UNITED STATES 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, 2005

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(g) of the Act:

Common shares without par value

(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes [ ] No [X]

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes [ ] No [X]

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 405 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. [ ]

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Ace. (Check one):

Large accelerated filer [ ] Accelerated filer [X] Non-accelerated filer [ ]

Indicated by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [X]

As of June 30, 2005, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $134,616,460.00.

As of February 27, 2006, the Registrant had 1,299,980 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K - Portions of the definitive Proxy Statement for the 2005 Annual Meeting of Shareholders of Farmers & Merchants Bancorp, Inc.

FARMERS & MERCHANTS BANCORP, INC.

TABLE OF CONTENTS

Statements contained in this portion of the Company's annual report may be forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of such words as "intend," "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Such forward-looking statements are based on current expectations, but may differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time. Other factors which could have a material adverse effect on the operations of the company and its subsidiaries which include, but are not limited to, changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in relevant accounting principles and guidelines and other factors over which management has no control. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results could differ from those projected in the forward-looking statements.

PART 1.

ITEM 1. BUSINESS:

GENERAL

Farmers & Merchants Bancorp, Inc. (Company) is a bank holding company under the laws of Ohio and was incorporated in 1985. Our primary subsidiary, The Farmers & Merchants State Bank (Bank) is a community bank in Northwest Ohio, as it has been since 1897. Our only other subsidiary, Farmers & Merchants Life Insurance Company, a reinsurance company for life, accident and health insurance for the Bank's consumer credits, was formed in 1992. We report our financial condition and net income on a consolidated basis and we report only one segment.

Our executive offices are located at 307-11 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501.

NATURE OF ACTIVITIES

The Farmers & Merchants State Bank engages in general commercial banking and savings business. Our activities include commercial and residential mortgage, consumer, and credit card lending activities. Because our Bank's branches are located in Northwest Ohio, a substantial amount of our loan portfolio is comprised of loans made to customers in 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. We have previously engaged in direct finance leasing and have invested in leveraged type leases, although the activity in this area has since ceased.

We also provide checking account services, as well as, savings and other time deposit services such as certificates of deposits. In addition, ATM's (automated teller machines) are also provided in our offices in Archbold, Wauseon, Stryker, West Unity, Bryan, Delta, Napoleon, Montpelier, Swanton, and Defiance. Two ATM's are also located at Sauder Woodworking Co., Inc., a major employer in Archbold. Additional locations are at Northwest State Community College, Archbold; Williams County Hospital, Bryan; Fairlawn Haven Wyse Commons, Archbold; Repp Oil, Fayette; Delta Eagles, Bryan Eagles; and Sauder Village Barn Restaurant, Archbold.

Farmers & Merchants Life Insurance Company was established to provide services to our customers through the issuance of life and disability insurance policies. Our Bank's lending officers are the selling agents of the policies to customers. The activities of Farmers & Merchants Life Insurance Co. are not significant to the consolidated company.

F&M Investments, the brokerage department of the Bank, opened for business in April, 1999. Securities are offered through Raymond James Financial Services, Inc.

The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956. Our subsidiary bank is in turn regulated and examined by the Ohio Division of Financial Institutions, the Federal Deposit Insurance Corporation and the Federal Reserve System. The activities of our 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), the Bank Merger Act, and the Graham-Leach-Bliley Act regarding financial modernization among others.

The commercial banking business in the geographical area in which the Bank operates is highly competitive. In our banking activities, we compete directly with other commercial banks and savings and loan institutions in each of our operating localities. In a number of our locations, we compete against entities which are much larger than us. The primary factors in competing for loans and deposits are the rates charged as well as location and quality of the services provided.

At December 31, 2005, we had 265 full time equivalent employees. The employees are not represented by a collective bargaining unit. We provide our employees with a comprehensive benefit program, some of which are contributory. We consider our employee relations to be excellent.

SUPERVISION AND REGULATION

General

The Company is a corporation organized under the laws of the State of Ohio. The business in which the Company and its subsidiary are engaged is subject to extensive supervision, regulation and examination by various bank regulatory authorities. The supervision, regulation and examination to which the Company and its subsidiary are subject are intended primarily for the protection of depositors and the deposit insurance funds that insure the deposits of banks, rather than for the protection of shareholders.

Several of the more significant regulatory provisions applicable to banks and bank holding companies to which the Company and its subsidiary are subject are discussed below, along with certain regulatory matters concerning the Company and its subsidiary. To the extent that the following information describes statutory or regulatory provisions, it is qualified in its entirety by reference to the particular statutory provisions. Any change in applicable law or regulation may have a material effect on the business and prospects of the Company and its subsidiary.

Regulatory Agencies

The Company is a registered bank holding company and is subject to inspection, examination and supervision by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board") pursuant to the Bank Holding Company Act of 1956, as amended.

The Bank is an Ohio chartered commercial bank. It is subject to regulation and examination by both the Ohio Division of Financial Institutions (the "ODFI") and the FDIC.

Holding Company Activities

As a bank holding company incorporated and doing business within the State of Ohio, the Company is subject to regulation and supervision under the Bank Holding Act of 1956, as amended (the "Act"). The Company is required to file with the Federal Reserve Board on a quarterly basis information pursuant to the Act. The Federal Reserve Board may conduct examinations or inspections of the Company and its subsidiaries.

The Company is required to obtain prior approval from the Federal Reserve Board for the acquisition of more than five percent of the voting shares or substantially all of the assets of any bank or bank holding company. In addition, the Company is generally prohibited by the Act from acquiring direct or indirect ownership or control of more than five percent of the voting shares of any company which is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks or furnishing services to its subsidiaries. The Company may, however, subject to the prior approval of the Federal Reserve Board, engage in, or acquire shares of companies engaged in activities which are deemed by the Federal Reserve Board by order or by regulation to be so closely related to banking or managing and controlling a bank as to be a proper activity.

