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, 1997
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)	(I.R.S. Employer Identification No.)
307-11 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(b) of the Act:

Common6 shares without par value

(Title of class)

(Title of class)

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 if disclosure of delinquent filers pursuant to Item 305 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. { }

As of March 1, 1998, Registrant had outstanding 1,300,000 shares of common stock at a market value of $84,500,000.

FARMERS & MERCHANTS BANCORP, INC.

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PART I

ITEM 1. BUSINESS

HISTORY

The Farmers & Merchants State Bank is a community bank, as it has been since 1897. When Archbold's population was less than 900, there were six local businessmen foresighted enough in their thinking and views to realize the need for a bank in the village of Archbold. J. O. Swisher and Jacob Ehrat (livestock brokers) C. M. McLaughlin and A. J. Vernier (hardware merchants) and L. D. Gotshall and I. W. Gotshall (lumber merchants), were founders of the then Farmers & Merchants Bank, a private bank. The bank's first office was one room located in the Vernier Hotel building, currently occupied by the Archbold Barber Shop.

In 1907, the first new structure was built at the corner of Depot and North Defiance Streets, which is now the Subway. The bank was heralded as one of the most unusual and attractive banks in the area, featuring marble interior, brass trimmed teller cages, tile floor, leaded windows, and high vaulted ceiling. The vault featured a time controlled money safe. The building and equipment were unique to the early 1900's and adequately served the banking needs of the area for over 50 years with only minor interior alterations.

In August of 1913 the village of Archbold was hit by a disastrous fire which destroyed all the business district on the east side of N. Defiance Street from the bank at the corner of Depot Street to the Murbach medical building at the corner of Holland Street. This was a tremendous loss for a dozen or more businesses, causing many to liquidate. Young businessmen and enterprising citizens promoted a waterworks system and passed a $16,000 bond issue to finance the project. This seemed to be the turning point for the advancement of industry and the community rallied from this eventful experience to an unusual growth.

In 1919 the founding directors elected to change from a private bank to a state chartered bank and at this time changed its name from the Farmers & Merchants Bank to The Farmers & Merchants State Bank, as required in the state charter. This has been the only name change in the bank's 99 year history. The bank's capital funds were $53,510 thousand and resources were $571,549 thousand.

The bank experienced growth, especially during the post-war years and early 1950's. By 1958, the bank's resources had grown to 7 1/2 million dollars. The directors and officers realized the need for a larger building to accommodate the increase in business and services. In 1958, the bank moved to its present N. Defiance Street location greatly improving service to its customers and offering drive-up banking, electronic bookkeeping, convenient parking, and a social room for the community to use. The new building featured the latest in modern banking facilities and The Farmers & Merchants State Bank was prepared to more efficiently serve the ever growing community.

With resources of over $23 million in 1969, The Farmers & Merchants State Bank again realized the need for additional space and inaugurated a building expansion, which nearly doubled the original structure built in 1958. The new addition, opened early in 1970, provided for an additional drive-up window, walk-up window, direct entrance from the bank parking lot to the lobby, three spacious private offices, conference room, and a large community room with a fully equipped kitchen to facilitate groups from 60 to 100.

In 1972, with total resources of over $34 million and to continue its growth, The Farmers & Merchants State Bank established an office on N. Shoop Avenue, Wauseon. The office was opened in November 1973 and provided greater banking service to the Wauseon area. The Wauseon office provided complete banking service and a community room with kitchen facilities to accommodate 15-80 people.

In 1977-1978 additional office space was added to The Farmers & Merchants State Bank in Archbold, and an automatic teller machine, "Teller 24", was installed in the entrance lobby.

A second Wauseon office was established in the downtown area on the corner of N. Fulton and Depot streets in August of 1978. It is a very convenient location for shoppers and businesses. The Downtown office also provides 24 hour banking with "Teller 24".

During April of 1980 a second office was opened in Archbold, located in the Lugbill Addition near Woodland Oaks. The Woodland office is a convenient branch offering full banking services to those Archbold residents in the outlying area.

With resources of $83 million the decision was made to open full service offices in Stryker and West Unity in 1981.

During that year, new computerized proof equipment was added to capture the required data in today's complex and competitive banking environment. A new division was added to the Operations Department in the creation of the Central Information File Department. Plus, two new branches were opened, the Delta office in June and the all new Bryan E. High office in December.

In 1985 the conversion of the former bank, The Farmers & Merchants State Bank, into a holding company structure was performed to provide greater flexibility for expanding the bank's business into activities closely related to banking, as well as, placing the bank in a position to react in a timely and effective manner to the many complex changes affecting the banking industry. On April 22, 1985, a new Ohio chartered bank was formed and incorporated as the FMSB Bank following the formation of a holding company, The Farmers & Merchants Bancorp, Inc., which was incorporated as a bank holding company under the laws of the State of Ohio on February 25, 1985. A triangular merger was then effected whereby the former bank, The Farmers & Merchants State Bank, was merged with and into the new bank, the FMSB Bank with each outstanding share of common stock of the former bank being converted by operation of law upon consummation of the merger into two shares of common stock of Farmers & Merchants Bancorp, Inc. Upon the merger becoming effective July 31, 1985, 260,000 shares of Farmers & Merchants Bancorp, Inc., no par value common stock were issued. The resulting new bank in the merger is the FMSB Bank; however, its name was changed concurrently with the merger to The Farmers & Merchants State Bank. Upon consummation of the merger, the stockholders of Farmers & Merchants Bancorp, Inc. received the same percentage of ownership in the holding company as their percentage of ownership of the former bank. The former bank then ceased to exist. All of the 260,000 issued and outstanding shares of stock of the new bank, The Farmers & Merchants State Bank, were held by the bank holding company, Farmers & Merchants Bancorp, Inc.

With the success The Farmers & Merchants State Bank was experiencing in Stryker, West Unity and Bryan and the prospect of continued growth in Williams County, it was decided to open another office in Bryan and one in Montpelier. In May of 1992, the doors were opened at a second office in Bryan located on S. Main Street; and in July of 1992 the bank was pleased to be able to offer their financial services to the community of Montpelier. The Bryan S. Main Street banking center has three drive-up lanes and a drive-up ATM. Also during 1992, the West Unity Office was expanded and an additional drive-up lane was added at the Delta Office.

Also during 1992, an accidental death and disability insurance company was formed, Farmers & Merchants Life Insurance Company. The company was organized under the laws of the State of Arizona with 100% of the 100,000 issued and outstanding shares of common stock owned by Farmers & Merchants Bancorp, Inc.

The growth of The Farmers & Merchants State Bank continued to be very favorable in 1993 with assets in excess of $370 million, but with the tremendous growth that was occurring, the bank was feeling growing pains brought on by cramped quarters. There were no longer community rooms in either the Main Office or the Wauseon Shoop Office. All available space at the Main Office had been used, by turning closets and storage space into offices and many of the offices that were designed for one officer were housing two officers. The Marketing and Personnel departments had been moved to the Wauseon Shoop Office basement, the former community room. The time had come for the addition of more office space at the Main Office. The former Christy Building, located on the north side of the Main Office, was demolished during the fall of 1993 to clear the way for the building expansion to begin.

Because of the ever-increasing flow of customers at the Wauseon N. Shoop Office, a decision was made to install a drive-up ATM. That ATM was installed in December, 1993. An ATM was also installed at Sauder Woodworking Co. to better serve the Sauder employees, who work various shifts, making it inconvenient for them to bank during regular banking hours.

1994 was a very special year for The Farmers & Merchants State Bank. Earnings were very strong, asset quality remained outstanding, and the bank expanded its presence within its market area. The goals for 1994 were exceeded, with a new high in assets of $406 million. With a growing interest to expand the bank's market area and branch into Henry County, an application was submitted for a Napoleon office. Once the application was approved, the bank wasted no time in getting the building constructed. The full service Napoleon Office, with a drive-up ATM, was conveniently located on St. Rt. 108 on the north edge of Napoleon making it easily accessible for the residents of Henry County.

During the time the Napoleon office was under construction, plans were completed for expansion of the Wauseon N. Shoop Office. This was the first expansion of this office since its opening in 1973, and with the basement being used for offices, more office space was greatly needed. The new addition consisted of four additional offices, a large secretarial/new accounts area, restroom, and supply room.

In October, 1994, the newly constructed expansion of the Main Office and the remodeling of the first floor of the original structure was completed. The offices were ready for occupancy in time for the annual Christmas Club Open House, November 4th and 5th. The remodeling of the offices located in the basement of the Main Office began as soon as Open House was over.

The Napoleon Office opened for business during the second week of February, 1995. On Sunday, February 12, 1995, an Open House was held at the Main Office and the new Napoleon Office.

An ATM was placed at Northwest State Community College in March, 1995, to better serve the customers from the Four County Area. In April, 1995, a drive-up ATM was installed at the Archbold Woodland Office.

During the spring of 1996, the Delta Office began an extensive remodeling and expansion project. The need was seen for more loan officer space and an ATM machine. The project was completed in October of 1996. Two more ATM locations were also secured during this year. An ATM was placed in the Community Hospital of Williams County, Bryan, and another in the Fulton County Health Center, Wauseon. The Farmers & Merchants State Bank now has twelve ATM's located throughout Fulton, Williams, and Henry Counties.

In June of 1996, Farmers & Merchants Bancorp split its stock, 5 for 1. The goal was to bring the price per share down so it would be more affordable and possibly encourage trading.

The Farmers & Merchants State Bank again hit a new growth plateau. At year end assets went over the $500 million mark.

NATURE OF ACTIVITIES

The Farmers & Merchants State Bank through its equivalent of 199 full time employees engages in general commercial banking and savings business. Its activities include commercial and residential mortgage, consumer, and credit card lending activities. Because of the geographical locations in which the bank's branches are located, a substantial amount of the bank's loan portfolio is composed of loans made to the farming industry for such things as farm land, farm equipment, livestock and general operation loans for seed, fertilizer, feed, etc. Other types of lending activities include loans for home improvements, student loans, and loans for such items as autos, trucks, recreational vehicles, mobile homes, motorcycles, etc. The bank also is engaged in direct finance leasing and has invested in leveraged type leases, although the activity in this area has substantially decreased in recent years.

The bank also provides checking account services, as well as, savings and other time deposit services such as certificates of deposits. In addition, ATM's (automated teller machines) (Money Access Corporation) are also provided in its offices in Archbold, Wauseon, Bryan, Delta and Napoleon, Ohio. Two ATM's are also located at Sauder Woodworking Co., Inc., a major employer in Archbold. Additional locations are at Northwest State Community College, Fulton County Hospital in Wauseon, and Williams County Hospital in Bryan.

During 1987 The Farmers & Merchants State Bank began offering discount brokerage services to its customers. The offering of these services was a result of management's ongoing commitment to offer a full range of financial services to its customers.

Farmers & Merchants Life Insurance Company was established to provide needed additional services to The Farmers & Merchants State Bank's customers through the issuance of life and disability insurance policies. The lending officers of The Farmers & Merchants State Bank are the selling agents of the policies to the bank's customers. The insuring company will be USLIFE Credit Insurance Company, an Illinois Corporation, while Farmers & Merchants Life Insurance Co. will be the participating reinsurer. Farmers & Merchants Bancorp, Inc.'s original investment in Farmers & Merchants Life Insurance Co. was $100,000. This investment represented less than 5% of Farmers & Merchants Bancorp, Inc.'s equity capital.

Farmers & Merchants Bancorp, Inc. is a bank holding company within the meaning of the Bank Holding Company Act of 1956. The bank subsidiary, The Farmers & Merchant State Bank, is in turn regulated and examined by the Ohio Division of Banks, the Federal Deposit Insurance Corporation and the Federal Reserve System. The activities of the bank subsidiary are also subject to other federal and state laws and regulations, including usury and consumer credit laws, state laws relating to fiduciaries, the Federal Truth-in-Lending Act and Regulation Z as promulgated thereunder by the Board of Governors, the Truth in Savings Act, the Bank Bribery Act, the Competitive Equality Banking Act of 1987, the Expedited Funds Availability Act, the Community Reinvestment Act, the FDICIA (Federal Deposit Insurance Corporation Insurance Act), FIRREA (Federal Institutions Reform, Recovery, and Enforcement Act of 1989), and the Bank Merger Act among others.

