

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2003

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.

(Exact name of registrant as specified in its charter)

OHIO

34-1469491

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

307-11 North Defiance Street, Archbold, Ohio

43502

(Address of principal executive offices)

(Zip Code)

(419) 446-2501

Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last  
report.)

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  
 No

Indicate by checkmark whether the registrant is an accelerated filer (as  
defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares of each of the issuers classes of common  
stock, as of the latest practicable date:

Common Stock, No Par Value

1,300,000

Class

Outstanding as of April 1, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.  
INDEX

Form 10-Q Items	Page	
PART I.	FINANCIAL INFORMATION	
Item 1.	Financial Statements (Unaudited)	
	Condensed Consolidated Balance Sheets- March 31, 2003, December 31, 2002 and March 31, 2002	1
	Condensed Consolidated Statements of Net Income- Three Months Ended March 31, 2003 and March 31, 2002	2
	Condensed Consolidated Statements of Cash Flows- Three Months Ended March 31, 2003 and March 31, 2002	3
	Notes to Condensed Financial Statements	4
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	4
Item 3.	Market Risk	5
Item 4.	Controls and Procedures	6
PART II.	OTHER INFORMATION	
Item 1.	Legal Proceedings	6
Item 2.	Changes in Securities and Use of Proceeds	6
Item 3.	Defaults Upon Senior Securities	6
Item 4.	Submission of Matters to an Vote of Security Holders	6
Item 5.	Other Information	7
Item 6.	Exhibits and Reports on form 8K	7
Signatures		7
Certifications Under Section 302		8 -9
Exhibit 99.	Additional Exhibit - Certifications Under Section 906	10

## ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC.  
 CONDENSED CONSOLIDATED BALANCE SHEETS  
 (Unaudited)  
 (in thousands of dollars)

	March 31, 2003	December 31, 2002	March 31, 2002
<b>ASSETS:</b>			
Cash and due from banks	\$ 22,537	\$ 18,508	\$ 13,435
Interest bearing deposits with banks	516	279	571
Federal funds sold	1,780	-	2,375
Investment Securities:			
U.S. Treasury	4,356	4,215	5,391
U.S. Government	102,866	117,021	110,813
State & political obligations	55,828	55,860	51,366
All others	-	1,697	3,578
Loans and leases (Net of reserve for loan losses of \$7,856, \$6,400 and \$5,900, respectively)	492,988	497,515	464,898
Bank premises and equipment-net	15,975	15,034	12,400
Accrued interest and other assets	17,126	16,357	14,154
<b>TOTAL ASSETS</b>	<b>\$713,972</b>	<b>\$726,486</b>	<b>\$678,981</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>LIABILITIES:</b>			
Deposits:			
Demand	\$ 42,600	\$ 43,808	\$ 37,508
Time and savings	538,395	532,565	529,100
Federal funds purchased and securities sold under agreement to repurchase	23,682	38,200	19,737
Other borrowed money	28,315	28,696	17,071
Accrued interest and other liabilities	4,147	5,479	3,892
<b>Total Liabilities</b>	<b>637,139</b>	<b>648,748</b>	<b>607,308</b>
<b>SHAREHOLDERS' EQUITY:</b>			
Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares	12,677	12,677	12,677
Undivided profits	60,681	61,345	57,541
Accumulated other comprehensive income	3,475	3,716	1,455
<b>Total Shareholders' Equity</b>	<b>76,833</b>	<b>77,738</b>	<b>71,673</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$713,972</b>	<b>\$726,486</b>	<b>\$678,981</b>

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2002 Balance Sheet has been derived from the audited financial statements of that date.

FARMERS & MERCHANTS BANCORP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(Unaudited)  
(in thousands of dollars)

	Three Months Ended March 31, 2003	March 31, 2002
<b>INTEREST INCOME:</b>		
Loans and leases	\$ 8,630	\$ 9,086
Investment Securities:		
U.S. Treasury securities	44	72
Securities of U.S. Government agencies	1,166	1,351
Obligations of states and political subdivisions	578	569
Other	37	104
Federal funds	4	13
Deposits in banks	3	5
Total Interest Income	10,462	11,200
<b>INTEREST EXPENSE:</b>		
Deposits	3,645	4,667
Borrowed funds	418	349
Total Interest Expense	4,063	5,016
<b>NET INTEREST INCOME BEFORE</b>		
PROVISION FOR LOAN LOSSES	6,399	6,184
PROVISION FOR LOAN LOSSES	3,938	656
<b>NET INTEREST INCOME AFTER</b>		
PROVISION FOR LOAN LOSSES	2,461	5,528
<b>OTHER INCOME:</b>		
Service charges	514	437
Other	740	863
Net securities gains (losses)	42	50
	1,296	1,350
<b>OTHER EXPENSES:</b>		
Salaries and wages	1,825	1,908
Pension and other employee benefits	462	456
Occupancy expense (net)	209	108
Other operating expenses	1,737	1,833
	4,233	4,305
<b>INCOME BEFORE FEDERAL INCOME TAX</b>	(476)	2,573
<b>FEDERAL INCOME TAXES</b>	(347)	670
<b>NET INCOME</b>	(129)	1,903
<b>OTHER COMPREHENSIVE INCOME (NET OF TAX):</b>		
Unrealized gains (losses) on securities	(241)	(126)
<b>COMPREHENSIVE INCOME</b>	\$ (370)	\$ 1,777
<b>NET INCOME PER SHARE (Based upon</b>		
weighted average number of shares outstanding of 1,300,000	\$ (0.10)	\$ 1.46
<b>DIVIDENDS DECLARED</b>	\$ 0.40	\$ 0.35