On November 12, 1999, the Gramm-Leach-Bliley Act (the "GLB Act") was enacted into law. The GLB Act made sweeping changes with respect to the permissible financial services which various types of financial institutions may now provide. The Glass-Steagall Act, which had generally prevented banks from affiliation with securities and insurance firms, was repealed. Pursuant to the GLB Act, bank holding companies may elect to become a "financial holding company," provided that all of the depository institution subsidiaries of the bank holding company are "well capitalized" and "well managed" under applicable regulatory standards.

Under the GLB Act, a bank holding company that has elected to become a financial holding company may affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. Activities that are "financial in nature" include securities underwriting, dealing and market-making, sponsoring mutual funds and investment companies, insurance underwriting and agency, merchant banking, and activities that the Federal Reserve Board has determined to be closely related to banking. No Federal Reserve Board approval is required for the Company to acquire a company, other than a bank holding company, bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the Federal Reserve Board. Prior Federal Reserve Board approval is required before the Company may acquire the beneficial ownership or control of more than 5% of the voting shares, or substantially all of the assets, of a bank holding company, bank or savings association. If any subsidiary bank of the Company ceases to be "well capitalized" or "well managed" under applicable regulatory standards, the Federal Reserve Board may, among other actions, order the Company to divest the subsidiary bank. Alternatively, the Company may elect to conform its activities to those permissible for a bank holding company that is not also a financial holding company. If any subsidiary bank of the Company receives a rating under the Community Reinvestment Act of 1977 of less than satisfactory, the Company will be prohibited from engaging in new activities or acquiring companies other than bank holding companies, banks or savings associations. The Company has not elected to become a financial holding company and has no current intention of making such an election.

Affiliate Transactions

Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act, limit borrowings by holding companies and non-bank subsidiaries from affiliated insured depository institutions, and also limit various other transactions between holding companies and their non-bank subsidiaries, on the one hand, and their affiliated insured depository institutions on the other. Section 23A of the Federal Reserve Act also generally requires that an insured depository institution's loan to its non-bank affiliates be secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution's transactions with its non-bank affiliates be on arms-length terms.

Interstate Banking and Branching

Under the Riegle-Neal Interstate Banking and Branching Efficiency Act ("Riegle-Neal"), subject to certain concentration limits and other requirements, bank holding companies such as the Company are permitted to acquire banks and bank holding companies located in any state. Any bank that is a subsidiary of a bank holding company is permitted to receive deposits, renew time deposits, close loans, service loans and receive loan payments as an agent for any other bank subsidiary of that bank holding company. Banks are permitted to acquire branch offices outside their home states by merging with out-of-state banks, purchasing branches in other states and establishing de novo branch offices in other states. The ability of banks to acquire branch offices is contingent, however, on the host state having adopted legislation "opting in" to those provisions of Riegle-Neal. In addition, the ability of a bank to merge with a bank located in another state is contingent on the host state not having adopted legislation "opting out" of that provision of Riegle-Neal. The Company could from time to time use Riegle-Neal to acquire banks in additional states.

Control Acquisitions

The Change in Bank Control Act prohibits a person or group of persons from acquiring "control" of a bank holding company, unless the Federal Reserve Board has been notified and has not objected to the transaction. Under the rebuttable presumption established by the Federal Reserve Board, the acquisition of 10% or more of a class of voting stock of a bank holding company with a class of securities registered under Section 12 of the Exchange Act, such as the Company, would, under the circumstances set forth in the presumption, constitute acquisition of control of the bank holding company. In addition, a company is required to obtain the approval of the Federal Reserve Board under the Bank Holding Company Act before acquiring 25% (5% in the case of an acquiror that is a bank holding company) or more of any class of outstanding voting stock of a bank holding company, or otherwise obtaining control or a "controlling influence" over that bank holding company.

Liability for Banking Subsidiaries

Under the current Federal Reserve Board policy, a bank holding company is expected to act as a source of financial and managerial strength to each of its subsidiary banks and to maintain resources adequate to support each subsidiary bank. This support may be required at times when the bank holding company may not have the resources to provide it. In the event of a bank holding company's bankruptcy, any commitment by the bank holding company to a U.S. federal bank regulatory agency to maintain the capital of a subsidiary bank would be assumed by the bankruptcy trustee and entitled to priority of payment. Any depository institution insured by the FDIC can be held liable for any loss incurred, or reasonably expected to be incurred, by the FDIC in connection with (1) the "default" of a commonly controlled FDIC-insured depository institution; or (2) any assistance provided by the FDIC to both a commonly controlled FDIC-insured depository institution "in danger of default." The Company's subsidiary bank is an FDIC-insured depository institution. If a default occurred with respect to the Bank, any capital loans to the Bank from its parent holding company would be subordinate in right of payment to payment of the Bank's depositors and certain of its other obligations.

Regulatory Capital Requirements

The Company is required by the various regulatory authorities to maintain certain capital levels. Bank holding companies are required to maintain minimum levels of capital in accordance with Federal Reserve capital adequacy guidelines. If capital falls below minimum guideline levels, a bank holding company, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. The required capital levels and the Company's capital position at December 31, 2004 are summarized in the table included in Note 14 to the consolidated financial statements.

FDICIA

The Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), and the regulations promulgated under FDICIA, among other things, established five capital categories for insured depository institutions-well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized-and requires U.S. federal bank regulatory agencies to implement systems for "prompt corrective action" for insured depository institutions that do not meet minimum capital requirements based on these categories. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on certain other aspects of its operations. An undercapitalized bank must develop a capital restoration plan and its parent bank holding company must guarantee the bank's compliance with the plan up to the lesser of 5% of the banks or thrift's assets at the time it became undercapitalized and the amount needed to comply with the plan. As of December 31, 2005, the Company's banking subsidiary was well capitalized pursuant to these prompt corrective action guidelines.

