	(b) (4)
12	(b) (4)	\$5,000,000	(b) (4)
18	(b) (4)	\$5,000,000	(b) (4)
24	(b) (4)	\$10,000,000	(b) (4)
12	(b) (4)	\$5,000,000	(b) (4)
		\$45,000,000	(b) (4)
WEIGHTED RATE Margin		(b) (4)	(b) (4)
STUDENT LOAN RATE		(b) (4)	(b) (4)

Exhibit E

INST : 000 BR: 00099  
REPORT: FMS/3211-001 19.02.7  
SYSTEM: 12/04/2008 08:34

FARMERS & MERCHANTS BANK  
FINANCIAL MANAGEMENT SYSTEM  
DAILY STATEMENT OF CONDITION - CONSOLIDATED  
CIBRENT

PAGE: 1  
RUN DATE: 11/30/2008  
PROCESSED THRU: 11/30/2008

(b) (4)

INST : 000 BR: 00099  
REPORT: FMS/3211-001 19.02.7  
SYSTEM: 02/24/2009 19:32

Exhibit F

FARMERS & MERCHANTS BANK  
FINANCIAL MANAGEMENT SYSTEM  
DAILY STATEMENT OF CONDITION - CONSOLIDATED

CURRENT

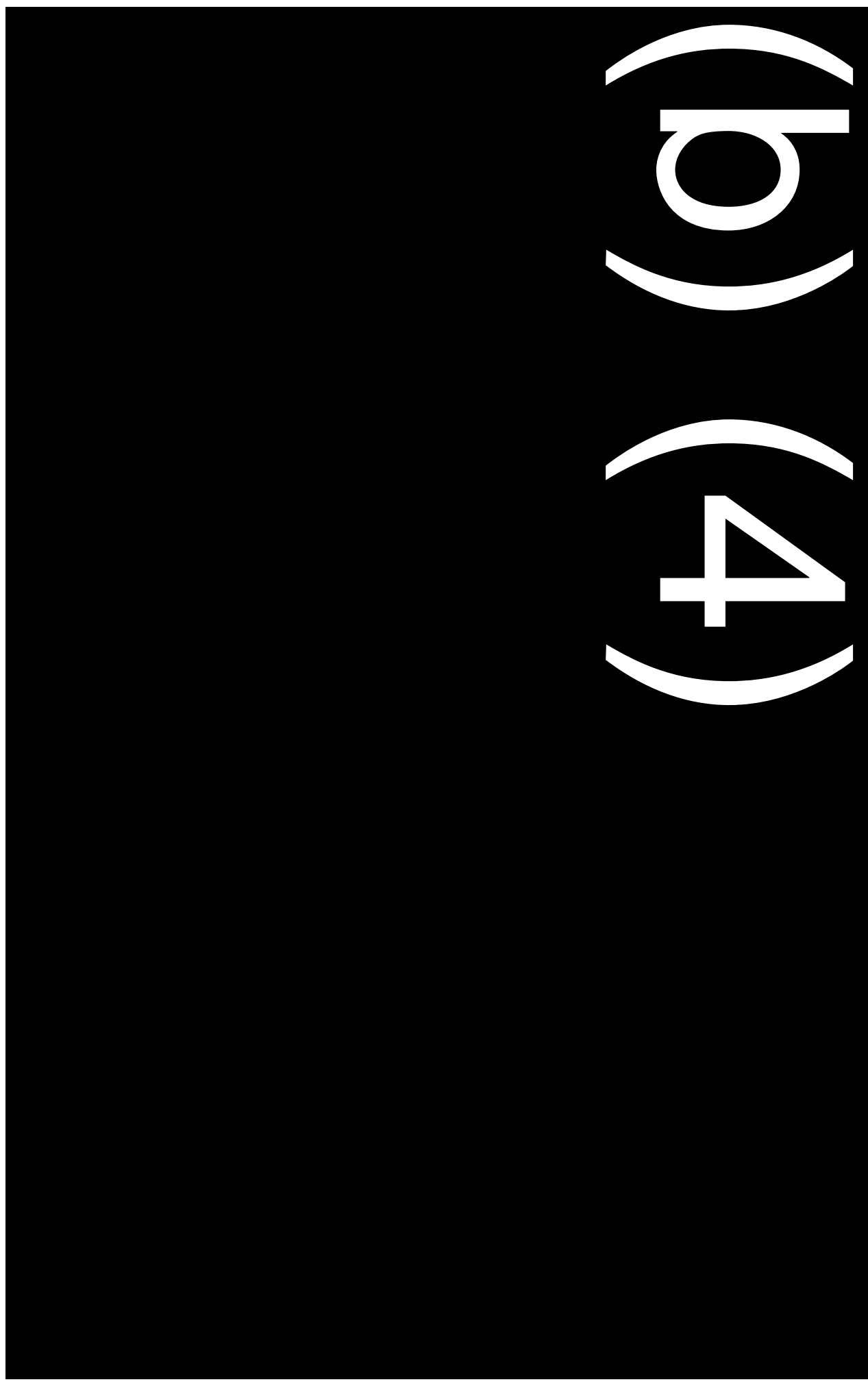
PREVIOUS

NET BAL

AVG BAL

AVG BAL

PAGE: 1  
RUN DATE: 02/24/2009  
PROCESSED THRU: 02/24/2009



(b) (4)

FARMERS & MERCHANTS BANK  
 FINANCIAL MANAGEMENT SYSTEM  
 BALANCE SHEET AND INCOME STATEMENT - CONSOLIDATED

	CURRENT BALANCE	PREVIOUS BALANCE	NET BAL CHANGE	EQM BAL JAN'09	NET CHG FEB'09
ASSETS					
CASH & DUE FROM BANKS	7,331,077.84	8,345,290.18	1,014,212.34	7,199,184.08	131,893.76
INVESTMENT SECURITIES	118,181,424.43	128,806,781.26	10,625,356.83	134,691,673.90	16,510,249.47
LOANS	273,690,462.26	261,648,516.71	12,041,945.55	237,822,021.11	35,868,441.15
LOSS RESERVE	2,566,345.66	2,566,019.87	325.79	2,607,610.13	41,264.47
NET LOANS	271,124,116.60	259,082,496.84	12,041,619.76	235,214,410.98	35,909,705.62
OTHER ASSETS	24,626,233.21	24,557,711.56	68,521.65	24,946,839.28	320,606.07
