FARMERS & MERCHANTS BANCORP INC
Form 10-K
February 24, 2016
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

x **Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the fiscal year ended December 31, 2015

or

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transition period from __________ to __________

Commission File Number 0-14492

FARMERS & MERCHANTS BANCORP, INC.

OHIO	**34-1469491**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**

307 North Defiance Street	
Archbold, Ohio	**43502**
(Address of principal Executive offices)	**(Zip Code)**

Registrant s telephone number, including area code (419) 446-2501

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	**None**

Securities registered pursuant to Section 12(g) of the Act:

Common shares without par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer , accelerated filer , and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of June 30, 2015, the aggregate market value of the registrant s common stock held by non-affiliates of the registrant was $125,349,922.

As of February 24, 2016, the Registrant had 5,200,000 shares of common stock issued of which 4,612,534 shares are outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K Portions of the definitive Proxy Statement for the 2016 Annual Meeting of Shareholders of Farmers & Merchants Bancorp, Inc.

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FARMERS & MERCHANTS BANCORP, INC.

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Exhibit 101.SCH	XBRL Taxonomy Extension Schema Document (1)
Exhibit 101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
Exhibit 101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
Exhibit 101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
Exhibit 101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

** The following materials from Farmers & Merchants Bancorp, Inc. on Form 10-K for the year ended December 31, 2015, formatted in XBRL (Extensible Business Reporting Language): (i) the Consolidated Balance Sheets; (ii) the Consolidated Statements of Income and Comprehensive Income; (iii) the Consolidated Statements of Cash Flows and (iv) Notes to Consolidated Financial Statements, tagged as blocks of text.

Total Pages: 111

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Forward Looking Statements

Statements contained in this portion of the Company s annual report may be forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of such words as intend, believe, expect, anticipate, should, planned, estimated, and potential. S forward-looking statements are based on current expectations, but may differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time. Other factors which could have a material adverse effect on the operations of the Company and its subsidiaries which include, but are not limited to, changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank s market area, changes in relevant accounting principles and guidelines and other factors over which management has no control. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

PART 1.

ITEM 1. BUSINESS

General

Farmers & Merchants Bancorp, Inc. (Company) is a bank holding company incorporated under the laws of Ohio in 1985 and elected to become a financial holding company under the Federal Reserve in 2014. Our primary subsidiary, The Farmers & Merchants State Bank (Bank) is a community bank operating in Northwest Ohio since 1897. Our other subsidiary, Farmers & Merchants Risk Management (Captive) is a captive insurance company formed in December 2014 and located in Nevada. We report our financial condition and net income on a consolidated basis and we report only one segment.

Our executive offices are located at 307 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501.

For a discussion of the general development of the Company s business throughout 2015, please see the portion of Management s Discussion and Analysis of Financial Condition and Results of Operations captioned 2015 in Review .

Nature of Activities

The local economies of Northwest Ohio and Northeast Indiana continued to improve throughout 2015. Based on asset quality remaining strong, indicated by low delinquency levels, businesses profits also improved or held steady to 2014. Some industries, such as car dealers, recorded more sales in 2015 than in prior years. Farm customers dealt with lower commodity prices and most were still able to operate profitably. The farm community is better prepared to handle challenges in 2016 than it was in the 1980 s. 2016 begins with the first prime rate increase in seven years and overall, the local economies should continue to improve while addressing the new challenges of a rising rate environment.

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The Farmers & Merchants State Bank engages in general commercial banking business. Its activities include commercial, agricultural and residential mortgage, consumer and credit card lending activities. Because the Bank s offices are located in Northwest Ohio and Northeast Indiana, a substantial amount of the loan portfolio is comprised of loans made to customers in the farming industry for such things as farm land, farm equipment, livestock and operating loans for seed, fertilizer, and feed. Other types of lending activities include loans for home improvements, and loans for such items as autos, trucks, recreational vehicles, motorcycles. With the expansion into newer market areas, the most recent increases in loan activity have been in commercial real estate, providing operation lines of credit and machinery purchases.

The Bank also provides checking account services, as well as savings and time deposit services such as certificates of deposits. In addition, ATM s (automated teller machines) are provided at most branch locations along with other independent locations including major employers and hospitals in the market area. The Bank has custodial services for IRA s (Individual Retirement Accounts) and HSA s (Health Savings Accounts). The Bank provides on-line banking access for consumer and business customers. For consumers, this includes bill-pay and on-line statement opportunities. For business customers, it provides the option of electronic transaction origination such as wire and ACH file transmittal. In addition the Bank offers remote deposit capture or electronic deposit processing. Mobile banking was added in 2012 and has been widely accepted and used by consumers.

The Bank s underwriting policies, exercised through established procedures, facilitate operating in a safe and sound manner in accordance with supervisory and regulatory guidance. Within this sphere of safety and soundness, the Bank s practice has been to avoid promoting innovative, unproven credit products which may not be in the best interest of the Bank or its customers. The Bank does offer a hybrid loan. Hybrid loans are loans that start as a fixed rate mortgage but after a set number of years automatically adjust to an adjustable rate mortgage. The Bank offers a three year fixed rate mortgage after which the interest rate will adjust annually. The majority of the Bank s adjustable rate mortgages are of this type. In order to offer longer term fixed rate mortgages, the Bank does participate in the Freddie Mac, Farmer Mac and Small Business Lending programs. The Bank also retains the servicing on these partially or 100% sold loans. In order for the customer to participate in these programs they must meet the requirements established by these agencies. The Bank s policies focus on initiating mainly qualified mortgages.

All loan requests are reviewed as to credit worthiness and are subject to the Bank s underwriting guidelines as to secured versus unsecured credit. Secured loans are in turn subject to loan to value (LTV) requirements based on collateral types as set forth in the Bank s Loan Policy. In addition, credit scores of principal borrowers are reviewed and an approved exception from an additional officer is required should a credit score not meet the Bank s Loan Policy guidelines.

Consumer Loans**:**

Maximum loan to value (LTV) for cars, trucks and light trucks vary from 90% to 110% depending on whether direct or indirect. Loans above 100% are generally due to additional charges for extended warranties and/or insurance coverage periods of lost wages or death.

Boats, campers, motorcycles, RV s and Motor Coaches range from 80%-90% based on age of vehicle.

1st or 2nd mortgages on 1-4 family homes range from 75%-90% with in-house first real estate mortgages requiring private mortgage insurance on those exceeding 80% LTV.

Raw land LTV maximum ranges from 65%-75% depending on whether or not the property has been improved.

Commercial/Agriculture/Real Estate:

Maximum LTVs range from 70%-80% depending on type.

Accounts Receivable:

Up 80% LTV

Inventory:

Agriculture:

Livestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%

Commercial:

Maximum LTV of 50% on raw and finished goods

Used vehicles, new recreational vehicles and manufactured homes not to exceed (NTE) 80% LTV

Equipment:

New not to exceed 80% of invoice, used NTE 50% of listed book or 75% of appraised value

Restaurant equipment up to 35% of market value

Heavy trucks, titled trailers up to NTE 75% LTV and aircraft up to 75% of appraised value

F&M Investment Services, the brokerage department of the Bank, opened for business in April, 1999. Securities are offered through Raymond James Financial Services, Inc.

In December of 2014, the Company became a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended, in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. Our subsidiary bank is in turn regulated and examined by the Ohio Division of Financial Institutions, and the Federal Deposit Insurance Corporation. The activities of our bank subsidiary are also subject to other federal and state laws and regulations. The Company also formed a Captive insurance company in December 2014. The Captive is located in Nevada and regulated by the State of Nevada Division of Insurance.

The Bank s primary market includes communities located in the Ohio counties of Defiance, Fulton, Henry, Lucas, Williams, Wood and in the Indiana counties of DeKalb and Steuben. In the first half of 2016 the Bank will add the Indiana county of Allen to its service area with the opening of its newly constructed office in Fort Wayne. The commercial banking business in this market is highly competitive, with approximately 17 other depository institutions currently doing business in the Bank s primary market. In our banking activities, we compete directly with other commercial banks, credit unions, farm credit services, and savings and loan institutions in each of our operating localities. In a number of our locations, we compete against entities which are much larger than us. The primary factors in competing for loans and deposits are the rates charged as well as location and quality of the services provided.

At December 31, 2015, we had 265 full time equivalent employees. The employees are not represented by a collective bargaining unit. We provide our employees with a comprehensive benefit program, some of which are contributory. We consider our employee relations to be good.

Supervision and Regulation

General

The Company is a corporation organized under the laws of the State of Ohio. The business in which the Company and its subsidiaries are engaged is subject to extensive supervision, regulation and examination by various bank regulatory authorities. The supervision, regulation and examination to which the Company and its subsidiaries are subject are intended primarily for the protection of depositors and the deposit insurance funds that insure the deposits of banks, rather than for the protection of shareholders.

Several of the more significant regulatory provisions applicable to banks and bank holding companies to which the Company and its subsidiary are subject are discussed below, along with certain regulatory matters concerning the Company and its subsidiaries. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory provisions. Any change in applicable law or regulation may have a material effect on the business and prospects of the Company and its subsidiaries.

Regulatory Agencies

The Company is a financial holding company and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the Federal Reserve Board) pursuant to the Bank Holding Company Act of 1956, as amended. As a financial holding company, the Company is still subject to all the bank holding company regulations.

The Bank is an Ohio chartered commercial bank. It is subject to regulation and examination by both the Ohio Division of Financial Institutions (ODFI) and the Federal Deposit Insurance Corporation (FDIC).

The Captive is an insurance company incorporated in Nevada and regulated by the State of Nevada, Division of Insurance.

Holding Company Activities

As a financial holding company incorporated and doing business within the State of Ohio, the Company is subject to regulation and supervision under the Bank Holding Act of 1956, as amended (the Act). The Company is required to file with the Federal Reserve Board on quarterly basis information pursuant to the Act. The Federal Reserve Board may conduct examinations or inspections of the Company and its subsidiaries.

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On November 12, 1999, the Gramm-Leach-Bliley Act (the GLB Act) was enacted into law. The GLB Act made sweeping changes with respect to the permissible financial services which various types of financial institutions may now provide. The Glass-Steagall Act, which had generally prevented banks from affiliation with securities and insurance firms, was repealed. Pursuant to the GLB Act, bank holding companies may elect to become a financial holding company, provided that all of the depository institution subsidiaries of the bank holding company are well capitalized and well managed under applicable regulatory standards.

Under the GLB Act, a bank holding company that has elected to become a financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Activities that are financial in nature include securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the Federal Reserve Board has determined to be closely related to banking. Federal Reserve Board approval is not required for the Company to acquire a company, other than a bank holding company, bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. Prior Federal Reserve Board approval is required before the Company may acquire the beneficial ownership or control of more than 5% of the voting shares, or substantially all of the assets, of a bank holding company, bank or savings association. If any subsidiary bank of the Company ceases to be well capitalized or well managed under applicable regulatory standards, the Federal Reserve Board may, among other actions, order the Company to divest the subsidiary bank. Alternatively, the Company may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company. If any subsidiary bank of the Company receives a rating under the Community Reinvestment Act of 1977 of less than satisfactory, the Company will be prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations.

Affiliate Transactions

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and Regulation W promulgated thereunder limit borrowings by holding companies and non-bank subsidiaries from affiliated insured depository institutions, and also limit various other transactions between holding companies and their non-bank subsidiaries, on the one hand, and their affiliated insured depository institutions on the other. Section 23A of the Federal Reserve Act also generally requires that an insured depository institution s loan to its non-bank affiliates be secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution s transactions with its non-bank affiliates be on arms-length terms.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act (Riegle-Neal), subject to certain concentration limits and other requirements, adequately capitalized bank holding companies such as the Company are permitted to acquire banks and bank holding companies located in any state. Any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans and receive loan payments as an agent for any other bank subsidiary of that bank holding company. Banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and establishing de novo branch offices in other states. The ability of banks to acquire branch offices is contingent, however, on the host state having adopted legislation opting in to those provisions of Riegle-Neal. In addition, the ability of a bank to merge with a bank located in another state is contingent on the host state not having adopted legislation opting out of that provision of Riegle-Neal. The Company could from time to time use Riegle-Neal to acquire banks in additional states.

Control Acquisitions

The Change in Bank Control Act prohibits a person or group of persons from acquiring control of a bank holding company, unless the Federal Reserve Board has been notified and has not objected to the transaction. Under the rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the Federal Reserve Board under the

Bank Holding Company Act before acquiring 25% (5% in the case of an acquirer that is a bank holding company) or more of any class of outstanding voting stock of a bank holding company, or otherwise obtaining control or a controlling influence over that bank holding company.

Liability for Banking Subsidiaries

Under the current Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to maintain resources adequate to support each subsidiary bank. This support may be required at times when the bank holding company may not have the resources to provide it. In the event of a bank holding company s bankruptcy, any commitment by the bank holding company to a U.S. federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and entitled to priority of payment. Any depository institution insured by the FDIC can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with (1) the default of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to both a commonly controlled FDIC-insured depository institution in danger of default. The Bank is an FDIC-insured depository institution. If a default occurred with respect to the Bank, any capital loans to the Bank from its parent holding company would be subordinate in right of payment to payment of the Bank s depositors and certain of its other obligations.

Regulatory Capital Requirements

The Company is required by the various regulatory authorities to maintain certain capital levels. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve Board capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The required capital levels and the Company s capital position at December 31, 2015 and 2014 are summarized in the table included in Note 15 to the consolidated financial statements.

Beginning in 2015, the Company and Bank were required to measure capital adequacy using Basel III accounting. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. Implementation of the rules will be overseen by the Federal Reserve, the FDIC and the OCC. Reporting under the new rules began with the March 2015 quarterly regulatory filings.

FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), and the regulations promulgated under FDICIA, among other things, established five capital categories for insured depository institutions-well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized-and requires U.S. federal bank regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements based on these categories. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on certain other aspects of its operations. An undercapitalized bank must develop a capital restoration plan and its parent bank holding company must guarantee the bank s compliance with the plan up to the lesser of 5% of the bank s assets at the time it became undercapitalized and the amount needed to comply with the plan. As of December 31, 2015 the Bank was well capitalized pursuant to these prompt corrective action guidelines.

Dividend Restrictions

The ability of the Company to obtain funds for the payment of dividends and for other cash requirements will be largely dependent on the amount of dividends which may be declared by its banking subsidiary. Various U.S. federal statutory provisions limit the amount of dividends the Company s banking subsidiary can pay to the Company without regulatory approval. In 2009, The Board of Governors of the Federal Reserve Division of Banking Supervision and Regulation issued SR09-4 regarding the safe and sound payment of dividends by bank holding companies. In addition, dividend payments by the Bank are limited to its retained earnings during the current year and its prior two years. See Note 15 to the consolidated financial statements for the actual amount.

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Deposit Insurance Assessments

The deposits of the Bank are insured up to the regulatory limits set by the FDIC. The FDIC maintains the Deposit Insurance fund (DIF) by assessing depository institutions an insurance premium (assessment). The amount assessed to each institution is based on statutory factors that take into account the degree of risk the institution poses to the DIF. The primary purposes of the DIF are to (1) insure the deposits and protect the depositors of insured depository institutions; and (2) resolve failed banks. The DIF is primarily funded through quarterly assessments on insured depository institutions, but it also earns interest income on its securities. Decreases in the DIF result from loss provisions associated with the resolution of failed banks and FDIC operating expenses.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (Dodd-Frank Act) revised the statutory authorities governing the FDIC s management of the DIF. A key requirement from the Dodd-Frank Act resulted in the FDIC s adoption of new rules in February 2011 regarding Assessments, Dividends, Assessment Base, and Large Bank Pricing. The new rules implemented the following changes: (1) redefined the definition of an institution s deposit insurance assessment base from one based on domestic deposits to one based on assets now defined as average consolidated total assets minus average tangible equity ; (2) changed the assessment rate adjustments to better account for risk based on an institution s funding sources; (3) revised the deposit insurance assessment rate schedule in light of the new assessment base and assessment rate adjustments; (4) implemented Dodd-Frank Act dividend provisions; (5) revised the large insured depository institution assessment system to better differentiate for risk and to take into account losses the FDIC may incur from large institution failures; and (6) provided technical and other changes to the FDIC s assessment rules. Though deposit insurance assessments maintain a risk-based approach, the FDIC imposed a more extensive risk-based assessment system on large insured depository institutions with at least $10 billion in total assets since they are more complex in nature and could pose greater risk. The rules became effective April 1, 2011 implementing the revised assessment rate schedule for the quarter beginning April 1, 2011. The revised assessment rate schedule was used to calculate the June 30, 2011 assessments which were due September 30, 2011 and subsequent quarterly assessments thereafter.

Due to the changes to the assessment base and assessment rates, as well as the DIF restoration time frame, the impact on the Company s future deposit insurance assessments has been and should continue to be favorable.

The Dodd-Frank Act permanently raised the standard maximum deposit insurance coverage amount to $250,000.

The FDIC deposit insurance coverage limit applies per depositor, per insured depository institution for each account ownership category.

Depositor Preference Statute

In the liquidation or other resolution of an institution by any receiver, U.S. federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the insured depository institution would be afforded a priority over general unsecured claims against that institution, including federal funds and letters of credit.

Government Monetary Policy

The earnings of the Company are affected primarily by general economic conditions and to a lesser extent by the fiscal and monetary policies of the federal government and its agencies, particularly the Federal Reserve. Its policies influence, to some degree, the volume of bank loans and deposits, and interest rates charged and paid thereon, and thus have an effect on the earnings of the Company s subsidiary Bank.

Additional Regulation

Implementation of the Dodd-Frank Act provisions has resulted in new rulemaking by the federal regulatory agencies and new rules yet to be issued. Implementing the new and expanded regulations involve extreme diligence to ensure compliance with the complexities of the rules, as well as extensive new disclosure and reporting requirements.

The Dodd-Frank Act created an independent regulatory body, the Bureau of Consumer Financial Protection (Bureau), with authority and responsibility to set rules and regulations for most consumer protection laws applicable to all banks large and small - adds another regulator to scrutinize and police financial activities. Transfer to the Bureau of all consumer financial protection functions for designated laws by the other federal agencies was completed on July 21, 2011. The Bureau has responsibility for mortgage reform and enforcement, as well as broad new powers over consumer financial activities which could impact consumer financial products and services and how they are provided.

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Significant mortgage rules mandated by the Dodd-Frank Act provisions have been enacted in response to the breakdown in the mortgage lending markets and to provide for consumer protections. Final rules were issued by the Bureau or jointly with other regulatory agencies to implement requirements under the Dodd-Frank Act regarding mortgage-related matters such as ability-to-repay, qualified mortgage standards, mortgage servicing, mortgage loan originator compensation, escrow requirements for higher-priced mortgage loans, and providing appraisals. Most of these rules were effective January 2014 and have been successfully implemented. New mortgage rules were intended to address problems consumers face in the three major steps in buying a home shopping for a mortgage, closing on a mortgage, and paying off a mortgage.

Final rules on integrated mortgage disclosures under the Real Estate Settlement Act (RESPA) and Truth in Lending Act (TILA), issued in November 2013 to originally be effective on August 1, 2015, were subsequently postponed until October 3, 2015. Amendments to the integrated mortgage disclosure rules finalized on January 20, 2015, to be effective on August 1, 2015 were also subsequently postponed until October 3, 2015. The TILA-RESPA Integrated Disclosure rule commonly referred to as TRID combined required disclosures into a two single forms: 1) The Loan Estimate which is provided shortly after a mortgage loan application and 2) The Closing Disclosure which is provided prior to loan consummation. In addition, a mandated appraisal notice under the Equal Credit Opportunity Act and the servicing application disclosure under RESPA were also combined into the new integrated disclosures. Significant systems changes, as well as process and procedural adjustments were necessary to appropriately implement the new requirements. Implementation to successfully achieve TRID compliance involved extensive collaboration with the Mortgage Loan Origination software vendor, as well as outreach and coordination efforts with real estate agents, attorneys, and closing agents to cultivate preparedness for the new integrated mortgage loan disclosure forms. Overall mortgage loan volume was up through the end of the year. New TRID requirements, especially the timing requirements that had to be met, did slow the loan origination process slightly but did not result in excessive delays of scheduled loan closings. Due to the complexities of the TRID rule, the industry questions that remain to be answered with absolute clarity, and the status or existence of a safe harbor or protection from liability during the initial live implementation period, remaining attentive to these matters will ensure practices and procedures continue to be fully compliant.

On June 22, 2015, five federal agencies announced the approval of a joint final rule implementing provisions of the Homeowner Flood Insurance Affordability Act of 2014 (HFIAA) and the Biggert-Waters Flood Insurance Reform Act of 2012 (the Biggert-Waters Act). The final rule, mostly effective on October 1, 2015, was issued by the Board of Governors of the Federal Reserve System, the Farm Credit Administration, the Federal Deposit Insurance Corporation, the National Credit Union Administration, and the Office of the Comptroller of the Currency. This rule amended regulations which apply to loans secured by properties located in special flood hazard areas and included the following:

- Implementation of a statutory exemption from the requirement to purchase flood insurance for a detached structure that is part of a residential property and does not serve as a residence. Under the HFIAA lenders may require flood insurance on these detached structures to protect collateral securing the mortgage. The Bank is presently evaluating all instances on a case-by-case basis as they are identified and determining the appropriate action to be taken.

- Effective January 1, 2016 in accordance with the HFIAA, for loans made, increased, extended, or renewed to be secured by residential real estate or mobile homes, regulated lending institutions must;

- Require an escrow for flood insurance premiums and fees, unless the loan qualifies for a statutory exception;

- Provide borrowers with residential loans outstanding as of January 1, 2016 the option to escrow flood insurance premiums and fees.

- Provide new and revised samples notice forms and clauses regarding the escrow requirements and the option to escrow.

The Biggert-Waters Act provisions on force placement of flood insurance coverage:

- Beginning on the date a borrower s flood coverage lapses or becomes insufficient, a regulated lending institutions has the authority to charge a borrower for the cost of force-placed insurance coverage.
- Circumstances under which a lender must terminate force-placed flood insurance coverage and refund payments to the borrower are also stipulated.

Changes to existing processes and procedures along with the implementation of new forms and notifications resulted from this new rule. Fines and penalties for compliance with flood insurance requirements promote a continued focused attention on adherence to the new flood rule and existing requirements.

The Department of Defense (DOD) announced new rules amending its regulation that implements the Military Lending Act (MLA) on July 21, 2015. The MLA was enacted as part of the John Warner National Defense Act of 2007. These new rules significantly expanded the scope of the Act to cover all consumer credit except residential mortgages and purchase money loans. With an effective date of October 1, 2015, compliance is required by October 3, 2016. For credit cards, the required compliance date is October 3, 2017. Coverage applies to consumer credit defined as credit offered or extended for personal, family, or household purpose and that is subject to a finance charge or payable by written agreement in more than four installments . A covered borrower is a consumer who at the time of becoming obligated on a consumer credit transaction or establishing an account for consumer credit, is a covered member or dependent (including a spouse) of a covered member. A covered member is a member of the armed forces serving on active duty or active guard or reserve duty. More specifically, the final rule:

Makes financial institutions responsible for determining an applicant s military status through inquiry using the database maintained by the DOD or a consumer reporting agency that provides such information.

Limits what may be charged in fees and interest on covered consumer loans by imposing a 36% military annual percentage rate (MAPR) cap. The 36% cap is an all-in annual percentage rate (APR) that includes interest and fees associated with the loan such as application fee and annual fees, as well as fees and premiums for add-on products such as credit insurance, debt cancellation, and debt suspension often sold in connection with a consumer credit transaction. Providing a loan to a covered borrower that exceeds the 36% MAPR is prohibited.

Requires additional disclosures which must be provided to military personnel, their spouses, and dependents when they obtain a loan.

Prohibits certain terms or provisions that require arbitration, involve assessment of a prepayment penalty, or require service members or their dependents to waive any rights under the Service member s Civil Relief Act or any other federal or state law.

Any covered loans made without providing proper disclosures or in violation of the MLA is void. Creditors who knowingly or willfully violate the rules could be subject to a fine, imprisonment up to one year or both. Full implementation of these new rules involve understanding its impact on the covered consumer credit products offered, collaboration with Loan Origination System vendors for assistance with calculations and required disclosures, and an efficient and effective process for identifying covered borrowers. Though the rule is designed to benefit service members, it involves a series of price controls which in essence may restrict the availability of some forms of conventional consumer credit for service members and their dependents.

Amendments to the final rule regarding Small Creditors and Rural or underserved areas under the TILA were published on October 2, 2015. This expanded the definition of small creditor to a limit of 2,000 first-lien mortgage loans during the preceding calendar year and excluded loans held in portfolio by the lender. In addition, the definition of rural areas was expanded from counties that are considered rural to include smaller census blocks within a county that are not in urban areas. An automated tool for assessing whether a property is located in a rural or underserved area was made available by the Bureau. The Bank meets the criteria to qualify as a small creditor based on the number of loans made during the prior calendar year and due to its asset size of less than $2.052 billion (the asset size threshold subject to an annual CPI adjustment as of December 31, 2015) Due to an ambiguity created between the final rule amendments and the Helping Expand Lending Practices in Rural Communities Act of 2015 enacted on December 4, 2015, further clarification is needed to clearly define what constitutes whether a lender is operating in a rural or underserved area. The Bank continues to seek Qualified Mortgage (QM) status for mortgage loans made as they provide certain presumptions of compliance under the Ability to Repay Regulation adopted under the Dodd-Frank Act. In satisfying QM requirements, any mortgage lender regardless of their size can make loans which are entitled to the QM presumption of compliance.