Dividend Restrictions

The ability of the Company to obtain funds for the payment of dividends and for other cash requirements will be largely dependent on the amount of dividends which may be declared by its banking subsidiary. Various U.S. federal statutory provisions limit the amount of dividends the Company's banking subsidiaries can pay to the Company without regulatory approval. Dividend payments by the Bank are limited to its retained earnings during the current year and its prior two years.

Deposit Insurance Assessments

The deposits of the Company's banking subsidiary are insured up to regulatory limits by the FDIC, and, accordingly, are subject to deposit insurance assessments to maintain the Bank Insurance Fund (the "BIF") and/or the Savings Association Insurance Fund (the "SAIF") administered by the FDIC.

Depositor Preference Statute

In the "liquidation or other resolution" of an institution by any receiver, U.S. federal legislation provides that deposits and certain claims for administrative expenses and employee compensation against the insured depository institution would be afforded a priority over general unsecured claims against that institution, including federal funds and letters of credit.

Government Monetary Policy

The earnings of the Company are affected primarily by general economic conditions, and to a lesser extent by the fiscal and monetary policies of the federal government and its agencies, particularly the Federal Reserve. Its policies influence, to some degree, the volume of bank loans and deposits, and interest rates charged and paid thereon, and thus have an effect on the earnings of the Company's subsidiary Bank.

Additional Regulation

The Bank is also subject to federal regulation as to such matters as required reserves, limitation as to the nature and amount of its loans and investments, regulatory approval of any merger or consolidation, issuance or retirement of their own securities, limitations upon the payment of dividends and other aspects of banking operations. In addition, the activities and operations of the Bank are subject to a number of additional detailed, complex and sometimes overlapping laws and regulations. These include state usury and consumer credit laws, state laws relating to fiduciaries, the Federal Truth-in-Lending Act and Regulation Z, the Federal Equal Credit Opportunity Act and Regulation B, the Fair Credit Reporting Act, the Truth in Savings Act, the Community Reinvestment Act, anti-redlining legislation and antitrust laws.

Future Legislation

Changes to the laws and regulations, both at the federal and state levels, can affect the operating environment of the Company and its subsidiary in substantial and unpredictable ways. The Company cannot accurately predict whether those changes in laws and regulations will occur, and, if those changes occur, the ultimate effect they would have upon the financial condition or results of operations of the Company or its subsidiary.

Available Information:

The Company maintains an Internet web site at the following internet address: http://www.fm-bank.com. The Company files reports with the Securities and Exchange Commission (SEC). Copies of all filings made with the SEC may be read and copied at the SEC's Public Reference Room, 450 Fifth Street, Washington, DC, 20549. You may obtain information about the SEC's Public Reference Room by calling (800/SEC-0330). Because the Company makes its filing with the SEC electronically, you may access such reports at the SEC's website, www.sec.gov. The Company makes available, free of charge through its internet address, copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to these reports as soon as reasonable practicable after such materials have been filed with or furnished to the SEC. Copies of these documents may also be obtained, either in electronic or paper form, by contacting Barbara J. Britenriker, Chief Financial Officer of the Company at (419) 446-2501.

ITEM 1A. RISK FACTORS

SIGNIFICANT COMPETITION FROM AN ARRAY OF FINANCIAL SERVICE PROVIDERS

Our ability to achieve strong financial performance and a satisfactory return on investment to shareholders will depend in part on our ability to expand our available financial services. In addition to the challenge of attracting and retaining customers for traditional banking services, our competitors now include securities dealers, brokers, mortgage bankers, investment advisors and finance and insurance companies who seek to offer one-stop financial services to their customers that may include services that banks have not been able or allowed to offer to their customers in the past. The increasingly competitive environment is a result primarily of changes in regulation, changes in technology and product delivery systems and the accelerating pace of consolidation among financial services providers. If we fail to adequately address each of the competitive pressures in the banking industry, our financial condition and results of operations could be adversely affected.

CREDIT RISK

The risk of nonpayment of loans is inherent in commercial banking. Such nonpayment could have an adverse effect on the Company's earnings and our overall financial condition as well as the value of our common stock. Management attempts to reduce the Bank's credit exposure by carefully monitoring the concentration of its loans within specific industries and through loan application and approval procedures. However, there can be no assurance that such monitoring and procedures will reduce such lending risks. Credit losses can cause insolvency and failure of a financial institution and, in such event, its shareholders could lose their entire investment. For a more information on the exposure of the Company and the Bank to credit risk, see the section under Part II, Item 7 of this Form 10-K captioned "Loan Portfolio."

SUSCEPTIBILITY TO CHANGES IN REGULATION

Any changes to state and federal banking laws and regulations may negatively impact our ability to expand services and to increase the value of our business. We are subject to extensive state and federal regulation, supervision, and legislation that govern almost all aspects of our operations. These laws may change from time to time and are primarily intended for the protection of consumers, depositors and the deposit insurance funds. In addition, the Company's earnings are affected by the monetary policies of the Board of Governors of the Federal Reserve. These policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments. The Federal Reserve influences the size and distribution of bank reserves through its open market operations and changes in cash reserve requirements against member bank deposits. The Gramm-Leach-Bliley Act regarding financial modernization that became effective in November, 1999 removed many of the barriers to the integration of the banking, securities and insurance industries and is likely to increase the competitive pressures upon the Bank. We cannot predict what effect such Act and any presently contemplated or future changes in the laws or regulations or their interpretations would have on us, but such changes could be materially adverse to our financial performance. For a more information on this subject, see the section under Part I, Item 1 of this Form 10-K captioned "Supervision and Regulation."

INTEREST RATE RISK

Changes in interest rates affect our operating performance and financial condition in diverse ways. Our profitability depends in substantial part on our "net interest spread," which is the difference between the rates we receive on loans and investments and the rates we pay for deposits and other sources of funds. Our net interest spread will depend on many factors that are partly or entirely outside our control, including competition, federal economic, monetary and fiscal policies, and economic conditions generally. Historically, net interest spreads for other financial institutions have widened and narrowed in response to these and other factors, which are often collectively referred to as "interest rate risk." Over the last few years, the Bank, along with most other financial institutions, has experienced a "margin squeeze" as lower interest rates have made it difficult to maintain a more favorable net interest spread.