TOTAL ASSETS	421,262,852.08	420,792,279.84	470,572.24	402,052,108.24	19,210,743.84
LIABILITIES					
DEPOSIT ACCOUNTS	260,132,868.82	259,955,477.92	177,390.90	241,550,464.49	18,582,404.33
OTHER LIABILITIES	79,972,372.39	79,961,144.29	11,228.10	79,987,931.43	15,559.04
TOTAL LIABILITIES	340,105,241.21	339,916,622.21	188,619.00	321,538,395.92	18,566,845.29
CAPITAL					
YTD INCOME	584,788.25	498,069.49	86,718.76	470,856.22	113,932.03
EQUITY	42,193,000.92	42,106,282.16	86,718.76	42,079,068.89	113,932.03
TOTAL LIAB & CAPITAL	382,298,242.13	382,022,904.37	275,337.76	363,617,464.81	18,680,777.32
INCOME					
INTEREST ON LOANS	2,592,064.50	2,494,289.72	97,774.78	1,533,209.17	1,058,865.33
INVESTMENT INCOME	600,521.99	600,237.51	284.48	597,760.84	2,761.15
FEES & SERVICE INCOME	214,107.35	209,232.21	4,875.14	131,922.84	82,184.51
OPERATING INCOME	3,406,693.84	3,303,749.44	102,944.40	2,262,892.85	1,143,800.99
EXPENSES					
SALARIES & BENEFITS	816,676.19	816,676.19	.00	488,619.01	328,057.18
INTEREST PAID	1,319,270.62	1,303,387.69	15,882.93	706,601.96	612,668.65
OCCUPANCY	68,607.00	68,526.92	80.08	59,238.92	9,368.08
MISC EXPENSES	377,612.37	377,365.83	246.54	299,530.42	78,081.95
OPERATING EXPENSES	2,582,166.18	2,565,956.63	16,209.55	1,553,990.31	1,028,175.87
OPERATING PROFIT	824,527.66	737,792.81	86,734.85	708,902.54	115,625.12
INCOME TAX EXPENSE	232,296.66	232,296.66	.00	232,296.66	.00
NET INCOME AFTER TAXES	592,231.00	505,496.15	86,734.85	476,605.88	115,625.12

(b) (4)

(b) (4)