The commercial banking business in the geographical area in which The Farmers & Merchants State Bank operates is highly competitive. In its banking activities, it competes directly with other commercial banks and savings and loan institutions in each of its operating localities. The following is a summary by geographical area of The Farmers & Merchants State Bank principal competition:

Branch	Location
Archbold, Ohio	First National Bank of Northwest Ohio (2 offices)
Wauseon, Ohio	National City Bank (Subsidiary of National City Corporation) First Federal Savings & Loan of Defiance City Loan Bank State Bank & Trust Company First National Bank of Northwest Ohio
Stryker, Ohio	First National Bank of Northwest Ohio
West Unity, Ohio	National Bank of Montpelier
Delta, Ohio	State Bank & Trust Company First Federal Savings & Loan of Delta
Bryan, Ohio	First National Bank of Northwest Ohio (2 offices) National City Bank (Subsidiary of National City Corporation) First Federal Savings & Loan of Defiance (2 offices) Community First Bank & Trust
Montpelier, Ohio	First National Bank of Northwest Ohio National Bank of Montpelier (2 offices) First Federal Savings & Loan of Defiance
Napoleon, Ohio	Henry County Bank (3 offices) Beneficial Bank First Federal Savings & Loan of Defiance, Ohio First National Bank of Northwest Ohio (2 offices) National City Bank (Subsidiary of National City Corporation) (2 offices)

SELECTED STATISTICAL AND FINANCIAL INFORMATION

The following statistical information concerning the operations of the company is provided in accordance with Guide 3 of the Securities and Exchange Commission relating to the operations of bank holding companies. It should be read in conjunction with the financial statements, notes thereto and other financial information appearing elsewhere herein.

DISTRIBUTION OF ASSETS, LIABILITIES AND STOCKHOLDERS' EQUITY, INTEREST RATES AND INTEREST DIFFERENTIAL

The following table presents the distribution of assets and analysis of net interest earnings (dollars in thousands):

ASSETS	1997		
	Average Balance	Interest and Dividend	Yield/ Rate
Interest earning Assets:			
Loans (1)	$ 384,498	$ 34,271	8.91%
Taxable investment securities	72,158	4,540	6.29
Tax-exempt investment securities	22,069	1,131	5.13
Interest bearing deposits with other banks	100	5	5.00
Federal funds sold and securities purchased under agreement to resell	3,805	211	5.55
Total Interest Earning Assets	482,630	$ 40,158	8.32%
Non-interest Earnings Assets:			
Cash and due from banks	13,161		
Other assets	14,371		
	$ 510,162		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 87,439	$ 4,618	5.28%
Other time deposits	270,751	15,659	5.78
Other borrowed money	9,414	596	6.34
Federal funds purchased and securities sold under agreement to repurchase	4,443	266	5.99%
Total Interest Bearing Liabilities	372,047	$ 21,139	5.68
Non-interest Bearing Obligations:			
Non-interest bearing deposits	87,013		
Other	4,554		
Total Liabilities	463,614		
Stockholders' Equity	46,548		
Total Liabilities and Stockholders' Equity	$ 510,162		
Interest and dividend income/yield		$ 40,158	8.32%
Interest expense/rate		21,139	5.68
Net Interest spread		$ 19,019	2.64%
Net interest margin			3.94%

ASSETS

	1996		
	Average Balance	Interest and Dividend	Yield/ Rate
Interest earning Assets:			
Loans (1)	$ 358,261	$ 32,353	9.03%
Taxable investment securities	75,051	4,556	6.07
Tax-exempt investment securities	21,223	1,109	5.23
Interest bearing deposits with other banks	100	7	7.00
Federal funds sold and securities purchased under agreement to resell	6,613	357	5.40
Total Interest Earning Assets	461,248	$ 38,382	8.32%
Non-interest Earnings Assets:			
Cash and due from banks	13,086		
Other assets	15,895		
	$ 490,229		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 117,734	$ 4,525	3.84%
Other time deposits	258,446	15,418	5.97
Other borrowed money	9,411	594	6.31
Federal funds purchased and securities sold under agreement to repurchase	6,522	368	5.64
Total Interest Bearing Liabilities	392,113	$ 20,905	5.33%
Non-interest Bearing Obligations:			
Non-interest bearing deposits	50,580		
Other	5,700		
Total Liabilities	448,393		
Stockholders' Equity	41,836		
Total Liabilities and Stockholders' Equity	$ 490,229		
Interest and dividend income/yield		$ 38,382	8.32%
Interest expense/rate		20,905	5.33
Net Interest spread		$ 17,477	2.99%
Net interest margin			3.79%

ASSETS

	1995		
	Average Balance	Interest and Dividend	Yield/ Rate
Interest earning Assets:			
Loans (1)	$ 324,239	$ 29,561	9.12%
Taxable investment securities	55,383	3,153	5.69
Tax-exempt investment securities	16,689	1,041	6.24
Interest bearing deposits with other banks	526	3	.65
Federal funds sold and securities purchased under agreement to resell	8,394	470	5.60
Total Interest Earning Assets	405,231	$ 34,228	8.45%
Non-interest Earning Assets:			
Cash and due from banks	11,565		
Other assets	13,508		
	$ 430,304		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 81,891	$ 3,931	4.80%
Other time deposits	253,165	12,810	5.06
Other borrowed money	10,091	637	6.32
Federal funds purchased and securities sold under agreement to repurchase	6,019	371	6.16
Total Interest Bearing Liabilities	351,166	$ 17,749	5.05%
Non-interest Bearing Obligations:			
Non-interest bearing deposits	38,112		
Other	2,992		
Total Liabilities	392,270		
Stockholders' Equity	38,034		
Total Liabilities and Stockholders' Equity	$ 430,304		
Interest and dividend income/yield		$ 34,228	8.45%
Interest expense/rate		17,749	5.05
Net interest spread		$ 16,479	3.40%
Net interest margin			4.07%

(1) For the purpose of these computations, nonaccruing loans are included in the daily average outstanding loan amounts.

The following table sets forth (in thousands of dollars) for the periods indicated, a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

	1997 - 1996		
	Increase (Decrease) in Interest	Increase (Decrease) Attributable Changes in Volume	Rate
Interest Earned On:			
Loans	$ 1,918	$ 2,339	$ (421)
Taxable investment securities	(16)	(182)	166
Tax-exempt investment securities	22	43	(21)
Interest bearing deposits with other banks	(2)	0	(2)
Federal funds sold and securities purchased under agreements to resell	(146)	(156)	10
Total Interest Earnings Assets	$ 1,776	$ 2,044	$ (268)
Interest Paid On:			
Savings deposits	$ 93	$ (1,600)	$ 1,693
Other time deposits	241	712	(471)
Other borrowed	2	0	2
Federal funds purchased and securities sold under agreements to repurchase	(102)	(124)	22
Total Interest Bearing Liabilities	$ 234	$ (1,012)	$ 1,246

	1996 - 1995		
Interest Earned On:			
Loans	$ 2,792	$ 3,072	$ (280)
Taxable investment securities	1,403	1,194	209
Tax-exempt investment securities	68	236	(168)
Interest bearing deposits with other banks	4	(30)	34
Federal funds sold and securities purchased under agreements to resell	(113)	(96)	(17)
Total Interest Earnings Assets	$ 4,154	$ 4,376	$ (222)
Interest Paid On:			
Savings deposits	$ 594	$ 1,378	$ (784)
Other time deposits	2,608	314	2,294
Other borrowed	(43)	(42)	(1)
Federal funds purchased and securities sold under agreements to repurchase	(3)	28	(31)
Total Interest Bearing Liabilities	$ 3,156	$ 1,678	$ 1,478

The change in interest due to both rate and volume has been allocated to volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

INVESTMENT PORTFOLIO

The following table sets forth (dollars in thousands) the carrying amount of investment securities at the dates indicated.

	1997	1996	1995
U. S. Treasury and other U. S. Government agencies	$ 44,695	$ 51,737	$ 45,556
State and political subdivisions	25,617	21,678	19,926
Mortgage-backed securities	8,991	8,986	8,438
Obligations of domestic corporations	10,327	17,065	8,689
Stocks of domestic corporations	2,420	2,255	2,106
Total	$ 92,050	$ 101,721	$ 84,715

The following table sets forth (dollars in thousands) the maturities of investment securities at December 31, 1997 and the weighted average yields of such securities calculated on the basis of the 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.

	Maturities			
	Within One Year		After One Year Within Five Years	
	Amount	Yield	Amount	Yield
U. S. Treasury and other U. S. Government agencies	$ 11,748	5.74%	$ 39,052	6.28%
State and political subdivisions	1,495	9.94	7,860	8.21
Taxable state and political subdivisions	531	6.32	1,245	6.62
Obligations of domestic corporations	2,034	5.93	8,249	6.44

	Maturities			
	After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield
U. S. Treasury and other U. S. Government agencies	$ 745	6.72%	$ 1,788	6.37%
State and political subdivisions	5,404	8.61	7,530	9.77
Taxable state and political subdivisions	0	.00	433	5.75
Obligations of domestic corporations	0	.00	0	.00

At December 31, 1997 the company held no large block of any one investment security. Except for U. S. Treasury and other U. S. Government agencies, no one holding in debt securities exceeded $2.9 million dollars. The bank did hold stock in the Federal Home Loan Bank of Cincinnati at a cost of $2.4 million. This is required in order to obtain Federal Home Loan Bank loans.

LOAN PORTFOLIO

The following table shows (dollars in thousands) the company's loan distribution at the end of each of the last five years:

	1997	1996	1995
Loans:			
Commercial and industrial	$ 65,633	$ 67,763	$ 58,987
Agricultural	44,939	41,195	41,328
Real estate - mortgage	205,626	195,043	173,302
Installment	75,767	63,199	61,021
Commercial paper	7,837	3,959	7,604
Industrial Development Bonds	4,511	3,670	3,336
Total Loans	$ 404,313	$ 374,829	$ 345,578

	1994	1993
Loans:		
Commercial and industrial	$ 65,848	$ 58,155
Agricultural	29,586	29,527
Real estate - mortgage	145,576	118,164
Installment	62,462	53,414
Commercial paper	2,019	5,270
Industrial Development Bonds	1,826	2,222
Total Loans	$ 307,317	$ 266,752

The following table shows (dollars in thousands) the maturity of loans:

	Maturities			
	Within One Year	After One Year Within Five Years	After Five Years	Total
Commercial, industrial, and agricultural (combined)	$ 103,392	$ 3,990	$ 3,190	$ 110,572
Real estate - mortgage	117,668	62,064	25,894	205,626
Consumer	39,352	27,056	9,359	75,767
Commercial paper	7,837	0	0	7,837
Industrial Development Bonds	1,680	1,373	1,458	4,511
Total	$ 269,929	$ 94,483	$ 39,901	$ 404,313

In regard to loans maturing after one year, information was not available which would enable the categorization of such as to those loans having fixed interest rates and those having variable interest rates.

NONACCRUAL PAST DUE AND RESTRUCTURED LOANS

The following table summarizes (dollars in thousands) the company's nonaccrual and past due loans:

	1997	1996	1995
Nonaccrual loans	$ 2,890	$ 3,489	$ 3,494
Accruing loans past due 90 days or more	1,396	1,899	2,698
	$ 4,286	$ 5,388	$ 6,192

	1994	1993
Nonaccrual loans	$ 2,681	$ 3,264
Accruing loans past due 90 days or more	2,601	2,226
	$ 5,282	$ 5,490

As of December 31, 1997, management, to the best of its knowledge, is not aware of any significant loans, group of loans or segments of the loan portfolio not included above, where there are serious doubts as to the ability of the borrowers to comply with the present loan payment terms.

Interest income which would have been recorded under the original terms of the nonaccrual loans was $324 thousand for the year 1997. Any collections of interest on nonaccrual loans are included in interest income when collected. This amounted to $402 thousand for 1997.

Loans are placed on nonaccrual status in the event one of the following occurs: the total line of the customer is charged off to the extent of 50% or more, the loan is in past due status for more than 180 days.

The $2.8 million of nonaccrual loans are secured at December 31, 1997.

POTENTIAL PROBLEM LOANS:

At December 31, 1997, the Bank has $4.3 million of loans which it considers to be potential problem loans in that the borrowers are experiencing financial difficulties. These loans are subject to constant management attention and are reviewed more frequently than quarterly.

The amount of potential problem loans was considered in management's review of the loan loss reserve required at December 31, 1997.

LOAN CONCENTRATION:

In extending credit to families, businesses and governments, banks accept a measure of risk against which an allowance or reserve for possible loan losses is established by way of expense charges to earnings. This expense, used to enlarge a bank's allowance for loan losses, 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.

