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, 1998

or

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

Commission File Number 0-14492

FARMERS & MERCHANTS BANCORP, INC.

OHIO	34-1469491
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
307-11 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:

Common 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, 1999, Registrant had outstanding 1,300,000 shares of common stock at a market value of $97,500,000.

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 210 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

	1998		
ASSETS	Average Balance	Interest and Dividend	Yield/ Rate
Interest Earning Assets:			
Loans (1)	$ 408,291	$ 36,335	8.90%
Taxable investment securities	75,880	4,641	6.12
Tax-exempt investment securities	25,654	1,259	4.91
Interest bearing deposits with other banks	100	5	5.00
Federal funds sold and securities purchased under agreement to resell	12,123	648	5.35
Total Interest Earning Assets	522,048	$ 42,888	8.22%
Non-interest Earnings Assets:			
Cash and due from banks	14,745		
Other assets	16,484		
	$ 553,277		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$ 89,643	$ 4,635	5.17%
Other time deposits	290,141	16,547	5.70
Other borrowed money	11,051	698	6.32
Federal funds purchased and securities sold under agreement to repurchase	3,276	206	6.25
Total Interest Bearing Liabilities	394,111	$ 22,086	5.60%
Non-interest Bearing Obligations:			
Non-interest bearing deposits	100,420		
Other	5,807		
Total Liabilities	500,338		
Stockholders' Equity	52,939		
Total Liabilities and Stockholders' Equity	$ 553,277		
Interest and dividend income/yield		$ 42,888	8.22%
Interest expense/rate		22,086	5.61
Net Interest Spread		$ 20,802	2.61%
Net Interest Margin			3.98%

	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 Earning 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%

(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:

	1998-1997		
	Increase (Decrease) in Interest	Increase (Decrease) Attributable to Changes in Volume	Rate
Interest Earned On:			
Loans	$ 2,064	$ 2,117	$ (53)
Taxable investment securities	101	228	(127)
Tax-exempt investment securities	128	176	(48)
Federal funds sold and securities purchased under agreements to resell	437	445	(8)
Total Interest Earnings Assets	$ 2,730	$ 2,966	$ (236)
Interest Paid On:			
Savings deposits	$ 18	$ 114	$ (96)
Other time deposits	888	1,106	(218)
Other borrowed	102	103	(1)
Federal funds purchased and securities sold under agreements to repurchase	(62)	(73)	11
Total Interest Bearing Liabilities	$ 946	$ 1,250	$ (304)

	1997-1996		
	Increase (Decrease) in Interest	Increase (Decrease) Attributable to 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

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:

	1998	1997	1996
U. S. Treasury and other U. S. Government agencies	$ 55,686	$ 44,695	$ 51,737
State and political subdivisions	35,520	25,617	21,678
Mortgage-backed securities	10,993	8,991	8,986
Obligations of domestic corporations	19,115	10,327	17,065
Stocks of domestic corporations	2,597	2,420	2,255
Total	$ 123,911	$ 92,050	$ 101,721

The following table sets forth (dollars in thousands) the maturities of investment securities at December 31, 1998 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	$ 8,529	5.91%	$ 7,494	6.36%
U.S. Government agencies	3,590	7.26%	7,968	5.93%
Mortgaged-backed securities	563	6.17%	8,430	6.00%
State and political subdivisions	2,452	8.19%	9,488	8.11%
Taxable state and political subdivisions	1,210	6.36%	3,097	5.90%
Obligations of domestic corporations	4,799	6.36%	14,106	5.90%

	Maturities			
	After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield
U. S. Treasury	$ 0	N/A	$ 0	N/A
U. S. Government agencies	26,420	5.34%	0	N/A
Mortgage-backed securities	1,993	5.64%	0	N/A
State and political subdivisions	10,020	7.96%	7,430	9.57%
Taxable state and political subdivisions	422	5.75%	0	N/A
Obligations of domestic corporations	0	N/A	0	N/A

At December 31, 1998 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 $2.3 million dollars. The bank did hold stock in the Federal Home Loan Bank of Cincinnati at a cost of $2.6 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:

	1998	1997	1996
Loans:			
Commercial and industrial	$ 87,266	$ 65,633	$ 67,763
Agricultural	38,882	44,939	41,195
Real estate - mortgage	200,675	205,626	195,043
Installment	68,385	75,767	63,199
Commercial paper	13,648	7,837	3,959
Industrial Development Bonds	4,587	4,511	3,670
Total Loans	$ 413,443	$ 404,313	$ 374,829

	1995	1994
Loans:		
Commercial and industrial	$ 58,987	$ 65,848
Agricultural	41,328	29,586
Real estate - mortgage	173,302	145,576
Installment	61,021	62,462
Commercial paper	7,604	2,019
Industrial Development Bonds	3,336	1,826
Total Loans	$ 345,578	$ 307,317

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)	$ 78,630	$ 30,349	$ 17,169	$ 126,148
Real estate - mortgage	5,437	8,894	186,344	200,675
Installment	11,511	54,577	2,297	68,385
Commercial paper	13,648	0	0	13,648
Industrial Development Bonds	1,025	676	2,886	4,587
Total	$ 110,251	$ 94,496	$ 208,696	$ 413,443

		After One Year Within Five Years	After Five Years	Total
Commercial, industrial, and agricultural (combined)	Fixed	$ 14,186	$ 8,860	$ 23,046
	Variable	16,163	8,309	24,472
Real estate - mortgage	Fixed	6,387	69,109	75,496
	Variable	2,507	117,235	119,742
Installment	Fixed	53,304	2,133	55,437
	Variable	1,273	164	1,437
IDB's	Fixed	676	2,886	3,562

NONACCRUAL PAST DUE AND RESTRUCTURED LOANS

The following table summarizes (dollars in thousands) the company's nonaccrual and past due loans as of December 31:

	1998	1997	1996
Nonaccrual loans	$ 6,455	$ 2,890	$ 3,489
Accruing loans past due 90 days or more	1,988	1,396	1,899
	$ 8,443	$ 4,286	$ 5,388

	1995	1994
Nonaccrual loans	$ 3,494	$ 2,681
Accruing loans past due 90 days or more	2,698	2,601
	$ 6,192	$ 5,282

As of December 31, 1998, 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 $40 thousand for the year 1998. Any collections of interest on nonaccrual loans are included in interest income when collected. This amounted to $172 thousand for 1998.

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 $6.5 million of nonaccrual loans are secured at December 31, 1998.

POTENTIAL PROBLEM LOANS:

At December 31, 1998, the Bank has $8.4 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, 1998.

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, 1998, the Bank had loans outstanding to individuals and firms engaged in the various fields of agriculture in the amount of $38.9 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:

	1998	1997	1996
Loans	$ 413,443	$ 404,313	$ 374,829
Daily average of outstanding loans	$ 408,291	$ 384,498	$ 358,261
Allowance for loan losses - beginning of year	$ 5,850	$ 5,500	$ 5,500
Loans Charged Off:			
Commercial	472	263	623
Installment	1,260	1,239	1,053
Real estate mortgages	42	29	35
	1,774	1,531	1,711
Loan Recoveries:			
Commercial	540	384	197
Installment	339	364	443
Real estate mortgages	3	22	3
	882	770	643
Net charged off	892	761	1,068
Provision for loan loss	892	1,111	1,068
Allowance for Loan Losses - End of Year	$ 5,850	$ 5,850	$ 5,500
Ratio of net charge-offs to average loans outstanding	.22%	.20%	.30%

Allocation of the allowance for loan losses:

	1995	1994
Loans	$ 345,577	$ 307,317
Daily average of outstanding loans	$ 324,239	$ 277,729
Allowance for loan losses - beginning of year	$ 5,500	$ 5,000
Loans Charged Off:		
Commercial	748	602
Installment	691	569
Real estate mortgages	40	0
	1,479	1,171
Loan Recoveries:		
Commercial	584	729
Installment	426	311
Real estate mortgages	84	67
	1,094	1,107
Net charged off	385	64
Provision for loan loss	385	564
Allowance for Loan Losses - End of Year	$ 5,500	$ 5,500
Ratio of net charge-offs to average loans outstanding	.12%	.20%

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	$ 3,281	32.43%
Installment	1,665	17.53%
Real estate	904	50.04%
	$ 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, 1998:	Demand Deposits	NOW Accounts	Savings Accounts	Time Accounts
Average balance	$ 38,906	$ 44,218	$ 108,981	$ 287,484
Average rate	.00%	2.29%	3.32%	5.76%
December 31, 1997:				
Average balance	$ 34,665	$ 40,626	$ 100,025	$ 268,181
Average rate	.00%	2.49%	3.57%	5.84%
December 31, 1996:				
Average balance	$ 32,041	$ 33,798	$ 104,441	$ 250,834
Average rate	.00%	3.05%	3.35%	6.15%

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 Less Than Twelve Months	Over Twelve Months
Time deposits	$ 20,987	$ 15,831	$ 16,432	$ 15,883

RETURN ON EQUITY AND ASSETS

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

	1998	1997	1996
Return on average assets	1.38%	1.33%	1.14%
Return on average equity	14.46%	14.56%	13.21%
Dividend payout ratio	23.77%	23.95%	27.23%
Equity to assets ratio	9.45%	9.25%	8.65%

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 uses for Bank parking and a community mini-park area. The Bank owns real estate at two locations, 207 Ditto Street and 209 Ditto Street in Archbold, Ohio upon which the bank built a commercial building to be used for storage, and a parking lot for company vehicles and employee parking.