Exhibit H

Pool 15

LONG TERM REAL ESTATE PROGRAM

Pool #15

02/24/09

Name	Closing Date	Maturity Date	Term	Remaining Term	Discount Fee	Rate	Amount	Annual Interest	Prepay Penalty		
(b) (6)	10/3/2008	10/3/2023	15.01	14.61	(b) (4)	(b) (4)	\$92,000.00	\$ 6,210.00			
	10/10/2008	10/10/2023	15.01	14.63			\$125,000.00	\$ 8,937.50			
	10/10/2008	10/10/2023	15.01	14.63			\$83,600.00	\$ 5,852.00			
	11/24/08	11/24/23	15.01	14.75			\$170,000.00	\$ 12,112.50			
	12/6/2008	12/6/2023	15.01	14.79			\$71,400.00	\$ 5,712.00			
	12/17/08	12/17/23	15.01	14.82			\$110,000.00	\$ 7,425.00			
	12/29/2008	12/29/2023	15.01	14.85			\$210,532.00	\$ 13,158.25			
	12/29/2008	12/29/2023	15.01	14.85			\$193,000.00	\$ 12,062.50			
	1/6/2009	1/6/2024	15.01	14.87			\$90,668.52	\$ 5,666.78			
	1/27/2009	1/27/2024	15.01	14.93			\$47,011.98	\$ 2,938.25			
	1/28/2009	1/28/2019	10.01	9.93			\$35,000.00	\$ 2,187.50			
	1/28/2009	1/28/2024	15.01	14.93			\$211,226.26	\$ 13,201.64			
	1/30/2009	1/30/2023	14.01	13.94			\$533,500.00	\$ 34,677.50			
	1/30/2009	1/30/2024	15.01	14.94			\$94,000.00	\$ 5,875.00			
	2/6/2009	2/6/2024	15.01	14.96			\$180,000.00	\$ 11,250.00			
	2/21/2009	2/21/2024	15.01	15.00			\$245,000.00	\$ 15,312.50	X		
	3/15/2009	3/15/2024	15.01	15.06			\$117,151.00	\$ 7,321.94	X		
				0.00			0.00			\$ -	
				0.00			0.00			\$ -	
				0.00			0.00			\$ -	
			0.00	0.00	Loans Since 12/1/08		\$2,021,338.76	\$ -			



Exhibit I  
Country Bank Shares, Inc.

2/24/2009 6:43 PM

Register: Checking

From 12/30/2008 through 02/24/2009

Sorted by: Date, Type, Number/Ref

<u>Date</u>	<u>Number</u>	<u>Payee</u>	<u>Account</u>	<u>Memo</u>	<u>Payment</u>	<u>C</u>	<u>Deposit</u>	<u>Balance</u>
12/30/2008		Gerry Dunlap Loan	Gerry Dunlap:Loan Dat...	Rate 5%		X	350,000.00	1,142,302.43
12/30/2008	4700	Farmers and Mercha...	F & M Bank:Capital Inj...	Capital Injection	1,000,000.00	X		142,302.43
12/31/2008								
01/02/2009	4701	(b) (4)			138,215.00	X		4,087.43
01/30/2009					225.90	X		3,861.53
01/30/2009		United State Treasury	Preferred Stock:Preferr...	TARP Funding		X	7,525,000.00	7,528,861.53
01/30/2009		Farmers and Mercha...	Wire Fees	TARP Wire	15.00	X		7,528,846.53
01/30/2009	4702	Farmers & Merchants...	F & M Bank:Capital Inj...	Capital Contrib...	5,000,000.00	X		2,528,846.53
01/30/2009	4703	Gerry Dunlap-p	-split-	Interest & Princ...	351,486.00	X		2,177,360.53