At December 31, 1997, the Bank had loans outstanding to individuals and firms engaged in the various fields of agriculture in the amount of $44.9 million. 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.

SUMMARY OF LOAN LOSS EXPERIENCE

The following table reflects (in thousands) the bank's loan loss experience for each of the five years ended December 31, 1997:

	1997	1996	1995
Loans	$ 404,313	$ 374,829	$ 345,577
Daily average of loans outstanding	$ 384,498	$ 358,261	$ 324,239
Allowance for loan losses -- beginning of year	$ 5,500	$ 5,500	$ 5,500
Loans Charged Off:			
Commercial	263	623	748
Installment	1,239	1,053	691
Real estate mortgage	29	35	40
	1,531	1,711	1,479
Loan Recoveries:			
Commercial	384	197	584
Installment	364	443	426
Real estate mortgage	22	3	84
	770	643	1,094
Net loans charged off	761	1,068	385
Provision for loan loss	1,111	1,068	385
Allowance for Loan Loss-- End of Year	$ 5,850	$ 5,500	$ 5,500
Ratio of net charge-offs to average loans outstanding	.20%	.30%	.12%

	1994	1993
Loans	$ 307,317	$ 266,752
Daily average of loans outstanding	$ 277,729	$ 244,774
Allowance for loan losses -- beginning of year	$ 5,000	$ 4,775

	1994	1993
Loans Charged Off:		
Commercial	602	706
Installment	569	552
Real estate mortgage	0	38
	1,171	1,296
Loan Recoveries:		
Commercial	729	266
Installment	311	335
Real estate mortgage	67	12
	1,107	613
Net loans charged off	64	683
Provision for loan loss	564	908
Allowance for Loan Loss-- End of Year	$ 5,500	$ 5,000
Ratio of net charge-offs to average loans outstanding	.20%	.28%

Allocation of the allowance for loan losses:

Balance at End of Period Applicable To:	Amount (in thousands)	Percent of Loans in Each Category to Total Loans
Commercial and industrial	$ 1,650	28.21%
Installment	1,131	19.33%
Real estate	3,069	52.46%
	$ 5,850	100.00%

The charge-off amounts are based upon periodic evaluations of the loan portfolio by management. These evaluations consider several factors, including, but not limited to, general economic conditions, loan portfolio composition, prior loan experience and management's estimation of future potential losses.

DEPOSITS

The following table presents the average amount of (in thousands) and the average rate paid on each deposit category that is in excess of ten percent of average total deposits:

December 31, 1997:	Demand Deposits	NOW Accounts	Savings Accounts	Time Accounts
Average balance	$ 51,116	$ 35,897	$ 87,439	$ 270,751
Average rate	.00%	2.91%	1.65%	4.88%
December 31, 1996:				
Average balance	$ 50,580	$ 33,798	$ 117,734	$ 224,648
Average rate	.00%	3.05%	1.41%	5.84%
December 31, 1995:				
Average balance	$ 38,112	$ 34,475	$ 81,891	$ 218,690
Average rate	.00%	3.04%	2.13%	4.72%

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

	Under Three Months	Over three Less than Six Months	Over Six Years Less Than Twelve Months	Over Twelve Months
Time deposits	$ 15,460	$ 9,877	$ 10,841	$ 21,585

RETURN ON EQUITY AND ASSETS

The following table shows consolidated operating and capital ratios of the company for each of the last three years:

	Years Ended December 31, 1997	1996	1995
Return on average assets	1.33%	1.14%	1.23%
Return on average equity	14.56%	13.21%	13.93%
Dividend payout ratio	23.95%	27.23%	26.99%
Equity to assets ratio	9.25%	8.65%	8.54%

SHORT-TERM BORROWINGS

The company's average balance of short-term borrowings during the year was less than 30% of end of year stockholders' equity for each year required to be reported; therefore, no data is presented.

OTHER MATTERS

Information required by subsections of Item 1, to which no response has been made, are inapplicable to the business of the company.

ITEM 2. PROPERTIES

The principal office of Farmers & Merchants Bancorp, Inc. is located in facilities owned by The Farmers & Merchants State Bank at 307-11 North Defiance Street, Archbold, Ohio 43502.

The Farmers & Merchants State Bank operates from and utilizes the entire facilities at 307-11 North Defiance Street. In addition, the bank owns the property from 200 to 208 Ditto Street, Archbold, Ohio, which it used 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.

In late 1993 construction began on a 15,237 square foot addition on an adjacent lot it owned at 313 North Defiance Street. This addition was substantially completed by the end of 1994 with final completion taking place in the spring of 1995. Then in 1993 the Bank purchased real estate across from the main facilities to provide for possible parking expansion.

In 1989 the Bank purchased additional real estate in Bryan,. Ohio, and has established another branch operation in Bryan. The Bank, in 1988, purchased real estate immediately adjacent to its branch bank premises in Delta, Ohio for expansion of parking facilities. In 1990 the Bank purchased real estate in Delta, Ohio for additional parking to serve its branch office. The Bank constructed in 1994 a 1,540 square foot addition to the branch in Wauseon, Ohio. The bank obtained permission to open a branch in Napoleon, Ohio. Facilities were completed in the Fall of 1994.

In 1996, the Bank purchased additional land in West Unity to expand the parking lot. The Bank also purchased a lot with a building on it that is being used for storage adjacent to the South Defiance, Archbold office.

The Bank also owns real estate consisting of land and buildings housing each of its full service branch bank operations. Construction has begun on new facilities for the Montpelier operations and should be completed in 1998.

The following is a compendium of the various branch locations:

Branch	Location
Archbold, Ohio	1313 South Defiance Street
Wauseon, Ohio	1130 North Shoop Avenue 119 North Fulton Street
Stryker, Ohio	300 South Defiance Street
West Unity, Ohio	200 West Jackson Street
Bryan, Ohio	924 W. High Street 1000 South Main Street
Delta, Ohio	101 Main Street
Montpelier, Ohio	225 West Main Street
Napoleon, Ohio	2255 Scott Street

The majority of the above locations have drive-up service facilities.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No items were submitted during the fourth quarter of the fiscal year covered by this report to a vote of the security holders through solicitation of proxies or otherwise.

PART II

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

The company's stock is not quoted on the National Association of Securities Dealers Automated Quotations System (NASDAQ).

The company's stock is traded in the principal market area of Fulton, Williams, and Henry Counties, Ohio. The company has no broker that sets a price for the company's stock, therefore, the only source as to the high and low sale price is from private sales. The high and low sale price known to company's management is as follows:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997	High	$45.00	$72.00	$72.00	$70.00
	Low	$40.00	$55.00	$72.00	$65.00
1996	High	$35.00	$35.00	$40.00	$40.00
	Low	$32.00	$35.00	$40.00	$40.00

As of March 1, 1998, there were 1,305 record holders of common stock of the company.

Dividends are paid quarterly. Per share dividends for years 1997 and 1996 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1997	$.25	$.25	$.25	$.50	$1.25
1996	$.25	$.25	$.25	$.40	$1.15

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data is presented on page 58 of the Annual Report to shareholders for the year ended December 31, 1997 and are incorporated herein by reference.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of this discussion is to focus on information concerning the company's financial condition and results of operations which is not otherwise apparent from the consolidated financial statements included in the annual report. Reference should be made to those statements and the selected financial data presented elsewhere in the report for an understanding of the following discussion and analysis.

FINANCIAL CONDITION

The company's bank subsidiary continues to follow the strategy of acquiring assets for investment purposes and retaining its own loan production, attempting to achieve reasonable spreads through matching such assets with one of a number of funding sources available.

The Farmers & Merchants State Bank functions as a financial intermediary, and as such, its financial condition should be examined in terms of trends in its sources and uses of funds. The following comparison of daily average balances (in thousands) indicates how the bank has managed its sources and uses of funds:

	1997		
	Average Balance	Increase (Decrease) Amount	Increase (Decrease) Percentage
Funding Uses:			
Loans	$ 384,498	$ 26,237	7.32%
Taxable investment securities	72,158	(2,893)	(3.85%)
Tax-exempt investment securities	22,069	846	3.99%
Interest bearing deposits with other banks	100	0	.00%
Federal funds sold and securities purchased under agreement to resell	3,805	(2,808)	(42.46%)
	$ 482,630	$ 21,382	4.64%
Funding Sources:			
Deposits:			
Non-interest bearing deposits	$ 87,013	$ 36,433	72.03%
Savings deposits	87,439	(30,295)	(25.73%)
Other time deposits	270,751	12,305	4.76%
Other borrowed money	9,414	3	.03%
Federal funds purchased and securities sold under agreement to repurchase	4,443	(2,079)	(31.88%)
	$ 459,060	$ 16,367	3.70%

	1996			1995
	Average Balance	Increase (Decrease) Amount	Increase (Decrease) Percentage	Balance
Funding Uses:				
Loans	$ 358,261	$ 34,022	10.49%	$ 324,239
Taxable investment securities	75,051	19,668	35.51	55,383
Tax-exempt investment securities	21,223	4,534	27.17	16,689
Interest bearing deposits with other banks	100	(426)	(80.99)	526
Federal funds sold and securities purchased under agreement to resell	6,613	(1,781)	(21.22)	8,394
	$ 461,248	$ 56,017	13.82%	$ 405,231
Funding Sources:				
Deposits:				
Non-interest bearing deposits	$ 50,580	$ 12,468	32.71%	$ 38,112
Savings deposits	117,734	35,843	43.77	81,891
Other time deposits	258,446	5,281	2.09	253,165
Other borrowed money	9,411	(680)	(6.74)	10,091
Federal funds purchased and securities sold under agreement to repurchase	6,522	503	8.36	6,019
	$ 442,693	$ 53,415	13.72%	$ 389,278

Total assets for Farmers & Merchants Bancorp, Inc. have increased from $464 million in 1995 to $501.4 million in 1996 and to $528.3 million in 1997, an 8.1% and 5.4% increase, respectively. The increase in assets of $26.9 million is primarily the result of growth in the loan portfolio of $29.2 million and federal funds sold of $6.5 million, while investments dropped $9.7 million.

The increase in the loan portfolio came primarily from two areas. Mortgage loans increased $10.6 million to $205.6 million from the $195 million level for 1996, while at the same time, consumer loans were increasing $12.6 million to $75.8 million from $63.2 million for 1996. These increases can again be attributed to favorable interest rates, as well as, an aggressive but controlled and managed loan policy.

While the loan portfolio has increased significantly, the net charge-offs have remained fairly level. Net charge-offs were $385 thousand for 1995, $1.1 million for 1996 and $761 thousand for 1997. Because of the tremendous growth in the loan portfolio, it was determined that the allowance for possible loan losses should be increased by a modest $350 thousand to $5.85 million after remaining at $5.5 million for three years.

The increase in the loan portfolio and federal funds sold was in part funded through a decrease in the investment portfolio. The U.S. Treasury security portfolio decreased from $27.7 million for 1996 to $22.2 million for 1997, a decrease of $5.5 million. The other major investment portfolio that was used was the domestic corporate obligation bond portfolio. Domestic corporate obligations dropped $6.7 million from almost $17 million for 1996 to $10.3 million for 1997. These decreases were from maturities and sales, and not from decreases in market values. In fact market values for the entire investment portfolio had a net increase of $.5 million for 1997.

The other major funding source for the increase in the loan portfolio came from an increase in deposits. Other than regular savings deposits which showed a decrease of almost $7 million from 1996 levels of $95 million, all other deposit categories demonstrated significant growth with overall deposits increasing $22.9 million to $461.3 million from 1996 levels of $438.4 million, over a 5% increase.

The Farmers & Merchants State Bank continues to use borrowed funds from the Federal Home Loan Bank of Cincinnati to fund its fixed rate loan portfolio. The loans reduce the Bank's exposure to interest rate risk as the Bank matches a fixed rate liability with the loan made. The Bank also receives a better servicing margin on these loans than were experienced with loans sold on the secondary market. New borrowings for 1997 amounted to $3 million while repayments amounted to $707 thousand, a net increase of almost $2.3 million.

CAPITAL RESOURCES

Total capital increased $5.5 million or 12.6% for 1997 compared to $3.8 million or 9.6% for 1996 and $5 million or 14.5% for 1995. These increases came from profits and changes in market values of the securities portfolio. Profits amounted to $6.7 million for 1997, $5.5 million for 1996 and $5.3 million for 1995, while net after tax effect changes in market values of the investment portfolio contributed $311 thousand for 1997 and $1.1 million for 1995, but negatively impacted capital for 1996 in the amount of $228 thousand.

