

Farmers & Merchants Bancorp, Inc.
Attachment to Form 8937
EIN: 34-1469491

Report of Organizational Actions Affecting Basis of Securities

Disclaimer: The information in Form 8937 and this attachment does not constitute tax advice and does not purport to take into account the specific circumstances that may apply to particular categories of Farmers & Merchants Bancorp, Inc. (“F&M”) shareholders, including, but not limited to, shareholders that are not citizens or residents of the U.S. for U.S. federal income tax purposes. Each F&M shareholder is urged to consult his, her or its own tax advisor regarding the consequences of the transactions described herein, including the impact on tax basis resulting therefrom.

Form 8937 Part I, Line 9:

The securities subject to reporting include all shares of F&M common stock issued in exchange for the outstanding common stock of Perpetual Federal Savings Bank (the “PFSB”) as a result of the merger of the PFSB with and into The Farmers & Merchants State Bank (“F&M Bank”), a wholly owned subsidiary of F&M, on October 1, 2021 (the “Merger”).

Form 8937 Part II, Line 14:

F&M Bank and PFSB completed the Merger on October 1, 2021. Pursuant to the terms and conditions of the Agreement and Plan of Merger, dated as of May 4, 2021 (the “Merger Agreement”), PFSB merged with and into F&M Bank. As a result of the Merger F&M Bank was the surviving corporation and PFSB ceased to exist as a corporation.

Pursuant to the Merger, PFSB shareholders had the right to receive, at their election subject to allocation as set forth in the Merger Agreement, 1.7766 shares of F&M common stock or \$41.20 in cash for each share of PFSB common stock held by them. No fractional shares of F&M common stock were issued in the Merger, but rather F&M paid cash in lieu of fractional shares.

Form 8937 Part II, Line 15:

The Merger qualifies as a tax-free reorganization within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended. Thus, in general a U.S. holder of PFSB common stock that received solely F&M common stock in the Merger recognized no gain or loss with respect to F&M common stock such U.S. holder received pursuant to the Merger. The tax basis of the F&M common stock received by such a U.S. holder of PFSB common stock in the exchange is equal (except for the tax basis attributable to any fractional F&M common shares exchanged for cash) to the tax basis of PFSB common stock surrendered by such U.S. holder in exchange for F&M common stock.

A U.S. holder of PFSB common stock that received a combination of stock and cash recognized gain (but not loss) with respect to the F&M common stock and cash such U.S. holder received

pursuant to the Merger, in an amount equal to the lesser of (i) the amount by which the sum of the fair market value of the F&M common stock (see Part II, Line 16 below) and the amount of cash received by such U.S. holder (other than cash received in lieu of a fractional F&M common share), exceeded such U.S. holder's basis in its PFSB common stock, and (ii) the amount of cash received by such U.S. holder (other than any cash received in lieu of a fractional F&M common share). The tax basis of the F&M common stock received by such a U.S. holder of PFSB common stock in the Merger (including a fractional F&M common share, if any, deemed issued and redeemed by F&M) will be the same as the tax basis of the PFSB common stock surrendered in exchange for the F&M common stock and cash, reduced by the amount of cash received by such U.S. holder in the Merger (other than any cash received in lieu of a fractional F&M common share), and increased by any gain recognized by such U.S. holder in the Merger, (excluding any gain or loss resulting from the deemed issuance and redemption of a fractional F&M common share).

Form 8937 Part II, Line 16:

Refer to the description of the basis calculation described in Part II, Box 15 above. The September 30, 2021 closing price of a single share of F&M common stock on the Nasdaq Capital Market was \$22.40.

Form 8937 Part II, Line 17:

The Merger was structured to qualify as a "reorganization" within the meaning of Section 368(a) of the Internal Revenue Code, as amended. In general, the income tax consequences to the shareholders are determined under Internal Revenue Code sections 354 and 361 of the Code.

Form 8937 Part II, Line 18:

A U.S. holder of PFSB common stock that received solely cash in exchange for all of its PFSB common stock could recognize a loss for federal income tax purposes if the amount of cash received was less than the U.S. holder's tax basis in PFSB common stock surrendered in exchange for the cash. A U.S. shareholder of PFSB that received cash in lieu of a fractional share, likewise could recognize loss if the cash received was less than the tax basis in the fractional share surrendered in exchange for the cash. A U.S. shareholder that received only F&M common stock, or a combination of F&M common stock and cash, pursuant to the Merger cannot recognize a loss with respect to the PFSB common stock surrendered in the Merger. The deductibility of capital losses under tax law is subject to various limitations.

Form 8937 Part II, Line 19:

In general, any adjustment to the tax basis of F&M common stock received as a result of the completion of the Merger should be reported in the taxable year which includes October 1, 2021. A calendar year shareholder would report the transaction on a 2021 federal income tax return.