Exhibit J

**EARNINGS NET OF DIVIDEND**

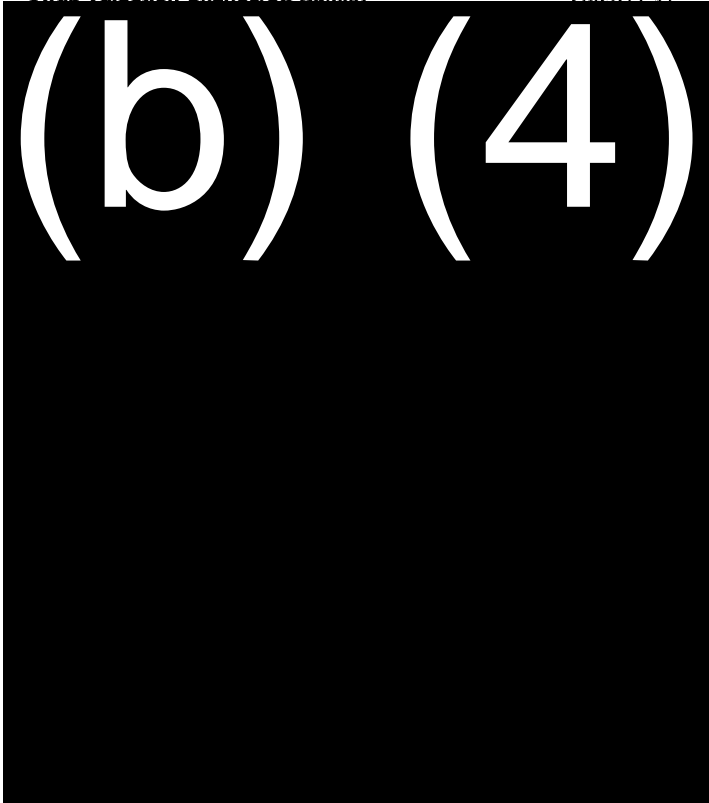
02/24/09

12/31/08 Net Earnings	\$	4,423,521
Dividends Paid in 2008	\$	<u>(2,300,000)</u>
2008 Earnings Net of Income	\$	2,123,521
January Net Earnings	\$	<u>470,856</u>
	\$	<u>2,594,377</u>

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 02/24/09  
 Accrual Basis

**Country Bank Shares, Inc.**  
**Profit & Loss**  
 January through December 2008

	<u>Jan - Dec 08</u>
<b>Income</b>	
Credit Adjuster(Eq Fund NE IX)	0.00
Credit Adjuster(Eq Fund NE X)	0.00
<b>Dividend Income</b>	
Kearney State Bank	600,000.00
Farmers & Merchants Bank Div.	<u>1,700,000.00</u>
<b>Total Dividend Income</b>	2,300,000.00
<b>Equity in UNI I/S</b>	1,940,074.73
<b>Interest Inc</b>	
Swap-US Bank-07	<u>-124,393.75</u>
<b>Total Interest Inc</b>	-124,393.75
<b>Other Inc</b>	<u>-116,219.00</u>
<b>Total Income</b>	3,999,461.98
<b>Expense</b>	
Service Charges	289.74
Swap Valuation Change/US Bank07	296,811.41



<b>Total Expense</b>	<u>371,924.37</u>
<b>Net Income</b>	<u><u>3,627,537.61</u></u>

Exhibit L

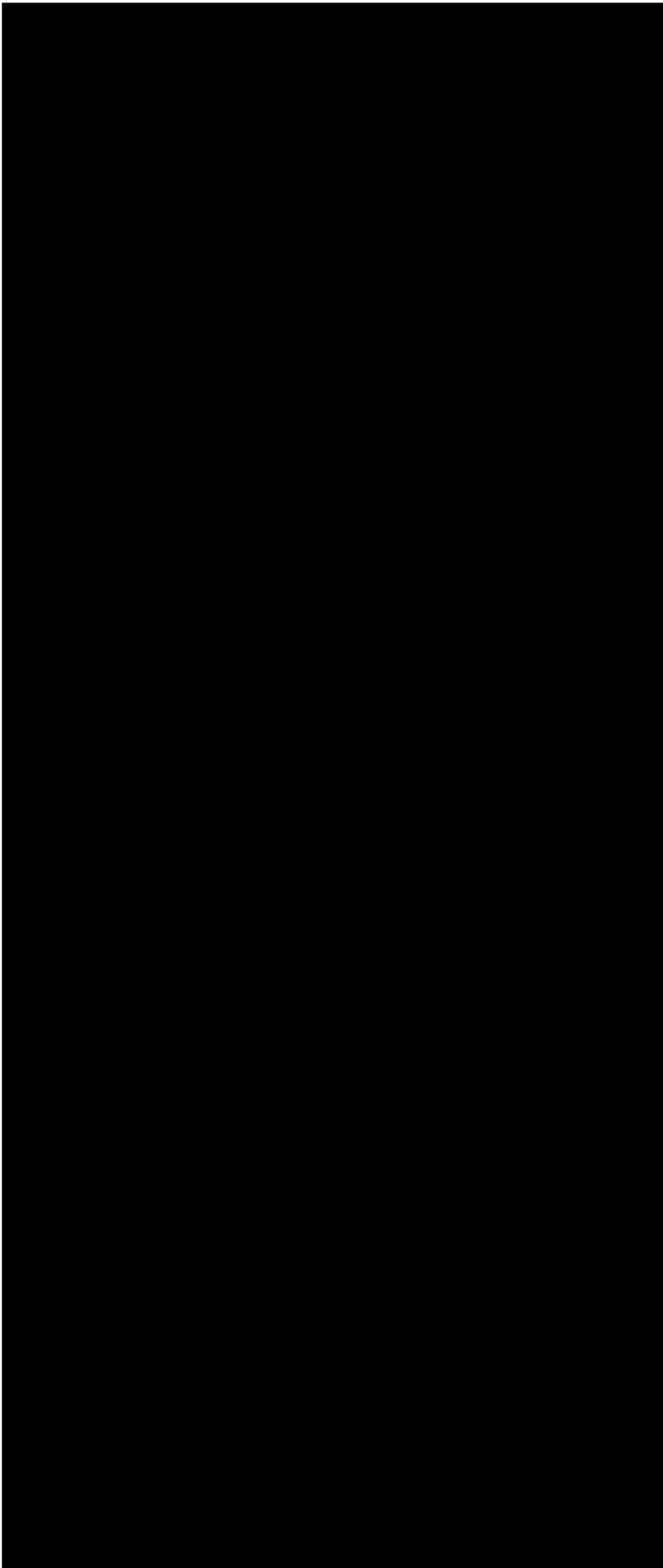
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REPORT: FMS/321-001 10-00-00