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 Spring of 1995.

The Bank also owns real estate consisting of land and buildings housing each of its full service branch operations, except for the Montpelier, Ohio facilities which are leased. Construction has begun on permanent facilities for the Montpelier operations and was completed in June of 1998.

The Bank purchased land for a Swanton branch with construction to begin in 1999 with a year end completion date. The Bank also began an addition to its Napoleon office with a completion date of first quarter 1999.

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
	1150 East 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 the company's management is as follows:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1998	High	$45.00	$72.00	$72.00	$70.00
	Low	$40.00	$55.00	$72.00	$65.00
1997	High	$45.00	$72.00	$72.00	$70.00
	Low	$40.00	$55.00	$72.00	$65.00

As of March 1, 1999, there were 1,397 record holders of common stock of the company.

Dividends are paid quarterly. Per share dividends for the years ended 1998 and 1997 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
1998	$.30	$.30	$.30	$.50	$1.40
1997	$.25	$.25	$.25	$.50	$1.25

ITEM 6. SELECTED FINANCIAL DATA

Selected financial data is presented on page 35 of the Annual Report to shareholders for the year ended December 31, 1998 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:

	1998		
		Increase (Decrease)	
	Average Balance	Amount	Percentage
Funding Uses:			
Loans	$ 408,291	$ 23,793	6.19%
Taxable investment securities	75,880	3,722	5.16
Tax-exempt investment securities	25,654	3,585	16.24
Interest bearing deposits with other banks	100	0	.00
Federal funds sold and securities purchased under agreement to resell	12,123	8,318	218.61
	$ 522,048	$ 39,418	8.17%
Funding Sources:			
Deposits:			
Non-interest bearing deposits	$ 100,420	$ 13,407	15.41%
Savings deposits	89,643	2,204	2.52
Other time deposits	290,141	19,390	7.16
Other borrowed money	11,051	1,637	17.39
Federal funds purchased and securities sold under agreement to repurchase	3,276	(1,167)	(26.27)
	$ 494,531	$ 35,471	7.73%

	1998			1997
		Increase (Decrease)		
	Average Balance	Amount	Percentage	Average Balance
Funding Uses:				
Loans	$ 384,498	$ 26,237	7.32%	$ 358,261
Taxable investment securities	72,158	(2,893)	(3.85)	75,051
Tax-exempt investment securities	22,069	846	3.99	21,223
Interest bearing deposits with other banks	100	0	.00	100
Federal funds sold and securities purchased under agreement to resell	3,805	(2,808)	(42.46)	6,613
	$ 482,630	$ 21,382	4.64%	$ 461,248
Funding Sources:				
Deposits:				
Non-interest bearing deposits	$ 87,013	$ 36,433	72.03%	$ 50,580
Savings deposits	87,439	(30,295)	(25.73)	117,734
Other time deposits	270,751	12,305	4.76	258,446
Other borrowed money	9,414	3	.03	9,411
Federal funds purchased and securities sold under agreement to repurchase	4,443	(2,079)	(31.88)	6,522
	$ 459,060	$ 16,367	3.70%	$ 442,693

Total assets for Farmers & Merchants Bancorp, Inc. have increased from $501.4 million in 1996 to $528.3 million in 1997 and to $585.9 million in 1998, a 10.9% and 8.1% increase, respectively. The increase in assets of $57.6 million has occurred primarily in the loan portfolio, federal funds sold, and investments. The net loan portfolio has grown $9 million, federal funds sold has increased $12.6 million, and the investment portfolio has increased by $31.8 million.

The increase in the loan portfolio came primarily from an increase in commercial paper of $5.8 million and loans held for sale of $5 million.

While the loan portfolio has increased significantly, the net charge-offs have remained fairly level. Net charge-offs were $1.1 million for 1996, $761 thousand for 1997 and $892 thousand for 1998. Even though the loan portfolio has grown to a record $407 million, management believes that as a result of more aggressive collection policies and procedures, the reserve of $5.85 million is still adequate.

The major funding source for the increase in the assets discussed above came from an increase in deposits. Regular savings deposits showed an increase of almost $29.5 million from 1997 levels of $87.9 million, while time deposits grew $24.3 million to $298.3 million for 1998. Total deposits for 1998 demonstrated an 11 percent increase over 1997 levels.

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 1998 amounted to $1 million compared to net borrowings for 1997 of $3 million.

CAPITAL RESOURCES

Total capital increased $6.5 million or 13.3% for 1998 compared to $5.5 million or 12.6% for 1997. These increases came from profits and changes in market values of the securities portfolio. Profits amounted to $7.6 million for 1998, $6.7 million for 1997 and $5.5 million for 1996, while net after tax effect changes in market values of the investment portfolio contributed $669 thousand for 1998 and $311 million for 1997, 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 1998 dividends of $1.40 per share or $1.82 million were declared compared to 1997 dividends of $1.25 per share or $1.625 million, and $1.15 or $1.495 million for 1996. The per share amounts for 1996 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.

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, 1998 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	19,045	0	0	0	19,045
Securities	11,928	26,116	42,443	43,424	123,911
Loans	154,375	103,051	99,965	56,052	413,443
Total Rate Sensitive Assets	185,348	129,267	142,408	99,476	556,499
Deposits	164,569	179,040	115,943	0	459,552
Repurchase agreement	2,916	0	0	0	2,916
Long-Term Debt	0	0	0	11,240	11,240
Rate Sensitive Liabilities	167,485	179,040	115,943	11,240	473,708
Gap	$ 17,863	$ (49,773)	$ 26,465	$ 88,236	$ 82,791

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 $50.1 million for 1998 compared to $2.9 million for 1997 and $34.3 million for 1996.

The loan to deposit ratio decreased for 1998 to 79.6 percent compared to 86.3 percent for 1997 and 84.1 percent for 1996.

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 $22.1 million as of December 31, 1998 compared to $18.8 million as of December 31, 1997 and $20 million as of December 31, 1996. This is 18.2 percent of total marketable debt securities for 1998 compared to 17.6 percent for 1997, and 20.4 percent for 1996.

Still another source of liquidity are Federal Funds Sold. Federal Funds Sold which are for very short durations of time increased $12.6 million to $19 million.

RESULTS OF OPERATIONS

OVERVIEW

Net operating income for 1998 was $7.6 million, a 12.9 percent increase over 1997's net income of $6.8 million. Net income for 1996 was $5.5 million. Net interest margin before provision for loan losses increased 9.4 percent to $20.1 million from $19 million for 1997. Net interest margin for 1997 increased 8.5 percent to $19 million over the $17.5 million for 1996.

INTEREST INCOME

Interest income and fees on loans and leases increased 6 percent for 1998 to $36.3 million over 1997 levels of $34.2 million. This compares to interest and fee income of $32.4 million for 1996. All of the increase in interest income for 1998 can be attributed to an increase in lending activities.

Interest income on the investment portfolio for 1998 was $5.7 million compared to 1997 and 1996 which was $5.5 million.

INTEREST EXPENSE

Interest expense on deposits increased to $21.1 million for 1998 compared to $20.3 million for 1997 and $19.9 million for 1996. This increase is due to an increase in deposits.

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.

The provision for loan losses charged against income for 1998 was $892 thousand compared to $1.1 million for 1997 and 1996.

OTHER INCOME

Other operating income increased by $1.1 million for 1998 to $4 million. This compares to an increase of $558 thousand for 1997 over 1996 to $2.9 million, up from $2.4 million for 1996. Increases in miscellaneous customer fees, MasterCard fees, and loan servicing fees accounts for the bulk of this increase.

OTHER OPERATING EXPENSES

Operating expenses increased $1.8 million to $12.9 million over 1997 operating expenses of $11 million. Most of this increase was due to payroll costs in terms of increases in both number of employees and salary increases. Operating expenses for 1997 had increased slightly over 1996 operating expenses of $10.9 million.