The Bank manages interest rate risk within an overall asset/liability framework. 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. In the event that our asset/liabilities management strategies are unsuccessful, our profitability may be adversely affected. For more information regarding the Company's exposure to interest rate risk, see Part II, Item 7A of this Form 10-K.

ATTRACTION AND RETENTION OF KEY PERSONNEL

Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. In our experience, it can take a significant period of time to identify and hire personnel with the combination of skills and attributes required in carrying out our strategy. If we lose the services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition, results of operations and cash flows could be materially adversely affected.

DIVIDEND PAYOUT RESTRICTIONS

We currently pay a quarterly dividend on our common shares. However, there is no assurance that we will be able to pay dividends in the future. Dividends are subject to determination and declaration by our board of directors, which takes into account many factors. The declaration of dividends by us on our common stock is subject to the discretion of our board and to applicable state and federal regulatory limitations. The Company's ability to pay dividends on its common stock depends on its receipt of dividends from the Bank. The Bank is subject to restrictions and limitations in the amount and timing of the dividends it may pay to the Company.

ANTI-TAKEOVER PROVISIONS

Provisions of our Articles of Incorporation and Ohio law could have the effect of discouraging takeover attempts which certain stockholders might deem to be in their interest. These anti-takeover provisions may make us a less attractive target for a takeover bid or merger, potentially depriving shareholders of an opportunity to sell their shares of common stock at a premium over prevailing market prices as a result of a takeover bid or merger.

OPERATIONAL RISKS

We are subject to certain operations risks, including, but not limited to, data processing system failures and errors, customer or employee fraud and catastrophic failures resulting from terrorist acts or natural disasters. We maintain a system of internal controls to mitigate against such occurrences and maintain insurance coverage for such risks that are insurable, but should such an event occur that is not prevented or detected by our internal controls, uninsured or in excess of applicable insurance limits, it could have a significant adverse impact on our business, financial condition or results of operations.

LIMITED TRADING MARKET

Our common stock is not listed on any exchange or The Nasdaq Stock Market. While our stock is currently quoted on the Pink Sheets, it trades infrequently.

ITEM 2. PROPERTIES

Our principal office is located in Archbold, Ohio.

The Bank operates from the 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. The Bank also owns real estate across from the main facilities to provide for parking.

The Bank completed construction in February 2003 of an operations center at 622 Clydes Way in Archbold, Ohio to accommodate our growth.

The Bank owns all of its branch locations. Current locations of retail banking services are:

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
Swanton, Ohio	7 Turtle Creek Circle
Defiance, Ohio	1175 Hotel Drive

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 or the Company, to which we are a party or of which any of our properties are the subject.

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

No items were submitted during the fourth quarter of the 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

Our common stock is not quoted on the National Association of Securities Dealers Automated Quotations System (NASDAQ) or any other market or exchange.

Our common stock is traded in the principal market area of Fulton, Williams, and Henry Counties, Ohio. We had one market maker that set a price for our stock; however, private sales continue to occur. The high and low sale price was from sales of which we have been made aware by our Market Maker. The high and low sale prices known to our management are as follows:

		1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2005	High	$ 115.00	$ 115.00	$ 115.00	$ 100.00
	Low	$ 110.00	$ 110.00	$ 101.25	$ 81.25
2004	High	$ 115.00	$ 115.00	$ 123.00	$ 115.00
	Low	$ 100.00	$ 100.00	$ 100.00	$ 100.00

The Bank acted as transfer agent for the Company's common stock until December 17, 2004. After December 17, 2004 the Company utilizes Register and Transfer as its transfer agent. .

As of February 17, 2006, there were 2050 record holders of our common stock.

Dividends are declared and paid quarterly. Per share dividends declared for the years ended 2005 and 2004 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2005	$.45	$.45	$.45	$.65	$ 2.00
2004	$.45	$.45	$.45	$.55	$ 1.90

The ability of the Company to pay dividends is limited by the dividend that the Company receives from the Bank. The Bank may pay as dividends to the Company its retained earnings during the current year and its prior two years. Currently, such limitation on the payment of dividends from the Bank to the Company does not materially restrict the Company's ability to pay dividends to its shareholders.

The Company has a long-term stock incentive plan under which 1,000 shares of restricted stock were issued to 38 employees of the Bank during 2005. Under the plan, the shares vest 100% in three years. Due to employee termination, there were 20 shares forfeited during 2005. Compensation expense applicable to the restricted stock totaled $14 thousand for the year ended December 31, 2005.

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

SUMMARY OF CONSOLIDATED STATEMENT OF INCOME - UNAUDITED

	(In Thousands)				
	2005	2004	2003	2002	2001
Summary of Income:					
Interest income	$ 38,716	$ 37,962	$ 41,107	$ 43,424	$ 48,945
Interest expense	13,539	11,222	14,283	18,979	25,448
Net Interest Income	25,177	26,740	26,824	24,445	23,497
Provision for loan loss	(425)	885	6,903	2,194	2,632
Net interest income after provision for loan loss	25,602	25,855	19,921	22,251	20,865
Other income (expense), net	(13,824)	(14,052)	(9,836)	(11,864)	(11,217)
Net income before income taxes	11,778	11,803	10,085	10,387	9,648
Income taxes	3,202	3,573	2,459	2,989	2,892
Net income	$ 8,576	$ 8,230	$ 7,626	$ 7,398	$ 6,756
Per Share of Common Stock:					
Earnings per common share outstanding (Based on weighted average number of shares outstanding)					
Net income	$ 6.60	$ 6.33	$ 5.87	$ 5.69	$ 5.20
Dividends	$ 2.00	$ 1.90	$ 6.75	$ 1.65	$ 1.60
Weighted average number of shares outstanding	1,299,682	1,300,000	1,300,000	1,300,000	1,300,000