Revised Regulation C rules which implement the Home Mortgage Disclosure Act (HMDA) were published by the Bureau. The effective date for these revisions starts on January 1, 2018 for reportable loan applications. The Dodd Frank Act provisions added new data points for HMDA and authorized the Bureau to require additional information. The types of transactions reportable have expanded to include most consumer purpose transactions that are dwelling-secured loans or open-end lines of credit. Reportable date fields were significantly expanded to 52 fields which included applicant or borrower age, credit score, automated underwriting system information, property value, application channel, points and fees, borrower-paid origination charges, discount points, lender credits, loan term, prepayment penalty, interest rate, loan originator identifier, as well as other data fields. Ethnicity categories were expanded to include certain subcategories. A requirement was added to report how information about an applicant s or borrower s ethnicity, race, and sex was collected by the institution. Year-end submission of the data to be reported will be completed using a yet-to-be-developed web-based tool. Steps to implement the new requirements will involve a thorough review of the final rule and requirements. A thorough assessment will be conducted regarding the impact on the data collection processes and procedures within each affected business line along with data collection provided within the loan origination systems utilized to generate loan applications and loan closing documentation.

Section 5 of the Federal Trade Commission Act provides banking regulatory agencies with authority to take supervisory or enforcement actions on banks with regard to Unfair or Deceptive Acts or Practices (UDAP). UDAP standards developed years ago by the Federal Trade Commission address unacceptable practices that may not specifically be addressed elsewhere in banking or consumer finance law. Banking regulatory agencies have increasingly used this authority over the last few years to address acts or practices that are deemed harmful, deceptive, or misleading to consumers. The Dodd-Frank Act gave the Bureau similar authority to take action in connection with unfair and deceptive acts or practices, as well as abusive acts or practices by entities subject to Bureau s supervisory or enforcement authority.

The Bank is also subject to federal regulation as to such matters as required reserves, limitation as to the nature and amount of its loans and investments, regulatory approval of any merger or consolidation, issuance or retirement of their own securities, limitations upon the payment of dividends and other aspects of banking operations. In addition, the activities and operations of the Bank are subject to a number of additional detailed, complex and sometimes overlapping laws and regulations. These include state usury and consumer credit laws, state laws relating to fiduciaries, the federal Equal Credit Opportunity Act and Regulation B, the federal Home Mortgage Disclosure Act and Regulation C, the federal Electronic Funds Transfer Act and Regulation E, the federal Fair Credit Reporting Act and Regulation V, the federal Real Estate Settlement Procedures Act (RESPA) and Regulation X, the federal Truth in Lending Act and Regulation Z, the federal Truth in Savings Act and Regulation DD, the Bank Secrecy Act, the federal Community Reinvestment Act, anti-discrimination laws and legislation, and antitrust laws.

Future Legislation

Changes to the laws and regulations, both at the federal and state levels, can affect the operating environment of the Company and its subsidiary in substantial and unpredictable ways. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon the financial condition or results of operations of the Company or its subsidiary. Various provisions and regulations authorized or required by the Dodd-Frank Act have not yet been proposed or implemented by federal regulators. Uncertainty also exists with respect to the Dodd-Frank Act regulations authorized or required that have not yet been proposed or finalized.

Available Information

The Company maintains an Internet web site at the following internet address: www.fm-bank.com. The Company files reports with the Securities and Exchange Commission (SEC). Because the Company makes its filing with the SEC

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electronically, you may access such reports at the SEC s website (www.sec.gov). The Company makes available, free of charge through its internet address, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports as soon as reasonable practicable after such materials have been filed with or furnished to the SEC. Copies of these documents may also be obtained, either in electronic or paper form, by contacting Barbara J. Britenriker, Chief Financial Officer of the Company at (419) 446-2501.

ITEM 1a. RISK FACTORS

Significant Competition from an Array of Financial Service Providers

Our ability to achieve strong financial performance and a satisfactory return on investment to shareholders will depend in part on our ability to expand our available financial services. In addition to the challenge of attracting and retaining customers for traditional banking services, our competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that banks have not been able or allowed to offer to their customers in the past. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial services providers. If we fail to adequately address each of the competitive pressures in the banking industry, our financial condition and results of operations could be adversely affected.

Credit Risk

The risk of nonpayment of loans is inherent in commercial banking. Such nonpayment could have an adverse effect on the Company s earnings and our overall financial condition as well as the value of our common stock. Management attempts to reduce the Bank s credit exposure by carefully monitoring the concentration of its loans within specific industries and through the loan approval process. However, there can be no assurance that such monitoring and procedures will totally mitigate the risks. Credit losses can cause insolvency and failure of a financial institution and, in such event, its shareholders could lose their entire investment. For more information on the exposure of the Company and the Bank to credit risk, see the section under Part II, Item 7 of this Form 10-K captioned Loan Portfolio.

Our loan portfolio has a large concentration of real estate loans

Real estate loans, which constitute a large portion of our loan portfolio, include home equity, commercial, construction and residential loans, and such loans are concentrated in the Bank s primary markets in northwest Ohio and Northeast Indiana. The market value of real estate can fluctuate significantly in a short period of time as a result of market conditions in the geographic area in which the real estate is located. Adverse developments affecting real estate values in our market could increase the credit risk associated with our loan portfolio. Also, real estate lending typically involves higher loan principal amounts and the repayment of the loans generally is dependent, in large part, on sufficient income from the properties securing the loans to cover operating expenses and debt service. Economic events or governmental regulations outside of the control of the borrower could negatively impact the future cash flow and market values of the affected properties.

If the loans that are collateralized by real estate become troubled during a time when market conditions are declining or have declined, then we may not be able to realize the amount of security that we anticipated at the time of originating the loan, which could cause us to increase our provision for loan losses and adversely affect our operating results and financial condition.

Our real estate loans also include construction loans, including land acquisition and development. Construction, land acquisition and development lending involve additional risks because funds are advanced based upon estimates of costs and the estimated value of the completed project. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation on real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. As a result, commercial construction loans often involve the disbursement of substantial funds with repayment dependent, in part, on the success of the ultimate project and the ability of the borrower to sell or lease the property, rather than the ability of the borrower or guarantor to repay principal and interest. If our appraisal of the value of the completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project.

Commercial loans make up a significant portion of our loan portfolio

Our commercial loans are primarily made based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Repayment of our commercial loans is often dependent on the cash flows of the borrower, which may be unpredictable. Most often, this collateral is accounts receivable, inventory, machinery or real estate. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers. The other types of collateral securing these loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Payments on agricultural real estate loans are dependent on the profitable operation or management of the farm property securing the loan. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields (such as hail, drought and floods), loss of livestock due to disease or other factors, declines in market prices for agricultural products (both domestically and internationally) and the impact of government regulations (including changes in price supports, subsidies and environmental regulations). In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower s ability to repay the loan may be impaired. The primary crops in our market areas are corn and soybeans. Accordingly, adverse circumstances affecting these crops could have an adverse effect on our agricultural real estate loan portfolio.

We also originate agricultural operating loans. As with agricultural real estate loans, the repayment of operating loans is dependent on the successful operation or management of the farm property. Likewise, agricultural operating loans involve a greater degree of risk than lending on residential properties, particularly in the case of loans that are unsecured or secured by rapidly depreciating assets such as farm equipment or assets such as livestock or crops. The primary livestock in our market areas is hogs. In these cases, any repossessed collateral for a defaulted loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Susceptibility to Changes in Regulation

Any changes to state and federal banking laws and regulations may negatively impact our ability to expand services and to increase the value of our business. We are subject to extensive state and federal regulation, supervision, and legislation that govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. In addition, the Company s earnings are affected by the monetary policies of the Board of Governors of the Federal Reserve. These policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments. The Federal Reserve influences the size and distribution of bank reserves through its open market operations and changes in cash reserve requirements against member bank deposits. The Gramm-Leach-Bliley Act regarding financial modernization that became effective in November, 1999 removed many of the barriers to the integration of the banking, securities and insurance industries and is likely to increase the competitive pressures upon the Bank. We cannot predict what effect such Act and any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, but such changes could be materially adverse to our financial performance. For more information on this subject, see the section under Part I, Item 1 of this Form 10-K captioned Supervision and Regulation.

Interest Rate Risk

Changes in interest rates affect our operating performance and financial condition in diverse ways. Our profitability depends in substantial part on our net interest spread, which is the difference between the rates we receive on loans and investments and the rates we pay for deposits and other sources of funds. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally. Historically, net interest spreads for other financial institutions have widened and narrowed in response to these and other factors, which are often collectively referred to as interest rate risk. Over the last few years, the Bank, along with most other financial institutions, has experienced a margin squeeze as drastic interest rate decreases have made it difficult to maintain a more favorable net interest spread. During 2014, the Bank s margin and spread began to improve slightly even though the rate environment remained low and flat. Overall, 2015 ended with a slight tightening of the margin as compared to 2014 though remained above 2013 s levels. We have experienced the first increase in rates by the Federal Reserve in December. Maturities of higher rate deposits aided the decrease in cost of funds. This widening of the margin directly correlated to the improvement of the Bank s loan to asset ratio.

The Bank manages interest rate risk within an overall asset/liability framework. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net interest income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. In the event that our asset/liabilities management strategies are unsuccessful, our profitability may be adversely affected. For more information regarding the Company s exposure to interest rate risk, see Part II, Item 7A of this Form 10-K.

Attraction and Retention of Key Personnel

Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. In our experience, it can take a significant period of time to identify and hire personnel with the combination of skills and attributes required in carrying out our strategy. If we lose the services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition, results of operations and cash flows could be adversely affected.

A key component of employee retention is providing a fair compensation base combined with the opportunity for additional compensation for above average performance. In this regard, the Company and the Bank use two incentive programs. The Company uses a stock award program to recognize and incent officers of the Bank. Under the long-term incentive compensation plan, restricted stock awards may be granted to officers. The amount of shares to be granted each year is determined by the Board Compensation Committee and may vary each year in its amount of shares and the number of recipients. The Compensation Committee determines the number of shares to be awarded overall and to the Chief Executive Officer (CEO) specifically. The CEO then makes recommendations to the committee as to the recipients of the remaining shares. The full Board of Directors approves the action of the Committee. Since the plan s inception in 2005, all granted stock awards have utilized a three year cliff vesting feature. This is viewed as a retention aid as the awards may be forfeited should an officer leave employment during the vesting period.

A second incentive program of the Bank is based on cash compensation of which almost all employees participate (excluding commission based employees and other employees paid for specific higher paid positions, such as peak time.) A discussion of executive officer pay is incorporated within the proxy and as such, this discussion will pertain to all other employees. Non-officer employees are paid a cash incentive based on the projected overall performance of the Bank in terms of Return of Average Assets (ROA). The Compensation Committee determines the target performance levels on which the percentage of pay will be based. The Committee takes into account the five and ten year trend of ROA along with budget forecasted for the next year and the Bank s past year performance. The Committee also considers the predicted banking environment under which the Bank will be operating with the formation of the Captive, 2015 s ROA goal was exclusive of the effect of the additional insurance expense at the Bank level. Non-officers receive incentive pay in December of the same year based on the year-to-date base compensation through the last pay received in November.

Officers, other than executive, receive incentive pay based on additional criterion. The officers are rewarded based on overall ROA of the Bank along with individual pre-established goals. Officers, therefore, have incentive pay at risk for individual performance. The individualized goals are recommended by each officer s supervisor and are approved by an incentive committee of the Bank. The goals are designed to improve the performance of the Bank while also limiting the risk of a short-term performance focus. For example, a lending officer may be given two goals of which one is to grow loans within specific targets and another is tied to a specific level of past dues and charge-offs. The second goal limits the ability to be rewarded for growth at all costs along with the specific target levels within the growth goal itself. Officers in a support department may be given goals which create efficiencies, ensure compliance with procedures, or generate new fee or product opportunities. On average, three to four goals were given to each officer in 2015. Officers are paid cash incentives based on the year-end ROA of the Bank and receive it within the first quarter of the following year. Should the ROA be forecasted to be positive but below the base target set by the Board, the officers are paid an incentive under the same basis and timing as non-officers disclosed above.

The percentages of base pay on which the incentive is calculated graduates higher as does the responsibility level of the employee and their ability to impact the financial performance of the Bank. These percentages are recommended by management to the Compensation Committee and Board for approval. The cash incentive plan along with its targets and goals are subject to modification at the Compensation Committee and Board s discretion throughout each year.

Dividend Payout Restrictions

We currently pay a quarterly dividend on our common shares. However, there is no assurance that we will be able to pay dividends in the future. Dividends are subject to determination and declaration by our Board of Directors, which takes into account many factors. The declaration of dividends by us on our common stock is subject to the discretion of our Board and to applicable state and federal regulatory limitations. The Company may receive dividends from the Bank which is subject to restrictions and limitations in the amount and timing of the dividends it may pay to the Company. The Bank has been declaring additional dividends each quarter to provide this liquidity to the Company. In future years, we anticipate the Captive will also upstream dividends to the Company once reserve levels are adequately provided for.

Anti-Takeover Provisions

Provisions of our Articles of Incorporation and Ohio law could have the effect of discouraging takeover attempts which certain stockholders might deem to be in their interest. These anti-takeover provisions may make us a less attractive target for a takeover bid or merger, potentially depriving shareholders of an opportunity to sell their shares of common stock at a premium over prevailing market prices as a result of a takeover bid or merger.

Technological Change

Our industry is susceptible to significant technological changes in the future as there continue to be a high level of new technology driven products and services introduced. Technological advancement aids the Company in providing customer service and increases efficiency. Our national competitors have more resources to invest in technological changes and associated required resources. As a result they may be able to offer products and services that are more technologically advanced and that may put us at a competitive disadvantage. Our future depends on our ability to analyze technological changes to determine the best course of action for our business, customers and shareholders.

Operational Risks

We are subject to certain operational risks, including, but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that is not prevented or detected by our internal controls, uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

In addition, our operations are dependent on our ability to process financial transactions in a secure manner. Failure in or breach of our operational or security systems or infrastructure, or those of our third party vendors and other service providers could disrupt our businesses or the businesses of our customers, result in the disclosure or misuse of confidential or proprietary information, damage our reputation, increase our costs and cause losses. We must ensure that information is properly protected from a variety of threats such as cyber-attacks, error, fraud, sabotage, terrorism, industrial espionage, privacy violation, service interruption, and natural disaster. The Company, with the assistance of third-party service providers, intends to continue to implement security technology and establish procedures to maintain network security, but there is no assurance that these measures will be successful. As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify or enhance our protective measures or to investigate and remediate any information security vulnerabilities. Any activity that jeopardizes our network and the security of the information stored on our network may result in significant cost to the Company and have a significant negative effect on our reputation.

Limited Trading Market

The Company has its shares of stock listed on the OTC Markets Group trading platform. Our stock is traded on the OTC-QX platform. The Company s trading symbol is FMAO .

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ITEM 1b. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office is located in Archbold, Ohio.

The Bank operates from the facilities at 307 North Defiance Street. In addition, the Bank owns the property from 200 to 208 Ditto Street, Archbold, Ohio, which it uses for Bank parking and a community mini-park area. The Bank owns real estate at two locations, 207 Ditto Street and 209 Ditto Street in Archbold, Ohio upon which the bank built a commercial building to be used for storage, and a parking lot for company vehicles and employee parking. The Bank also owns real estate across from the main facilities to provide for parking.

The Bank occupies an Operations Center at 620 S. Clyde s Way in Archbold, Ohio to accommodate our growth over the years. The bank owns a parking lot in downtown Montpelier which is provided for community use.

The Bank owns all of its office locations, with the exception of Angola, Indiana. The Angola office location is leased.

Current locations of retail banking services are:

Office	Location
Archbold, Ohio	1313 S Defiance Street
Wauseon, Ohio	1130 N Shoop Avenue
	119 N Fulton Street
Stryker, Ohio	300 S Defiance Street
West Unity, Ohio	200 W Jackson Street
Bryan, Ohio	929 E High Street
	1000 S Main Street
Delta, Ohio	101 Main Street
Montpelier, Ohio	1150 E Main Street
Napoleon, Ohio	2255 Scott Street
Swanton, Ohio	7 Turtle Creek Circle
Defiance, Ohio	1175 Hotel Drive

Perrysburg, Ohio	7001 Lighthouse Way
Butler, Indiana	200 S Broadway
Auburn, Indiana	403 Erie Pass
Angola, Indiana	2310 N Wayne Street
Hicksville, Ohio	100 N Main Street
Waterville, Ohio	8720 Waterville-Swanton Road
Custar, Ohio	22973 Defiance Pike
Sylvania, Ohio	5830 Monroe Street

All but one of the above locations has drive-up service facilities and an ATM. The Captive operates from leased office space at 101 Convention Center Dr., Suite 850, Las Vegas, NV 89109.

ITEM 3. LEGAL PROCEEDINGS

There are no material pending legal proceedings, other than ordinary routine proceedings incidental to the business of the Company or its subsidiaries, to which we are a party or of which any of our properties are the subject.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II.

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company has its shares of stock listed on the OTC Markets Group trading platform. Our stock is traded on the OTC-QX platform. OTC Markets Group developed QX platform specifically for community banks. The separate market is intended to help community banks improve liquidity by increasing the trading volume of their shares.

There are market makers that set a price for our stock; however, private sales continue to occur. The high and low sale prices were from sales of which we have been made aware by researching daily on Bloomberg.com. The high and low sale prices known to our management are as follows:

Stock Prices 2015

Quarter	Low	High
1st	$ 25.35	$ 27.25
2nd	25.56	27.80
3rd	25.60	28.25
4th	25.50	27.00

Stock Prices 2014

Quarter	Low	High
1st	$ 22.10	$ 25.39
2nd	23.20	26.00
3rd	24.50	26.25
4th	25.00	27.00

The Company utilizes Computershare as its transfer agent.

As of January 29, 2016 there were 1,876 record holders of our common stock of which 27.84% of the outstanding shares are being held in brokerage accounts or street name and only considered as one record holder.

On the following page is a line-graph presentation comparing the cumulative total shareholder returns for the Corporation, an index for NASDAQ Stock Market (U.S. Companies) comprised of all domestic common shares traded on the NASDAQ National Market System and the NASDAQ Bank Index for the five-year period ended December 31, 2015. The chart compares the value of $100 invested in the Corporation and each of the indices and assumes investment on December 31, 2010 with all dividends reinvested.

The Board of Directors recognizes that the market price of stock is influenced by many factors, only one of which is performance. The stock price performance shown on the graph is not necessarily indicative of future performance.

	2010	2011	2012	2013	2014	2015
FMAO	100.00	101.78	119.67	135.61	166.28	172.00
NASDAQ - COMPOSITE	100.00	99.23	116.61	162.01	185.18	197.82
NASDAQ-BANK INDEX	100.00	89.54	105.78	147.67	154.44	167.14

Dividends are declared and paid quarterly. Per share dividends declared for the years ended 2015 and 2014 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2015	$0.21	$0.22	$0.22	$0.22	$0.87
2014	$0.21	$0.21	$0.21	$0.21	$0.84

The ability of the Company to pay dividends is impacted by the dividend that the Company receives from the Bank. The Bank may pay as dividends to the Company its retained earnings during the current year and its prior two years. Currently, such limitation on the payment of dividends from the Bank to the Company does not materially restrict the Company s ability to pay dividends to its shareholders.

Dividends declared during 2015 were $0.87 per share totaling $3.99 million, 3.58% higher than 2014 declared dividends of $0.84 per share. During 2015, the Company repurchased 30,685 shares and awarded 16,000 shares to 67 employees and 100 shares were forfeited under its long term incentive plan. At yearend, 2015, the Company held 587,466 shares in Treasury stock and 38,995 in unearned stock awards.

Dividends declared during 2014 were $0.84 per share totaling $3.86 million, 3.71% higher than 2013 declared dividends of $0.81 per share. During 2014, the Company purchased 23,750 shares and awarded 13,250 restricted shares to 61 employees under its long term incentive plan. 780 shares were forfeited during 2014. At yearend 2014, the Company held 572,662 shares in Treasury stock and 33,390 in unearned stock awards.

The Company continues to have a strong capital base and to maintain regulatory capital ratios that are significantly above the defined regulatory capital ratios.

	2015	2014
Primary Ratio	14.18%	12.29%
Common Equity Tier 1	14.18%	N/A
Tier I Leverage Ratio	11.91%	11.70%
Risk Based Capital Tier I	14.18%	15.79%
Total Risk Based Capital	14.95%	16.68%
Stockholders Equity/Total Assets	12.14%	12.16%

On January 15, 2016, the Company announced the authorization by its Board of Directors for the Company s repurchase, either on the open market, or in privately negotiated transactions, of up to 200,000 shares of its outstanding common stock commencing January 15, 2016 and ending December 31, 2016.

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ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Remaining Share Repurchase Authorization
10/1/2015 to 10/31/2015				181,134
11/1/2015 to 11/30/2015	6,000	27	6,000	175,134
12/1/2015 to 12/31/2015	5,819	27	5,819	169,315
Total	11,819	27	11,819	169,315

(1) The Company purchased shares in the market pursuant to stock repurchase program publicly announced on January 16, 2015. On that date, the Board of Directors authorized the repurchase of 200,000 common shares between January 16, 2015 and December 31, 2015. In total for 2015, 30,685 shares were repurchased.

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ITEM 6. SELECTED FINANCIAL DATA

Reclassification

Certain amounts in the 2014 and 2013 consolidated financial statements have been reclassified to conform with the 2015 presentation.

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

	(In Thousands, except share data)				
	2015	2014	2013	2012	2011
Summary of Income:					
Interest income	$ 33,650	$ 33,453	$ 31,428	$ 33,273	$ 36,660
Interest expense	3,587	3,716	4,604	6,250	8,156
Net Interest Income	30,063	29,737	26,824	27,023	28,504
Provision for loan losses	625	1,191	858	738	1,715
Net interest income after provision for loan loss	29,438	28,546	25,966	26,285	26,789
Other income (expense), net	(15,279)	(15,029)	(13,363)	(12,593)	(15,382)
Net income before income taxes	14,159	13,517	12,603	13,692	11,407
Income taxes	3,819	3,871	3,596	3,904	2,893
Net income	$ 10,340	$ 9,646	$ 9,007	$ 9,788	$ 8,514
Per Share of Common Stock:					
Earnings per common share outstanding *					
Net income	$ 2.24	$ 2.08	$ 1.93	$ 2.08	$ 1.82
Dividends	$ 0.87	$ 0.84	$ 0.81	$ 0.78	$ 0.76
Weighted average number of shares outstanding, including participating securities	4,617,058	4,628,178	4,676,547	4,695,876	4,689,021

* Based on weighted average number of shares outstanding

	(In Thousands)				
	2015	2014	2013	2012	2011
Total assets	$ 989,068	$ 941,213	$ 965,938	$ 946,660	$ 922,993

Loans, net	679,821	616,021	570,919	496,178	501,124
Total Deposits	771,339	762,560	776,464	763,252	739,382
Stockholders equity	120,097	114,493	108,340	110,239	105,091
Key Ratios					
Return on average equity	8.80%	8.72%	8.28%	9.08%	8.56%
Return on average assets	1.08%	1.02%	0.96%	1.05%	0.93%
Loans to deposits	88.14%	80.78%	73.53%	65.01%	67.78%
Capital to assets	12.14%	12.16%	11.22%	11.65%	11.39%
Dividend payout	38.54%	40.04%	41.69%	37.15%	41.85%

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ITEM 7. MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies and Estimates

The Company s consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and the Company follows general practices within the financial services industry in which it operates. At times the application of these principles requires management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These assumptions, estimates and judgments are based on information available as of the date of the financial statements. As this information changes, the financial statements could reflect different assumptions, estimates and judgments. Certain policies inherently have a greater reliance on assumptions, estimates and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Examples of critical assumptions, estimates and judgments are when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not required to be recorded at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability must be recorded contingent upon a future event.

All significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the notes to the consolidated financial statements and in the management discussion and analysis of financial condition and results of operations, provide information on how significant assets and liabilities are valued and how those values are determined for the financial statements. Based on the valuation techniques used and the sensitivity of financial statement amounts to assumptions, estimates and judgments underlying those amounts, management has identified the determination of the Allowance for Loan and Lease Losses (ALLL) and the valuation of its Mortgage Servicing Rights (MSR) and Other Real Estate Owned (ORE) as the accounting areas that requires the most subjective or complex judgments, and as such could be the most subject to revision as new information becomes available.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

The ALLL represents management s estimate of credit losses inherent in the Bank s loan portfolio at the report date. The estimate is a composite of a variety of factors including experience, collateral value, and the general economy. ALLL includes a specific portion, a formula driven portion, and a general nonspecific portion. The collection and ultimate recovery of the book value of the collateral, in most cases, is beyond our control.

The Company is also required to estimate the value of its MSR. The Company recognizes as separate assets rights to service fixed rate single-family mortgage loans that it has sold without recourse but services for others for a fee. Mortgage servicing assets are initially recorded at cost, based upon pricing multiples as determined by the purchaser, when the loans are sold. Mortgage servicing assets are carried at the lower of the initial carrying value, adjusted for amortization, or estimated fair value. Amortization is determined in proportion to and over the period of estimated net servicing income using the level yield method. For purposes of determining impairment, the mortgage servicing assets are stratified into like groups based on loan type, term, new versus seasoned and interest rate. The valuation is completed by an independent third party.