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 have assured the Bank that the software used has already been or will be updated to accept Year 2000 dates and transactions. The Bank's internal management information systems personnel are also working diligently to address Year 2000 problems that may exist with the Bank's hardware.

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:

It is with great pride that we can report 1998 was another year of increased earnings. It was one of the best years in our history in terms of finanical performance. Capital accounts have increased to $55,350,000 with net income of $7,657,000 or $5.89 per share as compared to $5.22 in 1997. This resulted in an impressive 14.46 percent Return on Average Equity and 1.38 percent Return on Average Assets and a new high in assets of $585,869,000. Farmers & Merchants Bancorp, Inc. was highlighted by strong revenue growth along with excellent asset quality, proper management of interest rate and control of overhead expenses.

We are most proud of the effort and performance of our 223 employees. They accomplished a great deal this year, producing strong sales performance while upgrading systems and preparing for Year 2000. This was all delivered without sacrificing the finanical performance with you have come to expect. These accomplishments along with the opportunities created by changes in the competitive environment of several key markets, certainly make us optimistic about our prospects for the future. We must, however, always remain aware of the challenges that growth creates and stay dedicated to delivering top-notch service and high quality shareholder returns.

1998 financial performance was also highlighted by improving our net interest margin. Our balance sheet is solid and provides considerable financial flexibility. The net interest margin continues to improve from a focus on better earning-asset and deposit mix.

Among the events of 1998, the completion of the new Montpelier Office is the most noteworthy. With the addition of the new Eastside Office, giving us drive-up service along with an Automated Teller Machine (ATM), we are able to better serve our customers in the Montpelier area. ATMs were also placed in R & H Restaurant in Fayette, Ohio, and Beck's Country Store in Ridgeville Corners, Ohio. This brings the total ATMs in our banking system to seventeen. With more and more companies going to Direct Deposit for their payrolls, this is a service we must expand.

This past year, there has been a lot written concerning the Year 2000 Issue and the effect it could have on the economy. The banking industry has been among the most aggressive in readiness for Year 2000. We have taken this issue very seriously and are following the necessary steps to make certain that January 3, 2000, is just another business day. We are also working closely with our business partners to ensure they will be ready.

We expect 1999 to be another successful year but not without its challenges. Even though our net interest margin has improved, it will still take sharp pricing and control of overhead expenses to maintain this improvement. 1999 will also see the introduction of a new service for the Farmers & Merchants Bancorp, Inc., that being a full service Brokerage Department headed by Mr. Brett Kahrs. This is another step your bank is taking to make sure that we can provide our customers a full range of financial services.

We sincerely thank all of our employees, customers, Board of Directors, Advisory Boards, and the continued confidence of our shareholders. We look forward to capitalizing on the opportunities and meeting the challenges that await us in 1999.

Joe E. Crossgrove	Charles E. Lugbill
President and Chief Executive Officer	Chairman of the Board

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Chairman of the Board
The Farmers & Merchants State
Bank

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Farmer

JERRY L. BOYERS
President
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Chief Executive Officer
The Farmers & Merchants State
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Comptroller & Chief Financial Officer

DIANN K. MEYER
Asst. Vice President
Human Resource Officer

KENT E. ROTH
Auditor
Security Officer

MARILYN K. JOHNSON
Assistant Cashier
Compliance and CRA
Officer

JUDITH A. WARNCKE
Asst. Cashier
Marketing Officer

J. SCOTT MILLER
Asst. Cashier
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Lending Officer
Asst. Corporate Secretary

JANE C. BRUNER
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Operations Supervisor

JOYCE G. KINSMAN
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Loan Review Officer

BRETT J. KAHRS
Senior Investment Executive

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Assistant Branch Manager

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Partner
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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

MICHAEL F. SCHNITKEY
Assistant Cashier
Agri Finance Officer

RICHARD D. ERNEST
Assistant Cashier
Commerical Loan Officer

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

CHAIRMAN CHARLES LUGBILL WITH MANAGERS AT ANNUAL MEETING

Seated from left: Cynthia Knauer, AVP/Delta Manager; Deborah Stoner, AVP/Archbold Woodland Manager; Carol England, AVP/Wauseon Downtown Manager. Second row from left: Charles Lugbill, Chairman of the Board; Steve Jackson, AVP/Napoleon Manager; Ronald Short, AVP/Stryker Manager. Back row from left: Joe Crossgrove, President and CEO; Michael Smith, AC/Bryan SouthTowne Manager; John Fee, AVP/Montpelier Eastside Manager; David Frazer, AVP/Bryan E. High Manager; Allen Lantz, VP/Wauseon Shoop Manager; Lewis Hilkert, VP/West Unity Manager.

MESSAGE TO OUR SHAREHOLDERS:

UPDATE ON YEAR 2000 (Y2K) READINESS PROGRAM

With the Year 2000 rapidly approaching, our twelve member Project Team continues to actively address and manage preparations for complete readiness. Members of the team were drawn from different areas of the bank to ensure all potential issues could be addressed. A detailed Work Plan directs all activities required to implement the five phases of Y2K readiness - AWARENESS, ASSESSMENT, RENOVATION, VALIDATION and IMPLEMENTATION.

Since the Year 2000 poses great concerns and complex challenges, a comprehensive approach has been developed to identify, modify and test all systems and components which require changes in order to accurately handle and process information in the Year 2000 and thereafter. Our efforts focus on six key areas of exposure: 1) Computer technology and operating systems, 2) Software applications, 3) Automated processing functions, 4) Infrastructure, 5) Customer risk and 6) Legal risk.

Key customer concerns are ACCESS TO THEIR MONEY and ACCURACY OF THEIR ACCOUNT RECORDS. An essential part of our Year 2000 initiative is communication and customer awareness. Efforts focus on providing information on the bank and Year 2000, as well as educating our employees to effectively address customer questions and concerns.

A high priority status has been assigned to systems, applications and equipment vital to maintaining ongoing business functions and critical operations. Several key systems were awaiting upgrades at year end 1998. By maintaining close contact with our vendors and suppliers, we are confident those remaining changes will be timely and successful. Systems deemed Y2K compliant by vendors, as well as systems that have been replaced or upgraded, will require complete and thorough internal testing to ensure Year 2000 readiness.

Extensive testing and validation efforts focus on verification of critical information and calculations to ensure that computer interfaces accurately handle various dates and information. All critical systems must be thoroughly tested and retested, if needed, to ensure Year 2000 readiness. Testing and validation procedures will consume a major portion of our time in 1999.

Progress on the development of contingency plans for all mission critical systems continues. The plans will address potential Year 2000 problems and provide a detailed, well-planned methodology to quickly resolve a problem should one occur. An independent third party will be retained in 1999 to evaluate both our contingency planning process and testing procedures.

Risk assessments were developed for material customers, business partners and third parties who pose potential risks to the bank. Part of our Y2K compliance efforts will be continued monitoring in regard to their progress toward Year 2000 readiness.

With adequate preparations, the appropriate resources, and the involvement of senior management, our board of directors and employees, we anticipate minimal impact on our ability to deliver uninterrupted financial services to our customers. We will be prepared for "business as usual" on January 3, 2000.

Joe E. Crossgrove	Marilyn K. Johnson
President & Chief Executive Officer	Assistant Cashier/Y2K Project Manager

THE STATEMENTS CONTAINED HEREIN ARE YEAR 2000 READINESS DISCLOSURES AS DEFINED IN THE YEAR 2000 INFORMATION AND READINESS DISCLOSURE ACT (S.2392: ENACTED 10/19/98)

FARMERS & MERCHANTS BANCORP, INC.

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December 31, 1998

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

January 13, 1999

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, 1998 and 1997 and the related consolidated statements of income, changes in shareholders' equity, and cash flows for the years ended December 31, 1998, 1997 and 1996. 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, 1998 and 1997, and the results of its consolidated operations and cash flows for the years ended December 31, 1998, 1997 and 1996 in conformity with generally accepted accounting principles.

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

KROUSE, KERN & CO., INC.

FARMERS & MERCHANTS, INC.