SUMMARY OF CONSOLIDATED BALANCE SHEET - UNAUDITED

	(In Thousands)				
	2005	2004	2003	2002	2001
Total assets	$ 720,945	$ 702,513	$ 705,703	$ 726,486	$ 683,626
Loans	458,704	472,211	480,339	497,515	468,243
Total Deposits	576,297	574,205	575,066	576,373	566,157
Stockholders' equity	82,588	78,845	74,856	77,738	70,350
Key Ratios					
Return on average equity	10.62%	10.72%	9.87%	9.93%	9.73%
Return on average assets	1.22%	1.16%	1.06%	1.06%	1.02%
Loan to deposits	79.65%	82.24%	83.53%	86.32%	82.71%
Capital to assets	11.46%	11.22%	10.61%	10.70%	10.29%
Dividend payout	30.31%	30.02%	115.07%	28.99%	30.79%

ITEM 7. MANAGEMENTS DICUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

CRITICAL ACCOUNTING POLICY AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and the Company follows general practices within the financial services industry in which it operates. At times the application of these principles requires Management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements and accompanying notes. These assumptions, estimates and judgments are based on information available as of the date of the financial statements. As this information changes, the financial statements could reflect different assumptions, estimates and judgments. Certain policies inherently have a greater reliance on assumptions, estimates and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Examples of critical assumptions, estimates and judgments are when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not required to be recorded at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability must be recorded contingent upon a future event.

All significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements. These policies, along with the disclosures presented in the notes to the consolidated financial statements and in the management discussion and analysis of financial condition and results of operations, provide information on how significant assets and liabilities are valued and how those values are determined for the financial statements. Based on the valuation techniques used and the sensitivity of financial statement amounts to assumptions, estimates and judgments underlying those amounts, management has identified the determination of the Allowance for Loan and Lease Losses (ALLL) and the valuation of its Mortgage Servicing Rights as the accounting areas that requires the most subjective or complex judgments, and as such could be the most subject to revision as new information becomes available.

The ALLL represents management's estimate of credit losses inherent in the Bank's loan portfolio at the report date. The estimate is a composite of a variety of factors including past experience, collateral value, and the general economy. ALLL includes a specific portion, a formula driven portion, and a general nonspecific portion. The collection and ultimate recovery of the book value of the collateral, in most cases, is beyond our control.

The Company is also required to estimate the value of its Mortgage Servicing Rights. The Company recognizes as separate assets rights to service fixed rate single-family mortgage loans that it has sold without recourse but services for others for a fee. Mortgage servicing assets are initially recorded at cost, based upon pricing multiples as determined by the purchaser, when the loans are sold. Mortgage servicing assets are carried at the lower of the initial carrying value, adjusted for amortization, or estimated fair value. Amortization is determined in proportion to and over the period of estimated net servicing income using the level yield method. For purposes of determining impairment, the mortgage servicing assets are stratified by interest rate.

The expected and actual rates of mortgage loan prepayments are the most significant factors driving the potential for the impairment of the value of mortgage servicing assets. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced.

For more information regarding the estimates and calculations used to establish the ALLL and the value of Mortgage Servicing Rights, please see Note 1 to the consolidated financial statements provided herewith.

MATERIAL CHANGES IN RESULTS OF OPERATIONS

Record earnings were attained in 2005 for the second straight year. Improved profitability was attributed to two main sources: increased non-interest income and decrease of the loan loss provision. Non-interest income increased by over $1 million during 2005 as compared to 2004. A new service, overdraft privilege, introduced in February 2005 was the leading determinant. The increased revenue of over $1 million from overdraft privilege offset the lost revenue in service charges from offering free personal checking and a new free small business-checking product during 2005.

Impacting the decrease of the loan loss allowance was the continued improvement in the asset quality position and the decrease of the loan portfolio. Improved asset quality was evident in the decrease in impaired loans from $11.4 million at year-end 2004 to $8.5 million at year-end 2005. The valuation allowance percentage related to impaired loans remained constant resulting in a decrease of the allowance by $646 thousand during 2005. Non-accrual loans decreased by approximately $1 million and past due loans 90 days or more and still accruing interest decreased to zero at year end 2005 as compared to year end 2004's $393 thousand.

The loan portfolio decreased $13.3 million when comparing year-end 2005 to year-end 2004. Movement of some significant troubled loans along with vigorous competition for higher quality loans were factors that lead to the decline. Higher interest rates slowed refinancing activity in consumer loan portfolios. Coupled with the improved asset quality the provision became an income source. As the allowance decreased from $7.5 million to $6.2 million for year-end 2004 and 2005, respectively, the provision turned into $425 thousand of income in 2005 versus an expense of $884 thousand in 2004. This represented a swing in revenue attributable to the loan loss provision of $1.3 million.

The allowance for unfunded loan commitments and letters of credit increased by $155 thousand as unfunded balances increased. An $8 million letter of credit was negotiated within 2005 thereby increasing the unfunded commitments. Changes in this allowance are recorded separately in other non-interest expense. When the total allowance for credit losses is reviewed, it represented a $1.27 million swing in revenue. The swing attributed to the improved asset quality position is a positive step while the remainder attributed to negative loan growth would have been better utilized in supporting positive loan growth. The challenge lies in replacing this revenue during 2006 through growth in all loan categories and fee income.

Overall, net income after taxes improved $346 thousand at year-end 2005 over year- end 2004. Earnings per share increased 4.27% over the previous year ending at $6.60.

NET INTEREST INCOME

Net interest income decreased by over $1.56 million for 2005 as compared to 2004. Constriction of the net interest margin was evident during 2005 as the Federal Reserve continued raising rates and the yield curve continued to flatten. Pressure from competition caused the increase of deposit rates and held down loan rates, thereby shrinking the margin. As stated earlier, negative loan growth also impacted the interest income in terms of overall dollar volume.