The expected and actual rates of mortgage loan prepayments are the most significant factors driving the potential for the impairment of the value of mortgage servicing assets. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced.

The Company s mortgage servicing rights relating to loans serviced for others represent an asset of the Company. This asset is initially capitalized and included in other assets on the Company s consolidated balance sheet. The mortgage servicing rights are then amortized against noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage servicing rights. There are a number of factors, however, that can affect the ultimate value of the mortgage servicing rights to the Company, including the estimated prepayment speed of the loan and the discount rate used to present value the servicing right. For example, if the mortgage loan is prepaid, the Company will receive fewer servicing fees, meaning that the present value of the mortgage servicing rights is less than the carrying value of those rights on the Company s balance sheet. Therefore, in an attempt to reflect an accurate expected value to the Company of the mortgage servicing rights, the Company receives a valuation of its mortgage servicing rights from an independent third party. The independent third party s valuation of the mortgage servicing rights is based on relevant characteristics of the Company s loan servicing portfolio, such as loan terms, interest rates and recent national prepayment experience, as well as current national market interest rate levels, market forecasts and other economic conditions. Management, with the advice from its third party valuation firm, review the assumptions related to prepayment speeds, discount rates, and capitalized mortgage servicing income on a quarterly basis. Changes are reflected in the following quarter s analysis related to the mortgage servicing asset. In addition, based upon the independent third party s valuation of the Company s mortgage servicing rights, management then establishes a valuation allowance by each strata, if necessary, to quantify the likely impairment of the value of the mortgage servicing rights to the Company. The estimates of prepayment speeds and discount rates are inherently uncertain, and different estimates could have a material impact on the Company s net income and results of operations. The valuation allowance is evaluated and adjusted quarterly by management to reflect changes in the fair value of the underlying mortgage servicing rights based on market conditions. The accuracy of these estimates and assumptions by management and its third party can be directly tied back to the fact that management has not been required to record a valuation allowance through its income statement based upon the valuation of each stratum of serving rights.

For more information regarding the estimates and calculations used to establish the ALLL and the value of Mortgage Servicing Rights, please see Note 1 to the consolidated financial statements provided herewith.

2015 in Review

The Company experienced record earnings for 2015, with net income over a milestone of $10 million. Profitability improved due to the increased loan balances, new product offerings and continued strong asset quality. Net loans grew by $63.8 million with asset size increasing by a smaller $47.9 million. Loans were funded by higher deposit levels, sales and maturities of investment securities and Federal Home Loan Bank borrowings.

The largest contributor to 2014 s improved profitability was net interest income. For 2015, improvement in net interest income was just one factor of many. Lower loan provision and increased noninterest income were also major factors. 2015 s bottom line was $694 thousand or 7.2% over 2014 s. 2013 was bolstered by gain on sale of loans and securities which were a smaller part of 2014 s and 2015 s overall profitability.

The performance of our newest Sylvania office, which opened during the second half of 2014, exceeded our expectations and contributed profitably with its first year of operation. The Company continues to focus on expansion and our next office in Indiana is under construction with completion scheduled for end of first quarter 2016. Our location is situated within Huntertown but with a Fort Wayne address. We expect the office to be a slight drag on earnings during 2016 as a result of start-up costs, with great potential for later years.

A deposit strategy to revamp the Bank s deposit mix was begun in the later part of 2014. The strategy included offering a new product line to checking and discontinuing some of the older products. An emphasis was on realigning our products to provide value to our depositors while building revenue or decreasing costs to the Bank. Secure checking and FM eXpress were two of the revamped or new offerings. This contributed to the almost $600 thousand improvement in customer service fees and other service charges and fees in noninterest income. The focus remains on growing core deposits and offering additional services. The success of this strategy is evidenced by the growth in core deposits along with increased debit card activity, on-line statement usage and lower cost of funds.

Short-term rates increased slightly in December of 2015. The slope of the yield curve for most of 2015, enabled the Company to continue to sell investment securities with shorter term maturities and recognize a gain without compromising the yield. In prior years, the proceeds were mainly reinvested in the security portfolio while 2014 s and

2015 s proceeds were used to fund loan growth. For 2015, the recognized gain was $451 thousand, which was lower than 2014 s $494 thousand and 2013 s $775 thousand. The Bank was able to continue to capitalize on the steepness of the yield curve. The market value of the security portfolio has decreased as evidenced by the comprehensive income reported on the income statement. The Company will continue to look for opportunities to utilize the investment portfolio to fund loan growth.

Throughout 2014 and 2015, the Company has done an exceptional job of recognizing opportunities to provide services and products that the low rate environment made possible. A commitment to improve asset quality over the years also benefited the Company during the period of 2012 through 2015. These opportunities are further discussed in the Material Changes in Results of Operations. The Company remains strong, stable and well capitalized and has the capacity to continue to cover the increased costs of doing business in a tough economy while seeking good loans to improve profitability. The Company continues to look for new opportunities to generate and protect revenue while providing additional channels through which to serve our customers and maintain our high level of customer satisfaction.

Material Changes in Results of Operations

Net Interest Income

The discussion now centers on the individual line items of the consolidated statement of income and their effect on net income. This section will focus on the most traditional source of revenue contributing to the profitability of the Company, net interest income.

Net interest income is the difference between interest income on interest earning assets, such as loans and securities, and interest expense on liabilities used to fund those assets, such as interest bearing deposits and other borrowings. Net interest income is affected by changes in both interest rates and the amount and composition of earning assets and liabilities. The change in net interest income is most often measured as a result of two statistics interest spread and net interest margin. The difference between the yields on earning assets and the rates paid for interest bearing liabilities supporting those funds represents the interest spread. Because noninterest bearing sources of funds such as demand deposits and stockholders equity also support earning assets, the net interest margin exceeds the interest spread.

Net interest income showed an increase of $326 thousand in 2015 as compared to 2014 and an increase of $3.2 million when compared to 2013. Interest and fee income from loans were responsible for the improvement. Given that securities were sold to fund the loan growth, interest income from that balance sheet component has declined each of the last two years. Total interest income was $197 thousand higher for 2015 than 2014 and 2014 was $2.0 million higher than 2013.

A trend of declining interest expense also positively impacted net interest income in terms of dollars. Two strategies employed during 2014 and 2015 were responsible. One was to allow expensive time deposit funds to run off and secondly to offer new non-interest bearing deposit products. The new secure checking product also caused some movement of existing funds out of interest bearing products to this new non-interest bearing account. Interest on deposits decreased $189 thousand in 2015 as compared to 2014 which followed a $735 thousand decrease for 2014 as compared to 2013. For 2015, total interest expense (which includes federal funds purchased, securities sold under agreement to repurchase, and borrowed funds) totaled $3.6 million which was down $129 thousand from 2014 s $3.7 million. Total interest expense for 2014 was down $888 thousand from 2013 s $4.6 million.

The success of 2015 and 2014 in improving net interest income confirmed that management s long term strategy of repositioning the balance sheet was the correct approach. Funding loan growth with internal funds, whether from the liquidation of investment securities or core deposits, was a beneficial move.

Overall, we began to see an increase in the net interest margin and spread starting the fourth quarter of 2013 and the expansion continued throughout 2014 and lessened in 2015. The net interest margin decreased by 14 basis points during 2015 as compared to 2014 with the yield on interest earning assets the main factor. Loan volume was behind the improvement in interest income as the yield on the overall loan portfolio decreased 15 basis points during 2015. 2014 had already decreased by 10 basis points as compared to 2013. Decrease in loan yield was caused by a change in portfolio mix and by the lower repricing of loans. The only category of asset yield to increase was the short term federal funds sold and interest bearing deposits which was aided by the Federal Reserve increase in rates of 25 basis points in December 2015. Asset yield decreased 17 basis points in 2015 as compared to 2014 and was preceded by an increase of 39 basis points.

Cost of funds were nearing a half of one percent and ended at 0.54% for the average during 2015. This was down 1 basis point from 2014 and 2014 had been down 10 basis points from 2013. As mentioned previously, the movement of some of the interest bearing checking accounts greatly helped to decrease interest expense in terms of dollars; however, it also removed some of the lowest cost of funds out of the cost percentages. Therefore, the correlation to improvement in margin and spread is not easily visible.

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The Company will always prefer to see improvement in real dollars over percentages. The strategy for increasing core deposits remains for 2016 for all the dollar reasons behind it to decrease interest expense and to continue to establish the opportunity for fee dollars from services provided.

Total assets of the Company increased overall as did the earning assets in both average and actual during 2015. This matched the movement in interest dollars, just not in yield. 2014 experienced just the opposite: a decrease in asset size and an improvement in yield. The earnings were over $2 million higher and the yield 39 basis points higher for 2014 as compared to 2013. The largest increase in balances and interest income was in the loan portfolio. One similarity between 2015 and 2014 was that loan volume was the driver to income improvement not rate. For 2015, the growth in loan volume yielded $2.2 million in interest income versus a decrease of $1.0 million due to rate. For 2014, the growth in the balances earned an amount higher at $3.7 million, than the $575 thousand given up due to lower yields on the portfolio as compared to 2013. The interest earning line item made up of investment securities had lower earnings in 2015 and 2014 than in 2013. Lower average balances, with the exception of tax-exempt investment securities, were the cause as the balances decreased to fund loan growth. The improvement in interest earnings from loan growth far outweighed the decreased earnings in the remaining earning assets for both 2015 and 2014.

Before switching to the interest expense discussion, a quick review of 2013 s interest income will be summarized. 2014 was a reversal to the trends of previous years with its significant loan growth and higher interest earnings. During 2013 the Company experienced compression on the yield of earning assets.

During 2013, earning assets increased during the year in actual and average balance. The interest collected on the earning assets decreased; with the yield decreasing as compared to 2012 in most portfolios. The largest decrease in yield occurred in the loans. 2013 s loan growth occurred mainly in commercial real estate which pushed lower yields along with variable repricing continuing to price down. Investment securities had lower yields due to the large amount of calls on government sponsored agencies and the lower yield on new purchases. The portfolio decreased $3.1 million in average during 2013 as compared to 2012. It was not unusual for a called security to be replaced with a new security with a yield lower by 50 basis points or more. Overall, this portfolio s yield was 7 basis points lower in 2013 than in 2012.

Loans, which have the highest earning asset yield, increased on average by $14.4 million from 2012 to 2013. The overall change in yield in the loan portfolio for 2013 and 2012 was due mainly to the change in rate. Given that the loan portfolio represented only 57.5% of the earning assets in 2013 as compared to 56% in 2012, it stands to reason that the overall asset yield decreased in every year since 2010 until 2014. The overall yield on earning assets decreased 24 basis points as compared to 2012. The higher ratio of loans to earning assets of 1.5% corresponded to a smaller decrease in the overall asset yield of 26 basis points between 2013 and 2012. This emphasizes how important and how significant an impact an increase in loan balances had on the Bank s profitability

Net interest spread is the difference between what the Company earns on its assets and what it pays on its liabilities. It is generally from this spread that the Company must fund its operations and generate profit. When the asset yield decreases so must funding costs in order to maintain profitability. It becomes increasingly challenging as the asset yield gets closer to the prime lending rate, or the break-even point, of operations.

With respect to interest expense, a decrease in the cost is apparent for 2015 as compared to both 2014 and 2013. Fortunately, for 2014, both the interest factors of the net interest margin ratio improved to raise the margin by 48 basis points over 2013. Unfortunately, in 2015 and 2013, as compared to each preceding year, the asset yield decreased more than funding costs. As a result, both the net interest margin and spread decreased for both those periods as of 2015 and 2013.

The impact of the change in the portfolio mix was a factor in the liabilities as it was in the assets. Time deposits and other borrowed money term liabilities decreased in interest expense in comparing 2015 to 2014 and 2014 to 2013. Saving deposits increased in cost for 2015 as compared to 2014. Approximately two third s was due to balances increasing and the other one third due to rate. Fed Funds purchased and securities sold under agreement to repurchase increased for both 2015 and 2014. While 2014 was due to increased balance, 2015 was due to higher rates. Time deposits and other borrowed money both decreased in cost and balances during all three years presented. The Bank paid off $4.5 and $7.1 million of FHLB borrowings during 2014 and 2013 respectively. The Bank again borrowed $10 million in December 2015 to fund loan, growth. The average balance of other borrowed money was lower by $50 thousand for 2015 which calculated to $108 thousand. The average balance was $158 thousand for 2014 and a much higher $6.7 million for 2013.

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The following tables present net interest income, interest spread and net interest margin for the three years 2013 through 2015, comparing average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and expense. The tables show the corresponding average rates of interest earned and paid. The tax-exempt asset yields have been tax adjusted to reflect a marginal corporate tax rate of 34%. Average outstanding loan balances include non-performing loans and mortgage loans held for sale. Average outstanding security balances are computed based on carrying values including unrealized gains and losses on available-for-sale securities.

The percentage of interest earning assets to total assets increased to 92.8% in 2015 from 2014, preceded by a decrease to 89.1% in 2014 from 93.9% 2013. Noninterest earning assets increased during 2014 by $46.1 million as the earning credit rates paid by our correspondent banks were higher than the interest rates. The Bank switched those accounts to noninterest bearing to save costs which resulted in a lower percentage of interest earning assets.

Noninterest bearing liabilities increased on average $9.7 million in 2015 over 2014, providing the lowest cost of funds possible. Movement in the Bank s deposits, specifically checking products, to the newer noninterest bearing Pure and Secure checking product lines was the main driver.

The deposit strategy was implemented during 2014 to alter the deposit mix and introduce new products resulted in lower interest bearing liabilities. In average balances, 2014 had $41.3 million less than 2013 in interest bearing liabilities. Secure and Pure checking were the main launches. Secure checking offers ID Protect along with credit score monitoring (reporting the score quarterly and providing notification of any access occurring) for a monthly charge. Pure provides depositors options to reduce or eliminate fees through modification of usage or having a total deposit relationship over a specified amount. The majority of the new offered accounts were noninterest bearing which caused the reduction in interest bearing liabilities. Time deposits also continued to run off during 2014 thereby reducing in average balance, by approximately $36.1 million as compared to 2013. The average cost of deposits also decreased 10 basis points, aided by the decrease in time deposits and payoff of all other borrowed money during 2014. The average cost of funds for 2015 was 0.54%, the average cost in 2014 for interest bearing liabilities was 0.55% compared to 0.65% in 2013.

The yield on Tax-Exempt investment securities shown in the following charts were computed on a tax equivalent basis. The yield on Loans has been tax adjusted for the portion of tax-exempt IDB loans included in the total. Total Interest Earning Assets is therefore also reflecting a tax equivalent yield in both line items, also with the Net Interest Spread and Margin. The adjustments were based on a 34% tax rate.

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	2015 (In Thousands) Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans	$ 627,194	$ 29,293	4.68%
Taxable investment securities	177,833	2,808	1.58%
Tax-exempt investment securities	66,156	1,513	3.47%
Federal funds sold & interest bearing deposits	14,359	36	0.25%
Total Interest Earning Assets	885,542	$ 33,650	3.90%
Non-Interest Earning Assets:			
Cash and cash equivalents	21,333		
Other assets	47,284		
Total Assets	$ 954,159		
LIABILITIES AND SHAREHOLDERS EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 412,269	$ 1,557	0.38%
Other time deposits	189,822	1,712	0.90%
Other borrowed money	108	1	0.93%
Federal funds purchased and securties sold under agreement to repurchase	57,918	317	0.55%
Total Interest Bearing Liabilities	660,117	$ 3,587	0.54%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	162,028		
Other	14,461		
Total Liabilities	836,606		
Shareholders Equity	117,553		
Total Liabilities and Shareholders Equity	$ 954,159		
Interest/Dividend income/yield		$ 33,650	3.90%
Interest Expense / yield		3,587	0.54%
Net Interest Spread		$ 30,063	3.35%
Net Interest Margin			3.49%

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	2014 (In Thousands) Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans	$ 581,483	$ 28,070	4.83%
Taxable investment securities	189,003	3,570	1.89%
Tax-exempt investment securities	65,520	1,794	4.15%
Federal funds sold & interest bearing deposits	8,992	19	0.21%
Total Interest Earning Assets	844,998	$ 33,453	4.07%
Non-Interest Earning Assets:			
Cash and cash equivalents	23,634		
Other assets	79,296		
Total Assets	$ 947,928		
LIABILITIES AND SHAREHOLDERS EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 394,690	$ 1,449	0.37%
Other time deposits	214,680	2,009	0.94%
Other borrowed money	158	4	2.53%
Federal funds purchased and securties sold under agreement to repurchase	60,989	254	0.42%
Total Interest Bearing Liabilities	670,517	$ 3,716	0.55%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	152,155		
Other	14,622		
Total Liabilities	837,294		
Shareholders Equity	110,634		
Total Liabilities and Shareholders Equity	$ 947,928		
Interest/Dividend income/yield		$ 33,453	4.07%
Interest Expense / yield		3,716	0.55%
Net Interest Spread		$ 29,737	3.52%
Net Interest Margin			3.63%

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	2013 (In Thousands) Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans	$ 507,126	$ 24,978	4.93%
Taxable investment securities	287,736	4,597	1.60%
Tax-exempt investment securities	64,355	1,819	4.28%
Federal funds sold & interest bearing deposits	22,243	34	0.15%
Total Interest Earning Assets	881,460	$ 31,428	3.68%
Non-Interest Earning Assets:			
Cash and cash equivalents	17,691		
Other assets	39,107		
Total Assets	$ 938,258		
LIABILITIES AND SHAREHOLDERS EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 400,071	$ 1,475	0.37%
Other time deposits	250,737	2,718	1.08%
Other borrowed money	6,690	163	2.44%
Federal funds purchased and securties sold under agreement to repurchase	54,312	248	0.46%
Total Interest Bearing Liabilities	711,810	$ 4,604	0.65%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	109,804		
Other	7,895		
Total Liabilities	829,509		
Shareholders Equity	108,749		
Total Liabilities and Shareholders Equity	$ 938,258		
Interest/Dividend income/yield		$ 31,428	3.68%
Interest Expense / yield		4,604	0.65%
Net Interest Spread		$ 26,824	3.03%
Net Interest Margin			3.15%

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The following tables show changes in interest income, interest expense and net interest resulting from changes in volume and rate variances for major categories of earnings assets and interest bearing liabilities.

		2015 vs 2014 (In Thousands) Due to change in	
	Net Change	Volume	Rate
Interest Earning Assets:			
Loans	$ 1,223	$ 2,210	$ (987)
Taxable investment securities	(762)	(211)	(551)
Tax-exempt investment securities	(281)	26	(307)
Federal funds sold & interest bearing deposits	17	11	6
Total Interest Earning Assets	$ 197	$ 2,036	$ (1,839)
Interest Bearing Liabilities:			
Savings deposits	$ 108	$ 65	$ 43
Other time deposits	(297)	(233)	(64)
Other borrowed money	(3)	(1)	(2)
Federal funds purchased and securities sold under agreement to repurchase	63	(13)	76
Total Interest Bearing Liabilities	$ (129)	$ (182)	$ 53

		2014 vs 2013 (In Thousands) Due to change in	
	Net Change	Volume	Rate
Interest Earning Assets:			
Loans	$ 3,092	$ 3,667	$ (575)
Taxable investment securities	(1,027)	(1,577)	550
Tax-exempt investment securities	(25)	50	(75)
Federal funds sold & interest bearing deposits	(15)	(20)	5
Total Interest Earning Assets	$ 2,025	$ 2,120	$ (95)
Interest Bearing Liabilities:			
Savings deposits	$ (26)	$ (20)	$ (6)
Other time deposits	(709)	(391)	(318)
Other borrowed money	(159)	(159)	
Federal funds purchased and securities sold under agreement to repurchase	6	30	(24)
Total Interest Bearing Liabilities	$ (888)	$ (540)	$ (348)

As mentioned in the discussion earlier, in reviewing years 2014 to 2013, the change in volume is the main driver for the improved ratio which is opposite of the change between 2013 to 2012 the largest impact was due to rate. The strategy since 2010 has been to extend the maturities of time deposit specials to over 24 months to prepare for a rising rate environment. The other strategy employed since 2011 was to increase core deposits by offering innovative products focused on customer needs, such as higher interest rates and fraud notification. In exchange for these accounts, customers were asked to utilize services that benefited both the Bank and themselves. Smaller time deposit rate shoppers had an option to perhaps change their behavior of banking or allow those deposits to run off. The new core deposit products were indeed embraced by our customers and have helped to attain the deposit portfolio mix sought by the Bank.

Non-Interest Income

The discussion now turns to the noninterest activity of 2015 operations, beginning with the revenue portion. In comparing line items of the consolidated statements of income for years ended 2013 through 2015, it can be seen where the Company has been spending its time and the impact of the recession and slow recovery. This section will focus on the significant noninterest items that impacted the operations of the Company.

The Company has concerns with the increased costs associated with regulatory compliance such as the possible loss of revenue from new regulations stemming from the Dodd-Frank Act. History has proven the concern is justified. One area of revenue impacted was overdraft fees. Updated Regulation E guidelines were implemented on August 15, 2010 and the Bank has ended each year since with a lower revenue stream from overdraft fees. This has occurred in spite of the addition of the new offices since 2010. Each year, the number of checking accounts increased along with the balances; however average collected overdraft fees per account decreased. Overdraft fees in 2015 accounted for $2.4 million in noninterest income, compared to $2.5 million in 2014 and $2.7 million for 2013. The Bank had made this an area of focus for 2015 as this revenue stream remains under intense regulator review. In 2015, the Bank adjusted its overdraft program and renamed it Courtesy Pay . Courtesy Pay establishes dynamic limits based on a customer s behavior and likelihood of repayment. The Bank has sought to better service the customer s needs while decreasing the need for collections and improving profitability. At the current time, profitability has not been impacted. Service charges on checking accounts, excluding Health Savings Accounts, were up $120 thousand for 2015 and $208.7 thousand for 2014. This improvement is credited to the new checking accounts mentioned previously.

The Bank has long promoted the use of debit cards by its customers and continued that philosophy with the introduction of additional new products. 2015 revenue improved $142.9 thousand and 2014 revenue improved $250.5 from ATM/debit card usage as compared to 2014 and 2013, respectively. The Bank receives interchange revenue from each use by a customer of the card. In 2011, this revenue stream was at risk of being reduced by the Federal Reserve regulation of the interchange fee. The establishment by the Federal Reserve of a tiered pricing for banks under $10 billion has helped to protect the profitability from such fees, although the concern remains as to how long this tiered pricing will remain in effect. While this revenue stream continues to improve with more depositors using electronic methods for purchasing, the expense of fraud has offset a portion of the revenue gain. Further discussion can be found in the non-interest expense section regarding the net effect of debit card activity.

Noninterest income from net gain on sales of loans decreased for both 2015 and 2014 as compared to 2013. Unfortunately, this has become a trend mainly due to the duration of the flat rate interest environment. The net gain on sale of loans is derived from sales of real estate loans into the secondary market. Of these loan types, the Bank sells 100% of the residential loans and 90% of the agricultural loans into the secondary market. 2014 or 2015 activity did not reach the same high levels as 2013. Gains of $559.6 and $140.8 thousand were recorded for residential and agricultural real estate respectively for 2015 along with gains of $452.7 and $194.3 thousand were recorded for residential and agricultural real estate respectively for 2014. In conjunction with these sales, the Bank maintains servicing rights and those income amounts during all three years are included in the customer service fees line item and account for over $300 thousand in revenue each year.

The last line item in the noninterest income section as was discussed previously is the net gain on sale of investments. The Bank has taken advantage of this opportunity the last three years and expects to continue as long as the rates remain low and the yield curve is favorable to the transaction. The Bank will not increase short-term gains at the sacrifice of long-term profitability. All of the sales of securities in 2015 and 2014 of $47.0 and $57.9 million respectively were used to fund loan growth while only some of the $91 million in proceeds realized on the sale of securities in 2013 were used to fund loan growth. This is a source of funds that will continue to be analyzed for use in the coming year. Gains of $451 thousand were recorded for 2015, $494 thousand for 2014 as compared to $775 thousand for 2013.

Customer service fees show a nice improvement of $623 thousand collected in 2015 as compared to 2014. Almost $200 thousand can be attributed to classifying foreign ATM fees out of service charges into miscellaneous fees in 2015. An additional $104.7 thousand comes from servicing those sold secondary loans mentioned in gain on sale of loans, as the volume increased in 2015 as compared to 2014. Total loan service fees collected in 2015 was $1.2 million compared to $1.1 million in 2014.

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Overall, noninterest income increased $604 thousand in 2015 following a year where it had decreased $654 thousand. Some of the revenue may not be easily duplicated as it is dependent on economic and market conditions to provide the opportunity. However, the increased revenue amounts from deposit and loan services should continue to provide improved profitability in the future. Gains on sales should also continue in the near term though when it will change is unknown at this time.