Consolidated Balance Sheets
December 31, 1998 and 1997

ASSETS

(In thousands)	1998	1997
Cash and due from banks	$ 18,549	$ 16,213
Interest bearing deposits with banks	100	100
Federal funds sold	19,045	6,485
Investment securities at market	123,911	92,050
Loans, less allowance for loan losses of $5,850 for 1998 and $5,850 for 1997	401,192	397,295
Loans held for resale	6,013	856
Finance lease receivable	516	492
Bank premises and equipment - net	9,430	7,665
Accrued interest and other assets	6,904	6,503
Deferred income tax asset	209	614
TOTAL ASSETS	$ 585,869	$ 528,273
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Deposits:		
Demand	$ 52,631	$ 51,163
NOW accounts	43,775	48,264
Savings	117,501	87,923
Time	298,276	273,948
Total Deposits	512,183	461,298
Securities sold under agreement to repurchase	2,916	2,598
Other borrowings	11,240	11,292
Dividend payable	650	650
Accrued interest and other liabilities	3,530	3,591
Total Liabilities	530,519	479,429
SHAREHOLDERS' EQUITY:		
Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares	12,677	12,677
Undivided profits	41,002	35,165
Accumulated Other Comprehensive Income:		
Net unrealized gain on securities available for sale (net of tax effect of $862 in 1998 and $515 in 1997)	1,671	1,002
Total Shareholders' Equity	55,350	48,844
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 585,869	$ 528,273

See Accompanying Notes to Consolidated Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.
Consolidated Statements of Income
for the years ended December 31, 1998, 1997 and 1996

(In thousands except for per share amounts)

INTEREST INCOME:	1998	1997	1996
Interest and fees on loans	$ 36,296	$ 34,229	$ 32,339
Interest on Investment Securities:			
U. S. Treasury securities	1,216	1,507	1,493
Securities of U. S. Government agencies	2,211	2,045	2,095
Obligations of states and political subdivisions	1,473	1,234	1,220
Obligations of domestic corporations	822	719	707
Interest on federal funds	648	211	357
Interest on deposits in banks	5	5	7
Dividends	178	166	150
Lease finance revenues	39	42	14
Total Interest Income	42,888	40,158	38,382
INTEREST EXPENSE:			
Interest on deposits	21,182	20,276	19,943
Interest on borrowed funds	903	863	962
Total Interest Expense	22,085	21,139	20,905
Net Interest Income	20,803	19,019	17,477
PROVISION FOR LOAN LOSSES	892	1,111	1,068
Net Interest Income After Provision for Loan Losses	19,911	17,908	16,409
OTHER INCOME:			
Service charges on deposit accounts	1,320	1,152	1,097
Other service charges and fees	2,706	1,787	1,275
Net securities gains	0	(4)	5
Total Other Income	4,026	2,935	2,377
OTHER EXPENSES:			
Salaries and wages	5,438	4,404	4,849
Pension and other employee benefits	1,394	1,206	1,172
Occupancy expense (net)	510	481	498
Furniture and equipment expense	981	722	788
Other operating expenses	4,544	4,218	3,684
Total Other Expenses	12,867	11,031	10,991
INCOME BEFORE INCOME TAX	11,070	9,812	7,795
INCOME TAXES	3,413	3,035	2,312
NET INCOME	7,657	6,777	5,483
OTHER COMPREHENSIVE INCOME:			
Unrealized gain (loss) on investment securities (net of taxes of 345, $157 and ($115) for 1998, 1997 and 1996, respectively)	669	311	(228)
COMPREHENSIVE INCOME	$ 8,326	$ 7,088	$ 5,255
NET OPERATING INCOME PER SHARE	$ 5.89	$ 5.22	$ 4.22
COMPREHENSIVE INCOME PER SHARE	$ 6.40	$ 5.45	$ 4.04
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, 1998, 1997 and 1996

(In thousands)	Common Stock	Undivided Profits	Accumulated Other Comprehensive Income
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)
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
Net income for 1998	0	7,657	0
Unrealized gains on securities classified as Available for Sale (net of tax effect of $345)	0	0	669
Cash dividends ($1.40 per share)	0	(1,820)	0
BALANCE AT DECEMBER 31, 1998	$ 12,677	$ 41,002	$ 1,671

See Accompanying Notes to Consolidated Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Consolidated Statements of Cash Flows
for the years ended December 31, 1998, 1997 and 1996

(In thousands)

CASH FLOWS FROM OPERATING ACTIVITIES:	1998	1997	1996
Net income	$ 7,657	$ 6,777	$ 5,483
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Depreciation	943	700	798
Premium amortization	512	470	582
Discount amortization	(120)	(155)	(196)
Provision for loan losses	892	1,111	1,068
Provision for deferred income taxes	52	43	266
(Gain) loss on sale of fixed assets	30	0	(1)
(Gain) loss on sale of investment securities	0	4	(5)
Changes in Operating Assets and Liabilities:			
Accrued interest receivable and other assets	(401)	(350)	(373)
Accrued interest payable and other liabilities	(61)	181	162
Net Cash Provided by Operating Activities	9,504	8,781	7,784
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(2,740)	(789)	(1,175)
Proceeds from maturities of available for sale securities	22,000	23,546	30,890
Proceeds from sale of available for sale securities	0	10,363	255
Purchase of available for sales securities	(53,051)	(23,928)	(48,724)
Acquisition of stock by stock dividend (non-cash)	(177)	(165)	(150)
Net increase in loans	(9,946)	(30,362)	(30,354)
Net increase in leases	(24)	(173)	(257)
Net Cash Used by Investing Activities	(43,938)	(21,508)	(49,515)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in deposits	50,885	22,921	34,387
Net change in short term borrowings	318	(4,165)	(156)
Increase in long-term borrowings	1,000	3,000	0
Payments on long-term borrowings	(1,053)	(707)	(665)
Payments of dividends	(1,820)	(1,495)	(1,625)
Net Cash Provided by Financing Activities	49,330	19,554	31,941
Net change in cash and cash equivalents	14,896	6,827	(9,790)
Cash and cash equivalents - beginning of the year	22,798	15,971	25,761
CASH AND CASH EQUIVALENTS - END OF THE YEAR	$ 37,694	$ 22,798	$ 15,971
RECONCILIATION OF CASH AND CASH EQUIVALENTS:			
Cash and cash due from banks	$ 18,549	$ 16,213	$ 15,871
Interest bearing deposits	100	100	100
Federal funds sold	19,045	6,485	0
	$ 37,694	$ 22,798	$ 15,971
SUPPLEMENTARY CASH FLOW DISCLOSURES:			
Cash paid during the year for:			
Interest (net of amount capitalized)	$ 22,020	$ 21,136	$ 20,969
Income taxes	$ 3,280	$ 2,652	$ 2,128

See Accompanying Notes to Consolidated Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

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, 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 agribusiness, 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 AND 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)

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 on commercial, installment, and real estate loans is accrued on a daily basis based on the principal outstanding.

Generally, a loan (including a loan considered impaired under Statement 114, "Accounting by Creditors for Impairment of a Loan") is classified as nonaccrual and the accrual of interest income is generally discontinued when a loan becomes 90 days past due as to principal or interest and these loans are placed on a "cash basis" for purposes of income recognition. Management may elect to continue the accrual of interest when the estimated net realizable value of collateral is sufficient to cover the principal and accrued interest, and the loan is in the process of collection.

Loans held for resale are valued at the lower of aggregate cost or market, market determined by current market quotations.

Loan origination and commitment fees and certain direct loan origination costs are deferred and amortized as a net adjustment to the related loan's yield. The Bank is generally amortizing these costs over the contractual life of such loans. Fees related to standby letters of credit are recognized at the beginning of commitment period.

ALLOWANCE FOR LOAN LOSSES:

The allowance for possible loan losses is established through a provision for loan losses charged against income. Loans deemed to be uncollectible are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

Beginning in 1995, the Bank adopted Statement 114. Under the Standard when a loan is deemed to be impaired, that is, based on current information and events, it is probable that not all amounts due according to the contractual terms of the loan agreement will be collectible, the impairment is measured based on either the present value of expected future cash flows discounted at the loan's effective rate, the loan's observable market price, or the fair value of the collateral if the loan is collateral dependent. This impairment is credited to the allowance for loan losses.

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

ALLOWANCE FOR LOAN LOSSES: (Continued)

The allowance for loan losses is maintained at a level believed to be adequate by management to absorb estimated future loan losses for on and off balance sheet credit exposure. Management's evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrowers ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions, and other relevant factors. This evaluation is inherently subjective as it may require material estimates including the amount and timing of future cash flows expected to be received on impaired loans that may be susceptible to significant change.

SERVICING ASSETS AND LIABILITIES:

The Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinquishments of Liabilities". FAS 125 requires that each time an entity undertakes an obligation to service financial assets, it shall recognize either a servicing asset or a servicing liability for that servicing contract at its fair market value. Servicing assets and liabilities are to be amortized in proportion to and over the period of estimated net servicing income.