The following table presents net interest income, interest spread and net interest margin for the three years 2003 through 2005, comparing average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and expense. The table also shows their corresponding average rates of interest earned and paid. The tax-exempt asset yields have been tax affected to reflect a marginal corporate tax rate of 34%. Average outstanding loan balances include non-performing loans and mortgage loans held for sale. Average outstanding security balances are computed based on carrying values including unrealized gains and losses on available-for-sale securities.

As the charts indicate, the Company experienced decreased growth on an average basis for year 2005 compared to 2004 and 2003. The largest decrease in average balances on interest earning assets compared to 2004 and 2003 was in loans. 2004 showed a slight increase in net interest margin over 2003 but 2005 averaged lower than both previous years. The net interest margin and spread in 2004 are the highest of the three years shown and 2005 is the lowest. The average yield on earning assets increased for 2005. Unfortunately, the interest expense yield increased proportionately higher, shrinking the margin. Customers moved money to higher earning instruments as rates began to increase in the second half of 2004. Due to the decrease in loans, the Bank did not price deposits as aggressively as competitors and the average balance decline reflects that pricing strategy used in both 2004 and 2005. Interest expense rates, however, still priced higher to maintain retention of loyal multiple relationship customers.

	2005		
	(In Thousands)		
	Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
INTEREST EARNING ASSETS:			
Loans (1)	$ 468,934	$ 32,003	6.82%
Taxable investment securities	134,420	4,609	3.43%
Tax-exempt investment securities	51,022	1,839	5.46%
Interest bearing deposits	7,974	256	3.21%
Federal funds sold	204	9	4.41%
TOTAL INTEREST EARNING ASSETS	662,554	$ 38,716	5.99%
NON-INTEREST EARNING ASSETS:			
Cash and cash equivalents	16,372		
Other assets	22,954		
TOTAL ASSETS	$ 701,880		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings deposits	$ 195,748	$ 2,383	1.22%
Other time deposits	311,855	9,461	3.03%
Other borrowed money	24,995	896	3.58%
Federal funds purchased and securities sold under agreement to repurchase	25,443	799	3.14%
TOTAL INTEREST BEARING LIABILITIES	558,041	$ 13,539	2.43%
NON-INTEREST BEARING LIABILITIES:			
Non-interest bearing demand deposits	42,363		
Other	20,686		
TOTAL LIABILITIES	621,090		
SHAREHOLDERS' EQUITY	80,790		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 701,880		
Interest/Dividend income/yield		$ 38,716	5.99%
Interest Expense / yield		13,539	2.43%
Net Interest Spread		$ 25,177	3.56%
Net Interest Margin			3.80%

	2004 (In Thousands)		
	Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
INTEREST EARNING ASSETS:			
Loans (1)	$ 490,793	$ 31,767	6.47%
Taxable investment securities	127,432	4,393	3.45%
Tax-exempt investment securities	46,730	1,688	5.47%
Interest bearing deposits	5,141	80	1.56%
Federal funds sold	3,543	34	0.96%
TOTAL INTEREST EARNING ASSETS	673,639	$ 37,962	5.76%
NON-INTEREST EARNING ASSETS:			
Cash and cash equivalents	14,945		
Other assets	20,349		
TOTAL ASSETS	$ 708,933		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings deposits	$ 204,049	$ 1,268	0.62%
Other time deposits	323,527	8,712	2.69%
Other borrowed money	23,694	817	3.45%
Federal funds purchased and securities sold under agreement to repurchase	24,218	425	1.75%
TOTAL INTEREST BEARING LIABILITIES	575,488	$ 11,222	1.95%
NON-INTEREST BEARING LIABILITIES:			
Non-interest bearing demand deposits	42,205		
Other	14,497		
TOTAL LIABILITIES	632,190		
SHAREHOLDERS' EQUITY	76,743		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 708,933		
Interest/Dividend income/yield		$ 37,962	5.76%
Interest Expense / yield		11,222	1.95%
Net Interest Spread		$ 26,740	3.81%
Net Interest Margin			3.97%

	2003 (In Thousands)		
	Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
INTEREST EARNING ASSETS:			
Loans (1)	$ 500,517	$ 34,233	6.84%
Taxable investment securities	128,087	5,105	3.99%
Tax-exempt investment securities	44,981	1,710	5.76%
Interest bearing deposits	2,413	26	1.08%
Federal funds sold	3,163	33	1.04%
TOTAL INTEREST EARNING ASSETS	679,161	$ 41,107	6.18%
NON-INTEREST EARNING ASSETS:			
Cash and cash equivalents	17,001		
Other assets	21,717		
TOTAL ASSETS	$ 717,879		
LIABILITIES AND SHAREHOLDERS' EQUITY			
INTEREST BEARING LIABILITIES:			
Savings deposits	$ 209,044	$ 1,494	0.71%
Other time deposits	326,966	11,336	3.47%
Other borrowed money	28,095	1,077	3.83%
Federal funds purchased and securities sold under agreement to repurchase	21,296	376	1.77%
TOTAL INTEREST BEARING LIABILITIES	585,401	$ 14,283	2.44%
NON-INTEREST BEARING LIABILITIES:			
Non-interest bearing demand deposits	43,924		
Other	11,258		
TOTAL LIABILITIES	640,583		
SHAREHOLDERS' EQUITY	77,296		
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 717,879		
Interest/Dividend income/yield		$ 41,107	6.18%
Interest Expense / yield		14,283	2.44%
Net Interest Spread		$ 26,824	3.74%
Net Interest Margin			3.95%

(1) For purposes of these computations, non-accruing loans are included in the daily average outstanding loan amounts.