Non-Interest Expense

Noninterest expense increased 3.4% in 2015 as compared to 2014 and was preceded by a 4.2% increase in 2014 as compared to 2013. Represented in dollars, 2015 was $854 thousand higher than 2014 and 2014 was $1 million higher than 2013. The largest factor behind both years increase was the expense of employee salaries and wages. During 2015, an additional $721 thousand was spent over 2014 which correlates to a 7.1% increase. When making the same analysis for 2014 as compared to 2013, 2014 s costs increased $633 thousand or 6.6%. Three main components flow into salaries and wages: base salary, deferred costs, and incentives composed of the expense of restricted stock awards and performance incentives. Base pay has increased with the addition of the three offices of Waterville, Custar and Sylvania, the Captive and through normal yearly increases to the remainder of the employees. Base pay was up $559.3 thousand for 2015 over the previous year and 2014 was up $474.1 thousand over 2013. The full time equivalent number of employees at each yearend increased to 265 for 2015, to 260 for 2014 compared to 2013 s 251.

Incentive pay as it related to performance was up $209.5 thousand in 2014 over 2013. Both measurements used to award incentive pay had improved in 2015 and 2014 and employees benefited accordingly. These followed 2013, a year in which the incentive performance pay was down $110.1 thousand from 2012. The expense for the restricted stock awards has also increased each of the last three years as more shares have been granted to a larger number of employees. 2015 s cost for this program was $82 thousand higher than 2014 and 2014 was $20.9 thousand higher than 2013. The awards incorporate a three year vesting period so the increase of any one year carries forward through the next two years. This expense should continue to increase as the Company continues its expansion strategy. (For further discussion in incentive pay and restricted stock awards, see note 11 of the consolidated financial statements.)

Employee benefits increased by similar percentages as the salaries and wages for 2015 increased by 6.9% over 2014 and 2014 increased by 3.3% over 2013. The cost of the 401-K retirement plan increased each year as the profit share component increased along with the number of employees participating. The Company has been able to hold steady the expense of the employee s group insurance while paying higher premiums. Being partially self-insured has helped with lower claim experience though it is an unknown each year what that experience will be. For 2014 and 2015, a switch in the medical provider and comparison pricing also assisted to control the cost. Employees do participate in any premium increases.

Net occupancy expense typically increases as the Company expands, with 2014 being an exception due to an increase in building rent. Building rent is netted out to offset occupancy expense. The greatest contributor to building rent comes from the division of FM Investments within the Bank. This division experienced a strong 2014; however the department was short staffed most of 2015. This has been remedied in 2016 and performance is expected to improve.

While net loss on sale of other assets owned, mainly ORE property, does not represent income for the years presented, the decrease in the amount of the loss for 2015 as compared to 2014, does contribute to improved profitability. Loss on sale of assets included any write downs in the carrying values of ORE property on the Bank s balance sheet. In 2015 and 2014, the number of properties and the corresponding carrying values decreased as compared to 2013. The Bank also sold its St. Joe, Indiana property during 2015. While taking a loss for the sale, the Bank eliminated the continued maintenance expense of an unoccupied building. An easement was agreed upon to enable the ATM located on the property to remain operational.

The mortgage refinancing activity has been lower over the last three years. A correlating expense to that activity is the amortization of mortgage servicing rights. The amortization is the expense that offsets the income recognized when the loan is first made. Income is recorded when the mortgage loan is first sold with servicing retained and is therefore recognized within one year. The amortization, however, is calculated over the life of the loan and accelerated as loans are paid off early. An increase in this expense can be driven by two activities: an increase in the number of sold loans and/or by the acceleration of the expense from payoff and refinance activity. The best picture of the bottom line impact is achieved by netting the income with the expense each year. 2015 had net income of $33 thousand, a switch from

2014 which had net expense of $42.7 thousand and 2013 had a net income of $2 thousand. Of course, the value (or income) of the mortgage servicing right when sold also impacts the net position. 2015 had higher additions and lower amortization expense from refinanced loans. 2013 had new loan activity and lower refinance activity making the additions and amortization almost equal. The number of loans and balances also indicates this as the levels have remained fairly constant. 2014 was a year with limited sales and the amortization expense was therefore higher than the capitalized additions. As of December 2015, 3,598 loans are being serviced with balances of $275.7 million. As of December 31, 2014, there were 3,638 loans serviced with balances of $275.4 million and as of December 2013, there were 3,684 loans serviced with balances of $282.1 million.

The impact of mortgage servicing rights to both noninterest income and expense is shown in the following table:

	(In Thousands)		
	2015	2014	2013
Beginning Year	$ 2,023	$ 2,066	$ 2,063
Capitalized Additions	407	301	429
Amortization	(374)	(344)	(426)
Valuation Allowance			
End of Year	$ 2,056	$ 2,023	$ 2,066

Furniture and equipment steadily increases as we continue to add facilities and invest in technology. Annual maintenance costs continue to grow and become a greater piece of the overall cost. As new services are provided to our customers, the backroom cost to supply them continues to rise. The Company accepts it is an expected cost of doing business and keeping our services relevant to the industry.

Data processing expense increased $50 thousand during 2015 and by $38 thousand in 2014. The Company continues to investigate ways to reduce this expense. The pricing on many services, however, is based on number of accounts and the Bank fully expects those to increase with the growth from the newer offices and overall Bank growth.

The last line item with significant variation in noninterest expense to discuss is other general and administrative . The decrease of $348 thousand for 2015 as compared to 2014 can be mainly attributed to a $195.7 thousand reduction in marketing and consulting costs. A renegotiation of one service provider contract along with the maturity of another during 2015 lead to the decrease. Another contributor to the reduction was lower losses due to NSF and fraud. The Bank applauds the work of our front-line staff to recognize possible fraud and scams attempted on our customers and stopping them before they can occur. An investment in additional fraud detection software has also helped our back office personnel to detect possible digital fraud. This was down $60.2 thousand in 2015 compared to an increase in 2014 of $40.9 thousand.

Other general and administrative was higher by $461 thousand in 2014. The fluctuation was not isolated to a single source. The primary factors impacting this fluctuation in 2014 are increases in both ATM expense and core deposit intangible expenses. The increased expense of $52.7 thousand relating to ATM and debit cards in 2015 and 2014 over the previous year is caused by many factors. Increased usage during both years corresponds to increases in both revenue and cost. Finally, fraud increases cost as new cards have to be issued to limit the risk exposure. The fraud losses themselves are not recognized in this breakout, however the cost of replacement cards is. The Bank is currently deploying chip technology within its cards; the Bank is aware the adoption of embedded chips will increase this expense in the coming years. 2014 experienced additional expense over 2013 in consulting ($161.7 thousand), audit and accounting fees ($166.5 thousand) and advertising ($101.3 thousand).

Allowance for Credit Losses

Provision expense decreased by $566 thousand for 2015, following an increase of $333 thousand for 2014. The decrease for 2015 was due to the consistent strong asset quality of the Bank s loan portfolio as evidenced by low levels of both net charge-offs and delinquencies. The increase for 2014 was needed to account for the loan growth and the net charge-off activity of 2014. Sustained strong asset quality kept the provision expense lower than the growth alone would have warranted. Net charge-offs were $473, $480 and $888 thousand for 2015, 2014 and 2013, respectively. Commercial and Industrial loans had the largest charge-off activity in 2015 and 2013, while 2014 was impacted with higher levels in the consumer portfolios.

The Company segregates its Allowance for Credit Losses (ACL) into two reserves: The ACL and the Allowance for Unfunded Loan Commitments and Letters of Credit (AULC). When combined, these reserves constitute the total ACL. The AUCL is included in other liabilities on the consolidated balance sheets.

The Bank s ALLL methodology captures trends in leading, current, and lagging indicators which will directly affect the Bank s allocation amount. The Bank monitors trends in such leading indicators as delinquency, unemployment changes in the Bank s service area, experience and ability of staff, regulatory trends, and credit concentrations. A current indicator such as the total watch list loan amount to Capital, and a lagging indicator such as the charge off amount are referenced as well. A matrix formed by loan type from these indicators is used in making ALLL adjustments.

Watch list loan balances are comprised of loans graded 5-8. These loan balances decreased 53.6% or $7.2 million from December 31, 2014 to December 31, 2015. The balances decreased mainly due to successful results from collection efforts. Given the size of the decrease, it is no surprise it is attributed mainly to the commercial real estate portfolio decreasing by $5.9 million. Three customers made up the bulk of the balances with one of three finding funding elsewhere. Commercial loans (non-real estate) on the Bank s watch list also had a nice decrease during 2015, though just not as high at $1.9 million.

Of the aggregate watch list loan balances, as of December 31, 2015, special mention accounted for 36.6% with substandard comprising 49.1% and doubtful accounting for the final 14.3%. In comparison to 2014, special mention was down $7.2 million, substandard up slightly by $161 thousand and doubtful down almost exactly the same amount at $162 thousand.

Special mention loan balances increased 21.2% or $1.7 million overall as of yearend 2014 compared to same date 2013. The increase was in the commercial and commercial real estate portfolios. The largest increase of $2.1 million was in the commercial real estate, which was caused mainly by one large relationship being downgraded. Agricultural real estate decreased $618 thousand, thereby offsetting the above-referenced increase.

For 2014, the increase in special mention is offset by significant decreases in the substandard classifications of those same commercial related portfolios. Overall, substandard and doubtful loans decreased 42.5% or $2.9 million as compared to yearend 2013. In response to these fluctuations and loan growth during 2014 and 2015, the Bank changed ALLL to outstanding loan coverage percentage changed to 0.88% as of December 31, 2015, 0.95% as of December 31, 2014 from and 0.90% as of December 31, 2013.

The above indicators are reviewed quarterly. Some of the indicators are quantifiable and, as such, will automatically adjust the ALLL once calculated. These indicators include the ratio of past due loans to total loans, loans past due greater than 30 days, and the ration of watch list loans to capital, with the watch list made up of loans graded 5, 6 or 7 on a scale of 1 (best) to 7 (worst). Other indicators use more subjective data to the extent possible to evaluate the potential for inherent losses in the Bank s loan portfolio. For example, the economic indicator uses the unemployment statistics from the communities in our market area to help determine whether the ALLL should be adjusted. At the end of each of 2013, 2014 and 2015, a slight improvement was noted in unemployment figures.

All aggregate commercial and agricultural credits including real estate loans of $250,000 and over are reviewed annually by both credit committees and internal loan review to look for early signs of deterioration.

To establish the specific reserve allocation for real estate, a discount to the market value is established to account for liquidation expenses. The discounting percentage used for real estate mirrors the discounting of real estate as provided for in the Bank s Loan Policy. However, unique or unusual circumstances may be present which will affect the real estate value and, when appropriately identified, can adjust the discounting percentage at the discretion of management.

The ACL increased $153 and $755 thousand during 2015 and 2014 respectively, which was preceded by a $29 thousand decrease during 2013. The large increase in 2014 directly correlates to the large increase in loan balances. With the improved asset quality, the metrics upon which the ACL is calculated did not support a larger increase in 2015 even though loan growth occurred. The percentage of ACL to the total loan portfolio was 0.93% as of December 31, 2013, 0.98% as of December 31, 2014 and 0.91% as of December 31, 2015. December 31, 2013 had the lowest loans past due 30+ day percentage at 0.25% in the Bank s known history, December 31, 2014 and 2015 were still at respectable lows of 0.37% and 0.32%.

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Please see Note 4 in the consolidated financial statement for additional tables regarding the composition of the ACL.

Federal Income Taxes

Effective tax rates were 26.97%, 28.64% and 28.53% for 2015, 2014 and 2013 respectively. The effect of tax-exempt interest from holding tax-exempt securities and Industrial Development Bonds (IDBs) was $554, $634, and $640 thousand for 2015, 2014, and 2013, respectively. All years included an increase into a higher tax bracket for income over $10 million. Behind the decrease in 2015 is one of the benefits from the establishment of the Captive subsidiary.

Material Changes in Financial Condition

The shifts in the balance sheet during 2015 and 2014 have positioned the Company for continued improvement in profitability. On the asset side, the Company experiences an increase in interest income due to loan growth with funding provided by a decrease in the investment portfolio, core deposit growth and 2015 also utilized other borrowings. The cost of funds was impacted by the shift of interest bearing liabilities to noninterest and the decrease in time deposits and other borrowed money as borrowings didn t increase until December 2015. Both contributed to improved profitability in 2015 and 2014 and leads to expected liabilities improvement in future years.

Average earning assets increased throughout 2015 and 2014. Loan growth in both years was the main factor. 2014 was also aided by the Custar acquisition which took place in December 2013 and brought in $29 million in deposits. 2015 also had the addition of the Sylvania office for a full year along with the growth in the other newer offices.

Securities

The investment portfolio is primarily used to provide overall liquidity for the Bank. It is also used to provide required collateral for pledging to the Bank s Ohio public depositors for amounts on deposit in excess of the FDIC coverage limits. It may also be used to pledge for additional borrowings from third parties. Investments are made with the above criteria in mind while still seeking a fair market rate of return, and looking for maturities that fall within the projected overall strategy of the Bank. The possible need to fund growth is also a consideration.

All of the Bank s security portfolio is categorized as available for sale and as such is recorded at market value.

Security balances as of December 31 are summarized below:

	(In Thousands)		
	2015	2014	2013
U.S. Treasury	$ 38,505	$ 25,393	$ 25,272
U.S. Government agencies	98,220	119,234	172,972
Mortgage-backed securities	26,324	29,562	44,792
State and local governments	72,066	74,303	81,473
	$ 235,115	$ 248,492	$ 324,509

The following table sets forth the maturities of investment securities as of December 31, 2015 and the weighted average yields of such securities calculated on the basis of cost and effective yields weighted for the scheduled maturity of each security. Tax-equivalent adjustments, using a thirty-four percent rate, have been made in yields on obligations of state and political subdivisions. Stocks of domestic corporations have not been included.

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	Maturities (Amounts in Thousands)			
	Within One Year		After One Year Within Five Years	
	Amount	Yield	Amount	Yield
U.S. Treasury	$ 5,091	0.56%	$ 28,345	1.09%
U.S. Government agencies		0.00%	87,994	1.31%
Mortgage-backed securities		0.00%	254	4.39%
State and local governments	7,630	1.91%	29,479	2.10%
Taxable state and local governments	1,141	2.21%	6,076	1.79%

	After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield
U.S. Treasury	$ 5,069	2.00%	$	0.00%
U.S. Government agencies	10,226	2.02%		0.00%
Mortgage-backed securities	8,394	2.94%	17,676	2.20%
State and local governments	19,659	2.55%	5,634	2.27%
Taxable state and local governments	999	2.60%	1,448	5.57%

As of December 31, 2015 the Bank did not hold a large block of any one investment security in excess of 10% of stockholders equity. The largest segment of holdings is in US Governments. The Bank also holds stock in the Federal Home Loan Bank of Cincinnati at a cost of $3.7 million. This is required in order to obtain Federal Home Loan Bank loans. The Bank also owns stock of Farmer Mac with a carrying value of $37.4 thousand which is required to participate loans in the program.

Loan Portfolio

The Bank s various loan portfolios are subject to varying levels of credit risk. Management mitigates these risks through portfolio diversification and through standardization of lending policies and procedures.

Risks are mitigated through an adherence to the Bank s loan policies, with any exception being recorded and approved by senior management or committees comprised of senior management. The Bank s loan policies define parameters to essential underwriting guidelines such as loan-to-value ratio, cash flow and debt-to-income ratio, loan requirements and covenants, financial information tracking, collection practice and others. The maximum loan amount to any one borrower is limited by the Bank s legal lending limits and is stated in policy. On a broader basis, the Bank restricts total aggregate funding in comparison to Bank capital to any one business or agricultural sector by an approved sector percentage to capital limitation.

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The following table shows the Bank s loan portfolio by category of loan as of December 31st of each year, including loans held for sale:

	(In Thousands)				
Loans:	2015	2014	2013	2012	2011
Consumer Real Estate	$ 88,189	$ 97,550	$ 92,438	$ 80,287	$ 84,477
Agricultural Real estate	58,525	50,895	44,301	40,143	31,993
Agricultural	82,654	74,611	65,449	57,770	52,598
Commercial Real Estate	322,762	270,188	248,893	199,999	198,266
Commercial and Industrial	100,125	100,126	99,498	101,624	114,497
Consumer	27,770	24,277	21,406	20,413	23,375
Industrial Development Bonds	6,491	4,698	4,358	1,299	1,196
	$ 686,516	$ 622,345	$ 576,343	$ 501,535	$ 506,402

The following table shows the maturity of loans as of December 31, 2015:

	(In Thousands)			
	Within One Year	After One Year Within Five Years	After Five Years	Total
Consumer Real Estate	$ 1,270	$ 11,486	$ 75,433	$ 88,189
Agricultural Real Estate	1,073	3,300	54,152	58,525
Agricultrual	52,939	24,239	5,476	82,654
Commercial Real Estate	13,030	70,699	239,033	322,762
Commercial and Industrial	45,971	34,791	19,363	100,125
Consumer	5,480	17,228	5,062	27,770
Industrial Development Bonds	1,300	185	5,006	6,491
	$ 121,063	$ 161,928	$ 403,525	$ 686,516

The following table presents the total of loans due after one year which has either 1) predetermined interest rates (fixed) or 2) floating or adjustable interest rates (variable):

	(In Thousands)		
	Fixed Rate	Variable Rate	Total
Consumer Real Estate	$ 81,987	$ 4,932	$ 86,919
Agricultural Real Estate	47,252	10,200	57,452
Agricultural	29,108	607	29,715
Commercial Real Estate	236,384	73,348	309,732
Commercial and Industrial	53,292	862	54,154

Consumer	22,290		22,290
Industrial Development Bonds	5,050	141	5,191

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The following table summarizes the Company s nonaccrual, past due 90 days or more and still accruing loans, and accruing troubled debt restructurings as of December 31 for each of the last five years:

	(In Thousands)				
	2015	2014	2013	2012	2011
Non-accrual loans	$ 2,041	$ 1,705	$ 3,329	$ 4,828	$ 2,131
Accruing loans past due 90 days or more				1	
Troubled debt restructurings, not included above	878	471	485		
Total	$ 2,919	$ 2,176	$ 3,814	$ 4,829	$ 2,131

Although loans may be classified as non-performing, some pay on a regular basis, and many continue to pay interest irregularly or at less than original contractual rates. Interest income that would have been recorded under the original terms of these loans would have aggregated $117.1 thousand for 2015, $52.3 thousand for 2014 and $139.1 thousand for 2013. Any collections of interest on nonaccrual loans are included in interest income when collected unless it is on an impaired loan with a specific allocation. A collection of interest on an impaired loan with a specific allocation is applied to the loan balance to decrease the allocation. Total interest collections, whether on an accrued or cash basis, amounted to $76 thousand for 2015, $87 thousand for 2014 and $60 thousand for 2013. $20.6 thousand of interest collected in 2015 was applied to reduce the specific allocation and was applied for the same reason in 2014.

Loans are placed on nonaccrual status in the event that the loan is in past due status for more than 90 days or payment in full of principal and interest is not expected. The Bank had nonaccrual loan balances of $2.1 million at December 31, 2015 compared to balances of $3.3 and $1.7 million as of year-end 2013 and 2014, respectively. All of the balances of nonaccrual loans for the past three years were collaterally secured.

As of December 31, 2015 the Bank had $7.0 million of loans which it considers to be potential problem loans in that the borrowers are experiencing financial difficulties. At December 31, 2014, the Bank had $13.5 million of these loans. These loans are subject to constant management attention and are reviewed at least monthly. The amount of the potential problem loans was considered in management s review of the loan loss reserve at December 31, 2015 and 2014.

In extending credit to families, businesses and governments, banks accept a measure of risk against which an allowance for possible loan loss is established by way of expense charges to earnings. This expense is determined by management based on a detailed monthly review of the risk factors affecting the loan portfolio, including general economic conditions, changes in the portfolio mix, past due loan-loss experience and the financial condition of the bank s borrowers.

As of December 31, 2015, the Bank had loans outstanding to individuals and firms engaged in the various fields of agriculture in the amount of $82.8 million with an additional $58.5 million in agricultural real estate loans these compared to $74.6 and $50.9 million respectively as of December 31, 2014. The ratio of this segment of loans to the total loan portfolio is not considered unusual for a bank engaged in and servicing rural communities.

Interest rate modification to reflect a decrease in market interest rates or maintain a relationship with the debtor, where the debtor is not experiencing financial difficulty and can obtain funding from other sources, is not considered a troubled debt restructuring. As of December 31, 2015, the Bank had $1.1 million of its loans that were classified as troubled debt restructurings, of which $182.4 thousand are included in non-accrual loans. This compares to $797.2

thousand as of same date 2014 and the Bank had almost $911.2 thousand classified as such as of December 31, 2013.

Updated appraisals are required on all collateral dependent loans once they are deemed impaired. The Bank may also require an updated appraisal of a watch list loan which the Bank monitors under their loan policy. On a quarterly basis, Bank management reviews properties supporting asset dependent loans to consider market events that may indicate a change in value has occurred.

To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the existing collateral value used.

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Performing non-watch list loans secured in whole or in part by real estate, do not require an updated appraisal unless the loan is rewritten and additional funds advanced. Watch List loans secured in whole or in part by real estate require updated appraisals every two years. All loans are subject to loan to values as found in the Bank s loan policies irrespective of their grade. The Bank s watch list is reviewed on a quarterly basis by management and any questions to value are addressed at that time.

The majority of the Bank s loans are made in the market by lenders who live and work in the market. Thus, their evaluation of the independent valuation is also valuable and serves as a double check.

On extremely rare occasions, the Bank will make adjustments to the recorded values of collateral securing commercial real estate loans without acquiring an updated appraisal for the subject property. The Bank has no formalized policy for determining when collateral value adjustments between regularly scheduled appraisals are necessary, nor does it use any specific methodology for applying such adjustments. However, on a quarterly basis as part of its normal operations, the Bank s senior management and the Loan Review Committee will meet to review all commercial credits either deemed to be impaired or on the Bank s watch list. In addition to analyzing the recent performance of these loans, management and the Enterprise Risk Management Committee will also consider any general market conditions that might warrant adjustments to the value of particular real estate collateralizing commercial loans. In addition, management conducts annual reviews of all commercial loans exceeding certain outstanding balance thresholds. In each of these situations, any information available to management regarding market conditions impacting a specific property or other relevant factors are considered, and lenders familiar with a particular commercial real estate loan and the underlying collateral may be present to provide their opinion on such factors. If the available information leads management to conclude a valuation adjustment is warranted, such an adjustment may be applied on the basis of the information available. If management concludes that an adjustment is warranted but lacks the specific information needed to reasonably quantify the adjustment, management will order a new appraisal on the subject property even though one may not be required under the Bank s general policies for updating appraisal.

Note 4 of the Consolidated Financial Statements may also be reviewed for additional tables dealing with the Bank s loans and ALLL.

ALLL is evaluated based on an assessment of the losses inherent in the loan portfolio. This assessment results in an allowance consisting of two components, allocated and unallocated.

Management considers several different risk assessments in determining ALLL. The allocated component of ALLL reflects expected losses resulting from an analysis of individual loans, developed through specific credit allocations for individual loans and historical loss experience for each loan category. For those loans where the internal credit rating is at or below a predetermined classification and management can reasonably estimate the loss that will be sustained based upon collateral, the borrowers operating activity and economic conditions in which the borrower operates, a specific allocation is made. For those borrowers that are not currently behind in their payment, but for which management believes, based on economic conditions and operating activities of the borrower, the possibility exists for future collection problems, a reserve is established. The amount of reserve allocated to each loan portfolio is based on past loss experiences and the different levels of risk within each loan portfolio. The historical loan loss portion is determined using a historical loss analysis by loan category.

The unallocated portion of the reserve for loan losses is determined based on management s assessment of general economic conditions as well as specific economic factors in the Bank s marketing area. This assessment inherently involves a higher degree of uncertainty. It represents estimated inherent but undetected losses within the portfolio that are probable due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower s financial condition and other current risk factors that may not have yet manifested themselves in the Bank s historical loss factors used to determine the allocated component of the allowance.

Actual charge-off of loan balances is based upon periodic evaluations of the loan portfolio by management. These evaluations consider several factors, including, but not limited to, general economic conditions, financial condition of the borrower, and collateral.

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As presented below, charge-offs increased to $1.0 million for 2015, preceded by a decrease to $778 thousand for 2014, an increase to $1.3 million for 2013, decreased to $891 thousand for 2012 and 2011 recorded $2.7 million. The provision expense also decreased in 2012 and 2011 and increased for 2013 and 2014. 2015 had the lowest provision expense of all years presented at $625 thousand. 2014 and 2013 had provision expense of $1.2 million and $858 thousand respectively. 2012 had provision expense of $738 thousand with 2011 having provision expense of $1.7 million. The Commercial and Industrial portfolio had the largest net charge-off position in 2011 through 2015. The improvement in asset quality during the periods shown is reflected in the increased percentage of the allowance for loan loss to nonperforming loans.

In reviewing the bigger picture of the allowance for credit loss, the years with the higher percentage of ACL to total nonperforming loans ratio account for the lower level of nonaccrual and watch list loans. This demonstrates the extended time period with which it has taken to achieve resolution and/or collection of these loans. In 2012, the provision expense was to offset the higher year-end watch list values. A smaller portion of the allowance was needed to fund the impaired loans as collateral remained sufficient to cover the outstanding amounts in most cases. 2014 s significant and continued loan growth since fourth quarter 2013 was the reason behind 2014 s higher balances as asset quality remained strong. The ratio of ACL to nonperforming loans increased significantly in 2014 which is why provision loan expense was lower in 2015 in comparison. The ACL to nonperforming loans for 2015 remained more than adequate and emphasizes the existing strong level of credit quality.