FINANCE LEASES:

Finance leases are recorded at the sum of the minimum lease payments less any executory costs and profit thereon to be paid and any unguaranteed residual value. If the residual is guaranteed, it is included in the minimum lease payments. The difference between the gross investment in the lease and the cost is recorded as unearned income, which is amortized over the lease term by the interest method. The unearned interest is included in the balance sheet as a deduction from the related gross investment, which results in the net investment in the lease.

BANK PREMISES AND EQUIPMENT:

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is based on the estimated useful lives of the various properties and is computed using accelerated methods. Costs for maintenance and repairs are charged to operations as incurred.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

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, and any stock splits or dividends are retroactively recognized in all periods presented in the financial statements.

COMPREHENSIVE INCOME:

The Financial Accounting Standards Board has issued Statement No. 130, Reporting Comprehensive Income, that the Company is required to adopt for its year ended December 31, 1998. This pronouncement is not expected to have a significant impact on the Company's financial statements. The Statement establishes standards for reporting and presentation of comprehensive income and its components. The Statement requires that items recognized as components of comprehensive income be reported in the financial statements. The Statement also requires that a company classify items of other comprehensive income by their nature in the financial statements, and display the accumulated balance of other comprehensive income separately from retained earnings in the equity section of a statement of financial position. Comprehensive income of the Company currently consists of unrealized gains and losses on securities available for sale.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

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, 1998 and 1997 were $5.1 million and $3.7 million, respectively.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and estimated market values of investments in securities as of December 31, 1998 and 1997 are detailed below. Fair market values are based on quoted market prices or dealer quotes except for domestic corporations stocks and Federal Home Loan Bank stock which are recorded at cost.

	1998			
(In thousands)	Gross Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Gross Market Value
Available for Sale:				
U.S. Treasury	$ 16,792	$ 320	$ 0	$ 17,112
U.S. Government agency	37,978	614	18	38,574
Mortgage-Backed	10,986	56	49	10,993
State and political subdivisions	34,119	1,413	12	35,520
Obligation of domestic corporations	18,905	210	0	19,115
Stocks of domestic corporations	20	0	0	20
Federal Home Loan Bank stock (restricted)	2,577	0	0	2,577
	$ 121,377	$ 2,613	$ 79	$ 123,911

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 3. INVESTMENT SECURITIES (Continued)

(In thousands)	1997 Gross Amortized Cost	1997 Gross Unrealized Gains	1997 Gross Unrealized Losses	1997 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

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)	1998	1997	1996
Gross realized gains	$ 0	$ 6	$ 5
Gross realized losses	0	10	0
Net Realized Gains (Loss)	$ 0	$ (4)	$ 5

The amortized cost and estimated market value of debt securities at December 31, 1998, 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.

NOTE 3. INVESTMENT SECURITIES (Continued)

	Investment Securities Available for Sale	
(In thousands)	Amortized Cost	Market Value
Within one year	$ 21,912	$ 22,095
From one through five years	50,584	73,117
From five through ten years	38,854	17,989
After ten years	7,430	8,113
Total	$ 118,780	$ 121,314

Investments with a carrying value of $66.9 million and $61.6 million at December 31, 1998 and 1997, respectively, were pledged to secure public deposits and securities sold under repurchase agreements.

NOTE 4. LOANS

Loans at December 31 consist of:

(In thousands)	1998	1997
Real estate	$ 194,662	$ 204,770
Commercial and industrial	87,266	65,633
Agricultural (excluding real estate)	38,882	44,939
Consumer and other loans	68,197	75,675
Overdrafts	188	92
Commercial paper 13,648	7,837	
Industrial Development Bonds	4,587	4,511
	407,430	403,457
Less: Deferred loan fees and costs	(388)	(312)
	407,042	403,145
Less: Allowance for loan losses	(5,850)	(5,850)
Loans - Net	$ 401,192	$ 397,295

As of December 31, 1998 there were $578 thousand in commitments to lend additional funds to debtors whose loans are not performing.

$128.8 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.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 4. LOANS (Continued)

Senior officers and directors and their affiliated companies were indebted to the Bank in the aggregate of $8.6 and $6.1 million at December 31, 1998 and 1997, 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 1998 were $23.3 million and repayments were $20.8 million. In the opinion of management, these loans do not involve more than normal risk of collectibility or possess other unfavorable features.

Loans for which the Bank is providing collection services is $147.9, $98.6 and $76.2 million for 1998, 1997 and 1996, respectively. Servicing assets recognized during 1998 amounted to $855 thousand and amortization of servicing assets amounted to $306 thousand. The fair value of recognized servicing assets was $1.3 million, fair value being determined by the present value of expected future cash flows.
No allowance for impairment has been provided.

NOTE 5. ALLOWANCE FOR POSSIBLE LOAN LOSSES

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

(In thousands)	1998	1997	1996
Balance at beginning of year	$ 5,850	$ 5,500	$ 5,500
Provision charged to operating expenses	892	1,111	1,068
Loans charged-off	(1,774)	(1,531)	(1,711)
Recoveries	882	770	643
Balance at End of Year	$ 5,850	$ 5,850	$ 5,500

At December 31, 1998 and 1997, the recorded investment in loans considered impaired was $8.743 and $7.170 million, respectively, for which the related allowance for loan loss was $2.374 and $2.744 million, respectively. Of the $8.743 and $7.170 million in impaired loans for 1998 and 1997, respectively that were considered impaired, the recorded investment in impaired loans that have a related allowance for credit losses determined in accordance with SFAS No. 114 was $6.451 and $2.889 million, respectively. Average investment in impaired loans was $4.7 million, $3.2 million and $3.5 million for 1998, 1997 and 1996, respectively.

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 was $172, $402, and $354 thousand for 1998, 1997 and 1996, respectively.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 6. FINANCE LEASE RECEIVABLE

Finance leases as of December 31 are as follows:

(In thousands)	1998	1997
Gross investment in leases	$ 605	$ 598
Unearned income	(89)	(106)
Finance Lease Receivable	$ 516	$ 492

All amounts are considered collectible, and therefore, no allowance has been provided.

NOTE 7. BANK PREMISES AND EQUIPMENT

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

(In thousands)	1998	1997
Land	$ 1,681	$ 1,472
Buildings	8,030	7,398
Furnishings	5,867	4,605
	15,578	13,475
Less: Accumulated depreciation	(6,148)	(5,810)
Banking Premises and Equipment - Net	$ 9,430	$ 7,665

NOTE 8. DEPOSITS

Time deposits at December 31 consist of the following:

(In thousands)	1998	1997
Time deposits under $100,000	$ 229,143	$ 216,185
Time deposits of $100,000 or more	69,133	57,763
	$ 298,276	$ 273,948

As of December 31, 1998 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:

1999	$ 222,106
2000	58,740
2001	9,636
2002	2,530
2003	5,264
	$ 298,276

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 8. DEPOSITS (Continued)

Deposits to related parties as of December 31, 1998 amounted to $14.8 million.

NOTE 9. REPURCHASE AGREEMENTS

The Bank's policy requires U. S. Government securities as collateral for the underlying repurchase agreements. As of December 31, 1998 U. S. Treasury securities with a book value of $3.5 million were underlying the repurchase agreements and were under the Bank's control.

NOTE 10. OTHER BORROWINGS

Other borrowings consisted of the following at December 31:

(In thousands)	1998	1997
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 one to four family residential mortgage loan portfolio.	$ 11,240	$ 11,292

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

Year Ended December 31	Principal Payments
1999	$ 1,201
2000	1,253
2001	1,308
2002	1,367
2003	1,409
Thereafter	4,702
	$ 11,240

NOTE 11. FEDERAL INCOME TAXES

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

(In thousands)	1998	1997
Deferred tax assets:		
Allowance for loan losses	$ 1,702	$ 1,702
Other	12	8
	1,714	1,710

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 11. FEDERAL INCOME TAXES (Continued)

	1998	1997
Deferred tax liabilities:		
Accreted discounts on bonds	35	103
FHLB stock dividends	293	233
Mortgage servicing rights	312	245
Other	3	0
Net unrealized gain on securities Available for sale	862	515
	1,505	1,096
Net Deferred Tax Assets	$ 209	$ 614

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

(in thousands)	1998	1997	1996
Current:			
Federal	$ 3,361	$ 2,993	$ 2,043
Deferred:			
Federal	52	42	269
	$ 3,413	$ 3,035	$ 2,312
Income tax at statutory rates	$ 3,771	$ 3,354	$ 2,650
Tax effect of:			
Tax exempt interest	(428)	(384)	(406)
Costs attributable to tax exempt interest	70	63	59
Other items, net	0	2	9
Income Tax Cost	$ 3,413	$ 3,035	$ 2,312

NOTE 12. 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.