As a result of the continued increasing profitable operations, the per share dividends have been steadily increasing also. For 1997 dividends of $1.25 per share or $1.625 million were declared as compared to $1.15 or $1.495 million for 1996 and $1.10 or $1,430 million for 1995. The per share amounts for 1996 and 1995 have been restated to reflect a 5 for 1 stock split in 1996. The amount of dividends which can be paid are subject to regulatory restrictions.

Under regulatory risk-based guidelines, capital is measured against the Bank's risk-adjusted assets. The Bank's Tier 1 capital (common stockholders' equity less goodwill, if any) to risk-adjusted assets was approximately 9.6% at December 31, 1997, well above the 4% minimum requirement. Total capital to risk-adjusted assets approximately 13.4%, also well above the 8% minimum requirement for this ratio. The leverage ratio was at 7.1% compared to the 4% requirement. These same ratios as of December 31, 1996 were, 8.9%, 12.9% and 6.4%, respectively. According to regulatory guidelines, the Bank is considered to be well capitalized.

The Farmers & Merchants State Bank declared a $10 million dividend to Farmers & Merchants Bancorp, Inc. on December 31, 1996 with the approval of the FDIC and the State of Ohio Division of Financial Institutions. Farmers & Merchants Bancorp, Inc. then loaned to The Farmers & Merchants State Bank on December 31, 1996, $10 million in exchange for an unsecured subordinated note receivable. The note is due January 1, 2007. Interest at the rate of 6% is payable annually on the first day of January of each year. The purpose of the transaction was to reduce the Bank's liability for Ohio Franchise Tax.

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, repricing 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 volume related, arise when interest rates on assets reprice in a time frame or interest rate environment that is different from that of the repricing 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 Farmers & Merchants State 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 which 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 shorter term interest rate sensitivities are the key to measurement of the interest sensitivity gap, or excess interest sensitive earnings assets over interest-bearing liabilities.

The following table summarizes the repricing opportunities as of December 31, 1997 for each major category of interest-earning assets (at amortized cost) and interest-bearing liabilities:

	(Dollars in Thousands)				
	0 - 90 Days	90 - 365 Days	1 - 5 Years	Over 5 Years	Total
Interest bearing deposits	$ 0	$ 100	$ 0	$ 0	$ 100
Federal funds sold	6,485	0	0	0	6,485
Investments	4,567	15,320	56,235	15,928	92,050
Loans	155,033	117,350	93,421	38,689	404,493
Total Rate Sensitive Assets	166,085	132,770	149,656	54,617	503,128
Rate Sensitive Liabilities	76,093	133,675	202,965	11,292	424,025
Gap	$ 89,992	$ (905)	$ (53,309)	$ 43,325	$ 79,103

Management with the assistance of outside advisors is continually looking for opportunities that can minimize market price risk or interest rate risk, and thus improve the quality of the portfolio.

LIQUIDITY

Historically, the primary source of liquidity for the Company has been core deposits. This is true for 1997 as well. Deposits increased $22.9 million in 1997. This compares with $34.3 million for 1996 and $59.6 million for 1995.

The loan to deposit ratio increased slightly to 86.3% for 1997 compared to 84.1% for 1996 and 1995.

Short term marketable debt securities has also provided the Company with liquidity. Securities maturing in one year or less amounted to a market value of $15.8 million 17.7% of total marketable debt securities compared to $20 million or 20.4% for 1996 and $20.9 million or 25.3% for 1995.

Still another source of liquidity are Federal Funds Sold. Federal Funds Sold which are for very short durations of time increased $6.5 million.

RESULTS OF OPERATIONS

OVERVIEW

Net income for 1997 was $6.8 million, a $1.3 million or 23.6% increase over 1996 net income of $5.5 million. Net income for 1995 was $5.3 million. Net interest margin before the provision for loan losses increased 8.5% to $19 million over $17.5 million for 1996. Net interest margin for 1996 increased 6.1% over the $16.5 million for 1995. The net interest margin percentage was 3.9% for 1997, 3.8% for 1996 and 4.1% for 1995.

INTEREST INCOME

Interest income and fees on loans and leases increased 5.9% or $1.9 million to $34.3 million. This compares to interest and fee income of $32.4 million for 1996 and $29.6 million for 1995. All of the increase in interest income for 1997 can be attributed to an increase in lending activities.

Interest income on the investment portfolio for 1997 was $5.5 million compared to $5.5 million for 1996 and $4.1 million for 1995.

INTEREST EXPENSE

Interest expense on deposits increased to $20.3 million for 1997, up a very minimal $333 thousand from 1996 interest expense of $19.9 million.

ALLOWANCE FOR LOAN LOSSES

In extending credit to families, businesses and governments, banks accept a measure of risk against which an allowance or reserve for loan losses is established by way of expense charges to income. The Bank evaluates the adequacy of the allowance for loan losses based on an analysis of specific problem loans, as well as, on an aggregate basis. Factors considered by management in determining the proper reserve include review of general economic conditions, changes in the portfolio mix, past loan-loss experience, the financial condition of the borrowers and reports of examinations furnished by State and Federal banking authorities. Management reviews the calculation of the allowance for loan losses on a quarterly basis, and feels that the allowance is adequate.

The Bank has established the allowance for loan losses to reduce the gross level of loans outstanding by an estimate of uncollectible loans. As loans are deemed uncollectible, they are charged against the allowance. A provision for loan losses is expensed against current income on a monthly basis. This provision serves to replenish the allowance for loan losses to accommodate charge-offs and growth in the loan portfolio, thereby maintaining the allowance at an adequate level.

For 1997 provisions charged against income amounted to $1.1 million compared to $1.1 million for 1996 and $385 thousand for 1995. The allowance was established at $5.85 million at December 31, 1997, representing 1.4% of total loans. This compares to $5.5 million or 1.5% for 1996 and $5.5 million or 1.6% for 1995.

OTHER OPERATING INCOME

The operating income increased by $558 thousand over 1997 to $2.9 million, up from $2.4 million for 1996 and $2.1 million for 1995. Increases in miscellaneous customer fees and mastercard fees account for the bulk of this increase.

OTHER OPERATING EXPENSES

As was the case in 1996, despite increased loan and deposit activity, management was able to hold operating expenses in check. Operating expenses of $11 million for 1997 increased only slightly compared to $10.9 million for 1996 and $10.7 million for 1995.

OTHER ACCOUNTING ISSUES

Management is currently reviewing the Year 2000 situation in order to address potential problems that may occur in time to take corrective action. The service center which the Bank uses to process its transactions has established a testing schedule and has assured the Bank that the software being used will be updated to accept Year 2000 dates and transactions. The Bank's internal Year 2000 committee is working diligently to address Year 2000 problems that may exist with the Bank's hardware. A Y2K budget has been compiled and approved by the Board of Directors.

At this time, management believes that the transition into the next century can be conducted smoothly and with minimum additional costs.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Accountants

MESSAGE FROM MANAGEMENT:

We are pleased to report that for the year 1997, the FARMERS & MERCHANTS BANCORP, INC., earnings were again very strong, asset quality remained outstanding, and the Bank expanded its presence within its market area. Capital accounts have increased to $48,844,000 with net income of $6,777,000 or $5.22 per share compared to $4.22 in 1996. This resulted with an impressive 14.56 percent Return on Average Equity and 1.33 percent Return on Average Assets and a new high in assets of $528,273,000. The higher earnings and returns were a direct result of excellent asset quality, continued loan growth, active capital management, proper management of interest rate risk and control of overhead expenses. The excellent results of the Farmers & Merchants Bancorp, Inc. in 1997 reflected favorably on the professionalism, dedication and enthusiasm of our people. Thanks to their efforts and customary excellence, we successfully achieved one of our most notable years.

Continuing its emphasis to keep pace with industry advances and developments, the Bancorp made significant moves with technology and electronics during the year. Designed to focus on customer satisfaction, operating efficiency and expanded computer capabilities, major allocations of resources were invested in reshaping systems to remain competitive as we move into the 21st century. Whatever plans we make, however, one thing will remain unchanged, the unique way we do business. We are able to form stronger ties with our customers on an individual basis by permitting local decision-making opportunities at each of our offices. Another tradition that will not change is our commitment to the communities we serve. Each of our offices works to improve the way of life for the people in their area.

Loan quality remains a high focus in the banking industry. Again, our well-established system to monitor the loan portfolio and act accordingly performed well in 1997. One of the major keys to our success and performance this past year was the enhancement of the Bank's loan-to-deposit ratio without sacrificing underwriting or pricing standards. A number of product and program considerations have been identified to assist the Bank with this challenge. Loan growth in 1998 is expected to remain strong, especially in the Real Estate Mortgage area.

A major concern which will occupy much of our time for the coming year and 1999 is the Year 2000 (Y2K) issue. The Year 2000 poses some significant concerns about the potentially serious problems that could result for anything that uses or is run by a computer. Problems could exist not only on personal computers, but also with time clocks, passenger elevators, home furnaces, VCRs and much more. Our concern is not only for the computer systems we use daily, but also for our customers and their businesses, as well as the vendors from whom we order supplies. If these potential problems are not addressed, our day to day operations could be disrupted and cause us all to spend needless dollars to remedy the situation. It is important that we all look at our daily lives and operations to determine what may be affected by the Year 2000 dilemma.

At the same time we are making internal changes, outside forces are creating an atmosphere for success. Recent legislative developments and a loosening of federal regulations are encouraging signs. When you combine all of these factors and the healthy economy we are currently enjoying, the outlook for the Bancorp and its shareholders is very promising. We cannot think of a better time to be in this business.

We would like to express our appreciation for the constant input and support of the Board of Directors, Advisory Boards, our loyal employees, the cooperation of the communities we serve, and finally the continued confidence of our shareholders.

Joe E. Crossgrove
President and Chief Executive Officer

Charles E. Lugbill
Chairman of the Board

DIRECTORS

CHARLES E. LUGBILL
Chairman of the Board
The Farmers & Merchants State
Bank

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Farmer

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Chairman of the Board

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Commercial Loan Officer

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Mortgage Loan Officer

RANDAL H. SCHROEDER
Asst. Vice President
Chief Operations Officer

MICHAEL D. CULLER
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Chief Agri Finance Officer

BARBARA J. BRITENRIKER
Asst. Vice President
Comptroller & Chief Financial Officer

DIANN K. MEYER
Asst. Vice President
Personnel Officer

KENT E. ROTH
Auditor
Security Officer
Bank Secrecy Officer

MARILYN K. JOHNSON
Assistant Cashier
Compliance Officer and
CRA Officer

JUDITH A. WARNCKE
Asst. Cashier
Marketing Officer

J. SCOTT MILLER
Asst. Cashier
Agri Finance Officer

DEBRA J. KAUFFMAN
Asst. Cashier & Consumer
Lending Officer
Asst. Corporate Secretary

RICHARD D. ERNEST
Assistant Cashier
Asset Recovery Officer

JANE C. BRUNER
Assistant Cashier
Operations Supervisor

JOYCE G. KINSMAN
Assistant Cashier
Loan Review Officer

SHAWN O. MCCUTCHEON
Secretarial Supervisor

PHYLLIS MUNDAY
Bookkeeping Supervisor

DIANNA J. WEBER
Teller Supervisor

ARCHBOLD WOODLAND
OFFICE

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Asst. Vice President
Branch Manager

DIANE J. SWISHER
Asst. Cashier
Asst. Branch Manager

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Hornish Brothers, Inc.

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Branch Manager
Corporate Secretary

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Asst. Branch Manager

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Gio Sales, Inc.

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Fulton County Recorder
Chairman, Ohio Lottery Commission

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Fulton County Vision Services

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Asst. Vice President
Branch Manager

PATTI L. ROSEBROCK
Asst. Cashier
Asst. Branch Manager

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Raker Oil Company

STEVEN PLANSON
Farmer

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Assistant Branch Manager

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Branch Manager

BARRY N. GRAY
Assistant Cashier
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Retired Grocer

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President
GB Manufacturing

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President
Falor Farm Center

AL KREUZ
Fulton County Commissioner

BRYAN EAST HIGH OFFICE

DAVID C. FRAZIER
Assistant Vice President
Branch Manager

CAROL L. CHURCH
Assistant Branch Manager

SOUTHTOWNE OFFICE

MICHAEL T. SMITH
Assistant Cashier
Branch Manager

KEVIN L. GRAY
Assistant Cashier
Assistant Branch Manager

BRYAN ADVISORY BOARD

W. PAUL TRODER
President
Allied Moulded Products, Inc.

RUSTY BRUNICARDI
President
Chief Executive Officer
Community Hospital of Williams
Co., Inc.