The primary source of the Company's traditional banking revenue is net interest income. Net interest income is the difference between interest income on interest earning assets, such as loans and securities, and interest expense on liabilities used to fund those assets, such as interest bearing deposits and other borrowings. Net interest income is affected by changes in both interest rates and the amount and composition of earning assets and liabilities. The change in net interest income is most often measured as a result of two statistics - interest spread and net interest margin. The difference between the yields on earning assets and the rates paid for interest bearing liabilities supporting those funds represents the interest spread. Because non-interest bearing sources of funds such as demand deposits and stockholders' equity also support earning assets, the net interest margin exceeds the interest spread.

The following tables show changes in interest income, interest expense and net interest resulting from changes in volume and rate variances for major categories of earnings assets and interest bearing liabilities.

	2005 vs 2004 (In Thousands)		
	Net Change	Due to Change in Volume	Rate
INTEREST EARNED ON:			
Loans	$ 236	$ (1,415)	$ 1,651
Taxable investment securities	216	241	(25)
Tax-exempt investment securities	151	235	(84)
Interest bearing deposits	176	44	132
Federal funds sold	(25)	(32)	7
TOTAL INTEREST EARNING ASSETS	$ 754	$ (927)	$ 1,681
INTEREST PAID ON:			
Savings deposits	$1,115	$ (51)	$ 1,166
Other time deposits	749	(315)	1,064
Other borrowed money	79	45	34
Federal funds purchased and securties sold under agreement to repurchase	374	22	352
TOTAL INTEREST BEARING LIABILITIES	$2,317	$ (299)	$ 2,616

	2004 vs 2003 (In Thousands)		
	Net Change	Due to Change in Volume	Rate
INTEREST EARNED ON:			
Loans	$ (2,466)	$ (665)	$ (1,801)
Taxable investment securities	(712)	(26)	(686)
Tax-exempt investment securities	(22)	101	(123)
Interest bearing deposits	54	29	25
Federal funds sold	1	4	(3)
TOTAL INTEREST EARNING ASSETS	$ (3,145)	$ (557)	$ (2,588)
INTEREST PAID ON:			
Savings deposits	$ (226)	$ (36)	$ (190)
Other time deposits	(2,624)	(119)	(2,505)
Other borrowed money	(260)	(169)	(91)
Federal funds purchased and securties sold under agreement to repurchase	49	52	(3)
TOTAL INTEREST BEARING LIABILITIES	$ (3,061)	$ (272)	$ (2,789)

The Federal Reserve began raising the Federal Funds rate in June of 2004 and continued along that path throughout 2005. The increased interest income from loans for 2005 is due to the increased rate. Securities, however, had increased revenue due to the increased portfolio size. All of the increases on the liability side were due in part to the increased rate environment, specifically on the deposits.

Interest income on loans decreased $2.5 million for 2004 as compared to 2003. The decrease for 2004 was primarily due to a drop in interest rates. This drop was offset by the significant decrease in interest expense on other time deposits of $2.6 million for 2004. The interest rate on the matured long term time deposits during the first half of 2004 was often 3% - 4% higher than what the money was able to be reinvested at due to the lower interest rate environment. As rates began to rise the second half of 2004 and shorter term time deposits reinvested at higher rates, the savings on interest expense declined or disappeared completely.

ALLOWANCE FOR CREDIT LOSSES

The company segregated its Allowance for Loan and Lease Losses (ALLL) into two reserves at the period ending December 31, 2004: The ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit (AULC). When combined, these reserves constitute the total Allowance for Credit Losses (ACL). The portion of 2003 ACL attributable to AULC was $402 thousand.

The Company decreased the allowance for credit losses for 2005. The allowance stands at $6.2 million for 2005 compared to $7.5 million for 2004. The Bank has worked hard to improve loan quality while making credit available to all of those who are in need and deemed an acceptable credit risk. This decrease was due to the slow pickup of the economy and its effect on our ability to generate quality loans. Charge-off activity of $1.8 million was extremely low for 2004 compared to $7.3 million for 2003. 2005 charge-off was only slightly higher than 2004 at $2.1 million. The allowance for credit loss activity resulted in expense of $0.9 and $6.9 million for 2004 and 2003, respectively. For 2005, it actually resulted in income of $425 thousand. One large credit impacted 2003 and the Company is no longer carrying a balance on that credit. The Company expects to see the lower levels of 2005 and 2004 charge-offs continue in future years as the indicators of asset quality have shown improvement.

NON-INTEREST INCOME

Non-interest income of $5.8 million is an increase of $1 million over 2004 and a decrease of $2.2 million from 2003. Non-interest income for 2003 of $8.0 million is the highest of the three years shown. 2003 experienced a dramatic rise due to an increase in fixed rate mortgage loan activity as a result of the favorable interest rates for such loans. These types of loans are sold to investors while the Bank retains the mortgage servicing rights on these loans. As a result, mortgage servicing rights income was $1.1 million for 2003. Mortgage rates were higher in 2004 and 2005 so the level of mortgage activity was slower. Sold mortgage originations dropped to $48.8 million for 2004 from the $179.1 million produced in 2003 and further dropped to $42.8 million for 2005. Along with the mortgage servicing rights income, gains on the sale of those loans increased in 2003. The recognition of both income sources due to the mortgage activity was $0.7 million in 2005 and $0.9 million in 2004 compared to $3.3 million.

An increase of over $1 million in non-interest income in 2005 compared to 2004 was generated from the new product Overdraft Privilege. Overdraft Privilege was introduced in February 2005 along with free personal checking and a free small business checking account. While maintenance fees collected on the traditional products declined, Overdraft Privilege more than replaced it.

Overdraft Privilege enabled more automation to be utilized in the overdraft/return check process and alleviated concern by most customers of having their checks returned. It has been well received by customers and decreased returns.