See Notes to Condensed Consolidated Unaudited Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(Unaudited)  
(in thousands of dollars)

	Three Months Ended	
	March 31, 2003	March 31, 2002
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ (129)	\$ 1,903
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Depreciation and amortization	361	365
Premium amortization	(258)	33
Discount amortization	54	(3)
Provision for loan losses	3,938	656
Provision for deferred income taxes	(110)	-
(Gain) loss on sale of fixed assets	2	(4)
(Gain) loss on sale of investment securities	(42)	(50)
Changes in Operating Assets and Liabilities:		
Accrued interest receivable and other assets	(659)	(2,054)
Accrued interest payable and other liabilities	(1,332)	722
Net Cash Provided by Operating Activities	1,825	1,568
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital expenditures	(4,339)	(429)
Proceeds from sale of fixed assets	3,035	-
Proceeds from maturities of investment securities:	18,443	12,557
Proceeds from sale of investment securities:	(2,580)	2,205
Purchase of investment securities-	-	(13,485)
Net increase in loans and leases	589	2,689
Net Cash Used by Investing Activities	15,148	3,537
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net increase in deposits	4,622	451
Net change in short-term borrowings	(14,518)	(6,802)
Increase in long-term borrowings	-	-
Payments on long-term borrowings	(381)	(339)
Payments of dividends	(650)	(455)
Net Cash Provided by Financing Activities	(10,927)	(7,145)
Net change in cash and cash equivalents	6,046	(2,040)
Cash and cash equivalents - Beginning of year	18,787	18,421
<b>CASH AND CASH EQUIVALENTS - END OF THE YEAR</b>	<b>\$ 24,833</b>	<b>\$ 16,381</b>
<b>RECONCILIATION OF CASH AND CASH EQUIVALENTS:</b>		
Cash and cash due from banks	\$ 22,537	\$ 13,435
Interest bearing deposits	516	571
Federal funds sold	1,780	2,375
	<b>\$ 24,833</b>	<b>\$ 16,381</b>

See Notes to Condensed Consolidated Unaudited Financial Statements.

Notes to Condensed Consolidated Unaudited Financial Statements

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2003 are not necessarily indicative of the results that are expected for the year ended December 31, 2003. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 2002.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Farmers & Merchants Bancorp, Inc. was incorporated on February 25, 1985, under the laws of the State of Ohio. Farmers & Merchants Bancorp, Inc., and its subsidiaries The Farmers & Merchants State Bank and Farmers & Merchants Life Insurance Company are engaged in commercial banking and life and disability insurance, respectively. The executive offices of Farmers & Merchants Bancorp, Inc. are located at 307-11 North Defiance Street, Archbold, Ohio 43502.

LIQUIDITY AND CAPITAL RESOURCES

Liquidity for the three months ended March 31, 2003 has come primarily from two sources. Approximately \$19 million of the securities portfolio has matured without reinvestment to replace a reduction in deposits and balances in repurchase agreements. In addition, some variable rate real estate mortgages, that were part of the institution's loan portfolio have been refinanced into fixed rate loans that were in turn sold on the secondary market.

During the quarter loan balances decreased by \$1.5 million. This was due primarily to the refinancing activities that were previously discussed in the liquidity risk discussion. Loan demand remains steady.

The subsidiary bank shows a loss for the first quarter of \$218.6 thousand. The two main reasons for the loss were charge offs and additional loan loss reserve allocations. Charge offs were led by the charge off of a large commercial credit. The additional reserve allocation was due to collateral valuations being downgraded. The problem loans were not new to management, and actions are being taken to work out or recover losses to bring our performance back to where it needs to be prior to year end.