NOTE 12. RETIREMENT INCOME PLAN (Continued)

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

Contributions to the 401(k) profit sharing plan for both the employer matching contribution and the discretionary contribution were $446, $315, and $267 thousand for 1998, 1997 and 1996, respectively.

NOTE 13. RELATED PARTY TRANSACTIONS

The Bank has conducted transactions with its officers and directors as set forth in Note 4.

NOTE 14. 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, 1998 and 1997 is as follows:

	Notational Amount	
(In thousands)	1998	1997
Commitments to extend credit	$ 76,651	$ 62,486
Credit card arrangements	10,237	9,619
Standby letters of credit	1,419	2,299

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.

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 15. 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.

NOTE 16. 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.

Quantitative measures established by regulation to ensure capital adequacy require the Banks to maintain certain minimum amounts and ratios of total and Tier 1 capital (as defined) to average assets (as defined). Management believes the Bank meets all capital adequacy requirements to which they are subject as of December 31, 1998.

To be categorized as well capitalized, the Company must maintain the total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the minimum requirements column below. A comparison of the Company's capital as of December 31, 1998 and 1997 with the minimum requirement is presented below:

	Actual		Minimum
	1998	1997	Requirements
Tier 1 Risk-based Capital:			
Company	11.80%	10.05%	4.00%
The Farmers & Merchants State Bank	10.33%	9.58%	4.00%
Total Risk-based Capital:			
Company	13.44%	12.98%	8.00%
The Farmers & Merchants State Bank	13.97%	13.44%	8.00%
Leverage Ratio:			
Company	9.17%	9.06%	4.00%
The Farmers & Merchants State Bank	7.53%	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 $6.2 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.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 17. FAIR VALUE INFORMATION AND INTEREST RATE RISK

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

The book values and estimated fair values for on and off-balance sheet financial instruments as of December 31, 1998 and 1997 are reflected below:

	1998		1997	
(In thousands)	Book Value	Fair Value	Book Value	Fair Value
Financial Assets:				
Cash	$ 18,649	$ 18,649	$ 16,313	$ 16,313
Interest bearing deposits	100	100	0	0
Federal funds sold	19,045	19,045	6,485	6,485
Investment Securities:				
Available for sale	123,911	123,911	92,050	92,050
Net loans	407,721	422,147	398,643	406,323
Accrued interest receivable	5,187	5,187	5,069	5,069
Financial Liabilities:				
Deposits	$ 512,183	$ 515,500	$ 461,298	$ 462,967
Short-term borrowing:				
Federal funds purchased				
Securities sold under agreement to repurchase	2,916	2,916	2,598	2,598
Other borrowing	11,240	11,341	11,292	11,642
Accrued interest payable	1,991	1,991	1,926	1,926

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 17. FAIR VALUE INFORMATION AND INTEREST RATE RISK (Continued)

INVESTMENT SECURITIES:

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

STOCK IN FEDERAL HOME LOAN BANK:

No ready market exists for the stock, and it has no quoted market value. The stock is redeemable at par; therefore, fair value equals cost.

LOANS:

Most commercial and real estate mortgage loans are made on a variable rate basis. For those variable-rate loans that reprice frequently, and with no significant change in credit risk, fair values are based on carrying values. The estimated fair value of the fixed rate 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.

ACCRUED INTEREST RECEIVABLE AND PAYABLE

The carrying amounts of accrued interest approximate their fair values.

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 18. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION

BALANCE SHEETS

(In thousands)	1998	1997
ASSETS:		
Cash	$ 685	$ 816
Related party receivables:		
Dividends	52	650
Note receivable	10,000	10,000
Investment in subsidiaries	45,617	38,207
TOTAL ASSETS	$ 56,354	$ 49,673
LIABILITIES:		
Accrued expenses	$ 354	$ 179
Dividends payable	650	650
Total Liabilities	1,004	829
SHAREHOLDERS' EQUITY:		
Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares	12,677	12,677
Undivided profits	41,002	35,165
Unrealized gain on securities classified as Available for Sale (net of tax effect of $862 for 1998 and $515 for 1997)	1,671	1,002
	55,350	48,844
LIABILITIES AND SHAREHOLDERS' EQUITY	$ 56,354	$ 49,673

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 18. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF INCOME

(In thousands)	1998	1997	1996
INCOME:			
Equity in net income of subsidiaries	$ 7,313	$ 6,406	$ 5,510
Interest income	600	600	0
Total Income	7,913	7,006	5,510
EXPENSES:			
Miscellaneous	19	16	17
Professional fees	16	15	15
Supplies	6	6	8
Taxes	39	1	1
Total Expenses	80	38	41
INCOME BEFORE INCOME TAXES	7,833	6,968	5,469
INCOME TAXES (BENEFITS)	176	191	(14)
NET INCOME	$ 7,657	$ 6,777	$ 5,483

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 18. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(In thousands)	Common Stock	Undivided Profits	Accumulated Other Comprehensive Income
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 gains 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
Net income for 1998	0	7,657	0
Unrealized gains on securities classified as Available for Sale (net of tax effect of $345)	0	0	669
Dividends ($1.40 per share)	0	(1,820)	0
BALANCE AT DECEMBER 31, 1998	$ 12,677	$ 41,002	$ 1,671

FARMERS & MERCHANTS BANCORP, INC.

Notes to Consolidated Financial Statements (Continued)

NOTE 18. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

STATEMENTS OF CASH FLOWS

(In thousands)	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 7,657	$ 6,777	$ 5,483
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed net income of subsidiaries	(6,143)	(4,910)	6,316
Changes in Operating Assets and Liabilities:			
Income tax receivable	0	190	10
Accrued expenses	175	0	0
Net Cash Provided by Operating Activities	1,689	2,057	11,809
CASH FLOWS FROM INVESTING ACTIVITIES:			
(Loan) to repayment by subsidiary	0	0	(10,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Payment of dividends	(1,820)	(1,495)	(1,625)
Net increase (decrease) in cash and cash equivalents	(131)	562	184
Cash and cash equivalents - beginning of year	816	254	70
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 685	$ 816	$ 254

NOTE 18. FARMERS & MERCHANTS BANCORP, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (Continued)

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.

NOTE 19. YEAR 2000 COMPLIANCE

The year 2000 has presented a unique set of challenges to those industries reliant on information technology. As a result of methods employed by early programmers, many software applications and operational programs may be unable to distinguish the year 2000 from the year 1900. If not effectively addressed, this problem could result in the production of inaccurate data, or, in the worst cases, the inability of the systems to continue to function altogether.

Financial institutions are particularly vulnerable due to the industry's dependence on electronic data processing systems. In 1997 the Company began the process of identifying the hardware and software issues required to be addressed to assure year 2000 compliance. The Company began by assessing the issues related to the year 2000 and the potential for those issues to adversely affect the Company's own operations and those of its subsidiaries.

Since that time the Company has established a Year 2000 Committee composed of representatives from key areas throughout the organization. It is the purpose of the Committee to identify areas subject to complications related to the year 2000 issues and to initiate remedial measures designed to eliminate any adverse effects on the Company's operations. The Committee has identified all mission-critical software and hardware that may be adversely affected by the year 2000, and has required vendors to represent that the systems and products provided are or will be 2000 compliant.

The Company expects that all mission-critical software will be upgraded to achieve year 2000 compliance and tested by June 30, 1999. In addition the Committee is developing contingency plans for business recovery should a mission-critical system fail at year end, as well as systems which do not become compliant by June 30, 1999.

The Company is committed to a plan for achieving compliance, focusing not only on its own data processing systems, but also on its customers. The Committee has taken steps to educate and assist its customers with identifying their year 2000 compliance problems. In addition the Committee has proposed policy and procedure changes to help identify potential risks to the Company and to gain an understanding of how customers are managing the risks associated with the year 2000.

NOTE 19. YEAR 2000 COMPLIANCE (Continued)

Management believes that the Company has an effective company year 2000 compliance program in place and that additional expenditures required to bring its systems into compliance will not have a material adverse effect on the Company's operations, cash flows, or financial condition. Management expects total additional out of pocket expenditures to be approximately $200 thousand. This includes fees to outside consulting firms, costs to upgrade equipment specifically for the purpose of year 2000 compliance, and certain administrative expenditures. However, the year 2000 problem is pervasive and complex and can potentially affect any computer process. Accordingly, no assurance can be given that year 2000 compliance can be achieved without additional unanticipated expenditures and uncertainties that might affect future financial results.