FARMERS & MERCHANTS BANK

BANK  
SYSTEM  
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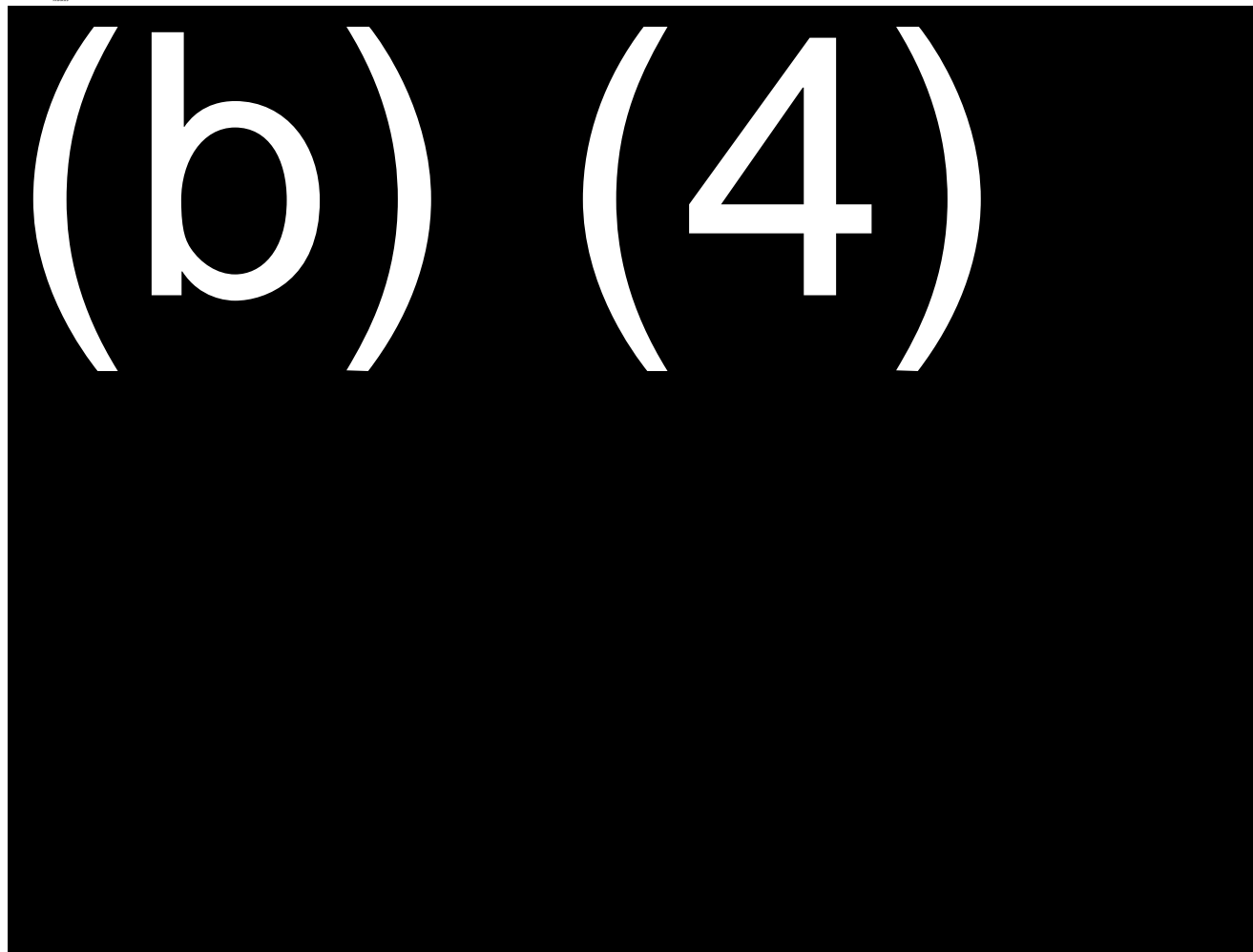
**Dunlap, Gerry**