D. ROBERT SHAFFER
Farmer

DR. C. NICHOLAS WALZ
Partner
Williams County Family Medical
Center

PAUL R. MANLEY
Vice President Manufacturing
Ohio Art Co.

MONTPELIER OFFICE

JOHN S. FEE
Asst. Vice President
Branch Manager

MONTPELIER ADVISORY
BOARD

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President
Peltcs Lumber Co., Inc.

RICHARD S. DYE
Vice President
Dyco Manufacturing

ROBERT D. MERCER
President
Bob Mercer Realty and
Auctions

GEORGE B. RINGS
Pharmacist
Rings Pharmacy

NAPOLEON OFFICE

STEPHEN E. JACKSON
Asst. Vice President
Branch Manager

DIANA J. DENNIE
Assistant Cashier
Assistant Branch Manager

NAPOLEON ADVISORY BOARD

BARBARA C. SCHIE
Office Manager
Fulton Anesthesia Associates,
Inc.

DAVID M. DAMMAN
Farm Drainage Contractor
Farmer

JAMES T. VAN POPPEL
President
Van Poppel Corp.

DENNIS L. MEYER
Realtor
Ed Rohrs Realty

FARMERS & MERCHANTS BANCORP, INC.

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December 31, 1997

[KROUSE, KERN & CO., INC LETTERHEAD]

January 14, 1998

Board of Directors
Farmers & Merchants Bancorp, Inc.
Archbold, Ohio

INDEPENDENT AUDITORS' REPORT

We have audited the consolidated balance sheets of Farmers & Merchants Bancorp, Inc., Archbold, Ohio, and subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Farmers & Merchants Bancorp, Inc. and subsidiaries, as of December 31, 1997 and 1996, and the results of its consolidated operations and cash flows for the years ended December 31, 1997, 1996 and 1995 in conformity with generally accepted accounting principles.

/S/ KROUSE, KERN & CO., INC.
KROUSE, KERN & CO., INC.

FARMERS & MERCHANTS BANCORP, INC.

Consolidated Balance Sheets
December 31, 1997 and 1996

ASSETS

(In thousands)	1997	1996
Cash and due from banks	$ 16,213	$ 15,871
Interest bearing deposits with banks	100	100
Federal funds sold	6,485	0
Investment securities at market value	92,050	101,721
Loans, less allowance for loan losses of $5,850 for 1997 and $5,500 for 1996	398,151	368,900
Investment in leases	492	319
Bank premises and equipment - net	7,665	7,576
Accrued interest and other assets	6,503	6,153
Deferred income tax charge	614	809
TOTAL ASSETS	$ 528,273	$ 501,449

LIABILITIES AND SHAREHOLDERS' EQUITY

	1997	1996
LIABILITIES:		
Deposits:		
Demand	$ 51,163	$ 50,019
NOW accounts	48,264	37,795
Savings	87,923	94,768
Time	273,948	255,795
Total Deposits	461,298	438,377
Federal funds purchased	0	2,790
Securities sold under agreement to repurchase	2,598	3,973
Other borrowings	11,292	8,998
Dividend payable	650	520
Accrued interest and other liabilities	3,591	3,410
Total Liabilities	479,429	458,068
SHAREHOLDERS' EQUITY:		
Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares	12,677	12,677
Undivided profits	35,165	30,013
Net unrealized gain on securities available for sale (net of tax effect $515 in 1997 and $357 in 1996)	1,002	691
Total Shareholders' Equity	48,844	43,381
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 528,273	$ 501,449

See Accompanying Notes to Consolidated
Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Consolidated Statements of Income
for the years ended December 31, 1997, 1996 and 1995

(In thousands except for per share amounts)

INTEREST INCOME:	1997	1996	1995
Interest and fees on loans	$ 34,229	$ 32,339	$ 29,554
Interest on Investment Securities:			
U. S. Treasury securities	1,507	1,493	1,040
Securities of U. S. Government agencies	2,045	2,095	1,531
Obligations of states and political sub-divisions	1,234	1,220	1,124
Obligations of domestic corporations	719	707	362
Interest on federal funds	211	357	470
Interest on deposits in banks	5	7	3
Dividends	166	150	137
Lease finance revenues	42	14	7
Total Interest Income	40,158	38,382	34,228
INTEREST EXPENSE:			
Interest on deposits	20,276	19,943	16,741
Interest on borrowed funds	863	962	1,008
Total Interest Expense	21,139	20,905	17,749
Net Interest Income	19,019	17,477	16,479
PROVISION FOR LOAN LOSSES	1,111	1,068	385
Net Interest Income After Provision for Loan Losses	17,908	16,409	16,094
OTHER INCOME:			
Service charges on deposit accounts	1,152	1,097	1,012
Other service charges and fees	1,787	1,275	1,034
Net securities gains	(4)	5	72
	2,935	2,377	2,118
OTHER EXPENSES:			
Salaries and wages	4,404	4,849	4,529
Pension and other employee benefits	1,206	1,172	989
Occupancy expense (net)	481	498	453
Furniture and equipment expense	722	788	692
Other operating expenses	4,218	3,684	4,049
	11,031	10,991	10,712
INCOME BEFORE FEDERAL INCOME TAX	9,812	7,795	7,500
FEDERAL INCOME TAXES	3,035	2,312	2,203
NET INCOME	$ 6,777	$ 5,483	$ 5,297
Net income per share:			
Net income before securities gains	$ 5.22	$ 4.21	$ 4.02
Net securities gains	.00	.01	.05
NET INCOME PER SHARE	$ 5.22	$ 4.22	$ 4.07
WEIGHTED AVERAGE SHARES OUTSTANDING	1,300,000	1,300,000	1,300,000

See Accompanying Notes to Consolidated Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Consolidated Statements of Changes in
Shareholders' Equity for the years ended
December 31, 1997, 1996 and 1995

(In thousands)	Common Stock	Undivided Profits	Net Unrealized Gain (Loss) on Available for Sale Securities
BALANCE AT DECEMBER 31, 1994	$ 12,677	$ 22,158	$ (249)
Net income for 1995	0	5,297	0
Unrealized gains on securities classified as Available for Sale (net of tax effect of $599)	0	0	1,168
Cash dividends ($1.10 per share)	0	(1,430)	0
BALANCE AT DECEMBER 31, 1995	12,677	26,025	919
Net income for 1996	0	5,483	0
Unrealized gains on securities classified as Available for Sale (net of tax effect of ($115))	0	0	(228)
Cash dividends ($1.15 per share)	0	(1,495)	0
BALANCE AT DECEMBER 31, 1996	12,677	30,013	691
Net income for 1997	0	6,777	0
Unrealized gains on securities classified as Available for Sale (net of tax effect of $157)	0	0	311
Cash dividends ($1.25 per share)	0	(1,625)	0
BALANCE AT DECEMBER 31, 1997	$ 12,677	$ 35,165	$ 1,002

See Accompanying Notes to Consolidated
Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Consolidated Statements of Cash Flows
for the years ended December 31, 1997, 1996 and 1995

(In thousands) CASH FLOWS FROM OPERATING ACTIVITIES:	1997	1996	1995
Net income	$ 6,777	$ 5,483	$ 5,297
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation and amortization	700	798	689
Premium amortization	470	582	737
Discount amortization	(155)	(196)	(128)
Provision for loan losses	1,111	1,068	385
Provision for deferred income taxes	43	266	241
(Gain) loss on sale of fixed assets	0	(1)	20
(Gain) loss on sale of investment securities	4	(5)	(72)
Changes in Operating Assets and Liabilities:			
Accrued interest receivable and other assets	(350)	(373)	(1,299)
Accrued interest payable and other liabilities	181	162	836
Net Cash Provided by Operating Activities	8,781	7,784	6,706
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(789)	(1,176)	(1,654)
Proceeds from sale of fixed assets	0	1	4
Proceeds from maturities of investment securities:			
Held to Maturity	0	0	20,450
Available for Sale	23,546	30,890	12,278
Proceeds from sale of investment securities:			
Available for Sale	10,363	255	1,997
Purchase of investment securities:			
Held to Maturity	0	0	(8,040)
Available for Sale	(24,093)	(48,874)	(32,556)
Net increase in loans	(30,362)	(30,354)	(38,477)
Net increase in leases	(173)	(257)	(3)
Net Cash Used by Investing Activities	(21,508)	(49,515)	(46,001)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	22,921	34,387	59,595
Net change in short term borrowings	(4,165)	(156)	(7,479)
Increase in long-term borrowings	3,000	0	400
Payments on long-term borrowings	(707)	(665)	(612)
Payments of dividends	(1,495)	(1,625)	(1,300)
Net Cash Provided by Financing Activities	19,554	31,941	50,604
Net change in cash and cash equivalents	6,827	(9,790)	11,309
Cash and cash equivalents at beginning of the year	15,971	25,761	14,452
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	$ 22,798	$ 15,971	$ 25,761
RECONCILIATION OF CASH AND CASH EQUIVALENTS:			
Cash and cash due from banks	$ 16,213	$ 15,871	$ 14,951
Interest bearing deposits	100	100	100
Federal funds sold	6,485	0	10,710
	$ 22,798	$ 15,971	$ 25,761

See Accompanying Notes to Consolidated Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

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 The Farmers & Merchants Life Insurance Company, a life and accident and health insurance company.

NATURE OF ACTIVITIES:

The consolidated income of Farmers & Merchants Bancorp, Inc. is principally from income of the bank subsidiary, The Farmers & Merchants State Bank. The subsidiary Bank grants agri-business, commercial, consumer and residential loans to customers primarily in northwest, Ohio.

ESTIMATES:

The preparation of financial statements in conformity with generally accepted accounting principles 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. Actual results could differ from those estimates.

CASH EQUIVALENTS:

For purposes of the statement of cash flows, the company considers all highly liquid debt instruments purchased with a 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 and sold for one-day periods.

INVESTMENT SECURITIES:

Securities, when purchased, are designated as Investment Securities Available for Sale and are carried at market value. They remain in that category until they are sold or mature. The specific identification method is used in determining the cost of securities sold.

Unrealized holding gains and losses, net of tax, on securities classified as Available for Sale are reported as a net amount as a separate component of shareholders' equity until realized.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

INVESTMENT SECURITIES: (Continued)

In accordance with a provision provided by the Financial Accounting Standards Board, The Farmers & Merchants State Bank elected to reclassify any investment securities classified as Held to Maturity to Available for Sale during 1995. The effect of this reclassification was to increase the net unrealized gain on securities Available for Sale by $562 thousand net of a tax effect of $289 thousand.

LOANS:

Loans are stated 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 is accrued on all loans not discounted by applying the interest rate to the amount outstanding. When it is not reasonable to expect that interest will be realized, accrual of income ceases and these loans are placed on a "cash basis" for purposes of income recognition.

LOAN ORIGINATION FEES AND COSTS:

The Bank has adopted the Financial Accounting Standards Board's Statement of Financial Accounting Standard No. 91, which establishes financial accounting and reporting guidelines for accounting for nonrefundable fees and costs associated with originating or acquiring loans. Statement No. 91 requires that nonrefundable loan fees, such as the fees more commonly known as "points" or "origination fees" but not necessarily limited thereto, be deferred and recognized over the life of the loan as an adjustment of yield. Likewise, certain direct loan origination costs are to be deferred and recognized as a reduction in the yield of the loan.

MORTGAGE SERVICING RIGHTS:

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 122 "Accounting for Mortgage Servicing Rights an Amendment of FASB Statement No. 65." FAS 122 states that "a mortgage banking enterprise that purchases or originates mortgage loans with a definitive plan to sell or securitize those loans and retain the mortgage servicing rights shall allocate the cost of the mortgage loans based on the relative fair values at the date of purchase or origination." The Bank adopted FAS 122 effective January 1, 1996 and uses the present value of expected future cash flows in determining fair values.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

IMPAIRED LOANS:

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 114, "Accounting by Creditors for Impairment of a Loan." FAS 114 states that "a loan is impaired when, based on current information and events, it is probable that a creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement." When it is determined by the creditor that a loan is impaired, "the creditor shall measure the impairment based on 1) the present value of expected future cash flows discounted at the loan's effective rate, 2) the loan's observable market price, or 3) the fair value of the collateral if the loan is collateral dependent." FAS 114 was adopted by the Bank effective January 1, 1995.