January 13, 1999

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, 1998 and 1997, appears on page 6. 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)	1998	1997	1996	1995	1994
Summary of Income:					
Interest income	$ 42,888	$ 40,158	$ 38,382	$ 34,228	$ 27,779
Interest expense	22,085	21,139	20,905	17,749	12,561
Net Interest Income	20,803	19,019	17,477	16,479	15,218
Provision for loan losses	892	1,111	1,068	385	564
Net interest income after provision for loan losses	19,911	17,908	16,409	16,094	14,654
Other income (expense)	(8,841)	(8,096)	(8,614)	(8,594)	(7,939)
Earnings before federal income taxes	11,070	9,812	7,795	7,500	6,715
Income taxes	3,413	3,035	2,312	2,203	1,749
Net income	$ 7,657	$ 6,777	$ 5,483	$ 5,297	$ 4,966
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					
Net income	$ 5.89	$ 5.22	$ 4.22	$ 4.07	$ 3.82
Dividends	1.40	1.25	1.15	1.10	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	$ 585,869	$ 528,273	$ 501,449	$ 464,090	$ 406,186
Average assets	553,277	510,163	482,770	430,304	387,440
Year-end equity capital	55,350	48,844	43,381	39,621	34,586
Average equity capital	52,940	46,548	41,501	38,034	32,838

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
1998 - by quarter	1st	$ 55.00	$ 55.00
	2nd	55.00	65.00
	3rd	65.00	70.00
	4th	70.00	75.00
1997 - by quarter	1st	$ 40.00	$ 45.00
	2nd	55.00	72.00
	3rd	72.00	72.00
	4th	65.00	70.00

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

	Quarter	1998	1997
Dividends declared per share			
	1st	$ .30	$ .25
	2nd	.30	.25
	3rd	.30	.25
	4th	.50	.50

FARMERS & MERCHANTS BANCORP, INC.

SELECTED FINANCIAL DATA BY MANAGEMENT

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Farmers & Merchants Bancorp, Inc. again reported another increase in consolidated operating earnings. Operating earnings for 1998 was $7.7 million compared to $6.8 million for 1997 representing an increase of almost $1 million or an increase of 13%. This increase was primarily the result of an increase in interest income from loans.

Consolidated assets grew by $57.6 million in 1998 to a record $585.9 million from consolidated assets of $528.3 million for 1997, representing a 10.9% increase. This increase in assets occurred primarily in the loan portfolio and investment securities available for sale.

The return on average assets and average shareholders' equity for 1998 was 1.38% and 14.46%, respectively. These returns compare to 1.33% average return on assets and 14.56% average return on shareholders' equity for 1997.

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 $121.7 million for 1998 representing 22% of total average assets.

CAPITAL RESOURCES:

Shareholders' equity was $55.3 million at December 31, 1998 compared to $48.8 million for 1997. 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, 1998, The Farmers & Merchants State Bank had a total risk-based capital ratio of 13.9% and a 10.3% core capital to risk-based asset ratio which are well in excess of regulatory guidelines. The bank's leverage ratio of 7.5% is also substantially in excess of regulatory guidelines. These ratios compare to 13.4%, 9.6% and 7.1%, respectively for 1997.

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

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

January 13, 1999

To the Board of Directors
The Farmers & Merchants State Bank
Archbold, Ohio

INDEPENDENT AUDITORS' REPORT

We have examined management's assertion that The Farmers & Merchants State Bank maintain a system of internal control over financial reporting which is designed to provide reasonable assurance to the Bank's management and Board of Directors regarding the preparation of reliable published financial statements as of December 31, 1998, included in the accompanying management report.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertions that The Farmers & Merchants State Bank maintained a system of internal control over financial reporting which is designed to provided reasonable assurance to the Bank's management and Board of Directors regarding the preparation of reliable published financial statements as of December 31, 1998, is fairly stated, in all material respects, based upon criteria established in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

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

KROUSE, KERN & CO., INC.

[FARMERS & MERCHANTS STATE BANK LETTERHEAD]

MANAGEMENT REPORT
as of December 31, 1998

FINANCIAL STATEMENTS

Management of The Farmers & Merchants State Bank is responsible for the preparation, integrity and fair presentation of its published financial statements as of December 31, 1998, and for the year then ended. The financial statements have been prepared in accordance with generally accepted accounting principles and, as such, include amounts, some of which are based on judgments and estimates of management.

INTERNAL CONTROLS

Management is responsible for establishing and maintaining an effective internal control structure over financial reporting. The system contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

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

Management assessed its internal control structure over financial reporting as of December 31, 1998. This assessment was based on criteria for effective internal control over financial reporting described in "Internal Control - Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that The Farmers & Merchants State Bank maintained an effective internal control structure over financial reporting as of December 31, 1998.

DESIGNATED LAWS

Management is also responsible for compliance with the federal and state laws and regulations relating to safety and soundness, including those designated laws and regulations regarding dividend restrictions and loans to insiders. Based on our assessment, management believes The Farmers & Merchants State Bank complied in all material respects, with those designated laws and regulations for the year ended December 31, 1998.

FARMERS & MERCHANTS BANCORP, INC.

SELECTED FINANCIAL DATA BY MANAGEMENT

Key Ratios:

	1998	1997	1996	1995	1994
Return on average equity	14.46%	14.56%	13.21%	13.93%	15.12%
Return on average assets	1.38%	1.33%	1.14%	1.23%	1.28%
Loan to deposit ratio	78.33%	86.31%	84.15%	84.06%	87.55%
Capital to assets ratio	9.45%	9.25%	8.65%	8.54%	8.51%

[GRAPH 1] [GRAPH 2]

[Return on average equity] [Return on average assets]

[GRAPH 3] [GRAPH 4]

[Loan to deposit ratio] [Capital to assets ratio]

FARMERS & MERCHANTS BANCORP, INC.
SELECTED FINANCIAL DATA BY MANAGEMENT

Other key selected highlights are depicted in the following graphs:

	1998	1997	1996	1995	1994
Loans	$ 401,192	$ 397,295	$ 368,900	$ 339,614	$ 301,522
Total Assets	585,869	528,273	501,449	464,090	406,186
Shareholders' Equity	55,350	48,844	43,381	39,621	34,586
Interest Income	42,888	40,158	38,382	34,228	27,779
Interest Expense	22,085	21,139	20,905	17,749	12,561
Net Interest	20,803	19,019	17,477	16,479	15,218
Other Expense	8,841	8,096	8,614	8,594	7,940
Federal Income Tax	3,413	3,035	2,312	2,203	1,749
Net Income	7,657	6,777	5,483	5,297	4,965
Net Income per Share	5.89	5.22	4.22	4.07	3.82
Dividends per Share	1.40	1.25	1.15	1.10	1.00

[GRAPH 5]

[Shareholders' Equity/Loans/Total Assets]

[GRAPH 6]

[Interest Expense/Interest Income]

[GRAPH 7]

[Federal Income Tax/Net Income/Other Expense]

[GRAPH 8]

[Dividends per Share/
Net Income per Share]

1998 ANNUAL REPORT PHOTOS

OFFICERS REPRESENT BANK AT ANNUAL MEETING

Seated from left: Rex Rice, EVP/Chief Lending Officer; Joe Crossgrove, Pres. & CEO; Edward Leininger, EVP/Commercial Loan Officer; Second row from left: Richard Ernest, AC/Commercial Loan Officer; Debra Kauffman, AC/Consumer Loan Officer; Joyce Kinsman, AC/Loan Review Officer; Barbara Britenriker, VP/Comptroller & CFO; Judith Warncke, AC/Marketing Officer; Marilyn Johnson, AC/Compliance & CRA Officer; George Jelen, AVP/Sec. Market Officer & Loan Underwriter; Diann Meyer, Asst. VP/Human Resource Officer; Kent Roth, Auditor & Security Officer; Randy Schroeder, AVP/Chief Operations Officer; Michael Culler, AVP/Chief Agri Finance Officer; Richard Bruce, AVP/Commercial Loan Officer

WAUSEON SHOOP OFFICE CELEBRATES 25TH ANNIVERSARY

Allen Lantz, VP/Wauseon Shoop Manager, and Gloria Gunn, AVP/Asst. Manager, Serving refreshments during anniversary celebration

WAUSEON DOWNTOWN OFFICES
SERVES SUNDAES FOR
20TH ANNIVERSARY CELEBRATION

Kim Armstrong, Virginia Garrow and Melissa Robertson, Downtown office tellers, enjoying the celebration by serving ice cream sundaes.

OPEN HOUSE AT ARCHBOLD
WOODLAND OFFICE

Deborah Stoner, AVP/Woodland Manager, offers a big balloon to a shy guest during the annual open house celebration.

F & M IS BRANCHING OUT
The Swanton Banking Center sign announces the F & M's future presence in the Swanton area.