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**To...** Dunlap, Greg

**Cc...**

**Bcc...**



**Greg Dunlap**

**Sr. Vice President**

**Farmers & Merchants Bank**

# MEMO

**From:** GERRY DUNLAP  
**Subject:** TARP FUNDING  
**Date:** January, 2, 2009 (Revised)

Country Bank Shares, Inc., the holding company for Farmers & Merchants Bank, has received written notice that it has been preliminarily approved for TARP Funding. Country Bank Shares will receive Funding from the United States Treasury in late January or February providing it executes the agreements required by the United States Treasury. From newspapers articles and discussion with bank regulators it appears County Bank Shares is one of the few Nebraska institutions that applied for and received approval for TARP Funding. TARP Funding has not yet been offered to Sub-Chapter S Banks and Mutuals, so there is a chance that more Nebraska institutions may be approved for Funding.

In banking, "only the strong survive." The survival of a bank depends upon strong capital and good assets. TARP Funding is available only to the strongest banks. It is the Treasury's plan that weaker banks will be merged into stronger banks, and to facilitate this movement, capital is made available to strong institutions. The press and the public may perceive the receipt of TARP Funding as an indication of weakness, when in fact, the opposite is true.

The public also perceives TARP Funding as a "Government Bailout." The actual cost to the Bank before taxes of TARP Funding is 6.45%. Because TARP Funding comes in the form of preferred stock and not debt, the tax affected rate the Bank pays is 9.77%. TARP Funds are expensive and must be fully repaid. When the preferred stock required by TARP is retired, the Bank must pay back all funds advanced by the Government, must have paid interest on the funds borrowed from the Government, and must pay an additional \$376,286.00 to the Government, which the Government paid the Bank one cent for at closing.

If TARP Funds are not cheap and not a bailout, why would Country Bank Shares consider taking that funding? If Bank assets continued to remain of high quality as they are now, there would be no need for additional funding. I am concerned about the following:

- A. If the corn price remained at its current level of \$3.50, more or less, and was at that level at the time of the 2009 harvest, many of our farm customers would experience financial stress and the Bank would need all of the capital it could get.
- B. When the stimulus, which the Government has put in the economy takes hold, there is a substantial chance that inflation will mushroom. Knowing that President-elect Obama has former Treasury Secretary Volker as an advisor is scary. It was during Volker's tenure in the early 80's, under the Carter Administration, that inflation was fought with interest rates. During that time, the

Prime Interest Rate moved to 21.5%, the Bank charged customers 17.5%, land prices fell in half, and the ag economy suffered greatly. If the Obama Administration handles inflation the way the Carter Administration handled it, the Bank will need all of the capital it can get.

The next question regarding TARP Funding is how will the Bank use the Funding and how will it pay for the cost of those funds? In order to cover the cost of TARP Funding, that Funding must be leveraged, and to do this the Bank will issue Brokered Time Certificates. The Funds will be invested in Mortgages and Student Loans. A segment of the agreement which Country Bank Shares must execute in favor of the United States Treasury requires that TARP Funds be used to benefit consumer lending. Accordingly, investment in Mortgages and Student Loans will meet the U.S. Treasury guidelines. If and when other financial institutions become available for sale, Country Bank Shares will have the capital to move forward. It is important to remember that an intuition in this environment "either moves forward or falls back."

You must use caution when discussing other Banks and TARP Funding. Because TARP Funding is available only to the strongest Banks, you could by implication indicate that banks not receiving TARP Funding are weak institutions. Indicating that an institution is weak or not strong, is a violation of FDIC Regulations. Further, it is not good policy, to say anything detrimental about competitors. The public will be very interested in your comments regarding other institutions, and you must refrain from making them. Please direct all Press questions to me. You can indicate to your Customer that in today's world the Bank's Capital and Earnings are more important than the rate paid on a Time Certificate of Deposit.

In summary, we see the capital injection as an opportunity to strengthen our capital position, diversify into another asset class, set the stage for another possible acquisition and set ourselves up for any local lending needs that might come about. Although the funding is not cheap, we believe there are plenty of lucrative opportunities available to make this a good risk to take.

Thank you for your support and loyalty during these interesting times. The contents of this Memo will be of help to you when answering tough questions of customers.