ALLOWANCE FOR LOAN LOSSES:

The allowance for loan losses is available for future charge-offs. It is increased by provisions charged to operations and decreased by charge-offs net of recoveries. The provision is primarily the result of management's continuous review and evaluation of problem loans, supplemented by historical net charge-off experience, economic conditions and the size of the loan portfolio. The allowance is maintained at a level which management believes to be adequate to provide for potential losses. For tax purposes, the Bank follows a policy of providing additions to the allowance for possible loan losses in accordance with maximum amounts under applicable federal tax laws.

BANKING PREMISES AND EQUIPMENT:

Banking 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 accelerated methods. Costs for maintenance and repairs are charged to operations as incurred.

PREMIUM RESERVES AND BENEFIT LIABILITIES:

Liabilities for unreported claims are calculated from runoff experience. Liabilities for future reserves are based on the 1964 CDT at 3%.

Mortality reserves for life insurance contracts are determined using the 1958 CET 3.5% net level reserve method. Premium reserves for the accident and health policies are determined by the mean Prorata and rule of 78's.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

FAIR VALUE OF FINANCIAL INSTRUMENTS:

FASB Statement No. 107, "Disclosures about Fair Value of Financial Instruments", requires disclosure of the fair value information about financial instruments, both assets and liabilities, whether or not recognized in the balance sheet, for which it is practicable to estimate that value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by assumptions used, including the discount rate and estimates of cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. FASB Statement No. 107 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

FEDERAL INCOME TAX:

The provision for federal income taxes is based on reported income and expense, adjusted for permanent differences between reported income and taxable income. The deferred portion of the provision relates to those items of income and expense in the financial statements that are recognized in different time periods for income tax purposes.

EARNINGS PER SHARE:

Earnings per share are computed based on the weighted average number of shares of common stock outstanding during each year, after restatement for stock dividends.

NOTE 2. CASH AND FEDERAL FUNDS SOLD

Banks are required to maintain reserve funds in vault cash and/or on deposit with the Federal Reserve Bank. The aggregate reserves required at December 31, 1997 were $3.7 million.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in securities as of December 31, 1997 and 1996 are detailed below. Fair market values are based on quoted market prices or dealer quotes.

	1997			
(In thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Market Value
Available for Sale:				
U.S. Treasury	$ 22,200	$ 195	$ 22	$ 22,373
U.S. Government Agency	22,100	224	2	22,322
Mortgage-Backed	9,033	24	66	8,991
State and political subdivisions	24,499	1,127	9	25,617
Obligation of domestic corporations	10,282	48	3	10,327
Stocks of domestic corporations	20	0	0	20
Federal Home Loan Bank stock (restricted)	2,400	0	0	2,400
	$ 90,534	$ 1,618	$ 102	$ 92,050

	1996			
(In thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Market Value
Available for Sale:				
U.S. Treasury	$ 27,743	$ 109	$ 25	$ 27,827
U.S. Government Agency	23,825	193	108	23,910
Mortgage-Backed	9,023	31	68	8,986
State and political subdivisions	20,865	827	14	21,678
Obligation of domestic corporations	16,961	126	22	17,065
Stocks of domestic corporations	20	0	0	20
Federal Home Loan Bank stock (restricted)	2,235	0	0	2,235
	$ 100,672	$ 1,286	$ 237	$ 101,721

NOTE 3. INVESTMENT SECURITIES (Continued)

The Federal Home Loan Bank stock is held as collateral security for all indebtedness of The Farmers & Merchants State Bank to the Federal Home Loan Bank.

The gross realized gains and losses for the years ended December 31, are presented below:

(In thousands)	1997	1996	1995
Gross Realized Gains:			
Available for Sale:			
State and political subdivisions	6	5	105
	6	5	105
Gross Realized Losses:			
Available for Sale:			
U.S. Treasury and agency securities	10	0	33
Net Realized Gains (Loss)	(4)	$ 5	$ 72
Gross proceeds from sale of Available for Sale securities	$ 10,363	$ 255	$ 1,997

The amortized cost and estimated market value of debt securities at December 31, 1997, 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.

	Investment Securities Available for Sale	
(In thousands)	Amortized Cost	Market Value
Within one year	$ 15,806	$ 15,831
From one through five years	56,405	57,005
From five through ten years	6,149	6,351
After ten years	9,754	10,443
Total	$ 88,114	$ 89,630

Investments with a carrying value of $61.6 million and $62.2 million at December 31, 1997 and 1996, respectively, were pledged to secure public deposits and securities sold under repurchase agreements.

NOTE 4. LOANS

Loans at December 31, 1997 and 1996 are summarized below:

(In thousands)	1997	1996
Real estate	$ 205,626	$ 195,043
Commercial and industrial	65,633	67,763
Agricultural (excluding real estate)	44,939	41,195
Consumer and other loans	75,767	63,199
Commercial paper 7,837	3,959	3,959
Industrial Development Bonds	4,511	3,670
	404,313	374,829
Less: Deferred loan fees and costs	(312)	(429)
	404,001	374,400
Less: Allowance for loan losses	(5,850)	(5,500)
Loans - Net	$ 398,151	$ 368,900

$44.1 million in one to four family residential mortgage loans have been pledged as security for loans the Bank has received from the Federal Home Loan Bank.

Senior officers and directors and their affiliated companies were indebted to the Bank in the aggregate of $6.1 and $12.4 million at December 31, 1997 and 1996, respectively. All such loans were made on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time for comparable loan transactions with other persons. Loans made during 1997 were $16.4 million and repayments were $22.7 million. In the opinion of management, these loans do not involve more than normal risk of collectibility or possess other unfavorable features.

The following schedule details past due and nonaccrual loans:

(In thousands)	Past Due 30 to 89 Days Still Accruing	Past Due 90 Days or More Still Accruing	Nonaccrual
Real estate	$ 2,653	$ 167	$ 444
Commercial and industrial	2,506	1,091	1,575
Agricultural (excluding real estate)	750	0	816
Consumer and other loans	2,227	138	55

NOTE 5. ALLOWANCE FOR POSSIBLE LOAN LOSSES

An analysis of the allowance for loan losses is as follows:

(In thousands)	1997	1996	1995
Balance at beginning of year	$ 5,500	$ 5,500	$ 5,500
Provision charged to operating expenses	1,111	1,068	385
Loans charged-off	(1,531)	(1,711)	(1,479)
Recoveries	770	643	1,094
Balance at End of Year	$ 5,850	$ 5,500	$ 5,500

At December 31, 1997 and 1996, the recorded investment in loans considered impaired was $7.170 million and $3.489 million, respectively. Of the $7.170 million and $3.489 million for 1997 and 1996, respectively that were considered impaired, $2.9 million and $1.5 million, respectively required the establishment of an allocated reserve.

Average investment in impaired loans for 1997 was $3.190 million and $3.492 million for 1996. The Bank stops accruing interest income when a loan is deemed to be impaired, and recognizes interest income when the interest income is actually received. Interest income recognized on impaired loans during 1997 and 1996 was $402 thousand and $354 thousand, respectively.

The allowance for loan losses for federal income tax purposes was $843 thousand for 1997, 1996 and 1995.

NOTE 6. BANKING PREMISES AND EQUIPMENT

The major categories of banking premises and equipment and accumulated depreciation at December 31, 1997 and 1996 are summarized below:

(In thousands)	1997	1996
Land	$ 1,472	$ 1,228
Buildings	7,398	7,138
Furnishings	4,605	4,332
	13,475	12,698
Less: Accumulated depreciation	(5,810)	(5,122)
Banking Premises and Equipment - Net	$ 7,665	$ 7,576

Depreciation charged to operating expenses was $700, $798 and $689 thousand for 1997, 1996 and 1995, respectively.

NOTE 7. DEPOSITS

Time deposits at December 31, 1997 and 1996 were comprised of the following:

(In thousands)	1997	1996
Time deposits under $100,000	$ 216,185	$ 199,934
Time deposits of $100,000 or more	57,763	55,861
	$ 273,948	$ 255,795

The aggregate amount of maturities for each of the five following years for time deposits having a remaining term of more than one year follows:

1998	$ 137,874
1999	115,754
2000	16,634
2001	1,710
2002	1,292

The aggregate amount of demand deposits reclassified as loan balances as of December 31, 1997 and 1996 were $92 thousand and $429 thousand, respectively.

Deposits to related parties as of December 31, 1997 amounted to $5.8 million.

NOTE 8. REPURCHASE AGREEMENTS

The maximum amount of repurchase agreements outstanding at the end of any given month during 1997 was $4.949 million with an average outstanding balance for 1997 of $2.990 million determined on a daily average basis. Accrued interest payable on repurchase agreements as of December 31, 1997 was $75 thousand. Securities underlying the agreements were under the Bank's control.

NOTE 9. OTHER BORROWINGS

Other borrowings consisted of the following at December 31, 1997 and 1996:

(In thousands)	1997	1996
Federal Home Loan Bank, various loans due in monthly installments of $105 thousand plus an annual payment of $300 thousand including interest at varying rates from 5.40% to 6.75%. Notes are secured by a blanket lien on 100% of the Bank's one to four family residential mortgage loan portfolio.	$ 11,292	$ 8,998

The following is a schedule by years of future minimum principal payments:

Year Ended December 31	Principal Payments
1998	$ 1,052
1999	1,101
2000	1,153
2001	1,208
2002	1,267
Thereafter	5,511

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 10. FEDERAL INCOME TAXES

Federal income tax costs for the years 1997, 1996 and 1995 were $3.035, $2.312 and $2.203 million, respectively. The actual tax results for the three years differ from tax computed at the maximum statutory rate as follows:

(In thousands)	1997	1996	1995
Tax at maximum statutory rate	$ 3,354	$ 2,650	$ 2,511
Tax effect of:			
Tax exempt interest	(384)	(406)	(354)
Costs attributable to tax exempt interest	63	59	47
Other items, net	2	9	(1)
Federal Income Tax Cost	$ 3,035	$ 2,312	$ 2,203

The provision for federal income taxes is comprised of the following components:

(In thousands)	1997	1996	1995
Currently payable	$ 3,003	$ 2,045	$ 1,967
Other	0	0	(6)
Deferred:			
Stock dividend	56	51	46
Provision for loan losses	(118)	0	70
Accreted discount on securities	(6)	54	22
Real estate and installment loan fees and costs	100	162	52
Retirement plan costs	0	0	52
	32	267	242
Total Provisions	$ 3,035	$ 2,312	$ 2,203

The timing differences between financial reporting and tax reporting resulted in a deferred charge of $614 thousand and $809 thousand as of December 31, 1997 and 1996, respectively. The deferred charge for income tax costs is included in the asset section of the balance sheets.

NOTE 11. RETIREMENT INCOME PLAN

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 as is deemed advisable. A participant is 100% vested in the participant's deferral contributions and employer matching contributions. A seven year vesting schedule applies to employer discretionary contributions.

In order to be eligible to participate, the employee must be 21 years of age, completed six months of service, work 1,000 hours in the plan year and be employed on the last day of the year. Entry dates have been established at January 1 and July 1 of each year.

The plan calls for only lump-sum distributions upon either termination of employment, retirement, death or disability.

Pension expense for the 401(k) profit sharing plan for both the employer matching contribution and the discretionary contribution was $315 thousand, $267 thousand and $202 thousand for 1997, 1996 and 1995, respectively.

During 1995 the Bank had a defined benefit retirement plan in place. The plan was terminated in 1996 and all assets were transferred to the 401(k) profit sharing plan. Pension expense for 1995 under the defined benefit plan amounted to $38 thousand.

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES

The Bank's financial statements do not reflect various commitments and contingent liabilities which arise in the normal course of business and which involve elements of credit risk, interest rate risk and liquidity risk. These commitments and contingent liabilities are commitments to extend credit, credit card arrangements and standby letters of credit. A summary of the Bank's commitments and contingent liabilities at December 31, 1997 is as follows:

(In thousands)	Notational Amount
Commitments to extend credit	$ 62,486
Credit card arrangements	9,619
Standby letters of credit	2,299

NOTE 12. COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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. Because 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.

Commitments as of December 31, 1997 to lend at fixed and variable rates amounted to $9.6 million and $64.8 million, respectively.

In the ordinary course of business, the company at times, is subject to pending and threatened legal actions and proceedings. It is the opinion of management that the outcome of any such matters and proceedings would not have a material effect on the financial position of the company.