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The following table presents a reconciliation of the allowance for credit losses for the years ended December 31, 2015, 2014, 2013, 2012 and 2011:

	(In Thousands)				
	2015	2014	2013	2012	2011
Loans	$ 685,878	$ 621,926	$ 576,113	$ 501,402	$ 506,215
Daily average of outstanding loans	$ 627,194	$ 581,483	$ 507,126	$ 492,697	$ 504,058
Allowance for Loan Losses-Jan 1	$ 5,905	$ 5,194	$ 5,224	$ 5,091	$ 5,706
Loans Charged off:					
Consumer Real Estate	38	168	147	246	423
Agricultural Real Estate					
Agricultural				6	24
Commercial Real Estate	143	229	164	98	360
Commercial and Industrial	536		513	47	1,500
Consumer	313	381	438	494	374
	$ 1,030	$ 778	$ 1,262	$ 891	$ 2,681
Loan Recoveries:					
Consumer Real Estate	$ 41	$ 34	$ 20	$ 60	$ 61
Agricultural Real Estate					
Agricultural	64	44	5	12	67
Commercial Real Estate	204	4	23	7	32
Commercial and Industrial	91	20	141	30	19
Consumer	157	196	185	177	172
	$ 557	$ 298	$ 374	$ 286	$ 351
Net Charge Offs	$ 473	$ 480	$ 888	$ 605	$ 2,330
Provision for loan loss	625	1,191	858	738	1,715
Acquisition provision for loan loss					
Allowance for Loan & Lease Losses - Dec 31	$ 6,057	$ 5,905	$ 5,194	$ 5,224	$ 5,090
Allowance for Unfunded Loan Commitments & Letters of Credit Dec 31	208	207	163	162	130
Total Allowance for Credit Losses - Dec 31	$ 6,265	$ 6,112	$ 5,357	$ 5,386	$ 5,221
Ratio of net charge-offs to average Loans outstanding	0.08%	0.08%	0.18%	0.12%	0.46%
Ratio of the Allowance for Loan Loss to Nonperforming Loans	293.75%	346.30%	156.03%	108.20%	238.89%

* Nonperforming loans are defined as all loans on nonaccrual, plus any loans past due 90 days not on nonaccrual.

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Allocation of ALLL per Loan Category in terms of dollars and percentage of loans in each category to total loans is as follows:

	2015		2014		2013		2012		2011	
	Amount (000 s)	%	Amount (000 s)	%	Amount (000 s)	%	Amount (000 s)	%	Amount (000 s)	%
Balance at End of Period Applicable To:										
Consumer Real Estate	$ 338	12.82	$ 537	15.69	$ 257	16.05	$ 368	16.01	$ 260	16.12
Agricultural Real Estate	211	8.52	184	8.18	131	7.69	113	8.01	140	6.32
Agricultural	582	12.07	547	12.00	326	11.36	290	11.52	267	10.39
Commercial Real Estate	2,516	46.98	2,367	43.43	2,107	43.19	1,749	39.89	2,087	39.74
Commercial and Industrial	1,229	15.56	1,421	16.86	1,359	18.03	2,183	20.53	1,948	22.85
Consumer	337	4.05	323	3.84	292	3.68	268	4.04	315	4.58
Unallocated	844	0.00	526	0.00	722	0.00	253	0.00	74	0.00
Allowance for Loan & Lease Losses	$ 6,057	100.00	$ 5,905	100.00	$ 5,194	100.00	$ 5,224	100.00	$ 5,091	100.00
Off Balance Sheet Commitments	208		207		163		162		$ 130	
Total Allowance for Credit Losses	$ 6,265		$ 6,112		$ 5,357		$ 5,386		$ 5,221	

Deposits

The amount of outstanding time certificates of deposits and other time deposits in amounts of $100,000 or more by maturity as of December 31, 2015 are as follows:

	(In Thousands)			
	Under Three Months	Over Three Months Less than Six Months	Over Six Months Less Than One Year	Over One Year
Time Deposits	$ 8,904	$ 13,404	$ 20,513	$ 38,040

The following table presents the average amount of and average rate paid on each deposit category:

	(In Thousands)			
	Non-Interest DDAs	Interest DDAs	Savings Accounts	Time Accounts
December 31, 2015:				
Average balance	$ 162,028	$ 184,941	$ 227,328	$ 189,822
Average rate	0.00%	0.62%	0.18%	0.90%
December 31, 2014:				
Average balance	$ 152,155	$ 178,285	$ 216,405	$ 214.680
Average rate	0.00%	0.51%		0.92%
December 31, 2013:				
Average balance	$ 109,804	$ 202,914	$ 197,157	$ 250,737
Average rate		0.53%	0.19%	1.06%

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Liquidity

Liquidity remains adequate though down from prior years as the Bank has decreased the investment portfolio to fund loans. The Bank has access to $58 million of unsecured borrowings through correspondent banks and $29.4 million of unpledged securities which may be sold or used as collateral. An additional $4.1 million is also available from the Federal Home Loan Bank based on current collateral pledging with up to $118.5 million available provided adequate collateral is pledged.

Maintaining sufficient funds to meet depositor and borrower needs on a daily basis continues to be among management s top priorities. This is accomplished not only by immediate liquid resources of cash, due from banks and federal funds sold, but also by the Bank s available for sale securities portfolio. The average aggregate balance of these assets was $262.1 for 2015 and $296.5 million for 2014, and $387.7 million for 2013. This represented 28.0%, 31.8% and 42.5% of total average assets, respectively. Of the almost $218.7 million of debt securities in the bank s portfolio as of December 31, 2015, $12.7 million, or 5.8% of the portfolio, is expected to receive payments or mature in 2016. The availability of the funds may be reduced by the need to utilize securities for pledging purposes on public deposits. This liquidity provides the opportunity to fund loan growth by analysis of the lowest cost and source of funds whether by increasing deposits, sales or runoff of investments or utilizing debt.

In addition to the Bank s investment portfolio, the Company has $16.4 million held in the holding company s investment portfolio. $1.5 million of those investments will mature or receive payments in the next twelve months. These funds provide liquidity to the Company. The Bank has been declaring additional dividends each quarter to provide this liquidity to the Company. In future years, the Captive will also upstream dividends to the Company once reserve levels are adequately provided for. This will also provide additional liquidity for Company activities.

Historically, the primary source of liquidity has been core deposits that include noninterest bearing and interest bearing demand deposits, savings, money market accounts and time deposits of individuals. Core deposit balances as of year-end 2015 increased in all categories with the exception of time deposits. Overall deposits increased an average of $2.6 million in 2015, $913 thousand in 2014 and $4.7 million during 2013. The Bank also utilized Federal Funds purchased at times during 2013 through 2015. The average balance for 2015 and 2014 was $1.2 million and $1.4 million respectively. The Bank began using this temporary funding source heavier in December 2015 while it secured more permanent funding.

Historically, the primary use of new funds is placing the funds back into the community through loans for the acquisition of new homes, consumer products and for business development. The use of new funds for loans is measured by the loan to deposit ratio. The Bank s average loan to deposit ratio was 80.7% for 2015, 76.4% for 2014 and 66.2% for 2013. The lower ratio in 2013 was due to the success of the deposit gathering function, the residential mortgage loans being sold in the secondary market and the lack of loan demand. The Bank s goal is for this ratio to be higher in the 80-90 percent range with loan growth being the driver. The Bank ended the year 2015 at an 88.1% loan to deposit ratio.

Short-term debt such as federal funds purchased and securities sold under agreement to repurchase also provides the Company with liquidity. Short-term debt for both federal funds purchased and securities sold under agreement to repurchase amounted to $78.8 million at the end of 2015 compared to $56.0 million at the end of 2014 and $69.8 million at the end of 2013. These accounts are used to provide a sweep product to the Bank s commercial customers.

Other borrowings are also a source of funds. Other borrowings consist of loans from the Federal Home Loan Bank of Cincinnati. These funds are then used to provide loans in our community. The Bank utilized this funding source in December 2015 by borrowing $10 million. Prior borrowings from this source had decreased by $4.5 million to none at

December 31, 2014. This compares to decreased borrowings during 2013 of $7.1 million. The decreased borrowings were payoffs of matured notes in 2013 and 2014.

Asset/Liability Management

The primary functions of asset/liability management are to assure adequate liquidity and maintain an appropriate balance between interest earning assets and interest bearing liabilities. It involves the management of the balance sheet mix, maturities, re-pricing characteristics and pricing components to provide an adequate and stable net interest margin with an acceptable level of risk. Interest rate sensitivity management seeks to avoid fluctuating net interest margins and to enhance consistent growth of net interest income through periods of changing interest rates.

Changes in net income, other than those related to volume arise when interest rates on assets re-price in a time frame or interest rate environment that is different from that of the re-pricing period for liabilities. Changes in net interest income also arise from changes in the mix of interest-earning assets and interest-bearing liabilities.

Historically, the Bank has maintained liquidity through cash flows generated in the normal course of business, loan repayments, maturing earning assets, the acquisition of new deposits, and borrowings. The Bank s asset and liability management program is designed to maximize net interest income over the long term while taking into consideration both credit and interest rate risk. Interest rate sensitivity varies with different types of interest-earning assets and interest-bearing liabilities. Overnight federal funds on which rates change daily and loans that are tied to the market rate differ considerably from long-term investment securities and fixed rate loans. Similarly, time deposits over $100,000 and money market certificates are much more interest rate sensitive than passbook savings accounts. The Bank utilizes shock analysis to examine the amount of exposure an instant rate change of 100, 200, 300 and 400 basis points in both increasing and decreasing directions would have on the financials. Acceptable ranges of earnings and equity at risk are established and decisions are made to maintain those levels based on the shock results.

Impact of Inflation and Changing Prices

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company s operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company s performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and service.

Contractual Obligations

Contractual Obligations of the Company totaled $252.1 million as of December 31, 2015. Time deposits represent contractual agreements for certificates of deposits held by its customers. Long term debt represents the borrowings with the Federal Home Loan Bank and is further defined in Note 4 and 9 of the Consolidated Financial Statements.

	Payment Due by Period (In Thousands)				
Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Securities sold under agreement to repurchase	$ 56,815	$ 39,691	$	$ 17,124	$
Time Deposits	184,285	89,862	60,381	33,198	844
Dividends Payable	1,007	1,007			
Long Term Debt	10,000		10,000		
Total	$ 252,107	$ 130,560	$ 70,381	$ 50,322	$ 844

Capital Resources

Stockholders equity was $120.1 million as of December 31, 2015 compared to $114.5 million at December 31, 2014. Dividends declared during 2015 were $0.87 per share totaling $3.99 million and during 2014 were $0.84 per share totaling $3.86 million. During 2015, the Company purchased 30,685 shares and awarded 16,000 shares of restricted stock to 67 employees. During 2014, the Company purchased 23,570 shares and awarded 13,250 restricted shared to 61 employees. For a summary of activity as it relates to the Company s restricted stock awards, please refer to Note 11: Employee Benefit Plans in the consolidated financial statements. At yearend 2015, the Company held 587,466 shares in Treasury stock and 38,995 unvested shares of restricted stock. At yearend 2014, the Company held 572,662 shares in Treasury stock and 33,390 unvested shares of restricted stock. On January 15, 2016 the Company announced the authorization by its Board of Directors for the Company s repurchase, either on the open market, or in privately negotiated transactions, of up to 200,000 shares of its outstanding common stock commencing January 15, 2016 and ending December 31, 2016. The Company has a history of approving a similar resolution to be in effect each year for at least the last five years.

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The Company continues to have a strong capital base and maintains regulatory capital ratios that are above the defined regulatory capital ratios. At December 31, 2015, the Bank and the Company had total risk-based capital ratios of 12.64% and 14.95%, respectively. Core capital to risk-based asset ratios of 11.87% and 14.18% for the Bank and the Company, respectively, are well in excess of regulatory guidelines. The Bank s leverage ratio of 10.12% is also substantially in excess of regulatory guidelines, as is the Company s at 11.91%. Under Basel III, the common equity Tier 1 Capital to risk-weighted assets ratios are also well above the required 4.50% and the 6.50% well capitalized levels with the Company at 14.18% and the Bank at 11.87%. For further discussion and analysis of regulatory capital requirements, refer to Note 15 of the Audited Financial Statements.

The Company s subsidiaries are restricted by regulations from making dividend distributions in excess of certain prescribed amounts. Upon prior regulatory approval, the Bank may be allowed to pay above the prescribed amount.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. The primary market risk to which we are subject is interest rate risk. The majority of our interest rate risk arises from the instruments, positions and transactions entered into for purposes other than trading such as loans, available for sale securities, interest bearing deposits, short term borrowings and long term borrowings. Interest rate risk occurs when interest bearing assets and liabilities re-price at different times as market interest rates change. For example, if fixed rate assets are funded with variable rate debt, the spread between asset and liability rates will decline or turn negative if rates increase.

Interest rate risk is managed within an overall asset/liability framework. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. In the event that our asset/liabilities management strategies are unsuccessful, our profitability may be adversely affected. The Company employs a sensitivity analysis utilizing interest rate shocks to help in this analysis.

The shocks presented below assume an immediate change of rate in the percentages and directions shown:

Net Interest Margin				Net Interest Income	
Net Interest Margin (Ratio)	% Change to Flat Rate	Rate Direction	Rate changes by	Cumulative Total (000)	% Change to Flat Rate
3.64%	3.33%	Rising	3.00%	$33,500	3.32%
3.59%	2.12%	Rising	2.00%	$33,106	2.11%
3.57%	1.29%	Rising	1.00%	$32,842	1.29%
3.52%		Flat		$32,423	
3.37%	-4.14%	Falling	-1.00%	$31,061	-4.20%
3.11%	-11.67%	Falling	-2.00%	$28,571	-11.88%
2.84%	-19.23%	Falling	-3.00%	$26,082	-19.56%

The shock chart currently shows a tightening in net interest margin over the next twelve months in a decreasing rate environment and a slight increase in a rising rate environment. Due to the length of and existence of such a low rate environment, the model does not predict expansion of net interest margin in a further decreasing rate environment. Cost of funds are below 1% so at even the lowest shock of 100 basis points, the Bank cannot take full advantage and reprice funds to match the level of shock. Because of the long duration of the low rate environment, assets have been able to shorten the time frame when repricing will occur and therefore an increasing rate environment has become favorable. The Bank continues to enhance its use of the software model and performs additional stress tests whose results management and the directors review. Both directional changes are well within risk exposure guidelines. The effect of the rate shocks may be mitigated to the extent that not all lines of business are directly tied to an external index and actual balance sheet composition may differ from prediction.

ITEM 8. FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Farmers & Merchants Bancorp, Inc.

Archbold, Ohio

We have audited the accompanying consolidated balance sheets of Farmers & Merchants Bancorp, Inc. (Company) as of December 31, 2015 and 2014, and the related consolidated statements of income and comprehensive income, changes to stockholders equity and cash flows for the years then ended. The Company s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included 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 and 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 financial position of Farmers & Merchants Bancorp, Inc. as of December 31, 2015 and 2014, 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.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Farmers & Merchants Bancorp Inc. s internal control over financial reporting as of December 31, 2015, based on criteria established in *2013 Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO) and our report dated February 24, 2016, expressed an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ BKD, LLP

BKD, LLP

Fort Wayne, Indiana

February 24, 2016

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Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors and Stockholders

Farmers & Merchants Bancorp, Inc.

Archbold, Ohio

We have audited Farmers & Merchants Bancorp, Inc. s (Company) internal control over financial reporting as of December 31, 2015, based on criteria established in *2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Farmers & Merchants Bancorp, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on criteria established in *2013 Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission* (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of Farmers & Merchants Bancorp, Inc. and our report dated February 24, 2016, expressed an unqualified opinion thereon.

/s/ BKD, LLP

BKD, LLP

Fort Wayne, Indiana

February 24, 2016

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders

Farmers & Merchants Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated statements of income and comprehensive income, stockholders equity and cash flows of Farmers & Merchants Bancorp, Inc. and Subsidiary for the year ended December 31, 2013. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the company s internal control over financial reporting based on our audits.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated results of Farmers & Merchants Bancorp, Inc. and Subsidiary s operations and its cash flows for the year ended December 31, 2013 in conformity with accounting principles generally accepted in the United States of America.

/s/ Plante & Moran, PLLC

February 26, 2014

Auburn Hills, MI

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

Consolidated Balance Sheets

December 31, 2015 and 2014

(000 s Omitted, Except Per Share Data)

	2015	2014
Assets		
Assets		
Cash and due from banks	$ 21,333	$ 22,246
Federal Funds Sold	685	2,049
Total cash and cash equivalents	22,018	24,295
Securities - available for sale	235,115	248,492
Other securities, at cost	3,717	3,717
Loans, net	679,821	616,021
Premises and equipment	20,587	20,300
Goodwill	4,074	4,074
Mortgage servicing rights	2,056	2,023
Other real estate owned	1,175	1,094
Other assets	20,505	21,197
Total Assets	$ 989,068	$ 941,213
Liabilities and Stockholders Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 171,112	$ 164,009
Interest-bearing		
NOW accounts	190,890	179,862
Savings	225,052	223,189
Time	184,285	195,500
Total deposits	771,339	762,560
Federal Funds purchased and Securities sold under agreement to repurchase	78,815	55,962
Federal Home Loan Bank (FHLB) advances	10,000	
Dividend payable	1,007	965
Accrued expenses and other liabilities	7,810	7,233
Total liabilities	868,971	826,720
Commitments and Contingencies		
Stockholders Equity		
Common stock - No par value - 6,500,000 shares authorized; 5,200,000 shares issued & outstanding	12,086	12,222
Treasury stock - 587,466 shares 2015, 572,662 shares 2014	(12,389)	(11,928)

Retained earnings	120,188	113,755
Accumulated other comprehensive income	212	444
Total stockholders equity	120,097	114,493
Total Liabilities and Stockholders Equity	$ 989,068	$ 941,213

See Notes to Consolidated Financial Statements

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

Consolidated Statements of Income & Comprehensive Income

Years Ended December 31, 2015, 2014 and 2013

(000 s Omitted, Except Per Share Data)

	2015	2014	2013
Interest Income			
Loans, including fees	$ 29,293	$ 28,070	$ 24,978
Debt securities:			
U.S. Treasury and government agencies	2,434	3,171	4,151
Municipalities	1,739	2,037	2,080
Dividends	148	156	185
Federal funds sold	8	7	11
Other	28	12	23
Total interest income	33,650	33,453	31,428
Interest Expense			
Deposits	3,269	3,458	4,193
Federal funds purchased and securities sold under agreements to repurchase	317	254	248
Borrowed funds	1	4	163
Total interest expense	3,587	3,716	4,604
Net Interest Income - Before provision for loan losses	30,063	29,737	26,824
Provision for Loan Losses	625	1,191	858
Net Interest Income After Provision			
For Loan Losses	29,438	28,546	25,966
Noninterest Income			
Customer service fees	5,847	5,224	5,194
Other service charges and fees	3,790	3,819	3,746
Net gain on sale of loans	700	647	1,123
Net gain on sale of available for sale securities	451	494	775
Total noninterest income	10,788	10,184	10,838
Noninterest Expense			
Salaries and wages	10,907	10,186	9,553
Employee benefits	3,555	3,324	3,219
Net occupancy expense	1,352	1,107	1,251
Furniture and equipment	1,629	1,541	1,349
Data processing	1,300	1,250	1,212
Franchise taxes	746	781	953
Net loss on sale of other assets owned	47	157	144

FDIC assessment	485	503	535
Mortgage servicing rights amortization	374	344	426
Other general and administrative	5,672	6,020	5,559
Total other operating expenses	26,067	25,213	24,201
Income Before Income Taxes	14,159	13,517	12,603
Income Taxes	3,819	3,871	3,596
Net Income	10,340	9,646	9,007
Other Comprehensive Income (Loss) (Net of Tax):			
Net unrealized gain (loss) on available for sale securities	100	1,158	(8,448)
Reclassification adjustment for gain on sale of available for sale securities	(451)	(494)	(775)
Net unrealized gain (loss) on available for sale securities	(351)	664	(9,223)
Tax expense (benefit)	(119)	226	(3,136)
Other comprehensive income (loss)	(232)	438	(6,087)
Comprehensive Income	$ 10,108	$ 10,084	$ 2,920
Earnings Per Share - Basic and Diluted	$ 2.24	$ 2.08	$ 1.93

See Notes to Consolidated Financial Statements

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Farmers & Merchants Bancorp, Inc. and Subsidiaries Consolidated Statements of Changes to Stockholders Equity

For the Years Ended December 31, 2015, 2014 and 2013

(000 s Omitted, Except Per Share Data)

	Shares of Common Stock	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Total Stockholders Equity
Balance - January 1, 2013	4,684,058	$ 12,343	$ (10,588)	$ 102,641	$ 6,093	$ 110,489
Net income				9,007		9,007
Other comprehensive loss					(6,087)	(6,087)
Purchase of Treasury Stock	(56,000)		(1,236)			(1,236)
Issuance of 11,000 shares of restricted stock (Net of Forfeitures - 620)	10,380	(284)	213	17		(54)
Stock-based compensation expense		253				253
Cash dividends declared - $0.81 per share				(3,755)		(3,755)
Balance - December 31, 2013	4,638,438	$ 12,312	$ (11,611)	$ 107,910	$ 6	$ 108,617
Net income				9,646		9,646
Other comprehensive income					438	438
Purchase of Treasury Stock	(23,570)		(576)			(576)
Issuance of 13,250 shares of restricted stock (Net of Forfeitures - 780)	12,470	(322)	259	61		(2)
Stock-based compensation expense		232				232
Cash dividends declared - $0.84 per share				(3,862)		(3,862)
Balance - December 31, 2014	4,627,338	$ 12,222	$ (11,928)	$ 113,755	$ 444	$ 114,493
Net income				10,340		10,340
Other comprehensive loss					(232)	(232)
Purchase of Treasury Stock	(30,685)		(803)			(803)
Issuance of 16,000 shares of restricted stock (Net of Forfeitures - 100 Repurchases - 19)	15,881	(450)	342	78		(30)
Stock-based compensation expense		314				314
Cash dividends declared - $0.87 per share				(3,985)		(3,985)
Balance - December 31, 2015	4,612,534	$ 12,086	$ (12,389)	$ 120,188	$ 212	$ 120,097

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Consolidated Statements of Cash Flows

Years Ended December 31, 2015, 2014 and 2013

(000 s Omitted)

	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$ 10,340	$ 9,646	$ 9,007
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	1,365	1,293	1,184
Amortization of available for sale securities, net	1,239	1,430	2,149
Amortization of servicing rights	374	344	426
Amortization of core deposit intangible	323	480	319
Compensation expense related to stock awards	314	232	253
Provision for loan loss	625	1,191	858
Gain on sale of loans held for sale	(700)	(647)	(1,123)
Originations of loans held for sale	(52,706)	(37,432)	(62,360)
Proceeds from sale of loans held for sale	52,764	41,992	65,391
Loss on sale of other assets	47	157	144
Gain on sales of available for sale securities	(451)	(494)	(775)
Change in other assets and other liabilities, net	1,275	971	1,520
Net cash provided by operating activities	14,809	19,163	16,993
Cash Flows from Investing Activities			
Activity in securities:			
Maturities, prepayments and calls	26,059	17,817	33,228
Sales	47,029	57,928	91,039
Purchases	(60,925)		(103,320)
Proceeds from redemption of FHLB stock		499	
Proceeds from sales of assets	64	24	1,138
Additions to premises and equipment	(1,716)	(2,908)	(2,063)
Loan originations and principal collections, net	(64,483)	(50,853)	(67,194)
Net cash received for acquisition			15,215
Net cash provided by (used in) investing activities	(53,972)	22,507	(31,957)
Cash Flows from Financing Activities			
Net change in deposits	8,779	(13,904)	(16,254)
Net change in federal funds purchased and securities sold under agreements to repurchase	22,853	(13,794)	18,444
Proceeds of FHLB advances	10,000		
Repayment of FHLB advances		(4,500)	(7,100)
Purchase of Treasury Stock	(803)	(576)	(1,236)
Cash dividends paid on common stock	(3,943)	(3,864)	(3,719)
Net cash provided by (used in) financing activities	36,886	(36,638)	(9,865)

Net Increase (Decrease) in Cash and Cash Equivalents	(2,277)	5,032	(24,829)
Cash and Cash Equivalents - Beginning of Year	24,295	19,263	44,092
Cash and Cash Equivalents - End of Year	**$ 22,018**	**$ 24,295**	**$ 19,263**
Supplemental Information			
Cash paid during the year for:			
Interest	**$ 3,610**	**$ 3,732**	**$ 4,679**
Income taxes	**$ 3,079**	**$ 4,285**	**$ 3,240**
Noncash investing activities:			
Transfer of loans to other real estate owned	**$ 231**	**$ 139**	**$ 1,053**

See Notes to Consolidated Financial Statements

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 1 Summary of Significant Accounting Policies

Nature of Operations

The Farmers & Merchants Bancorp, Inc. (the Company) through its bank subsidiary, The Farmers & Merchants State Bank (the Bank) provides a variety of financial services to individuals and small businesses through its offices in Northwest Ohio and Northeast Indiana.