RONALD ROBINSON RETIRES FROM
STRYKER ADVISORY BOARD

Charles Lugbill, Chairman (left), and Ronald Short, AVP/Stryker Manager (right), present appreciation plaque to Ronald Robinson for his many years of service on the Stryker Advisory Board.

F & M SUPPORTS WILLIAMS CO. BEEF PRODUCERS

Lewis Hilkert, VP/West Unity Manager, (right) along with West Unity Advisory Board Members, Burdell Colon and Ted Maneval, enjoying their shift at the Beef Producers booth during the Williams County Fair.

BRYAN OFFICES SUPPORT BRYAN ATHLETIC FIELD HOUSE PROJECT

Michael Smith, AC/ Bryan SouthTowne Manager, watches as David Frazer, AVP/Bryan E. High Manager, presents check to Tom Sprow, (center) member of Athletic Boosters field house steering committee.

DELTA OPEN HOUSE - A TIME FOR FELLOWSHIP

From left, Delta Advisory Board Member Al Kreuz and Barry Gray, AC/Delta Asst. Manager, visiting with Char Kreuz at the gift table.

MONTPELIER EMPLOYEES PARTICIPATE IN
SUMMERFEST "BED" RACE

Montpelier West Main Teller, Roxanne Chamberlain, and her daughter team up with Molly Startzman, Montpelier Eastside Secretary, and Lance Nofziger, Montpelier West Main Manager for the annual "Bed" Race.

F & M TAKES THE BANK TO THE
HENRY COUNTY FAIR

Steve Jackson, AVP/Napoleon Manager, and Diana Dennie, AC/Asst. Manager, ensuring the ATM is ready for the Henry Co. Fair.

MONTPELIER EASTSIDE
RIBBON CUTTING

Joe Crossgrove, Pres & CEO, (far left) along with Directors, Advisory Board Members, Village of Montpelier Officials, Montpelier Chamber of Commerce Representative and F & M officers and employees watch while John Fee, AVP/Montpelier Eastside Manager, cuts the ribbon at the opening of the Eastside Office.

ITEM 9. DISAGREEMENTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

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	71	Chairman of the Board of Farmers and Merchants Bancorp, Inc. and, The Farmers & Merchants State Bank	1968
Eugene Bernath	65	Farmer	1978
Jerry L. Boyers	65	President, Edifice Construction Management	1976
Joe E. Crossgrove	62	President, Chief Executive Officer The Farmers & Merchants State Bank	1992
Robert G. Frey	58	President, E. H. Frey & Sons, Inc.	1987
Lee E. Graffice	67	President, Graffice Motor Sales	1983
Jack C. Johnson	46	President, Hawk's Clothing, Inc. Partner, REJO Partnership	1991
Dean E. Miller	54	President, MBC Holdings, Inc.	1986
Dale L. Nafziger	68	Retired	1969
Harold H. Plassman	69	Attorney, Plassman, Rupp, Hensel & Short	1985
James L. Provost	70	Retired, Dyer & McDermott, Inc.	1995
James C. Saneholtz	52	President, Saneholtz-McKarns, Inc.	1995
Maynard Sauder	66	President, Sauder Woodworking Co.	1980
Merle J. Short	58	Farmer, President of Promow, Inc.	1987
Steven J. Wyse	54	President, Granite Industries, Inc.	1991

EXECUTIVE OFFICERS

Name	Age	Principal Occupation for Past Five Years
Charles Lugbill	71	Secretary/Treasurer Agri Trading Chairman of the Board of Farmers & Merchants Bancorp, Inc. and, The Farmers & Merchants State Bank
Joe E. Crossgrove	62	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	39	Vice President Chief Lending Officer
Edward Leininger	41	Vice President Commercial Loan Officer
Allen G. Lantz	45	Vice President Branch Manager
Lewis Hilkert	48	Vice President Branch Manager
Carol England	58	Assistant Vice President Corporate Secretary Branch Manager
Ronald D. Short	46	Assistant Vice President Branch Manager
Cynthia Knauer	52	Assistant Vice President Branch Manager
Dave Frazier	40	Assistant Vice President Branch Manager
John Fee	38	Assistant Vice President Branch Manager
Steve Jackson	44	Assistant Vice President Branch Manager
Deborah Stoner	42	Assistant Vice President Branch Manager

Randal H. Schroeder	38	Assistant Vice President Chief Operations Officer
George Jelen	47	Assistant Vice President Mortgage Loan Officer
Barbara Britenriker	37	Assistant Vice President Chief Financial Officer Comptroller
Michael D. Culler	40	Assistant Vice President Chief Agricultural Finance Officer
Diann K. Meyer	38	Assistant Vice President Personnel Manager
Gloria Gunn	41	Assistant Vice President Assistant Branch Manager
Richard Bruce	51	Assistant Vice President Commercial Loan Officer
Kent Roth	34	Auditor Bank Security Officer Bank Secrecy Officer
Marilyn Johnson	42	Compliance Officer
Jean Horwath	47	Assistant Cashier Assistant Branch Manager
Diane Swisher	41	Assistant Cashier Assistant Branch Manager
Patti Rosebrock	41	Assistant Cashier Assistant Branch Manager
Michael T. Smith	32	Assistant Cashier Branch Manager
Debra Kauffman	38	Assistant Cashier Assistant Corporate Secretary Consumer Loan Officer
J. Scott Miller	42	Assistant Cashier Assistant Agri-Finance Officer
Judy Warncke	50	Assistant Cashier Marketing Officer
Diana Dennie	36	Assistant Cashier Branch Manager

Jerry Borton	49	Assistant Cashier Loan Officer
Joyce G. Kinsman	29	Assistant Cashier Loan Review Officer
Richard D. Ernest	34	Assistant Cashier Asset Recovery Officer
Jane Bruner	38	Assistant Cashier Operations Supervisor
Barry Gray	38	Assistant Cashier Assistant Branch Manager
Kevin Gray	26	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 10, 1999 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 1998 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 1998.

The Subsidiary Bank Board of Directors met semi-monthly during 1998.

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 10, 1999, 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 18, 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 1998 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 1999.

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 18, pages 26 through 29.

Other schedules required to be filed as part of this report.

PART IV

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

SCHEDULE OF PROPERTY AND EQUIPMENT

EXHIBIT 1

(In Thousands)	Year Ended December 31, 1998 Beginning Balance	Additions	Retirements	Ending Balance
Land	$ 1,472	$ 209	$ 0	$ 1,681
Building	7,398	676	44	8,030
Banking house equipment	4,606	1,827	566	5,867
	$ 13,476	$ 2,712	$ 610	$ 15,578

(In Thousands)	Year Ended December 31, 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 31, 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

SCHEDULE OF ACCUMULATED DEPRECIATION - PROPERTY AND EQUIPMENT

EXHIBIT 2

(In Thousands)	Year Ended December 31, 1998			
	Beginning Balance	Provision for Depreciation	Retirements	Ending Balance
Building	$ 2,234	$ 216	$ 44	$ 2,406
Banking house equipment	3,577	727	562	3,742
	$ 5,811	$ 943	$ 606	$ 6,148

(In Thousands)	Year Ended December 31, 1997			
	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

(In Thousands)	Year Ended December 31, 1996			
	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

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: 3-19-99

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.

/s/ Joe E. Crossgrove Joe E. Crossgrove, Director Chief Executive Officer	Date: 3-19-99	/s/ Barbara Britenriker Barbara Britenriker Chief Accounting Officer	Date: 3-19-99
/s/ Charles Lugbill Charles Lugbill Director and Chairman	Date: 3-19-99	/s/ Kent Roth Kent Roth, Auditor	Date: 3-19-99
/s/ Eugene D. Bernath Eugene D. Bernath, Director	Date: 3-19-99	/s/ Harold H. Plassman Harold H. Plassman, Director	Date: 3-19-99
/s/ Jerry Boyers Jerry Boyers, Director	Date: 3-19-99	/s/ James Provost James Provost, Director	Date: 3-19-99
/s/ Robert Frey Robert Frey, Director	Date: 3-19-99	/s/ James Saneholtz James Saneholtz, Director	Date: 3-19-99
Lee Grafice Lee Grafice, Director	Date: 3-19-99	/s/ Maynard Sauder Maynard Sauder, Director	Date: 3-19-99
/s/ Jack C. Johnson Jack C. Johnson, Director	Date: 3-19-99	/s/ Merle J. Short Merle J. Short, Director	Date: 3-19-99
/s/ Dean Miller Dean Miller, Director	Date: 3-19-99	/s/ Steven J. Wyse Steven J. Wyse, Director	Date: 3-19-99
/s/ Dale L. Nafziger Dale L. Nafziger, Director	Date: 3-19-99		

INDEX TO EXHIBITS

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