

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

X Quarterly Report Pursuant to Section 13 or 15(d)
--- of the Securities Exchange Act of 1934
For the quarterly period ended September 30, 1998
OR
Transition Report Pursuant to Section 13 or 15(d)
--- of the Securities Exchange Act of 1934
For the transition period from ----- to -----

Commision 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.)

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 X 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 October 1, 1998

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- | |
| September 30, 1998, December 31, 1997 and September 30, 1997 | 1 |
| Condensed Consolidated Statements of Net Earnings- | |
| Three Months and Nine Months Ended September 30, 1998 and September 30 | 2 |
| Condensed Consolidated Statements of Cash Flows- | |
| Three Months and Nine Months Ended September 30, 1998 and September 30 | 3 |
| Notes to Condensed Financial Statements | 4 |
| Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations | 5 |
| PART II. OTHER INFORMATION | |
| Item 6. Exhibits and Reports on form 8K | 6 |
| Signatures | 7 |

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

| | Sept 30, 1998 | December 31, 1997 | Sept 30, 1997 |
|--|------------------|-------------------|------------------|
| ASSETS: | | | |
| Cash and due from banks | \$ 15,528 | \$ 16,213 | \$ 12,315 |
| Interest bearing deposits with banks | 100 | 100 | 145 |
| Federal funds sold | 9,935 | 6,485 | - |
| Investment Securities: | | | |
| U.S. Treasury | 17,286 | 22,372 | 23,434 |
| U.S. Government | 40,486 | 31,313 | 30,440 |
| State & political obligations | 30,727 | 25,618 | 23,604 |
| All others | 24,617 | 20,584 | 12,849 |
| Loans and leases | 396,281 | 390,806 | 387,454 |
| Bank premises and equipment-net | 8,918 | 7,665 | 7,351 |
| Accrued interest and other assets | 7,287 | 7,117 | 7,705 |
| TOTAL ASSETS | \$551,165 | \$528,273 | \$505,297 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | |
| LIABILITIES: | | | |
| Deposits: | | | |
| Demand | \$ 40,771 | \$ 51,163 | \$ 36,958 |
| Time and savings | 437,345 | 410,135 | 403,943 |
| Federal funds purchased and securities sold under agreement to repurchase | 3,443 | 2,598 | 3,202 |
| Other borrowed money | 10,432 | 11,292 | 8,473 |
| Accrued interest and other liabilities | 4,561 | 4,241 | 4,859 |
| Total Liabilities | 496,552 | 479,429 | 457,435 |
| SHAREHOLDERS' EQUITY: | | | |
| Common stock, no par value - authorized 1,500,000 shares; issued 1,300,000 shares | 12,677 | 12,677 | 12,677 |
| Undivided profits | 40,244 | 35,164 | 35,185 |
| Accumulated other comprehensive income | 1,690 | 1,002 | 0 |
| Total Shareholders' Equity | 54,611 | 48,844 | 47,862 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | \$551,163 | \$528,273 | \$505,297 |

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 1997 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 | | Nine Months Ended | |
|--|--------------------|---------------|-------------------|---------------|
| | Sept 30, 1998 | Sept 30, 1997 | Sept 30, 1998 | Sept 30, 1997 |
| INTEREST INCOME: | | | | |
| Loans and leases | \$ 9,064 | \$ 8,860 | \$26,906 | \$23,885 |
| Investment Securities: | | | | |
| U.S. Treasury securities | 281 | 373 | 957 | 1,094 |
| Securities of U.S. Government agencies | 585 | 486 | 1,539 | 1,569 |
| Obligations of states and political subdivisions | 407 | 304 | 1,097 | 915 |
| Other | 375 | 255 | 1,064 | 579 |
| Federal funds | 218 | 8 | 420 | 303 |
| Deposits in banks | 1 | -- | 3 | -- |
| Total Interest Income | 10,931 | 10,286 | 31,986 | 28,345 |
| INTEREST EXPENSE: | | | | |
| Deposits | 5,364 | 5,034 | 15,805 | 14,887 |
| Borrowed funds | 222 | 360 | 678 | 733 |
| Total Interest Expense | 5,586 | 5,394 | 16,483 | 15,620 |
| NET INTEREST INCOME BEFORE | | | | |
| PROVISION FOR LOAN LOSSES | 5,345 | 4,892 | 15,503 | 12,725 |
| PROVISION FOR LOAN LOSSES | 222 | 374 | 692 | 790 |
| NET INTEREST INCOME AFTER | | | | |
| PROVISION FOR LOAN LOSSES | 5,123 | 4,518 | 14,811 | 11,935 |
| OTHER INCOME: | | | | |
| Service charges | 337 | 294 | 980 | 818 |
| Other | 663 | 469 | 2,153 | 1,192 |
| Net securities gains (losses) | -- | 6 | 0 | -- |
| | 1,000 | 769 | 3,133 | 2,010 |
| OTHER EXPENSES: | | | | |
| Salaries and wages | 1,444 | 1,065 | 3,946 | 3,639 |
| Pension and other employee benefits | 331 | 279 | 905 | 738 |
| Occupancy expense (net) | 134 | 332 | 379 | 949 |
| Other operating expenses | 1,339 | 1,014 | 3,920 | 2,882 |
| | 3,248 | 2,690 | 9,150 | 8,208 |
| INCOME BEFORE FEDERAL INCOME TAX | | | | |
| FEDERAL INCOME TAXES | 2,875 | 2,597 | 8,794 | 5,737 |
| NET INCOME | | | | |
| | 800 | 750 | 2,546 | 1,653 |
| NET INCOME | 2,075 | 1,847 | 6,248 | 4,084 |
| OTHER COMPREHENSIVE INCOME (NET OF TAX): | | | | |
| Unrealized gains (losses) on securities | 642 | 1,048 | 610 | -- |
| COMPREHENSIVE INCOME | \$ 2,717 | \$ 2,895 | \$ 6,858 | \$ 4,084 |
| NET INCOME PER SHARE (Based upon | | | | |
| weighted average number of shares outstanding of 1,300,000 | \$ 1.60 | \$ 1.33 | \$ 4.81 | \$ 2.67 |
| DIVIDENDS DECLARED | | | | |
| | \$ 0.30 | \$ 0.25 | \$ 0.60 | \$ 0.50 |

See Notes to Condensed Consolidated Unaudited Financial Statements.