Consolidation Policy

The consolidated financial statements include the accounts of Farmers & Merchants Bancorp, Inc. and its wholly-owned subsidiaries, The Farmers & Merchants State Bank (the Bank), a commercial banking institution and Farmers & Merchants Risk Management, Inc. (the Captive), a Captive insurance company. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of mortgage servicing rights, goodwill, available for sale investment securities, other real estate owned and impaired loans. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank s loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

For purposes of the consolidated statement of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. This includes cash on hand, amounts due from banks, and federal funds sold. Generally, federal funds are purchased for one day periods.

Restrictions on Cash and Amounts Due from Banks

The Bank is required to maintain average balances on hand with the Federal Reserve Bank. The aggregate reserve was $6.5 million for December 31, 2015 and it was $7.1 million for December 31, 2014. The Company and its subsidiaries maintain cash balances with high quality credit institutions. At times such balances may be in excess of the federally insured limits.

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 1 Summary of Significant Accounting Policies (Continued)

Securities

Debt securities are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Net realized gains and losses on securities available for sale are included in noninterest income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss). Gains and losses on sales of securities are determined on the specific-identification method.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The related write-downs are included in earnings as realized losses.

Other Securities

Other Securities consists of Federal Home Loan Bank of Cincinnati and Indianapolis stock and Farmer Mac stock. The Federal Home Loan Bank of Indianapolis stock was completely redeemed during 2013. These stocks are carried at cost and are held to enable the Bank to conduct business with the entities. The Federal Home Loan Banks sell and purchase their stock at par. The Federal Home Loan Bank of Cincinnati stock is held as collateral security for all indebtedness of the Bank to the Federal Home Loan Bank. The Federal Home Loan Bank of Cincinnati is evaluated for impairment as conditions warrant.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the amount of unpaid principal, reduced by unearned discounts and deferred loan fees and costs, as well as, by the allowance for loan losses. Interest income is accrued on a daily basis based on the principal outstanding.

Generally, a loan is classified as nonaccrual and the accrual of interest income is generally discontinued when a loan becomes ninety days past due as to principal or interest and these loans are placed on a cash basis for purposes of income recognition. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to cover the principal and accrued interest, and the loan is in the process of collection. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest receivable is charged against income.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as a net adjustment to the related loan s yield. The Bank is generally amortizing these costs over the contractual life of such loans.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to income. Loans deemed to be uncollectable and changes in the allowance relating to loans are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management s periodic review of the collectability of the loans in light of historical experiences, the nature and volume of the loan portfolio, adverse situations that may affect the borrower s ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are subject to revision as more information becomes available.

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 1 Summary of Significant Accounting Policies (Continued)

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market

price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component is maintained to cover uncertainties that could affect management s estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial and agricultural loans by either the present value of expected future cash flows discounted at the loan s effective interest rate, the loan s obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

At 90 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency.

For the majority of the Bank s impaired loans, the Bank will apply the fair value of collateral or use a measurement incorporating the present value of expected future cash flows discounted at the loan s effective rate of interest. To determine fair value of collateral, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained. Until such time that updated appraisals are received, the Bank may discount the collateral value used.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

For more information regarding the actual composition and classification of loans involved in the establishment of the allowance for loan loss, please see Note 4 provided here with the notes to consolidated financial statements.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

Servicing Assets

Servicing assets are recognized as separate assets when rights are acquired through purchase or sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 1 Summary of Significant Accounting Policies (Continued)

rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in operating income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

Goodwill and Other Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually. If possible impairment is likely, the Bank will utilize the assistance of an independent third party for impairment and any such impairment is recognized in the period identified. The Bank considered the following qualitative factors to determine if impairment was likely: 1) the Bank continued to perform above peer and remains profitable with capital growth, 2) the Bank had improved asset quality and does not see any change in the trend, 3) the Bank had strong liquidity and capital positions, 4) in quantitative testing done in 2015, the excess fair value of capital was $20.4 million or 20.3% over the carrying value and was over 5 times the value of the goodwill being carried and 5) the Bank was unaware of any likely circumstances that would indicate the fair value of the entity would be greatly decreased in the near future. Therefore, the Bank concluded it is unlikely impairment of Goodwill has occurred from the goodwill established from the Bank s acquisition which occurred on December 31, 2007.

Other intangible assets consist of core deposit intangible assets arising from business acquisitions. They are initially measured at fair value and then are amortized on a straight line method over their estimated useful lives and evaluated for impairment.

Off Balance Sheet Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

Foreclosed Real Estate

Foreclosed real estate held for sale is carried at the lower of fair value minus estimated costs to sell, or cost. Costs of holding foreclosed real estate are charged to expense in the current period, except for significant property improvements, which are capitalized. Valuations are periodically performed by management and an allowance is established by a charge to non-interest expense if the carrying value exceeds the fair value minus estimated costs to sell. Foreclosed real estate is classified as other real estate owned. The net income from operations of foreclosed real estate held for sale is reported in non-interest income. At December 31, the Bank s holding of other real estate owned totaled approximately $1.2 and $1.1 million for 2015 and 2014 respectively.

Bank Premises and Equipment

Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is based on the estimated useful lives of the various properties and is computed using straight line and accelerated methods. Costs for maintenance and repairs are charged to operations as incurred. Gains and losses on dispositions are included in current operations.

Federal Income Tax

The Company s income tax expense consists of the following components: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management s judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company recognizes interest and penalties, if any, related to unrecognized tax benefits in tax expense. Based on management s analysis, the Company did not have any uncertain tax positions as of December 31, 2015 and 2014. With a few exceptions, the Company is no longer subject to U.S. Federal, state or local examinations by tax authorities for years before 2012.

Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. See Note 12 for additional information.

Stock-Based Compensation

The fair value of restricted common stock is their fair market value on the date of grant. The fair value of restricted stock is amortized as compensation expense on a straight-line basis over the vesting period of the grants. Compensation expense recognized is included in personnel expense in the consolidated statement of income

Other Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of other comprehensive income (loss).

The components of other comprehensive income and related tax effects are as follows:

	(In Thousands)		
	2015	2014	2013
Net unrealized gain (loss) on available-for-sale securities	$ 100	$ 1,158	$ (8,448)
Reclassification adjustment for gain on sale of available-for-sale securities	(451)	(494)	(775)
Net unrealized gains (losses)	(351)	664	(9,223)
Tax expense (benefit)	(119)	226	(3,136)
Other comprehensive income (loss)	$ (232)	$ 438	$ (6,087)

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Reclassification

Certain amounts in the 2014 and 2013 consolidated financial statements have been reclassified to conform with the 2015 presentation.

Subsequent Events

On January 15, 2016, the Company announced the authorization by its Board of Directors for the Company s repurchase, either on the open market, or in privately negotiated transactions, of up to 200,000 shares of its outstanding common stock commencing January 15, 2016 and ending December 31, 2016.

Recent Accounting Pronouncements

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis (Topic 810). The amendments in this ASU clarify when a company is required to consolidate another legal entity in situations in which the reporting entity s contractual rights do not give it the ability to act primarily on its own behalf, the reporting entity does not hold a majority of the legal entity s voting rights, or the reporting entity is not exposed to a majority of the legal entity s economic benefits or obligations. The amendments in this ASU have the following three main provisions that affect limited partnerships and similar legal entities: (1) there is an additional requirement that limited partnerships and similar legal entities must meet to qualify as voting interest entities. A limited partnership must provide partners with either substantive kick-out rights or substantive participating rights over the general partner to meet this requirement; (2) the specialized consolidation model and guidance for limited partnerships and similar legal entities have been eliminated. There is no longer a presumption that a general partner should consolidate a limited partnership; and (3) for limited partnerships and similar entities that qualify as voting interest entities, a limited partner with a controlling financial interest should consolidate a limited partnership. A controlling financial interest may be achieved through holding a limited partner interest that provides substantive kick-out rights. The amendments in the ASU are effective for public companies for fiscal years beginning after December 15, 2015, and early adoption is permitted. The Company does not expect that the adoption of this ASU will have an impact on the Company s results of operations or financial position.

In September 2015, the FASB issued ASU 2015-16, Simplifying the Accounting for Measurement-Period Adjustments (Topic 805). The amendments in the ASU identify, evaluate, and improve areas of generally accepted accounting principles for which cost and complexity can be reduced while maintaining or improving the usefulness of the information provided to the users of the financial statements. The amendment addresses the requirement to retrospectively apply adjustments made to provisional amounts recognized in a business combination. The amendments in this ASU require that an acquirer recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. Additionally, the acquirer should record, in the same period s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. The amendments in the ASU require an entity to present separately on the face of the income statement or disclose in the notes the portion of the amount recorded in the current-period earning by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The amendments for this ASU are effective for fiscal years beginning after December 15, 2015, and should be applied prospectively to adjustments to provisional amounts that occur after the effective date of this ASU with earlier adoption permitted for financial statements that have not been issued. The Company does not expect that the adoption of this ASU will have an impact on the Company s results of operations or financial position.

In November 2015, the FASB issued ASU 2015-17, Balance Sheet Classification of Deferred Taxes (Topic 740). The amendments in this ASU modify the current requirement that separates deferred income tax liabilities and assets into current and noncurrent amounts in a classified statement of financial position. To simplify the presentation of deferred income taxes, the amendments in this ASU require that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments in the ASU are effective for financial statements issued for annual periods beginning after December 15, 2016,

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

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December 31, 2015, 2014, and 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

and early application is permitted as of the beginning of an interim or annual reporting period either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company does not expect that the adoption of this ASU will have an impact on the Company s results of operation or financial position.

ASU 2016-1, No. 2016-01, Financial Instruments Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. ASU 2016-1, among other things, (i) requires equity investments, with certain exceptions, to be measured at fair value with changes in fair value recognized in net income, (ii) simplifies the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment, (iii) eliminates the requirement for public business entities to disclose the methods and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet, (iv) requires public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes, (v) requires an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments, (vi) requires separate presentation of financial assets and financial liabilities by measurement category and form of financial asset on the balance sheet or the accompanying notes to the financial statements and (viii) clarifies that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for sale. ASU 2016-1 is effective for fiscal years beginning after December 15, 2017 and is not expected to have a significant impact on our financial statements.

Note 2 Business Combination & Asset Purchase

On December 13, 2013, the Bank completed its purchase of a branch office in Custar, Ohio from Croghan Colonial Bank. Deposits of approximately $29.5 million and loans of $11.4 million were included in the purchase. The aggregate acquisition cost of the Custar office was $1.2 million, which was all paid in cash. The office is located within the Bank s current market area and expanded our presence in Wood County.

The following table summarizes the estimated values of the assets acquired and the liabilities assumed:

($ in Thousands)	
Cash	$ 204
Loans	11,436
Accrued Interest on Loans	31
Premises and Equipment	271
Core Deposit Intangible Asset	1,171
Other Assets	1

Total Assets Acquired	$ 13,114
Deposits	$ 29,466
Accrued Interest on Deposits	17
Other Liabilities	17
Total Liabilities Assumed	$ 29,500
Net Liabilities Assumed	$ (16,386)

The Company also recognized core deposit intangible assets of $2.26 million with the purchase of offices. $1.17 million was recognized with the purchase of the Custar office on December 13, 2013 and $1.09 million with the Hicksville office on July 9, 2010. These are being amortized over an estimated remaining economic

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 2 Business Combination & Asset Purchase (Continued)

useful life of the deposits of 7 years on a straight line basis. In connection with a December 31, 2007 Knisely acquisition, the Company recognized a core deposit intangible asset of $1.1 million, which was fully amortized during 2014. The core deposit intangible is included in other assets on the consolidated balance sheets.

The estimated amortization expense for the years ended December 31, 2015, 2014 and 2013 was $323, $480, and $319 thousand, respectively.

Amortization expense of the core deposit intangible assets remaining is as follows:

	Hicksville	Custar	Total
2016	155	167	322
2017	78	167	245
2018		167	167
2019		167	167
2020		162	162
Total	$ 233	$ 830	$ 1,063

Note 3 Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	(In Thousands) 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury	$ 38,778	$ 36	$ (309)	$ 38,505
U.S. Government agencies	99,000	55	(835)	98,220
Mortgage-backed securities	26,157	283	(116)	26,324
State and local governments	70,858	1,290	(82)	72,066

Total available-for-sale securities	$ 234,793	$ 1,664	$ (1,342)	$ 235,115

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 3 Securities (Continued)

	(In Thousands) 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury	$ 25,833	$	$ (440)	$ 25,393
U.S. Government agencies	120,154	391	(1,311)	119,234
Mortgage-backed securities	29,067	557	(62)	29,562
State and local governments	72,765	1,671	(133)	74,303
Total available-for-sale securities	$ 247,819	$ 2,619	$ (1,946)	$ 248,492

Investment securities will at times depreciate to an unrealized loss position. The Bank utilizes the following criteria to assess whether impairment is other than temporary. No one item by itself will necessarily signal that a security should be recognized as an other than temporary impairment.

1. The fair value of the security has significantly declined from book value.

2. A downgrade has occurred that lowered the credit rating to below investment grade (below Baa3 by Moody and BBB by Standard and Poors.)

3. Dividends have been reduced or eliminated or scheduled interest payments have not been made.

4. The underwater security has longer than 10 years to maturity and the loss position had existed for more than 3 years.

5.

Management does not possess both the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the impairment is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value, thereby establishing a new cost basis. The new cost basis shall not be changed for subsequent recoveries in fair value. The amount of the write down shall be included in current earnings as a realized loss. The recovery in fair value, if any, shall be recognized in earnings when the security is sold. The table below is presented by category of security and length of time in a continuous loss position. The Bank currently does not hold any securities with other than temporary impairment.

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Farmers & Merchants Bancorp, Inc. and Subsidiaries

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Note 3 Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2015 and 2014, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	2015			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ (142)	$ 23,241	$ (167)	$ 10,195
U.S. Government agencies	(635)	68,957	(200)	9,793
Mortgage-backed securities	(60)	6,331	(56)	3,580
State and local governments	(54)	7,920	(28)	1,725
Total available-for-sales securities	$ (891)	$ 106,449	$ (451)	$ 25,293

	2014			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	$	$	$ (440)	$ 25,393
U.S. Government agencies	(1)	5,458	(1,310)	82,803
Mortgage-backed securities			(62)	7,900
State and local governments	(31)	3,442	(102)	7,756
Total available-for-sales securities	$ (32)	$ 8,900	$ (1,914)	$ 123,852

Unrealized losses on securities have not been recognized into income because the issuers bonds are of high credit quality, values have only been impacted by rate changes, and the Company has the intent and ability to hold the securities for the foreseeable future. The fair value is expected to recover as the bonds approach the maturity date.

Sales of $47.0, $57.9, and $91.0 million for 2015, 2014, and 2013 respectively, generated gross realized gains and losses for the years ended December 31, as presented below:

	(In Thousands)		
	2015	2014	2013
Gross realized gains	$ 451	$ 638	$ 839
Gross realized losses		(144)	(64)
Net realized gains	$ 451	$ 494	$ 775
Tax expense related to net realized gains	$ 153	$ 168	$ 264

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

December 31, 2015, 2014, and 2013

Note 3 Securities (Continued)

The net realized gain on sales and related tax expense is a reclassification out of accumulated other comprehensive income. The net realized gain is included in net gain on sale of securities available-for-sale and

the related tax expense is included in income tax expense in the consolidated statements of income and comprehensive income.

The amortized cost and fair value of debt securities at December 31, 2015, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	(In Thousands)	
	Amortized Cost	Fair Value
One year or less	$ 13,812	$ 13,862
After one year through five years	152,266	151,894
After five years through ten years	35,674	35,953
After ten years	6,884	7,082
Total	$ 208,636	$ 208,791
Mortgage-backed securities	26,157	26,324
Total	$ 234,793	$ 235,115

Investments with a carrying value and fair value of $189.3 million at December 31, 2015 and $176.9 million at December 31, 2014 were pledged to secure public deposits and securities sold under repurchase agreements.

Other securities include Federal Home Loan Bank of Cincinnati and Farmer Mac stock as of December 31, 2015 and 2014.

Note 4 Loans

The Company had $1.2 million in loans held for sale at December 31, 2015 as compared to $459 thousand in loans held for sale at December 31, 2014. Due to materiality, these loans are included in the Consumer Real Estate and Agricultural Real Estate loan categories at the lower of cost or market.

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Note 4 Loans (Continued)

Loans at December 31 are summarized below:

	(In Thousands)	
Loans:	2015	2014
Consumer Real Estate	$ 88,189	$ 97,550
Agricultural Real Estate	58,525	50,895
Agricultural	82,654	74,611
Commercial Real Estate	322,762	270,188
Commercial and Industrial	100,125	100,126
Consumer	27,770	24,277
Industrial Development Bonds	6,491	4,698
	$ 686,516	$ 622,345
Less: Net deferred loan fees and costs	(638)	(419)
	685,878	621,926
Less: Allowance for loan losses	(6,057)	(5,905)
Loans - Net	$ 679,821	$ 616,021

Following are the characteristics and underwriting criteria for each major type of loan the Bank offers:

Commercial Real Estate: Construction, purchase, and refinance of business purpose real estate. Risks include loan amount in relation to construction delays and overruns, vacancies, collateral value subject to market value fluctuations, interest rate, market demands, borrower s ability to repay in orderly fashion, and others. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer s ability to repay in a changing rate environment before granting loan approval.

Agricultural Real Estate: Purchase of farm real estate or for permanent improvements to the farm real estate. Cash flow from the farm operation is the repayment source and is therefore subject to the financial success of the farm operation.

Consumer Real Estate: Purchase, refinance, or equity financing of one to four family owner occupied dwelling. Success in repayment is subject to borrower s income, debt level, character in fulfilling payment obligations, employment, and others.

Commercial and Industrial: Loans to proprietorships, partnerships, or corporations to provide temporary working capital and seasonal loans as well as long term loans for capital asset acquisition. Risks include adequacy of cash flow, reasonableness of profit projections, financial leverage, economic trends, management ability, and others. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer s ability to repay in a changing rate environment before granting loan approval.

Agricultural: Loans for the production and housing of crops, fruits, vegetables, and livestock or to fund the purchase or re-finance of capital assets such as machinery and equipment, and livestock. The production of crops and livestock is especially vulnerable to commodity prices and weather. The vulnerability to commodity prices is offset by the farmer s ability to hedge their position by the use of future contracts. The risk related to weather is often mitigated by requiring federal crop insurance.

Consumer: Funding for individual and family purposes. Success in repayment is subject to borrower s income, debt level, character in fulfilling payment obligations, employment, and others.

Industrial Development Bonds (IDB): Funds for public improvements in the Bank s service area. Repayment ability is based on the continuance of the taxation revenue as the source of repayment.

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December 31, 2015, 2014, and 2013

Note 4 Loans (Continued)

The following is a maturity schedule by major category of loans at December 31, 2015:

	(In Thousands)			
	Within One Year	After One Year Within Five Years	After Five Years	Total
Consumer Real Estate	$ 1,270	$ 11,486	$ 75,433	$ 88,189
Agricultural Real Estate	1,073	3,300	54,152	58,525
Agricultural	52,939	24,239	5,476	82,654
Commercial Real Estate	13,030	70,699	239,033	322,762
Commercial and Industrial	45,971	34,791	19,363	100,125
Consumer	5,480	17,228	5,062	27,770
Industrial Development Bonds	1,300	185	5,006	6,491
	$ 121,063	$ 161,928	$ 403,525	$ 686,516

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of December 31, 2015:

	(In Thousands)	
	Fixed Rate	Variable Rate
Consumer Real Estate	$ 54,940	$ 33,249
Agricultural Real Estate	42,480	16,045
Agricultural	47,305	35,349
Commercial Real Estate	206,383	116,379
Commercial and Industrial loans	54,669	45,456
Consumer, Master Card and Overdrafts	23,305	4,465
Industrial Development Bonds	6,350	141

As of December 31, 2015 and 2014 one to four family residential mortgage loans amounting to $20.0 million and $20.8 million, respectively, have been pledged as security for loans the Bank has received from the Federal Home Loan Bank.

Industrial Development Bonds are included in the commercial and industrial category for the remainder of the tables in this Note 4, unless specifically noted separately.

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Note 4 Loans (Continued)

The following table represents the contractual aging of the recorded investment in past due loans by portfolio classification of loans as of December 31, 2015 and 2014, net of deferred loan fees and costs:

December 31, 2015	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Consumer Real Estate	$ 303	$ 47	$ 357	$ 707	$ 87,240	$ 87,947	$
Agricultural Real Estate			162	162	58,301	58,463	
Agricultural		145		145	82,617	82,762	
Commercial Real Estate	236		841	1,077	321,153	322,230	
Commercial and Industrial	51		20	71	106,618	106,689	
Consumer	19	9		28	27,759	27,787	
Total	$ 609	$ 201	$ 1,380	$ 2,190	$ 683,688	$ 685,878	$

December 31, 2014	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Consumer Real Estate	$ 713	$ 50	$ 436	$ 1,199	$ 96,351	$ 97,550	$
Agricultural Real Estate					50,895	50,895	
Agricultural	25			25	74,586	74,611	
Commercial Real Estate	78	204	709	991	269,197	270,188	
Commercial and Industrial		8		8	104,816	104,824	
Consumer	25	8	29	62	23,796	23,858	
Total	$ 841	$ 270	$ 1,174	$ 2,285	$ 619,641	$ 621,926	$

The following table presents the recorded investment in nonaccrual loans by portfolio class of loans as of December 31, 2015 and December 31, 2014:

	(In Thousands)	
	2015	2014
Consumer real estate	$ 1,155	$ 628
Agricultural real estate	162	
Agriculture		
Commercial real estate	484	709
Commercial	202	339
Consumer	38	29
Total	$ 2,041	$ 1,705

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Note 4 Loans (Continued)

The Bank uses a nine tier risk rating system to grade its loans. The grade of a loan may change during the life of the loan. The risk ratings are described as follows.

1. Zero (0) Unclassified. Any loan which has not been assigned a classification.

2. One (1) Excellent. Credit to premier customers having the highest credit rating based on an extremely strong financial condition, which compares favorably with industry standards (upper quartile of The Risk Management Association ratios). Financial statements indicate a sound earnings and financial ratio trend for several years with satisfactory profit margins and excellent liquidity exhibited. Prime credits may also be borrowers with loans fully secured by highly liquid collateral such as traded stocks, bonds, certificates of deposit, savings account, etc. No credit or collateral exceptions exist and the loan adheres to the Bank s loan policy in every respect. Financing alternatives would be readily available and would qualify for unsecured credit. This grade is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.

3. Two (2) Good. Desirable loans of somewhat less stature than Grade 1, but with strong financial statements. Loan supported by financial statements containing strong balance sheets, generally with a leverage position less than 1.50, and a history of profitability. Probability of serious financial deterioration is unlikely. Possessing a sound repayment source (and a secondary source), which would allow repayment in a reasonable period of time. Individual loans backed by liquid personal assets, established history and unquestionable character.

4. Three (3) Satisfactory. Satisfactory loans of average or slightly above average risk having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects should normally demonstrate acceptable debt service coverage. Generally, customers should have a leverage position less than 2.00. May be some weakness but with offsetting features of other support readily available. Loans are meeting the terms of repayment.

Loans may be graded 3 when there is no recent information on which to base a current risk evaluation and the following conditions apply:

At inception, the loan was properly underwritten and did not possess an unwarranted level of credit risk;

a. At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss;

b. The loan exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance;

c. During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the business is in an industry which is known to be experiencing problems. If any of the credit weaknesses is observed, a lower risk grade is warranted.

5. Four (4) Satisfactory / Monitored. A 4 (Satisfactory/Monitored) risk grade may be established for a loan considered satisfactory but which is of average credit risk due to financial weakness or uncertainty. The loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in Satisfactory/Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given management supervision.

6. Five (5) Special Mention. Loans that possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a 5 (Special Mention) classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered potential , versus defined , impairments to the primary source of loan repayment and collateral.

7. Six (6) Substandard. One or more of the following characteristics may be exhibited in loans classified substandard:

a. Loans, which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source, are uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss

Farmers & Merchants Bancorp, Inc. and Subsidiaries

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December 31, 2015, 2014, and 2013

Note 4 Loans (Continued)

b. Loans are inadequately protected by the current net worth and paying capacity of the borrower.

c. The primary source of repayment is weakened, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.

d. Loans are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

e. Unusual courses of action are needed to maintain a high probability of repayment.

f. The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.

g. The lender is forced into a subordinate position or unsecured collateral position due to flaws in documentation.

h. Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.

i. The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan

j. There is significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

8. Seven (7) Doubtful. One or more of the following characteristics may be exhibited in loans classified Doubtful:

   a. Loans have all of the weaknesses of those classified as Substandard. Additionally, however, these weaknesses make collection or liquidation in full based on existing conditions improbable.

   b. The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.

   c. The possibility of loss is high, but, because of certain important pending factors which may strengthen the loan, loss classification is deferred until its exact status is known. A Doubtful classification is established deferring the realization of the loss.

9. Eight (8) Loss. Loans are considered uncollectable and of such little value that continuing to carry them as assets on the institution s financial statements is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

The following table represents the risk category of loans by portfolio class, net of deferred fees, based on the most recent analysis performed as of the time periods shown of December 31, 2015 and December 31, 2014.