NOTE 13. CONCENTRATIONS OF CREDIT

All of the Bank's loans, commitments, and standby letters of credit have been granted to customers in the Bank's market area of northwest Ohio. All such customers are depositors of the Bank. Also, investments in state and municipal securities may involve governmental entities within the Bank's market area. The concentrations of credit by type of loan are set forth in Note 4. Standby letters of credit were granted primarily to commercial borrowers.

As of December 31, 1997, the company had on deposit with financial institutions $128 thousand in excess of FDIC insurable limits.

NOTE 14. REGULATORY CAPITAL REQUIREMENTS

Federal regulatory agencies have adopted various capital standards for financial institutions, including risk-based capital standards. The primary objectives of the risk-based capital framework are to provide a more consistent system for comparing capital positions of financial institutions and to take into account the different risks among financial institutions' assets and off-balance sheet items.

Risk-based capital standards have been supplemented with requirements for a minimum Tier 1 capital to assets ratio (leverage ratio). In addition, regulatory agencies consider the published capital levels as minimum levels and may require a financial institution to maintain capital at higher levels.

NOTE 14. REGULATORY CAPITAL REQUIREMENTS (Continued)

A comparison of the Bank's capital as of December 31, 1997 with the minimum requirement is presented below:

(In thousands)	Actual	Minimum Requirements
Tier 1 Risk-based Capital	9.58%	4.00%
Total Risk-based Capital	13.44%	8.00%
Leverage Ratio	7.06%	4.00%

According to regulatory guidelines, the Bank is considered to be "well capitalized".

The Bank is restricted as to the amount of dividends which 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 $2.3 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.

On December 31, 1996 the Bank declared and paid a $10 million dividend to the Bank's parent company, Farmers & Merchants Bancorp, Inc. with approval from the FDIC and the State of Ohio Division of Financial Institutions. On December 31, 1996 Farmers & Merchants Bancorp, Inc. loaned to The Farmers & Merchants State Bank $10 million in exchange for an unsecured subordinated note receivable. The note is due January 1, 2007. Interest at the rate of 6% is payable annually on the first day of January each year. The Bank has the option of prepaying all or any part of the note at any time without notice or penalty, subject to the approval of the FDIC and the State of Ohio Division of Financial Institutions.

NOTE 15. SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the year for:

(In thousands)	1997	1996	1995
Interest (net of amount capitalized)	$ 21,136	$ 20,969	$ 17,166
Income taxes	$ 2,652	$ 2,128	$ 2,359

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS

The book values and estimated fair values for on and off-balance sheet financial instruments as of December 31, 1997 and 1996 are reflected below:

	1997		1996	
(In thousands)	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Cash	$ 16,313	$ 16,313	$ 15,971	$ 15,971
Federal funds sold	6,485	6,485	0	0
Investment Securities:				
Available for sale	92,050	92,050	101,721	101,721
Net loans	398,151	406,323	368,900	376,206
Financial Liabilities:				
Deposits	$ 461,298	$ 462,967	$ 438,377	$ 439,349
Short-term borrowing:				
Federal funds purchased	0	0	2,790	2,790
Securities sold under agreement to repurchase	2,598	2,598	3,973	3,973
Other borrowing	11,292	11,642	8,998	8,654
Off-Balance Sheet Financial Instruments:				
Commitments to extend credit	$ 62,486	$ 62,486	$ 49,480	$ 49,480
Credit card arrangements	9,619	9,619	7,726	7,726
Standby letters of credit	2,299	2,299	2,245	2,245

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

CASH AND SHORT-TERM INVESTMENTS:

For cash on hand and in banks, as well as, federal funds sold, the carrying amount is a reasonable estimate of fair value.

NOTE 16. FAIR VALUE OF FINANCIAL INSTRUMENTS (Continued)

INVESTMENT SECURITIES:

Fair value is based on quoted market prices or dealer quotes. See Note 3, Investment Securities, for additional information.

LOANS:

The estimated fair value of the Loan portfolio is based on expected future cash flows discounted by an appropriate rate derived in part from the Treasury yield curve.

DEPOSITS:

The fair value of demand deposits, savings accounts, and certain money market deposits is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated using anticipated future cash flows discounted by an appropriate rate derived in part from the Treasury yield curve.

BORROWINGS:

Short-term borrowings are carried at cost which approximates fair value. Other long-term debt was generally valued using a discounted cash flows analysis with a discounted rate based on current incremental borrowing rates for similar types of arrangements, or if not available, based on an approach similar to that used for loans and deposits. Long-term borrowings include their related current maturities.

OFF-BALANCE SHEET FINANCIAL INSTRUMENTS:

The fair value of commitments is estimated using the fees currently charged to enter into similar agreements, taking into account remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of guarantees and letters of credit is based on fees currently charged for similar agreements or on the estimated cost to terminate them or otherwise settle the obligations with the counterparties at the reporting date.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 17. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

BALANCE SHEETS

(In thousands)	1997	1996
ASSETS:		
Cash	$ 816	$ 254
Related party receivables:		
Dividends	650	520
Note receivable	10,000	10,000
Income tax receivable	0	12
Investment in subsidiaries	38,207	33,115
TOTAL ASSETS	$ 49,673	$ 43,901
LIABILITIES:		
Accrued expenses	$ 179	$ 0
Dividends payable	650	520
Total Liabilities	829	520
SHAREHOLDERS' EQUITY:		
Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares	12,677	12,677
Undivided profits	35,165	30,013
Unrealized gain on securities classified as Available for Sale (net of tax effect of $510 for 1997 and $357 for 1996)	1,002	691
	48,844	43,381
LIABILITIES AND SHAREHOLDERS' EQUITY	$ 49,673	$ 43,901

NOTE 17. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY)
FINANCIAL INFORMATION (Continued)

STATEMENTS OF INCOME

(In thousands)	1997	1996	1995
INCOME:			
Equity in net income of subsidiaries	$ 6,406	$ 5,510	$ 5,117
Interest income	600	0	0
	7,006	5,510	5,117
EXPENSES:			
Miscellaneous	16	17	13
Professional fees	15	15	16
Supplies	6	8	4
Taxes	1	1	1
	38	41	34
INCOME BEFORE INCOME TAXES	6,968	5,469	5,083
INCOME TAXES (BENEFITS)	191	(14)	(12)
NET INCOME	$ 6,777	$ 5,483	$ 5,095

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 17. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)	Common Stock	Undivided Profits	Net Unrealized Gain (Loss) on Available for Sale Securities
BALANCE at December 31, 1994	$ 12,677	$ 22,360	$ (248)
Net income for 1995	0	5,095	0
Unrealized losses on securities classified as Available for Sale (net of tax effect of $599)	0	0	1,167
Dividends ($1.10 per share)	0	(1,430)	0
BALANCE at December 31, 1995	12,677	26,025	919
Net income for 1996	0	5,483	0
Unrealized losses on securities classified as Available for Sale (net of tax effect of ($115))	0	0	(228)
Dividends ($1.15 per share)	0	(1,495)	0
BALANCE at December 31, 1996	12,677	30,013	691
Net income for 1997	0	6,777	0
Unrealized losses on securities classified as Available for Sale (net of tax effect of $153)	0	0	311
Dividends ($1.25 per share)	0	(1,625)	0
BALANCE AT DECEMBER 31, 1997	$ 12,677	$ 35,165	$ 1,002

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 17. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS

(In thousands)	1997	1996	1995
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 6,777	$ 5,483	$ 5,095
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed net income of subsidiaries	(4,910)	6,316	(3,819)
Changes in Operating Assets and Liabilities:			
Income tax receivable	190	10	(13)
Net Cash Provided by Operating Activities	2,057	11,809	1,263
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Loan) to repayment by subsidiary	0	(10,000)	0
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends	(1,495)	(1,625)	(1,300)
Net increase (decrease) in cash and cash equivalents	562	184	(37)
Cash and cash equivalents - beginning of year	254	70	107
CASH AND CASH EQUIVALENTS -- END OF YEAR	$ 816	$ 254	$ 70

NOTE 18. STOCK SPLIT

On June 28, 1996, the Board of Directors authorized a five-for-one stock split, thereby increasing the total number of shares authorized to 1.5 million and the total number of shares issued and outstanding to 1.3 million. All references in the accompanying financial statements to the number of common shares and per share amounts have been restated to reflect the stock split.

[KROUSE, KERN & CO., INC. LETTERHEAD]

January 14, 1998

Board of Directors
Farmers & Merchants Bancorp, Inc.
Archbold, Ohio

INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY INFORMATION

Our report on our audits of the basic financial statements of Farmers & Merchants Bancorp, Inc., Archbold, Ohio, and its wholly-owned subsidiaries, The Farmers & Merchants State Bank and Farmers & Merchants Life Insurance Company for the years ended December 31, 1997 and 1996, appears on page 1. The examination was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The five year summary of operations is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/S/ KROUSE, KERN & CO., INC.
KROUSE, KERN & CO., INC.

FARMERS & MERCHANTS BANCORP, INC.

Five Year Summary of Consolidated Operations

(In thousands except for per share amounts)	1997	1996	1995	1994	1993
Summary of Income:					
Interest income	$ 40,158	$ 38,382	$ 34,228	$ 27,779	$ 26,650
Interest expense	21,139	20,905	17,749	12,561	12,424
Net Interest Income	19,019	17,477	16,479	15,218	14,226
Provision for loan losses	1,111	1,068	385	564	908
Net interest income after provision for loan losses	17,908	16,409	16,094	14,654	13,318
Other income (expense)	(8,096)	(8,614)	(8,594)	(7,939)	(7,617)
Earnings before federal income taxes	9,812	7,795	7,500	6,715	5,701
Income taxes	3,035	2,312	2,203	1,749	1,394
Net income	$ 6,777	$ 5,483	$ 5,297	$ 4,966	$ 4,307
Per Share of Common Stock:					
Earnings per common share outstanding: (Based on the weighted average number of shares outstanding) (All per share amounts have been retroactively restated to reflect 5 for 1 stock split in 1996)					
Net income	$ 5.22	$ 4.22	$ 4.07	$ 3.82	$ 3.31
Dividends	1.25	1.15	1.10	1.00	1.00
Weighted average number of shares outstanding	1,300,000	1,300,000	1,300,000	1,300,000	1,300,000
Year-end assets	$ 528,273	$ 501,449	$ 464,090	$ 406,186	$ 371,913
Average assets	510,163	482,770	430,304	387,440	362,244
Year-end equity capital	48,844	43,381	39,621	34,586	31,169
Average equity capital	46,548	41,501	38,034	32,838	30,025

See Independent Auditors' Report on Supplementary Information.

FARMERS & MERCHANTS BANCORP, INC.

Trading Market for the Company's Stock

The Company's stock is not actively traded on any exchange. The range and sales prices, based upon information that the company has been made aware, are listed below:

	Stock Prices		
	Quarter	Low	High
1997-- by quarter	1st	$ 40.00	$ 45.00
	2nd	55.00	72.00
	3rd	72.00	72.00
	4th	65.00	70.00
1996-- by quarter (after retroactive restatement for 5 for 1 stock split in 1996)	1st	$ 32.00	$ 35.00
	2nd	35.00	35.00
	3rd	40.00	40.00
	4th	40.00	40.00

Dividends declared on a quarterly basis for the last two fiscal years:

	Quarter	1997	1996
Dividends declared per share (after retroactive restatement for 5 for 1 stock split in 1996) By quarter	1st	$ .25	$ .25
	2nd	.25	.25
	3rd	.25	.25
	4th	.50	.40

FARMERS & MERCHANTS BANCORP, INC.

SELECTED FINANCIAL DATA BY MANAGEMENT

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Farmers & Merchants Bancorp, Inc. reported consolidated earnings of $6.777 million for 1997 representing an increase of almost $1.3 million over the $5.5 million for 1996, a 23.6% increase. This increase was primarily the result of an increase in interest income from loans.

Consolidated assets grew by $26.8 million in 1997 to a record $528 million from consolidated assets of $501 million for 1996. This represents a 5.3% percent increase. As was the case for 1996's increase, the increase for 1997 was due almost entirely to an increase in lending activity. As a result of the continued growth in the loan portfolio, management is of the opinion that a modest increase in the loan loss reserve of $350 thousand to $5.85 million is appropriate to cover potential loan losses.

The return on average assets and average shareholders' equity for 1997 was 1.33% and 14.56%, respectively. These returns compare to 1.14% average return on assets and 13.21% average return on shareholders' equity for 1996.