A new operations center was opened in the first quarter. One time expenses for the quarter, namely repairs-bank building is extremely high due to the cost of UNISYS moving the proof equipment to the Operations Center and replacement of the ATM network signs to the Star Logo. Approximately half of the cost of the signs will be refunded in a future period. Depreciation expense includes the completed cost of the center.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

The first quarter is not representative of the bank's earnings potential. It is not anticipated that the loss adjustments will be repeated anytime soon. The bank has seen an improvement in net interest margin and based on the yield and maturity schedules, the margin should continue to improve through the second and third quarters as a result of maturing time deposits that currently have a higher average yield than current reinvestment rates. The bank has also continued to be extremely busy in the residential real estate market with refinancing activities. This should continue to bolster income through at least the second quarter.

Management is working diligently to reanalyse the loan loss reserve to ensure it is adequate. This will take time but should be completed in the next few months. The bank remains well capitalized with strong earnings potential. Assuming no major changes in overall economic conditions, subsequent quarters should show improvement for the reasons stated previously.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS (Continued)

The following is a summary of five capital ratios as they are calculated from the March 31, 2003 financial statements:

Primary Ratio	11.73%
Total Capital Ratio	14.27%
Risk Based Capital Tier 1	15.00%
Risk Based Capital Tier 2	20.10%
Stockholders' Equity/Total Assets	10.76%

ITEM 3 MARKET RISK

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

Interest rate risk is managed within an overall asset/liability framework for the Company. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. The Company employs a sensitivity analysis in the form of a net interest income to help in the analysis.

ITEM 3 MARKET RISK (Continued)

	0-90 days	90-365 days	1-5 Years	Over 5 Years	Total
Interest Bearing Deposits	516				624
Investment Securities	8,048	15,741	100,106	39,562	163,457
Loans	122,328	114,681	87,665	170,338	495,012
Total Rate Sensitive Assets	130,892	130,422	187,771	209,900	659,093
Deposits	150,719	247,814	182,462	0	580,995
Fed Funds Purchased & agreements to repurchase	23,682				24,098
Other Borrowings		10,070	9,472	8,773	28,315
Total Rate Sensitive Liabilities	174,401	257,884	191,934	8,773	633,408
Gap	-43,509	-127,462	-4,163	201,127	25,685

ITEM 4 CONTROLS AND PROCEDURES

As of March 31, 2003, an evaluation was performed under the supervision and with the participation of the Company's management including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of March 31, 2003. There have been no significant changes in the Company's internal controls subsequent to March 31, 2003.

PART II

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 2 CHANGES IN SECURITIES AND USE OF PROCEEDS

None

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITIES HOLDERS

None



ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

No reports on Form 8-K were filed by the registrant during the quarter ended March 31, 2003.

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, there unto duly authorized.

Farmers & Merchants Bancorp, Inc.,

Date: May 1, 2003

By: /s/ Joe E. Crossgrove  
Joe E. Crossgrove  
President and CFO

Date: May 1, 2003

By: /s/ Barbara J. Britenriker  
Barbara J. Britenriker  
Senior Vice-President and CFO

CERTIFICATIONS

I, Joe E. Crossgrove, President and CEO, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of Farmers & Merchants Bancorp, Inc.;
- 2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrants' disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
- 6 The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003  
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/s/ Joe E. Crossgrove  
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President and CEO  
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CERTIFICATIONS

I, Barbara J. Britenriker, Senior Vice-President and CFO, certify that:

- 1 I have reviewed this quarterly report on Form 10-Q of Farmers & Merchants Bancorp, Inc.;
- 2 Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
- 3 Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
- 4 The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
  - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b. evaluated the effectiveness of the registrants' disclosure controls and procedures as of a date within 90 days prior to the filing of this quarterly report (the "Evaluation Date"); and
  - c. presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
- 5 The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b. any fraud, whether or not material, that involves management or other employees who have significant role in the registrant's internal controls; and
- 6 The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: May 13, 2003  
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/s/ Barbara J. Britenriker  
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Senior Vice-President and CFO  
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10-Q EXHIBIT INDEX

EXHIBIT NO.	DESCRIPTION
EX-99	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

ADDITIONAL EXHIBIT CERTIFICATIONS - ITEM 601(b)

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending March 31, 2003, as filed with the Securities and Exchange Commission ("the report"), I, Joe E. Crossgrove, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers & Merchants Bancorp, Inc. as of the dates and for the periods expressed in the Report.

Date: March 12, 2003 /s/ Joe E. Crossgrove  
-----  
Joe E. Crossgrove, President and  
Chief Executive Officer

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending March 31, 2003, as filed with the Securities and Exchange Commission ("the report"), I, Barbara J. Britenriker, Senior Vice-President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1 The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- 2 The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers & Merchants Bancorp, Inc. as of the dates and for the periods expressed in the Report.

Date: March 12, 2003 /s/ Barbara J. Britenriker  
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Barbara J. Britenriker, Senior  
Vice-President Chief Financial Officer