(In Thousands)

	Agricultural Real Estate		Agricultural		Commercial Real Estate		Commercial and Industrial		Industrial Development Bonds	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
1-2	$ 5,841	$ 4,319	$ 12,025	$ 11,490	$ 597	$ 1,072	$ 261	$ 1,771	$	$
3	16,593	15,780	21,247	26,871	24,264	34,229	22,300	15,582	3,100	4,289
4	35,475	30,472	49,220	36,225	293,381	225,015	76,855	80,079	3,391	409
5	192	111	250		1,738	7,083	57	2,299		
6	362	213			1,828	2,080	543	165		
7			20	25	422	709	182	230		
8										
Total	$ 58,463	$ 50,895	$ 82,762	$ 74,611	$ 322,230	$ 270,188	$ 100,198	$ 100,126	$ 6,491	$ 4,698

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Note 4 Loans (Continued)

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, which was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned risk grading as of December 31, 2015 and December 31, 2014.

	(In Thousands) Consumer Real Estate	
	2015	2014
Grade		
Pass	$ 87,292	$ 97,007
Special mention (5)	48	
Substandard (6)	332	446
Doubtful (7)	275	97
Total	$ 87,947	$ 97,550

	Consumer - Credit Card		Consumer - Other	
	2015	2014	2015	2014
Performing	$ 3,901	$ 3,987	$ 23,863	$ 19,846
Nonperforming			23	25
Total, net of deferred fees	$ 3,901	$ 3,987	$ 23,886	$ 19,871

Information about impaired loans as of and for the years ended December 31, 2015 and 2014 are as follows:

	(In Thousands)	
	2015	2014
Impaired loans without a valuation allowance	$ 1,257	$ 675
Impaired loans with a valuation allowance	879	1,168

Total impaired loans	$ 2,136	$ 1,843
Valuation allowance related to impaired loans	$ 330	$ 387
Total non-accrual loans	$ 2,041	$ 1,705
Total loans past-due ninety days or more and still accruing	$	$

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Note 4 Loans (Continued)

	(In Thousands)		
	2015	2014	2013
Average investment in impaired loans	$ 2,509	$ 1,929	$ 3,274
Interest income recognized on impaired loans	$ 96	$ 87	$ 60
Interest income recognized on a cash basis on impaired loans	$ 60	$ 51	$ 17

No additional funds are committed to be advanced in connection with impaired loans.

The Bank had approximately $1.1 million of its impaired loans classified as trouble debt restructured as of December 31, 2015 as compared to $797.2 thousand of its impaired loans classified as trouble debt restructured as of December 31, 2014.

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Note 4 Loans (Continued)

The following table represents the years ended December 31, 2015 and 2014.

December 31, 2015 Troubled Debt Restructurings	Number of Contracts Modified in the Last 12 Months	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	December 31, 2014 Troubled Debt Restructurings	Number of Contracts Modified in the Last 12 Months	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Commercial Real Estate	1	$ 528	$ 430	Commercial Real Estate	0	$	$
Commercial and Industrial	1	25	24	Commercial and Industrial	0		

For the years ended December 31, 2015 and 2014, there were no TDRs that subsequently defaulted after modification.

For the majority of the Bank s impaired loans, the Bank will apply the observable market price methodology. However, the Bank may also utilize a measurement incorporating the present value of expected future cash flows discounted at the loan s effective rate of interest. To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the collateral value used.

The Bank uses the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge down in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 120 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial and agricultural credits are charged down at 120 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-off may be realized as further unsecured positions are recognized.

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Note 4 Loans (Continued)

The following table presents loans individually evaluated for impairment by portfolio class of loans as of December 31, 2015 and 2014:

(In Thousands)

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
2015						
With no related allowance recorded:						
Consumer real estate	$ 156	$ 156	$	$ 158	$ 5	$ 5
Agricultural real estate	63	63		120		
Agricultural						
Commercial real estate	1,038	1,038		421	27	27
Commercial and Industrial				429	27	
Consumer						
With a specific allowance recorded:						
Consumer real estate	275	323	64	181	7	6
Agricultural real estate						
Agricultural						
Commercial real estate	422	422	152	907	30	22
Commercial and Industrial	182	182	114	291		
Consumer				2		
Totals:						
Consumer real estate	$ 431	$ 479	$ 64	$ 339	$ 12	$ 11
Agricultural real estate	$ 63	$ 63	$	$ 120	$	$
Agricultural	$	$	$	$	$	$
Commercial real estate	$ 1,460	$ 1,460	$ 152	$ 1,328	$ 57	$ 49

Commercial and Industrial	$	182	$	182	$	114	$	720	$	27	$	
Consumer	$		$		$		$	2	$		$	

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Notes to Consolidated Financial Statements

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Note 4 Loans (Continued)

	(In Thousands)					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
2014						
With no related allowance recorded:						
Consumer real estate	$ 204	$ 229	$	$ 52	$ 1	$ 1
Agricultural real estate				93	7	
Agricultural						
Commercial real estate	471	471		740	7	5
Commercial and Industrial				319	45	18
Consumer						
With a specific allowance recorded:						
Consumer real estate	97	97	36	118	6	6
Agricultural real estate				15		
Agricultural	25	25	25	2		
Commercial real estate	709	709	111	83	21	21
Commercial and Industrial	326	326	204	506		
Consumer	11	11	11	1		
Totals:						
Consumer real estate	$ 301	$ 326	$ 36	$ 170	$ 7	$ 7
Agricultural real estate	$	$	$	$ 108	$ 7	$
Agricultural	$ 25	$ 25	$ 25	$ 2	$	$
Commercial real estate	$ 1,180	$ 1,180	$ 111	$ 823	$ 28	$ 26
Commercial and Industrial	$ 326	$ 326	$ 204	$ 825	$ 45	$ 18
Consumer	$ 11	$ 11	$ 11	$ 1	$	$

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Note 4 Loans (Continued)

On January 1, 2015, the Company adopted Accounting Standards Update (ASU) 2014-04, Receivables, - Troubled Debt Restructuring by Creditors. As of December 31, 2015 the Company had $477 thousand of foreclosed residential real estate property obtained by physical possession and $425 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions.

The ALLL has a direct impact on the provision expense. An increase in the ALLL is funded through recoveries and provision expense. The following tables summarize the activities in the allowance for credit losses.

The following is an analysis of the allowance for credit losses for the years ended December 31:

	(In Thousands)		
	2015	2014	2013
Allowance for Loan Losses			
Balance at beginning of year	$ 5,905	$ 5,194	$ 5,224
Provision for loan loss	625	1,191	858
Loans charged off	(1,030)	(778)	(1,262)
Recoveries	557	298	374
Balance at ending of year	$ 6,057	$ 5,905	$ 5,194
Allowance for Unfunded Loan Commitments & Letters of Credit	$ 208	$ 207	$ 163
Total Allowance for Credit Losses	$ 6,265	$ 6,112	$ 5,357

The Company segregates its Allowance for Loan and Lease Losses (ALLL) into two reserves: The ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit (AULC). When combined, these reserves constitute the total Allowance for Credit Losses (ACL).

The AULC is reported within other liabilities on the balance sheet while the ALLL is netted within the loans, net asset line. The ACL presented above represents the full amount of reserves available to absorb possible credit losses.

The following table breaks down the activity within ALLL for each loan portfolio segment and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs.

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Note 4 Loans (Continued)

Additional analysis related to the allowance for credit losses as of December 31, 2015 and 2014 is as follows:

(In Thousands)

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
2015									
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 537	$ 184	$ 547	$ 2,367	$ 1,421	$ 323	$ 207	$ 526	$ 6,112
Charge Offs	(38)			(143)	(536)	(313)			(1,030)
Recoveries	41		64	204	91	157			557
Provision (Credit)	(202)	27	(29)	88	253	170		318	625
Other Non-interest expense related to unfunded							1		1
Ending Balance	$ 338	$ 211	$ 582	$ 2,516	$ 1,229	$ 337	$ 208	$ 844	$ 6,265
Ending balance: individually evaluated for impairment	$ 64	$	$	$ 152	$ 114	$	$	$	$ 330
Ending balance: collectively evaluated for impairment	$ 274	$ 211	$ 582	$ 2,364	$ 1,115	$ 337	$ 208	$ 844	$ 5,935

Ending balance: loans acquired with deteriorated credit quality	$ 1	$	$	$	$	$	$	$	$ 1
FINANCING RECEIVABLES:									
Ending balance	$ 87,947	$ 58,463	$ 82,762	$ 322,230	$ 106,689	$ 27,787	$	$	$ 685,878
Ending balance: individually evaluated for impairment	$ 431	$ 63	$	$ 1,460	$ 182	$	$	$	$ 2,136
Ending balance: collectively evaluated for impairment	$ 87,516	$ 58,400	$ 82,762	$ 320,770	$ 106,507	$ 27,787	$	$	$ 683,742
Ending balance: loans acquired with deteriorated credit quality	$ 507	$	$	$	$	$	$	$	$ 507

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December 31, 2015, 2014, and 2013

Note 4 Loans (Continued)

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 257	$ 131	$ 326	$ 2,107	$ 1,359	$ 292	$ 163	$ 722	$ 5,357
Charge Offs	(168)			(229)		(381)			(778)
Recoveries	34		44	4	20	196			298
Provision (Credit)	414	53	177	485	42	216		(196)	1,191
Other Non-interest expense related to unfunded							44		44
Ending Balance	$ 537	$ 184	$ 547	$ 2,367	$ 1,421	$ 323	$ 207	$ 526	$ 6,112
Ending balance: individually evaluated for impairment	$ 36	$	$ 25	**$ 111**	**$ 204**	$ 11	$	$	$ 387
Ending balance: collectively evaluated for impairment	$ 501	$ 184	$ 522	**$ 2,256**	**$ 1,217**	$ 312	$ 207	$ 526	$ 5,725
Ending balance: loans acquired with deteriorated credit quality	$ 2	$	$	$	$	$	$	$	2
FINANCING RECEIVABLES:									
Ending balance	$ 97,550	$ 50,895	$ 74,611	$ 270,188	$ 104,824	$ 23,858	$	$	$ 621,926

Ending balance: individually evaluated for impairment	$ 301	$	$ 25	$ 1,179	$ 327	$ 11	$	$	$ 1,843
Ending balance: collectively evaluated for impairment	$ 97,249	$ 50,895	$ 74,586	$ 269,009	$ 104,497	$ 23,847	$	$	$ 620,083
Ending balance: loans acquired with deteriorated credit quality	$ 526	$	$	$	$	$	$	$	$ 526

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

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Note 5 Premises and Equipment

The major categories of banking premises and equipment and accumulated depreciation at December 31 are summarized below:

	(In Thousands)	
	2015	2014
Land	$ 5,647	$ 4,984
Buildings (useful life 15-39 years)	21,943	21,955
Construction in Progress	329	
Furnishings (useful life 3-15 years)	11,783	11,429
	39,702	38,368
Less: Accumulated depreciation	(19,115)	(18,068)
Premises and Equipment (Net)	$ 20,587	$ 20,300

Depreciation expense for the years ended December 31, 2015, 2014 and 2013 amounted to $1.4, $1.3, and $1.2 million, respectively.

Construction in Progress represents building construction of the Bank s newest office in Fort Wayne, Indiana that is expected to open in 2016. An additional $722 thousand in costs are anticipated to complete the project in 2016.

Note 6 Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were $275.6 and $275.5 million at December 31, 2015 and 2014, respectively.

The balance of capitalized servicing rights included in other assets at December 31, 2015 and 2014, was $2.1 and $2.0 million, respectively. The capitalized addition of servicing rights is included in net gain on sale of loans on the consolidated statement of income.

The fair market value of the capitalized servicing rights as of December 31, 2015 and 2014 was $2.7 million and $2.9 million, respectively. The valuations were completed by stratifying the loans into like groups based on loan type and term. Impairment was measured by estimating the fair value of each stratum, taking into consideration an estimated level of prepayment based upon current market conditions. An average constant prepayment rate of 11.0 and 9.6 were utilized for 2015 and 2014, respectively. All stratums showed positive values compared to carrying value using a discount yield of 6.52% for 2015 and 6.48% for 2014.

The following summarizes mortgage servicing rights capitalized and amortized during each year:

	(In Thousands)	
	2015	2014
Beginning Year	$ 2,023	$ 2,066
Capitalized Additions	407	301
Amortization	(374)	(344)
Valuation Allowance		
End of Year	$ 2,056	$ 2,023

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Note 7 Deposits

Time deposits as of December 31 consist of the following:

	(In Thousands) 2015	2014
Time deposits under $100,000	$ 103,424	$ 113,903
Time deposits of $100,000 or more	80,861	81,597
	$ 184,285	$ 195,500

At December 31, 2015 the scheduled maturities for time deposits are as follows:

	(In Thousands)
2016	$ 89,862
2017	28,002
2018	32,380
2019	15,515
2020	17,682
thereafter	844
	$ 184,285

Note 8 Securities Sold Under Agreement to Repurchase

The Bank s policy requires qualifying securities to be used as collateral for the underlying repurchase agreements. As of December 31, 2015 and 2014 securities with a book value of $65.8 million and $65.3 million, respectively, were pledged to secure the repurchase agreements. The table below presents the daily securities sold under agreement to repurchase and the term repurchase agreements. It does not include the Bank s Federal Funds purchased.

	Daily Securities Sold Under Agreement to Repurchase				
	Amount Outstanding	Weighted Average	Maximum Amount Borrowings	Approximate Average	Approximate Weighted Average

	at End of Period (000 s)	Rate End of Period	Outstanding Month End (000 s)	Outstanding in Period (000 s)	Interest Rate For the Period
2015	$ 39,691	0.08%	$ 46,564	$ 39,371	0.08%
2014	$ 38,493	0.08%	$ 46,475	$ 42,222	0.09%

Term CD s Sold Under Agreement to Repurchase

	Amount Outstanding at End of Period (000 s)	Weighted Average Rate End of Period	Maximum Amount Borrowings Outstanding Month End (000 s)	Approximate Average Outstanding in Period (000 s)	Approximate Weighted Average Interest Rate For the Period
2015	$ 17,124	2.00%	$ 17,961	$ 17,294	1.62%
2014	$ 17,469	1.25%	$ 17,469	$ 17,337	1.24%

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Note 8 Securities Sold Under Agreement to Repurchase (Continued)

The Company had $22.0 million of Federal Funds Purchased as of December 31, 2015 and $56.8 million in Securities Sold Under Agreements to Repurchase. These securities were comprised of U.S. Treasuries and government agency securities. The table below shows the remaining contractual maturity in the repurchase agreements.

	December 31, 2015 Remaining Contratual Maturity of the Agreements				
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Federal funds Purchased	$ 22,000	$	$	$	$ 22,000
Repurchase Agreements					
US Treasury & agency securities	39,691			17,124	56,815
Total	$ 61,691	$	$	$ 17,124	$ 78,815

Note 9 - Federal Home Loan Bank Advances

Long term debit consists of various loans from the Federal Home Loan Bank. Repayment structures vary, ranging from monthly installments, annual payments or upon maturity. Interest payments are due monthly. As of December 31, 2015, the Bank had two loans which were structured as single maturities with interest rates of 1.61% and 1.34%. Total borrowings were $10.0 million and $0.0 million for December 31, 2015 and 2014, respectively. The advances were secured by $20.0 and $20.8 million of mortgage loans as of December 31, 2015 and 2014, respectively under a blanket collateral agreement.

The advances are subject to pre-payment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2015:

	(In Thousands)
2016	$
2017	5,000
2018	5,000

$	10,000

The Bank had access to $58 million of unsecured borrowings through correspondent banks as of both December 31, 2015 and December 31, 2014. $29.4 million and $71.6 million at the end of the same time periods, respectively, were unpledged securities which could be sold or used as collateral. An additional $4.1 million at December 31, 2015, and $15.0 million at December 31, 2014, were available from the Federal Home Loan Bank based on current pledging, with up to $118.5 million and $112.6 million, respectively, available provided adequate collateral is pledged.

Farmers & Merchants Bancorp, Inc. and Subsidiaries

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Note 10 Federal Income Taxes

The components of income tax expense (benefit) for the years ended December 31 are as follows:

	(In Thousands)		
	2015	2014	2013
Current:			
Federal	$ 3,941	$ 3,837	$ 3,562
Deferred:			
Federal	(122)	34	34
	$ 3,819	$ 3,871	$ 3,596

The following is a reconciliation of the statutory federal income tax rate to the effective tax rate:

	(In Thousands)		
	2015	2014	2013
Income tax at statutory rates	$ 4,792	$ 4,596	$ 4,285
Decrease resulting from:			
Tax exempt interest	(554)	(634)	(640)
Change in prior estimates and other	(419)	(91)	(49)
	$ 3,819	$ 3,871	$ 3,596

Deferred tax assets and liabilities at December 31 are comprised of the following:

	(In Thousands)	
	2015	2014
Deferred Tax Assets:		
Allowance for loan losses	$ 2,080	$ 2,030
Other	528	416
Total deferred tax assets	2,608	2,446
Deferred Tax Liabilities:		

Accreted discounts on bonds	100	83
FHLB stock dividends	745	746
Mortgage servicing rights	706	696
Other	1,389	1,160
Net unrealized gain on available-for-sale securities	109	229
Total deferred tax liabilities	3,049	2,914
Net Deferred Tax Liability	$ (441)	$ (468)

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Note 11 Employee Benefit Plans

The Bank has established a 401(k) profit sharing plan, which allows eligible employees to save at a minimum one percent of eligible compensation on a pre-tax basis, subject to certain Internal Revenue Service limitations. The Bank will match 50% of employee 401(k) contributions up to four percent of total eligible compensation. In addition, the Bank may make a discretionary contribution from time to time. A participant is 100% vested in the participant s deferral contributions and employer matching contributions. A six-year vesting schedule applies to employer discretionary contributions. Contributions expensed for the 401(k) profit sharing plan for both the employer matching contribution and the discretionary contribution were $835, $779 and $670 thousand for 2015, 2014 and 2013, respectively.

Restricted Stock Awards

The Company has a Long-Term Stock Incentive Plan under which 16,000 shares of restricted stock were issued to 67 employees during 2015, 13,250 shares of restricted stock were issued to 61 employees and 11,000 shares to 53 employees during 2014 and 2013, respectively. Under the plan, the shares vest 100% in three years. During the 3 year vesting period, the employees received dividends or dividend equivalent compensation on the shares. Due to employee termination, there were 100, 780, and 620 forfeited during 2015, 2014 and 2013, respectively. Due to retirement, one employee received 250 shares from awards granted in 2012, 2013 and 2014 and 325 shares were paid to the estate of a deceased employee awarded during the same time periods. During 2013, 9,160 shares awarded in 2010 were vested 100%, and 45 employees received the stock. During 2014, 10,005 shares awarded in 2011, were vested 100%, and 48 employees received the stock. During 2015, 9,720 shares awarded in 2012, were vested 100% and 45 employees received the stock. Compensation expense applicable to the restricted stock totaled $286, $252 and $235 thousand for the years ending December 31, 2015, 2014 and 2013, respectively.

The following table summarizes the activity of restricted stock awards as of December 31:

	Year Ended December 31,					
	2015		2014		2013	
	Number of Shares	Weighted average fair value per award	Number of Shares	Weighted average fair value per award	Number of Shares	Weighted average fair value per award
Beginning of period	33,390	22.77	31,890	20.38	30,670	19.05
Granted	16,000	26.35	13,250	25.50	11,000	22.00

Vested	(10,295)	26.33	(10,970)	25.39	(9,160)	21.55
Forfeited	(100)	26.07	(780)	24.97	(620)	21.84
Nonvested, end of period	38,995	24.92	33,390	22.77	31,890	20.38

As of December 31, 2015, there was $591 thousand of unrecognized compensation cost related to the nonvested portion of restricted stock awards under the plan. Expense for restricted stock awards of $314 thousand, $232 thousand, and $253 thousand was recorded for the years ended December 31, 2015, 2014, and 2013, respectively.

Note 12 Earnings Per Share

Basic earnings per share is calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares

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Note 12 Earnings Per Share (Continued)

outstanding. Application of the two-class method for participating securities results a more dilutive basic earnings per share as the participating securities are allocated the same amount of income as if they are outstanding for purposes of basic earnings per share. There is no additional potential dilution in calculating diluted earnings per share, therefore basic and diluted earnings per share are the same amounts. Other than the restricted stock plan, the Company has no other stock based compensation plans.

The table below presents basic and diluted earnings per share for the years ended December 31, 2015, 2014, and 2013.

	Year Ended December 31, 2015	December 31, 2014	December 31, 2013
Earnings per share			
Net income	$ 10,340	$ 9,646	$ 9,007
Less: distributed earnings allocated to participating securities	(31)	(27)	(25)
Less: undistributed earnings allocated to participating securities	(47)	(40)	(34)
Net earnings available to common shareholders	$ 10,262	$ 9,579	$ 8,948
Weighted average common shares outstanding including participating securities	4,617,058	4,628,178	4,676,547
Less: average unvested resticted shares	(35,000)	(32,278)	(30,618)
Weighted average common shares outstanding	4,582,058	4,595,900	4,645,929
Basic and diluted earnings per share	$ 2.24	$ 2.08	$ 1.93

Note 13 Related Party Transactions

In the ordinary course of business, the Bank has granted loans to senior officers and directors and their affiliated companies amounting to $739 thousand and $1.5 million at December 31, 2015 and 2014, respectively. One new loan was approved during 2015 of which no additional borrowings were utilized. During 2015, subsequent advances totaled $8.7 million and payments of $9.1 million were received. The difference in related borrowings amounted to $440 thousand, net reduction. Deposits of directors, executive officers and companies in which they have a direct or indirect ownership as of December 31, 2015 and 2014, amounted to $26.3 million and $26.1 million, respectively.

Note 14 Off Balance Sheet Activities

Credit Related Financial Instruments

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing need of its customers. These financial instruments include commitments to extend credit, Standby Letters of Credit, and Commercial Letters of Credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank s exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments. The allowance for credit losses as it relates to unfunded loan commitments (AULC) is included under other liabilities. The AULC as of December 31, 2015 and 2014 was $208 thousand and $207 thousand, respectively.

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Note 14 Off Balance Sheet Activities (Continued)

At December 31, 2015 and 2014, the following financial instruments were outstanding whose contract amounts represent credit risk:

	(In Thousands) 2015	2014
Commitments to extend credit	$ 246,321	$ 212,258
Credit card arrangements	16,100	15,064
Standby letters of credit	770	694

Commitments to extend credit, credit card arrangements and Standby Letters of Credit all include exposure to some credit loss in the event of nonperformance of the customer. The Bank s credit policies and procedures for credit commitments and financial guarantees are the same as those for extensions of credit that are recorded in the financial statements. Due to the fact that these instruments have fixed maturity dates, and because many of them expire without being drawn upon, they generally do not present any significant liquidity risk to the Bank.

Collateral Requirements

To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank s credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, and real estate.

Legal Contingencies

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company s consolidated financial statements.

Note 15 Minimum Regulatory Capital Requirements

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company s and Bank s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off balance-sheet items as calculated under regulatory accounting practices.

The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Prior to January 1, 2015, quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital, Tier I capital and Common Equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined).

The Basel III Capital Rules, a new comprehensive capital framework for U.S. banking organizations, became effective for on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

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Note 15 Minimum Regulatory Capital Requirements (Continued)

In connection with the adoption of the Basel III Capital Rules, we elected to opt-out of the requirement to include most components of accumulated other comprehensive income in Common Equity Tier 1. Common Equity Tier 1 is reduced by, goodwill and other intangible assets, net of associated deferred tax liabilities, and subject to transition provisions.

The Common Equity Tier 1 (beginning in 2015), Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

When fully phased in on January 1, 2019, the Basel III Capital Rules will require the Company and Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the 4.5% Common Equity Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0% upon full implementation), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio as that buffer is phased in, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation), (iii) a minimum ratio of Total capital (that is, Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio as that buffer is phased in, effectively resulting in a minimum total capital ratio of 10.5% upon full implementation) and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

The implementation of the capital conservation buffer will begin on January 1, 2016 at the 0.625% level and be phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reaches 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a countercyclical capital buffer that is applicable to only certain covered institutions and does not have any current applicability to the Company or Bank. The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Management believes, as of December 31, 2015, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2015 the most recent notification from the FDIC indicated the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, Common Tier 1 and Tier I leverage ratios as disclosed in the table to follow. There are no conditions or events since the most recent notification that management believes have changed the Bank s prompt corrective action category.

The following table presents actual and required capital ratios as of December 31, 2015 under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2015 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital Rules have been fully phased-in. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

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Note 15 Minimum Regulatory Capital Requirements (Continued)

The Company and the Bank s actual and required capital amounts and ratios as of December 31, 2015 are as follows:

As of December 31, 2015	Actual (000 s) Amount	Ratio	Minimum Capital Required - Basel III Phased-In Schedule (000 s) Amount	Ratio	Required to be Considered Well-Captialized (000 s) Amount	Ratio
Common Equity Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	$ 115,386	14.18%	$ 36,626	4.50%	N/A	N/A
Farmers & Merchants State Bank	96,231	11.87%	36,494	4.50%	$ 52,714	6.50%
Total Risk-Based Capital						
(to Risk Weighted Assets)						
Consoldated	121,651	14.95%	65,113	8.00%	N/A	N/A
Farmers & Merchants State Bank	102,496	12.64%	64,879	8.00%	81,099	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	115,386	14.18%	48,834	6.00%	N/A	N/A
Farmers & Merchants State Bank	96,231	11.87%	48,689	6.00%	64,879	8.00%
Tier 1 Leverage Capital						
(to Adjusted Total Assets)						
Consolidated	115,386	11.91%	38,752	4.00%	N/A	N/A
Farmers & Merchants State Bank	96,231	10.12%	38,019	4.00%	47,524	5.00%

The following table presents actual and required capital ratios as of December 31, 2014 under the regulatory capital rules then in effect.