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

| | Nine Months Ended | |
|---|-------------------|---------------|
| | Sept 30, 1998 | Sept 30, 1997 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 6,248 | \$ 3,468 |
| Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities: | | |
| Depreciation and amortization | 536 | 326 |
| Premium amortization | 190 | 238 |
| Discount amortization | (38) | (87) |
| Provision for loan losses | 692 | 462 |
| Provision for deferred income taxes | 20 | (27) |
| (Gain) loss on sale of fixed assets | 7 | -- |
| (Gain) loss on sale of investment securities | -- | 10 |
| Changes in Operating Assets and Liabilities: | | |
| Accrued interest receivable and other assets | (190) | (390) |
| Accrued interest payable and other liabilities | 320 | 756 |
| Net Cash Provided by Operating Activities | 7,785 | 4,756 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Capital expenditures | (1,796) | (178) |
| Proceeds from sale of fixed assets | -- | -- |
| Proceeds from maturities of investment securities: | 15,411 | 51,934 |
| Proceeds from sale of investment securities: | -- | 3,972 |
| Purchase of investment securities- | (28,101) | (51,823) |
| Net increase in loans and leases | (6,167) | (11,412) |
| Net Cash Used by Investing Activities | (20,653) | (7,507) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Net increase in deposits | 16,818 | 2,549 |
| Net change in short-term borrowings | 845 | (306) |
| Increase in long-term borrowings | -- | -- |
| Payments on long-term borrowings | (860) | (347) |
| Payments of dividends | (1,170) | (845) |
| Net Cash Provided by Financing Activities | 15,633 | 1,051 |
| Net change in cash and cash equivalents | 2,765 | (1,700) |
| Cash and cash equivalents - Beginning of year | 22,798 | 15,971 |
| CASH AND CASH EQUIVALENTS - END OF THE YEAR | \$ 25,563 | \$ 14,271 |
| RECONCILIATION OF CASH AND CASH EQUIVALENTS: | | |
| Cash and cash due from banks | \$ 15,528 | \$ 14,126 |
| Interest bearing deposits | 100 | 145 |
| Federal funds sold | 9,935 | -- |
| | \$ 25,563 | \$ 14,271 |

See Notes to Condensed Consolidated Unaudited Financial Statements.

FARMERS & MERCHANTS BANCORP, INC.

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, 1998 are not necessarily indicative of the results that are expected for the year ended December 31, 1998. 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, 1997.

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 nine months ended September 30, 1998 comes primarily from net income from operations of \$6.2 million and increases in deposits of \$16.8 million. This compares with net income of \$4.1 million and deposit increases of \$2.5 million for the same period for 1997. Total deposits as of September 30, 1998 were \$478,056 million compared to \$461 million as of December 31, 1997. A concerted marketing effort continues to be made in order to attract more core deposits to help maintain an acceptable net interest margin.

The principal uses of these funds were for granting loans. Loans as of September 30, 1998 were \$402.2 million compared to \$390.8 million as of December 31, 1997, a \$11.4 million or 2.9% increase after reclassification of \$7.8 million of commercial paper from the loan category to other investments. December 31, 1997 and September 30, 1997 loans and investments have been restated to reflect this change in classification.

Capital expenditures amounted to \$1.8 million for the first nine months of 1998.

The following is a summary of five capital ratios as they are calculated from the September 30, 1998 financial statements:

| | |
|-----------------------------------|--------|
| Primary Ratio | 10.87% |
| Total Capital Ratio | 12.74% |
| Risk Based Capital Tier 1 | 14.22% |
| Risk Based Capital Tier 2 | 18.48% |
| Stockholders' Equity/Total Assets | 9.91% |

PART II

ITEM 6 EXHIBIT AND REPORTS ON FORM 8-K

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

| Exhibit No. | Description |
|-------------|-------------------------|
| 27 | Financial Data Schedule |

(B) Reports on Form 8-K

No reports on Form 8-K were filed by the registrant during the quarter ended March 31, 1998.

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, thereunto duly authorized.

Farmers & Merchants Bancorp, Inc.,

Date: November 9, 1998

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

Date: November 9, 1998

By: /s/ Randal H. Schroeder
Randal H. Schroeder
Asst. Vice-President
and Chief Operating Officer

EXHIBIT INDEX

EXHIBIT NO.
27

DESCRIPTION
Financial Data Schedule

6-MOS
 DEC-31-1998
 JAN-01-1998
 JUN-30-1998
 15,528
 100
 9,935
 0
 113,116
 0
 0
 396,281
 5,927
 551,165
 478,116
 3,443
 4,561
 10,432
 0
 0
 12,677
 41,934
 551,163
 26,906
 4,657
 423
 31,986
 15,805
 678
 15,503
 692
 0
 9,150
 8,794
 6,248
 0
 0
 6,248
 4.81
 4.81
 0
 7,731
 6,222
 0
 13,953
 5,850
 1,324
 709
 5,927
 5,927
 0
 0