LIQUIDITY

Maintaining sufficient funds to meet depositor and borrower needs on a daily basis are among management's top priorities. This is accomplished by investing in assets such as U.S. Government, U.S. Agency, Municipal, and Corporate investment securities and Commercial Paper which can be converted to cash in a timely manner, as well as maintaining appropriate levels of cash. The average aggregate balance of these assets was $100 million for 1997 representing 19.3% of total average assets.

CAPITAL RESOURCES

Shareholders' equity was $48.8 million at December 31, 1997 compared to $43.4 million for 1996. The company continues to have a strong capital base and its bank subsidiary The Farmers & Merchants State Bank continues to maintain regulatory capital ratios that are significantly above the defined regulatory capital ratios.

At December 31, 1997, The Farmers & Merchants State Bank had a total risk-based capital ratio of 13.4% and a 9.6% core capital to risk-based asset ratio which are well in excess of regulatory guidelines. The bank's leverage ratio of 7.1% is also substantially in excess of regulatory guidelines. These ratios compare to 12.9%, 8.9% and 6.5%, respectively for 1996.

As was reported last year, these ratios for 1996 were substantially lower than in past years due to a $10 million dividend paid by The Farmers & Merchants State Bank to Farmers & Merchants Bancorp, Inc. the parent company. This dividend with the subsequent loan of $10 million to The Farmers & Merchants State Bank by Farmers & Merchants Bancorp, Inc. was done to save state franchise taxes.

The Company's subsidiaries are restricted by regulations from making dividend distributions in excess of certain prescribed amounts.

FARMERS & MERCHANTS BANCORP, INC.

SELECTED FINANCIAL DATA BY MANAGEMENT

Key Ratios:

	1997	1996	1995	1994	1993
Return on average equity	14.56%	13.21%	13.93%	15.12%	14.34%
Return on average assets	1.33	1.14	1.23	1.28	1.19
Loan to deposit ratio	86.31	84.15	84.06	87.55	81.12
Capital to assets ratio	9.25	8.65	8.54	8.51	8.38

Other key selected highlights are as follows:

	1997	1996	1995	1994	1993
Loans	$ 398,151	$ 368,900	$ 339,614	$ 301,522	$ 261,600
Total Assets	528,273	501,449	464,090	406,186	371,913
Shareholders' Equity	48,844	43,381	39,621	34,586	31,169
Interest income	40,158	38,382	34,228	27,779	26,650
Interest expense	21,139	20,905	17,749	12,561	12,424
Net Interest	19,019	17,477	16,479	15,218	14,226
Other expense (net)	8,096	8,614	8,594	7,940	7,617
Federal income tax	3,035	2,312	2,203	1,749	1,394
Net income	6,777	5,483	5,297	4,965	4,307
Net income per share	5.22	4.22	4.07	3.82	3.31
Dividends per share	1.25	1.15	1.10	1.00	1.00

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOUSRE

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

No change of accountants has been made since 1982.

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
Charles Lugbill	70	Chairman of the Board of Farmers and Merchants Bancorp, Inc. and, The Farmers & Merchants State Bank	1968
Eugene Bernath	64	Farmer	1978
Jerry L. Boyers	64	President, Edifice Construction Management	1976
Joe E. Crossgrove	61	President, Chief Executive Officer The Farmers & Merchants State Bank	1992
Robert G. Frey	57	President, E. H. Frey & Sons, Inc.	1987
Lee E. Graffice	66	President, Graffice Motor Sales	1983
Jack C. Johnson	45	President, Hawk's Clothing, Inc. Partner, REJO Partnership	1991
Dean E. Miller	53	President, MBC Holdings, Inc.	1986
Dale L. Nafziger	67	Retired	1969
Harold H. Plassman	68	Attorney, Plassman, Rupp, Hensel & Short	1985
James L. Provost	69	Retired, Dyer & McDermott, Inc.	1995
James C. Saneholtz	51	President, Saneholtz-McKarns, Inc.	1995
Maynard Sauder	65	President, Sauder Woodworking Co.	1980
Merle J. Short	57	Farmer, President of Promow, Inc.	1987
Steven J. Wyse	53	President, Granite Industries, Inc.	1991

EXECUTIVE OFFICERS

Name	Age	Principal Occupation for Past Five Years
Charles Lugbill	70	Secretary/Treasurer Agri Trading Chairman of the Board of Farmers and Merchants Bancorp, Inc. and, The Farmers & Merchants State Bank
Joe E. Crossgrove	60	President, Chief Executive Officer The Farmers & Merchants State Bank (since 1991) Executive Vice President and Treasurer of Farmers & Merchants Bancorp, Inc. Director and Vice President of Farmers & Merchants Life Insurance Co.
Rex D. Rice	38	Vice President Chief Lending Officer
Edward Leininger	40	Vice President Commercial Loan Officer
Allen G. Lantz	44	Vice President Branch Manager
Lewis Hilkert	47	Vice President Branch Manager
Carol England	57	Assistant Vice President Corporate Secretary Branch Manager
Ronald D. Short	45	Assistant Vice President Branch Manager
Cynthia Knauer	51	Assistant Vice President Branch Manager
Dave Frazier	39	Assistant Vice President Branch Manager
John Fee	37	Assistant Vice President Branch Manager
Steve Jackson	43	Assistant Vice President Branch Manager

Deborah Stoner	41	Assistant Vice President Branch Manager
Randal H. Schroeder	37	Assistant Vice President Chief Operations Officer
George Jelen	46	Assistant Vice President Mortgage Loan Officer
Barbara Britenriker	36	Assistant Vice President Chief Financial Officer Comptroller
Michael D. Culler	39	Assistant Vice President Chief Agricultural Finance Officer
Diann K. Meyer	37	Assistant Vice President Personnel Manager
Gloria Gunn	40	Assistant Vice President Assistant Branch Manager
Richard Bruce	50	Assistant Vice President Commercial Loan Officer
Kent Roth	33	Auditor Bank Security Officer Bank Secrecy Officer
Marilyn Johnson	41	Compliance Officer
Jean Horwath	46	Assistant Cashier Assistant Branch Manager
Diane Swisher	40	Assistant Cashier Assistant Branch Manager
Patti Rosebrock	40	Assistant Cashier Assistant Branch Manager
Michael T. Smith	31	Assistant Cashier Branch Manager
Debra Kauffman	37	Assistant Cashier Assistant Corporate Secretary Consumer Loan Officer
J. Scott Miller	41	Assistant Cashier Assistant Agri-Finance Officer
Judy Warncke	49	Assistant Cashier Marketing Officer

Diana Dennie	35	Assistant Cashier Branch Manager
Jerry Borton	48	Assistant Cashier Loan Officer
Joyce G. Kinsman	28	Assistant Cashier Loan Review Officer
Richard D. Ernest	33	Assistant Cashier Asset Recovery Officer
Jane Bruner	37	Assistant Cashier Operations Supervisor
Barry Gray	37	Assistant Cashier Assistant Branch Manager
Kevin Gray	25	Assistant Cashier Assistant Branch Manager

ITEM 11. MANAGEMENT REMUNERATION AND TRANSACTIONS

The information called for herein 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 4, 1998 is incorporated herein by reference.

The directors of Farmers & Merchants Bancorp, Inc. are also the directors of The Farmers & Merchants State Bank and Farmers & Merchants Life Insurance Co.

The Board of Directors met twenty-six times during the 1997 calendar year. All current directors of the Corporation attended at least seventy-five percent of the meetings of the Board. Average attendance at Board meetings held during the year was ninety percent.

Directors received, as directors' fees, $300 for each board meeting, plus a bonus of $600 for 1997.

The Subsidiary Bank Board of Directors met semi-monthly during 1997.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for herein 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 Saturday, April 4, 1998, is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

TRANSACTIONS WITH MANAGEMENT AND OTHER

There are no transactions to report.

CERTAIN BUSINESS RELATIONSHIPS

No family relationships exist between any executive officers of the Bank.

LOANS TO RELATED PARTIES

This information is presented on page 16, Note 4 of the Annual Report to shareholders, and is incorporated herein by reference.

CERTAIN BUSINESS RELATIONSHIPS

The company retained the law firm of Plassman, Rupp, Hensal and Short in 1988. One of the principals, Harold Plassman, is a member of the Board of Directors. During 1997 the company paid fees to Plassman, Rupp, Hensal and Short for routine legal services. It is the company's intention to retain the law firm in 1998.

PART IV

ITEM 14. EXHIBITS, FINANCIAL SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this report:

(b) Reports on Form 8-K
None

(c) Exhibits required by Item 601.
None required

(d) Schedules required by Regulation S-X
The Condensed Financial Information of the Registrant required by this report are included in the Annual Report to Shareholders, Note 17 pages 26 through 29 Other schedules required to be filed as part of this report.

SCHEDULE OF PROPERTY AND EQUIPMENT

Exhibit 1

(in thousands)	Year Ended December 30, 1997 Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,228	$ 244	$ 0	$ 1,472
Building	7,137	261	0	7,398
Banking house equipment	4,333	284	11	4,606
	$ 12,698	$ 789	$ 11	$ 13,476

(in thousands)	Year Ended December 30, 1996 Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,120	$ 108	$ 0	$ 1,228
Building	6,475	662	0	7,137
Banking house equipment	4,074	414	155	4,333
	$ 11,669	$ 1,184	$ 155	$ 12,698

(in thousands)	Year Ended December 30, 1995 Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,073	$ 47	$ 0	$ 1,120
Building	6,042	523	90	6,475
Banking house equipment	3,033	1,084	43	4,074
	$ 10,148	$ 1,654	$ 133	$ 11,669

SCHEDULE OF ACCUMULATED DEPRECIATION -- PROPERTY AND EQUIPMENT

Exhibit 2

Year Ended December 30, 1997

(in thousands)	Beginning Balance	Provision for Depreciation	Retirements	Ending Balance
Building	$ 2,022	$ 212	$ 0	$ 2,234
Banking house equipment	3,100	488	11	3,577
	$ 5,122	$ 700	$ 11	$ 5,811

Year Ended December 30, 1996

(in thousands)	Beginning Balance	Provision for Depreciation	Retirements	Ending Balance
Building	$ 1,814	$ 208	$ 0	$ 2,022
Banking house equipment	2,657	590	147	3,100
	$ 4,471	$ 798	$ 147	$ 5,122

Year Ended December 30, 1995

(in thousands)	Beginning Balance	Provision for Depreciation	Retirements	Ending Balance
Building	$ 1,683	$ 203	$ 72	$ 1,814
Banking house equipment	2,208	486	37	2,657
	$ 3,891	$ 689	$ 109	$ 4,471

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.

Farmers & Merchants Bancorp, Inc.

By: Joe E. Crossgrove Date: 3/6/98

Joe E. Crossgrove
Chief Executive Officer

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.

Joe E. Crossgrove Joe E. Crossgrove, Director Chief Executive Officer	Date: 3/6/98	Barbara Britenriker Barbara Britenriker Chief Accounting Officer	Date: 3/6/98
Charles Lugbill Charles Lugbill Director and Chairman	Date: 3/6/98	Kent Roth Kent Roth, Auditor	Date: 3/6/98
Eugene D. Bernath Eugene D. Bernath, Director	Date: 3/6/98	Harold H. Plassman Harold H. Plassman, Director	Date: 3/6/98
Jerry Boyers Jerry Boyers, Director	Date: 3/6/98	James Provost James Provost, Director	Date: 3/6/98
Robert Frey Robert Frey, Director	Date: 3/6/98	James Saneholtz James Saneholtz, Director	Date: 3/6/98
Lee Grafice Lee Grafice, Director	Date: 3/6/98	Maynard Sauder Maynard Sauder, Director	Date: 3/6/98
Jack C. Johnson Jack C. Johnson, Director	Date: 3/6/98	Merle J. Short Merle J. Short, Director	Date: 3/6/98
Dean Miller Dean Miller, Director	Date: 3/6/98	Steven J. Wyse Steven J. Wyse, Director	Date: 3/6/98
Dale L. Nafziger Dale L. Nafziger, Director	Date: 3/6/98		

EXHIBIT INDEX

EXHIBIT NUMBER	
27	FINANCIAL DATA SCHEDULE

9
1,000

12-MOS
DEC-31-1997
JAN-01-1997
DEC-31-1997
16,213
100
6,485
0
92,050
92,050
92,050
404,001
5,850
528,273
461,298
2,598
4,241
11,292
0
0
12,677
36,167
528,273
34,271
5,505
382
40,158
20,276
863
19,019
1,111
(4)
11,031
9,812
9,812
0
0
6,777
5.22
5.22
9.23
2,890
9,532
0
12,422
5,500
1,531
770
5,850
5,850
0
0