	Actual	For Capital Adequacy Purposes	To Be Well Capitalized Under the Prompt Corrective Action Provisions

As of December 31, 2014	(000 s) Amount	Ratio	(000 s) Amount	Ratio		(000 s) Amount	Ratio
Total Risk-Based Capital							
(to Risk Weighted Assets)							
Consolidated	$ 114,702	16.68%	$ 55,028	8.00%		N/A	N/A
Farmers & Merchants State Bank	98,154	14.35%	54,710	8.00%	$	68,388	10.00%
Tier 1 Capital							
(to Risk Weighted Assets)							
Consolidated	108,590	15.79%	27,514	4.00%		N/A	N/A
Farmers & Merchants State Bank	92,042	13.46%	27,355	4.00%		41,033	6.00%
Tier 1 Capital							
(to Adjusted Total Assets)							
Consolidated	108,590	11.70%	37,111	4.00%		N/A	N/A
Farmers & Merchants State Bank	92,042	10.01%	36,785	4.00%		45,981	5.00%

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Note 16 Restrictions of Dividends & Inter-company Borrowings

The Bank is restricted as to the amount of dividends that can be paid. Dividends declared by the Bank that exceed the net income for the current year plus retained income for the preceding two years must be approved by federal and state regulatory agencies. Under this formula dividends of $12.3 million may be paid without prior regulatory approval. Regardless of formal regulatory restrictions, the Bank may not pay dividends that would result in its capital levels being reduced below the minimum requirements shown above. Under current Federal Reserve regulations, the Bank is limited as to the amount and type of loans it may make to the Company. These loans are subject to qualifying collateral requirements on which the amount of the loan may be based.

Note 17 Fair Value of Financial Instruments

Fair values of financial instruments are management s estimate of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including deferred tax assets, premises, equipment and intangibles. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of the estimates.

The following assumptions and methods were used in estimating the fair value for financial instruments:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash, cash equivalents and federal funds sold approximate their fair values. Also included in this line item are the carrying amounts of interest-bearing deposits maturing within ninety days which approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

Securities Available-for-sale

Fair values for securities, excluding Federal Home Loan Bank and Farmer Mac stock, are based on quoted market price, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Other Securities

The carrying value of Federal Home Loan Bank and Farmer Mac stock, listed as other securities , approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

Loans, net

For net variable-rate loans that re-price frequently, and with no significant change in credit risk, fair values are based on carrying values. The fair values of the fixed rate and all other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

Deposits

The fair values disclosed for deposits with no defined maturities are equal to their carrying amounts, which represent the amount payable on demand. The carrying amounts for variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

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Note 17 Fair Value of Financial Instruments (Continued

Federal Funds Purchased and Securities Sold Under Agreement to Repurchase

The carrying value of Federal Funds purchased and securities sold under agreement to repurchase approximates fair values.

FHLB Advances

Fair values or FHLB advances are estimated using discounted cash flow analysis based on the Company s current incremental borrowing rates for similar types or borrowing arrangements.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest approximate fair values.

Off Balance Sheet Financial Instruments

Fair values for off-balance-sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties credit standing.

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Note 17 Fair Value of Financial Instruments (Continued)

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of December 31, 2015 and 2014, are reflected below. The aggregate fair values in the table below do not represent the total market value of the Bank s assets and liabilities. The table excludes the following:

Bank Premises and Equipment, Goodwill, Mortgage Servicing Rights, Other Real Estate Owned, Other Assets, Other Liabilities and Accrued Expenses.

(In Thousands)

	December 2015					December 2014				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
nancial ssets:										
ash and ash quivalents	$ 22,018	$ 22,018	$ 22,018	$	$	$ 24,295	$ 24,295	$ 24,295	$	$
ecurities - ailable for le	235,115	235,115	38,505	189,258	7,352	248,492	248,492	25,393	215,168	7,931
ther ecurities	3,717	3,717			3,717	3,717	3,717			3,717
oans, net	679,821	683,332			683,332	616,021	625,377			625,377
terest ceivable	3,589	3,589			3,589	3,578	3,578			3,578
nancial abilities:										
terest earing eposits	$ 415,942	$ 415,942	$	$	$ 415,942	$ 403,051	$ 403,801	$	$	$ 403,801
on-interest earing eposits	171,112	171,112		171,112		164,009	164,009		164,009	
	184,285	184,308			184,308	195,500	196,545			196,545

me eposits										
otal eposits	$ 771,339	$ 771,362	$	$ 171,112	$ 600,250	$ 762,560	$ 764,355	$	$ 164,009	$ 600,346
ederal Funds urchased d Securities ld under greement to purchase	78,815	78,815			78,815	55,962	55,962			55,962
ederal Home oan Bank vances	10,000	9,986			9,986					
terest yable	185	185			185	207	207			207

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Note 17 Fair Value of Financial Instruments (Continued)

Fair Value Measurements

The following table presents information about the Company s assets and liabilities measured at fair value on a recurring basis at December 31, 2015 and 2014, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access.

Available-for-sale securities - When quoted prices are available in an active market, securities are valued using the quoted price and are classified as Level 1. The quoted prices are not adjusted.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Available-for-sale securities classified as Level 2 are valued using the prices obtained from an independent pricing service. The prices are not adjusted. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. The Bank holds some local municipals that the Bank evaluates based on the credit strength of the underlying project. The fair value is determined by valuing similar credit payment streams at similar rates.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following table summarizes financial assets measured at fair value on a recurring basis as of December 31, 2015 and December 31, 2014 segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

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Note 17 Fair Value of Financial Instruments (Continued)

Assest and Liabilities Measured at Fair Value on a Recurring Basis (In Thousands)

December 31, 2015	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets-(Securities Available for Sale)			
U.S. Treasury	$ 38,505	$	$
U.S. Government agencies		98,220	
Mortgage-backed securities		26,324	
State and local governments		64,714	7,352
Total Securities Available for Sale	$ 38,505	$ 189,258	$ 7,352

December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets-(Securities Available for Sale)			
U.S. Treasury	$ 25,393	$	$
U.S. Government agencies		119,234	
Mortgage-backed securities		29,562	
State and local governments		66,372	7,931
Total Securities Available for Sale	$ 25,393	$ 215,168	$ 7,931

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	State and Local Governments Tax-Exempt	State and Local Governments Taxable	State and Local Governments Total
Balance at January 1, 2015	$ 6,638	$ 1,293	$ 7,931
Change in Market Value	(259)	155	(104)
Purchases			
Sales			

Payments & Maturities	(475)		(475)
Balance at December 31, 2015	$ 5,904	$ 1,448	$ 7,352

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Note 17 Fair Value of Financial Instruments (Continued)

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	State and Local Governments Tax-Exempt	State and Local Governments Taxable	State and Local Governments Total
Balance at January 1, 2014	$ 8,802	$ 1,544	$ 10,346
Change in Market Value	(1,104)	(251)	(1,355)
Purchases			
Sales			
Payments & Maturities	(1,060)		(1,060)
Balance at December 31, 2014	$ 6,638	$ 1,293	$ 7,931

Most of the Company s available for sale securities, including any bonds issued by local municipalities, have CUSIP numbers or have similar characteristics of those in the municipal markets, making them marketable and comparable as Level 2.

There have been no transfers between Levels 1, 2, and 3 during 2015 and 2014.

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. At December 31, 2015 and 2014, such assets consist primarily of collateral dependent impaired loans. Collateral dependent impaired loans categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management s best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

At December 31, 2015 and 2014, collateral dependent impaired loans categorized as Level 3 were $1.8 and $1.5 million, respectively. The specific allocation for collateral dependent impaired loans was $329.3 thousand as of December 31, 2015 and $386.9 thousand as of December 31, 2014, respectively, which are accounted for in the allowance for loan losses (see Note 4).

Other real estate is reported at the lower of either the fair value of the real estate, minus the estimated costs to sell the asset, or the cost of the asset. The determination of the fair value of the real estate relies primarily on appraisals from third parties. If the fair value of the real estate, minus the estimated costs to sell the asset, is less than the asset s cost, the deficiency is recognized as a valuation allowance against the asset through a charge to expense. The valuation allowance is therefore increased or decreased, through charges or credits to expense, for changes in the asset s fair value or estimated selling costs.

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Note 17 Fair Value of Financial Instruments (Continued)

The following table presents collateral dependent impaired loans and other real estate owned as recorded at fair value:

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2015
($ in Thousands)

	Balance at December 31, 2015	Quoted Prices in Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Change in fair value for twelve-month period ended Dec. 31, 2015
Collateral dependent impaired loans	$ 549	$	$	$ 549	$ (17)
Other real estate owned - commercial	216			216	(32)
Total change in fair value					$ (49)

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2014
($ in Thousands)

	Balance at December 31, 2015	Quoted Prices in Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Change in fair value for twelve-month period ended Dec. 31, 2015
Collateral dependent impaired loans	$ 781	$	$	$ 781	$ (168)
Other real estate owned - residentialmortgages				44	(40)
Total change in fair value					$ (208)

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Note 17 Fair Value of Financial Instruments (Continued)

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements:

	Fair Value at December 31, 2015	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	$ 7,352	Discounted Cash Flow	Credit strength of underlying project or entity / Discount rate	0-5%
Collateral dependent Impaired Loans	549	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0-50%
Other real estate owned - commercial	216	Appraisals	Discount to reflect current market	0-20%

	Fair Value at December 31, 2014	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	$ 7,931	Discounted Cash Flow	Credit strength of underlying project or entity / Discount rate	0-5%
Collateral dependent Impaired Loans	782	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0-50%
Other real estate owned - residential	44	Appraisals	Discount to reflect current market	0-20%

The Company also has other assets, which under certain conditions, are subject to measurement at fair value. These assets include loans held for sale, bank owned life insurance, and mortgage servicing rights. The Company estimated the fair values of these assets utilizing Level 3 inputs, including, the discounted present value of expected future cash flows. At December 31, 2015, the Company estimates that there is no impairment of these assets and therefore, no impairment charge to other expense was required to adjust these assets to their estimated fair values.

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Note 18 Condensed Financial Statements of Parent Company

Balance Sheets

	(In Thousands) 2015	2014
Assets		
Cash	$ 787	$ 302
Related party receivables:		
Dividends & Accounts receivable from subsidiaries	1,730	2,227
Accrued interest receivable Municipals	63	58
Securities - Municipals	16,388	14,998
Investment in subsidiaries	102,178	98,088
Total Assets	$ 121,146	$ 115,673
Liabilities		
Accrued expenses	$ 42	$ 215
Dividends payable	1,007	965
Total Liabilities	1,049	1,180
Stockholders Equity	120,097	114,493
Total Liabilities and Stockholders Equity	$ 121,146	$ 115,673

Statements of Income and Comprehensive Income

	2015	(In Thousands) 2014	2013
Income			
Dividends from subsidiaries	$ 6,220	$ 5,725	$ 3,830
Interest			566
Interest Municipals	219	215	30
Gain on sales of available-for-sale securities	124		
Total Income	6,563	5,940	4,426
Operating Expenses	677	577	304
Income Before Income Taxes and Equity in Undistributed Earnings of Subsidiaries	5,886	5,363	4,122

Income Taxes (Benefit)	(188)	(196)	89
	6,074	5,559	4,033
Equity in undistributed earnings of Subsidiaries	4,266	4,087	4,974
Net Income	$ 10,340	$ 9,646	$ 9,007
Other Comprehensive Income (Loss):			
Unrealized gains (losses) on securities	$ (232)	$ 438	$ (6,087)
Comprehensive Income	$ 10,108	$ 10,084	$ 2,920

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Note 18 Condensed Financial Statements of Parent Company (Continued)

Statements of Cash Flows

	(In Thousands)		
	2015	2014	2013
Cash Flows from Operating Activities			
Net income	$ 10,340	$ 9,646	$ 9,007
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed net income (Distributions in excess earnings) of subsidiaries	(4,266)	(4,087)	(4,974)
Accretion & Amortization of Securities	152	146	21
Gain on Sale of Available for Sale Securities	(124)		
Changes in Assets and Liabilities:			
Dividends receivable	475	(1,025)	(10)
Other Assets and Liabilities	156	(12)	52
Net Cash Provided by Operating Activities	6,733	4,668	4,096
Cash Flows from Investing Activities			
Investing in Subsidiaries		(250)	
Activitiy in available for sale securities:			
Maturities, prepayments and calls	1,000		
Sales	6,282		
Purchases	(8,784)		(14,992)
Repayment of Subsidiary Subordinated Debt			15,000
Net Cash Provided by (used in) Investing Activities	(1,502)	(250)	8
Cash Flows from Financing Activities			
Payment of dividends	(3,943)	(3,862)	(3,719)
Purchase of Treasury Stock	(803)	(576)	(1,236)
Net Cash Used in Financing Activities	(4,746)	(4,438)	(4,955)
Net Change in Cash and Cash Equivalents	485	(20)	(851)
Cash and Cash Equivalents			
Beginning of year	302	322	1,173
Cash and Cash Equivalents			

End of year	$ 787	$ 302	$ 322

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Note 18 Condensed Financial Statements of Parent Company (Continued)

The intercompany subordinated debt between the Company and the Bank matured during the fourth quarter of 2013. The Company invested the proceeds into tax exempt municipal securities, thereby replacing a revenue stream independent of dividends from the Bank with which to operate. The Company also benefits from a more favorable tax treatment for these holdings.

During the fourth quarter of 2014, the Company established a new subsidiary, Farmers & Merchants Risk Management, Inc. which is a Captive insurance company.

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Note 19 Quarterly Financial Data

Quarterly Financial Data - UNAUDITED

	(000 s omitted except per share data) Quarter Ended in 2015			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 8,184	$ 8,289	$ 8,444	$ 8,733
Interest expense	858	871	935	923
Net Interest Income	7,326	7,418	7,509	7,810
Provision for loan loss	114	183	243	85
Net interest income after provision of loan loss	7,212	7,235	7,266	7,725
Other income (expense)	(4,008)	(3,682)	(3,685)	(3,904)
Net income before income taxes	3,204	3,553	3,581	3,821
Income taxes	853	956	961	1,049
Net income	$ 2,351	$ 2,597	$ 2,620	$ 2,772
Earnings per Common Share	$ 0.51	$ 0.56	$ 0.57	$ 0.60
Average common shares outstanding	4,623,322	4,608,453	4,615,379	4,621,122

	Quarter Ended in 2014			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 8,159	$ 8,304	$ 8,471	$ 8,519
Interest expense	944	970	895	907
Net Interest Income	7,215	7,334	7,576	7,612
Provision for loan loss	428	444	282	37
Net interest income after provision for loan loss	6,787	6,890	7,294	7,575
Other income (expense)	(3,955)	(3,456)	(3,818)	(3,800)
Net income before income taxes	2,832	3,434	3,476	3,775
Income taxes	874	881	1,002	1,114
Net income	$ 1,958	$ 2,553	$ 2,474	$ 2,661
Earnings per common share	$ 0.42	$ 0.55	$ 0.54	$ 0.57

Average common shares outstanding	4,637,172	4,626,309	4,621,298	4,627,338

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTING AND FINANCIAL DISCLOSURE

No disagreements exist on accounting and financial disclosures or related matter.

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ITEM 9a. CONTROLS AND PROCEDURES

MANAGEMENT REPORT REGARDING

DISCLOSURE CONTROLS AND PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company s management, including the Company s Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company s disclosure controls and procedures as of December 31, 2015, pursuant to Exchange Act 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective as of December 31, 2015, in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company s periodic SEC filings.

MANAGEMENT REPORT REGARDING INTERNAL CONTROL AND

COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management of Farmers & Merchants Bancorp, Inc. and its subsidiary is responsible for preparing the Bank s annual financial statements. Management is also responsible for establishing and maintaining internal control over financial reporting presented in conformity with both generally accepted accounting principles and regulatory reporting in conformity with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Bank s internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

It is also management s responsibility to ensure satisfactory compliance with all designated laws and regulations and in particular, those laws and regulations concerning loans to insiders. The federal laws concerning loans to insiders are codified at 12 USC 375a and 375b, and the federal regulations are set forth at 12 CFR 23.5, 31, and 215.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in the 2013 Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2015. The registered public accounting firm that audited the financial statements included in this annual report has issued an attestation report on the Company s internal control over financial reporting which can be found under Item 8 of this form 10-K.

There was no change in the company s internal control over financial reporting that occurred during the Company s fiscal quarter ended December 31, 2015 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

ITEM 9b. OTHER INFORMATION

None.

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PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

BOARD OF DIRECTORS

The information called for herein is presented below:

Name	Age	Principal Occupation or Employment for Past Five Years	Year First Became Director
Eugene N. Burkholder	62	President, Falor Farm Center, Inc.	2012
Steven A. Everhart	61	Self Employed	2003
Darryl L. Faye	70	Retired CFO in Healthcare Industry	2012
Jo Ellen Hornish	61	CEO Hornish Bros, Inc./Fountain City Leasing, Inc./ Advantage Powder Coating, Inc.	2013
Jack C. Johnson	63	President, Hawk s Clothing, Inc.	1991
Marcia S. Latta	54	Vice President / Division of University Advancement / University of Findlay	2009
Steven J. Planson	56	President, Planson Farms, Inc.	2008
Anthony J. Rupp	66	President, Rupp Furniture Co.	2000
Kevin J. Sauder	55	President/CEO, Sauder Woodworking Co.	2004
Paul S. Siebenmorgen	66	President/CEO of the Corporation and The Farmers & Merchants State Bank	2005
Steven J. Wyse	71	Private Investor	1991

Directors are elected annually at the annual meeting of shareholders.

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EXECUTIVE OFFICERS

Name	Age	Principal Occupation & Offices Held with Corporation & Bank for Past Five Years
Jack C. Johnson	63	Chairman
Paul S. Siebenmorgen	66	President & Chief Executive Officer
Barbara J. Britenriker	54	Executive Vice President Chief Financial Officer
Todd A. Graham	65	Executive Vice President Chief Lending Officer
Edward A. Leininger	59	Executive Vice President Chief Operating Officer
Rex D. Rice	57	Executive Vice President Senior Commercial Banking Director
Allen G. Lantz	62	Executive Vice President Retail Banking

Any remaining information required by Item 401 of Regulation S-K is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 14, 2016, and is incorporated herein by reference. The information called for under Item 405 of Regulation S-K regarding compliance with Section 16(a) and called for under Item 407(d)(5) regarding the existence of a Financial Expert on the Audit Committee of the Company s Board of Directors is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 14, 2016, and is incorporated herein by reference.

The Board of Directors of the Company adopted a Code of Business Conduct and Ethics (the Code) at its meeting on February 13, 2004. While the Sarbanes-Oxley Act of 2002 mandates the adoption of a code of ethics for the most senior executive officers of all public companies, the Code adopted by the Corporation s Board of Directors is broader in the activities covered and applies to all officers, directors and employees of the Corporation and the Bank, including the chief executive officer, chief financial officer, principal accounting officer and other senior officers performing accounting, auditing, financial management or similar functions. The administration of the Code has been delegated to the Audit Committee of the Board of Directors, a Committee comprised entirely of independent directors. The Code addresses topics such as compliance with laws and regulations, honest and ethical conduct, conflicts of interest, confidentiality and protection of Corporation assets, fair dealing and accurate and timely periodic reports, and also provides for enforcement mechanisms. The Board and management of the Corporation intends to continue to monitor not only the developing legal requirements in this area, but also the best practices of comparable companies, to assure that the Corporation maintains sound corporate governance practices in the future. Annual testing and review of the Code is conducted and attested to by signatures of all officers and directors of the Company.

A copy of the Corporation s Code is available on the website of the Bank (www.fm-bank.com). In addition, a copy of the Code is available to any shareholder free of charge upon request. Shareholders desiring a copy of the Code should address written requests to Mr. Paul S. Siebenmorgen, President, Chief Executive Officer and Treasurer of Farmers & Merchants Bancorp, Inc., 307 North Defiance Street, Archbold, Ohio 43502, and are asked to mark Code of Business Conduct and Ethics on the outside of the envelope containing the request.

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ITEM 11. EXECUTIVE COMPENSATION

The information called for herein by Item 402 and paragraphs (e)(4) and (e)(5) of Item 407, Regulations S-K is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 14, 2016, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 403 of Regulation S-K is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held Thursday, April 14, 2016 and is incorporated herein by reference.

On April 16, 2015 the Company s shareholders approved the Farmers & Merchants Bancorp, Inc. 2015 Long-Term Stock Incentive Plan (which replaced the expired 2005 Long-Term Stock Incentive Plan). The plan authorizes the issuance of up to 800,000 of the Company s common shares in the form of stock options, restricted stock, performance shares, and unrestricted stock to employees of the Company and its subsidiaries. To date, the Company has only made awards of restricted stock under the Plan, which awards are subject to time vesting. This requires the executive or employee to remain employed with the Company or the Bank, as the case may be, until the awards have vested or such shares of restricted stock will be forfeited. During 2015, 16,000 shares were awarded to 67 employees and 100 were forfeited under its long term incentive plan. At year end, 2015, the Company held 587,466 shares in Treasury stock and 38,995 in unearned stock awards.

Equity Compensation Plan Information

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders		$	695,343
Equity compensation plans not approved by security holders		$	
Total		$	695,343

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for herein by Item 404 and paragraph (a) of Item 407 is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 14, 2016, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this Item is presented in the proxy statement to be furnished in connection with the solicitation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 14, 2016, and is incorporated herein by reference.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

a. The Following documents are filed as part of this report.

(1) Financial Statements (included in this 10-K under Item 8)

Report of Independent Accountants

Consolidated Balance Sheets

Consolidated Statements of Income

Consolidated Statements of Changes in Shareholders Equity

Consolidated Statements of Cash Flows

Note to Consolidated Financial Statements

(2) Financial Statement Schedules

Five Year Summary of Operations

b. Exhibits Required by Item 601 of Regulation S-K

(3.1) a. Amended Articles of Incorporation are incorporated by reference to the Company s Quarterly Report on Form 10-Q that was filed with the Commission on August 1, 2006.

(3.2) Code of Regulations are incorporated by reference to the Company s Quarterly Report on Form 10-Q that was filed with the Commission on May 10, 2004.

(10.1) Form of Change in Control Agreement executed by and between the Company and each of Paul S. Siebenmorgen and Barbara J. Britenriker, respectively, on December 26, 2012 (incorporated by reference to the Annual Report on Form 10-K filed with the Commission on February 25, 2013).

(10.2) Form of Change in Control Agreement executed by and between the Company and each of Edward A. Leininger and Rex D. Rice, respectively, on December 26, 2012 (incorporated by reference to the Annual Report on Form 10-K filed with the Commission on February 25, 2013).

(10.3) Farmers & Merchants Bancorp, Inc. 2015 Long-Term Stock Incentive Plan (incorporated by reference to Appendix A to Registrant s Definitive 14A Proxy Statement, File No. 000-14492, filed with the Commission on March 16, 2015)

(10.4) Form on Restricted Stock Agreement (incorporated by reference to the Quarterly Report on Form 10-Q filed with the Commission on October 27, 2005).

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ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES (Continued)

(21)	Subsidiaries of Farmers & Merchants Bancorp, Inc.
(31.1)	Certification of the Chief Executive Officer Required under Rule 13(a)-14(a)/15d-14(a)
(31.2)	Certification of the Chief Financial Officer Required under Rule 13(a)-14(a)/15d-14(a)
(32.1)	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document (1)

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FARMERS & MERCHANTS BANCORP, INC.

Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934. The registrant has duly caused

this report to be signed on its behalf by the undersigned, hereunto duly authorized.

By /s/ Paul S. Siebenmorgen Date: February 24, 2016
Paul S. Siebenmorgen
Chief Executive Officer
Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following

persons on behalf of the registrant and in the capacities and on the dates indicated.

/s/ Paul S. Siebenmorgen Paul S. Siebenmorgen Chief Executive Officer (Principal Executive Officer)	Date: February 24, 2016	/s/ Barbara J. Britenriker Barbara J. Britenriker Chief Financial Officer (Principal Financial Officer/Principal Accounting Officer)	Date: February 24, 2016
/s/ Eugene N. Burkholder Eugene N. Burkholder, Director	Date: February 24, 2016	/s/ Steven A. Everhart Steven A. Everhart, Director	Date: February 24, 2016
/s/ Darryl L. Faye Darryl L. Faye, Director	Date: February 24, 2016	/s/Jo Ellen Hornish Jo Ellen Hornish, Director	Date: February 24, 2016
/s/ Jack C. Johnson Jack C. Johnson, Director	Date: February 24, 2016	/s/ Marcia S. Latta Marcia S. Latta, Director	Date: February 24, 2016
/s/ Steven J. Planson Steven J. Planson, Director	Date: February 24, 2016	/s/Anthony J. Rupp Anthony J. Rupp, Director	Date: February 24, 2016
/s/ Kevin J. Sauder Kevin J. Sauder, Director	Date: February 24, 2016	/s/ Steven J. Wyse Steven J. Wyse, Director	Date: February 24, 2016