Sincerely,

GERRY A. DUNLAP

(b) (6)



Country Bank Shares, Inc.  
Received \$7,525,000.00 from the  
U.S. Treasury's Capital Purchase Program

Milford, Nebraska – January 30, 2009- Country Bank Shares, Inc., the bank holding company of Farmers & Merchants Bank, announced today that it has received an investment of \$7,525,000.00 of additional capital under the U.S. Department of Treasury's TARP Capital Purchase Program (CCP).

The Treasury's investment consists of \$7,525,000.00 in senior preferred shares of Country Bank Shares, Inc., as well as related warrants to purchase additional shares of the Company's preferred stock having an aggregate value of \$376,250.00 for which Country Bank Shares, Inc. will received 1 cent. The estimated after tax cost of the capital injection is 9.77%. Funding under the U.S. Treasury Department's CCP is available only to strong well capitalized banks as determined by that bank's Primary Federal Regulator.

"We are pleased to receive this investment under the CCP," said Gerry Dunlap, President and Chief Executive. "We believe this investment will enable our institution to take advantage of opportunities to further strengthen our position in the marketplace. In particular, we believe the investment will increase Farmers & Merchants Bank's lending capacity, thereby enhance our ability to assist our core customers in meeting the challenges of a recessionary environment while positioning them to take full advantage of an economic recovery. Initially, student loans and mortgages will be purchased with the funding."

About Country Bank Shares, Inc.:

Headquartered in Milford, Nebraska, Farmers & Merchants Bank, a wholly owned subsidiary of Country Bank Shares, Inc. which provides services through 11 offices to communities in Nebraska. Additional information is available at [www.bankfmb.com](http://www.bankfmb.com).

**Forward-Looking Statements:**

This release contains forward-looking statements, which are included in accordance with the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “potential,” or “continue,” or the negative of such terms and other comparable terminology. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, levels of activity, performance or achievements to differ from those expressed or implied by the forward-looking statement. These factors include the following: general economic and business conditions in those areas in which we operate; deterioration in the credit markets; availability of capital from private and government sources; demographic changes; competition for loans and deposits; fluctuations in interest rates; risks of natural disasters related to our real estate portfolio; risks associated with SBA loans; changes in governmental regulation; ability to receive regulatory approval for Farmers & Merchants Bank to declare dividends to Country Bank Shares, Inc.; adequacy of our allowance for loan losses, credit quality and the effect of credit quality on our provision for credit losses and allowance for loan losses; the ability of borrowers to perform under the terms of their loans and other terms of credit agreements; our ability to successfully integrate acquisitions we may make; the availability of capital to fund the expansion of our business; approval of our application to participate in the TARP Capital Purchase Program and changes in securities markets. We undertake no obligation to update such forward-looking statements except as required by law.

Contact:

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Milford, NE 68405  
gdunlap@bankfmb.com

**Dunlap, Gerry**

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**From:** Dunlap, Greg  
**Sent:** Tuesday, February 03, 2009 1:17 PM  
**To:** All  
**Subject:** Treasury's News Release

Below is the Treasury's News Release. The phones have started to ring.

February 3, 2009  
TG-13

**Treasury Provides Funding to Bolster 42 Healthy, Local Banks Nationwide  
First banks in Arizona and Nebraska receive capital to increase lending; Banks in 45  
states now participating in Treasury program**

**Washington, DC** - The U.S. Treasury Department today announced investments of approximately \$1.15 billion in 42 banks across the nation as part of its Capital Purchase Program (CPP), a means to directly infuse capital into healthy, viable banks with the goal of increasing the flow of financing available to small businesses and consumers. **With additional capital, banks** are better able to meet the lending needs of their customers, and businesses have greater access to the credit that they need to keep operating and growing.

Since its inception in October 2008, Treasury has strengthened healthy small and large, regional, and national, financial institutions, as well as Community Development Financial Institutions (CDFIs), through total CPP investments of \$195.33 billion in 359 institutions in 45 states and Puerto Rico. To date, the largest investment was \$25 billion and the smallest investment was approximately \$1 million.

Among the most recent banks to receive Treasury funding was Legacy Bancorp of Milwaukee, Wisconsin, a CDFI founded by African-American women and one of the fastest growing community banks in the nation. CDFIs such as Legacy provide vital credit and financial services to low-income areas that are often unavailable from commercial banks.

Farmers and Merchants Bank, which primarily serves farms and rural businesses, became the first Nebraska bank to receive Treasury investments through CPP.

"We believe this investment will enable our institution to take advantage of opportunities to further strengthen our position in the marketplace. In particular, we believe the investment will increase Farmers & Merchants Bank's lending capacity, thereby enhancing our ability to assist our core customers in meeting the challenges of a recessionary environment while positioning them to take full advantage of an economic recovery," said Gerry Dunlap, President and Chief Executive of Country Bankshares, Inc., the bank holding company of Farmers and Merchants Bank.

Also receiving CPP funding was Firstbank Corporation of Alma, Michigan, which operates 53 banking offices throughout the state's Lower Peninsula.

"This additional capital will facilitate expanded service to our customers and the communities we serve in Michigan," said Chief Executive Officer Thomas R. Sullivan. "We plan to use the additional capital to further increase the capacity of our banks to make prudent loans to customers, while serving customer and community needs for deposit and other banking services. This is a time when economies at all levels – local, state, regional, and national – urgently need supportive, quality oriented, well-run banks. As a community banking company with six affiliate banks, we at Firstbank Corporation are excited about the prospects that this additional capital provides."

Under the CPP, Treasury is purchasing up to a total of \$250 billion of senior preferred shares from healthy U.S. financial institutions such as those announced today. Institutions that participate in the CPP must comply with restrictions on executive compensation during the

period that Treasury holds equity issued through the CPP and agree to limitations on dividends and stock repurchases. Banks participating in the CPP will pay the Treasury a five percent dividend on senior preferred shares for the first five years following the investment and a rate of nine percent per year thereafter. Banks may repay Treasury under the conditions established in the purchase agreements, and Treasury may sell these shares when market conditions stabilize. Further information about the terms of the program, including weekly transactions, can be found at <http://www.treas.gov/initiatives/eesa/>.

The following is a complete list of banks receiving funding on January 30, 2009:

<b>Arkansas</b>	Rogers Bancshares, Inc.	\$25,000,000
<b>Arizona</b>	Goldwater Bank, N.A.	\$2,568,000
<b>California</b>	Beach Business Bank	\$6,000,000
	Central Valley Community Bancorp	\$7,000,000
	Ojai Community Bank	\$2,080,000
	Peninsula Bank Holding Co.	\$6,000,000
	Plumas Bancorp	\$11,949,000
	Valley Commerce Bancorp	7,700,000
<b>Colorado</b>	Bankers' Bank of the West Bancorp, Inc.	\$12,639,000
<b>Florida</b>	First Southern Bancorp, Inc.	\$10,900,000
<b>Georgia</b>	Metro City Bank	\$7,700,000
<b>Illinois</b>	PrivateBancorp, Inc.	\$243,815,000
<b>Indiana</b>	AMB Financial Corp.	\$3,674,000
<b>Kansas</b>	Equity Bancshares, Inc.	\$8,750,000
	UBT Bancshares, Inc.	\$8,950,000
<b>Maryland</b>	Monument Bank	\$4,734,000
	Annapolis Bancorp, Inc.	\$8,152,000
	First United Corporation	\$30,000,000
<b>Maine</b>	Katahdin Bankshares Corp.	\$10,449,000
<b>Michigan</b>	Firstbank Corporation	\$33,000,000
	Flagstar Bancorp, Inc.	\$266,657,000
<b>Missouri</b>	Guaranty Federal Bancshares, Inc.	\$17,000,000
<b>North Carolina</b>	Oak Ridge Financial Services, Inc.	\$7,700,000
<b>Nebraska</b>	Adbanc, Inc.	\$12,720,000
	Country Bank Shares, Inc.	\$7,525,000
<b>New Hampshire</b>	Northway Financial, Inc.	\$10,000,000
<b>New Jersey</b>	Community Partners Bancorp	\$9,000,000
	Hilltop Community Bancorp, Inc.	\$4,000,000
	Parke Bancorp, Inc.	\$16,288,000
	Stewardship Financial Corporation	\$10,000,000
<b>Ohio</b>	Peoples Bancorp Inc.	\$39,000,000
<b>Pennsylvania</b>	DNB Financial Corporation	\$11,750,000
	First Resource Bank	\$2,600,000
<b>South Carolina</b>	Greer Bancshares Incorporated	9,993,000
<b>Tennessee</b>	F & M Bancshares, Inc.	\$4,609,000
<b>Texas</b>	Central Bancshares, Inc.	\$5,800,000
<b>Virginia</b>	Central Virginia Bankshares, Inc.	\$11,385,000

	Middleburg Financial Corporation	\$22,000,000
	WashingtonFirst Bank	\$6,633,000
<b>Washington</b>		
	W.T.B. Financial Corporation	\$110,000,000
<b>Wisconsin</b>		
	Anchor Bancorp Wisconsin Inc.	\$110,000,000
	Legacy Bancorp, Inc.	\$5,498,000

**Greg Dunlap**  
**Sr. Vice President**  
**Farmers & Merchants Bank**