NON-INTEREST EXPENSE

Non-interest expense has increased during the last three years, growing from $17.8 million in 2003 to $19.6 million in 2005. The largest increase occurred in 2004 as compared to 2003. Personnel costs were the major component behind the increase. Additional staffing compiled with increased benefits costs added up to an additional $1.0 million of expense. 2005 also saw an increase in salaries and wages over 2004 of $441 thousand. Incentive pay for 2005 was higher than both previous years as the overall performance of the Bank was higher. The full time equivalent number of employees for 2005 compared to 2004 decreased by four.

FEDERAL INCOME TAXES

Effective tax rates were 27.19%, 30.27%, and 24.38% for 2005, 2004 and 2003, respectively. The Company has increased its tax-exempt holdings each year with 2005's average investment balance in tax-exempt securities at $51 million compared to $46.7 and

$45 million for 2004 and 2003, respectively. Overall growth in interest income is needed to allow the tax exempt advantage to be maintained in 2006.

FINANCIAL CONDITION

Average earning assets decreased during 2004 and 2005. Average earnings assets for 2005 were $663 million compared to $674 million for 2004 and $679 million for 2003. This decrease in average earnings assets represents a less than 1.0 percent change for each year 2005 and 2004. The decrease in both years was attributed to loans. Average interest bearing liabilities also decreased by $1.7 million in 2005, adding to the decrease of $9.9 million in 2004. The decrease occurred to offset the decrease in loan growth and lessen the pressure on the net interest margin. 2005 is lower than 2003 by $2.7 million.

SECURITIES

Security balances as of December 31 are summarized below:

	(In Thousands)		
	2005	2004	2003
U.S. Treasury and Government Agencies	$ 112,199	$ 88,344	$ 103,470
Mortgage-backed securities	28,514	30,088	14,178
State and local governments	62,891	54,647	51,016
Corporate debt securities	-	-	1,981
Equity securities	47	48	47
	$ 203,651	$ 173,127	$ 170,692

The following table sets forth (dollars in thousands) the maturities of investment securities as of December 31, 2005 and the weighted average yields of such securities calculated on the basis of 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	$ 2,181	2.96%	$ 173	3.67%
U.S. Government agency	48,823	3.15%	61,023	3.59%
Mortgage-backed securities	-	-	26,773	3.93%
State and local governments	12,491	5.05%	22,182	5.49%
Taxable state and local governments	1,042	5.89%	4,104	4.45%

	Maturities			
	After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield
U.S. Treasury	$ -	-	$ -	-
U.S. Government agency	-	-	-	-
Mortgage-backed securities	1,740	4.05%	-	-
State and local governments	20,846	5.49%	2,227	5.81
Taxable state and local governments	-	-	-	-

As of December 31, 2005 the Bank did not hold a large block of any one investment security, except for U.S. Treasury and other U.S. Government agencies. The Bank also holds stock in the Federal Home Loan Bank of Cincinnati at a cost of $3.8 million. This is required in order to obtain Federal Home Loan Bank Loans.

LOAN PORTFOLIO

The Bank's various loan portfolios are subject to varying levels of credit risk. Management mitigates these risks through portfolio diversification and through standardization of lending policies and procedures.

The following table shows the Bank's loan portfolio by category of loan including loans held for sale:

	(In Thousands)				
	2005	2004	2003	2002	2001
Loans:					
Commercial/industrial	$ 90,227	$ 98,518	$102,101	$100,119	$ 96,992
Agricultural	62,023	55,219	63,082	66,136	53,717
Real estate mortgage	268,315	274,156	267,312	278,933	247,545
Consumer	34,686	41,276	47,984	51,156	55,845
Industrial Development Bonds	9,237	10,687	7,944	7,810	7,590
Total Loans	$464,488	$479,856	$488,423	$504,154	$461,689

The following table shows the maturity of loans as of December 31,2005:

	Maturities (In Thousands)			
	Within One Year	After One Year Within Five Years	After Five Years	Total
Commercial and industrial	$ 28,695	$ 40,862	$ 20,670	$ 90,227
Agricultural	28,349	28,463	5,211	62,023
Real estate mortgage	10,043	12,793	245,479	268,315
Consumer	7,354	22,288	5,044	34,686
Industrial Development Bonds	1,316	6,652	1,269	9,237

The following table presents the total of loans due after one year which have 1) predetermined interest rates and 2) floating or adjustable interest rates:

	(In Thousands)	
	Fixed Rate	Variable Rate
Commercial and industrial	$ 38,029	$ 23,503
Agricultural	15,222	18,452
Real estate	19,093	239,179
Consumer, Credit Card and overdrafts	27,332	-
Industrial Development Bonds	7,921	-

The following table summarizes the Company's non-accrual and past due loans as of December 31 for each of the last five years:

	(In Thousands)				
	2005	2004	2003	2002	2001
Non-accrual loans	$ 5,060	$ 6,059	$ 6,236	$ 5,792	$ 5,353
Accruing loans past due 90 days or more	-	393	2,042	2,674	5,408
Total	$ 5,060	$ 6,452	$ 8,278	$ 8,466	$10,761

Although loans may be classified as non-performing, some pay on a regular basis, many continue to pay interest irregularly or at less than original contractual rates. Interest income that would have been recorded under the original terms of these loans was $530 thousand for 2003 and $561 thousand for 2004 and $246 thousand for 2005. Any collections of interest on non-accrual loans are included in interest income when collected. This amounted to $473 for 2005, $279 for 2004, $346 thousand for 2003.

Loans are placed on non-accrual status in the event that the loan is in past due status for more than 90 days or payment in full of principal and interest is not expected.

The $4.7 million of non-accrual loans as of December 31, 2005 are secured.

As of December 31, 2005 the Bank has $15.7 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 the potential problem loans was considered in management's review of the loan loss reserve required at December 31, 2005.

In extending credit to families, businesses and governments, banks accept a measure of risk against which an allowance for possible loan loss 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.

As of December 31, 2005, the Bank had loans outstanding to individuals and firms engaged in the various fields of agriculture in the amount of $62 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.

The allowance for loan losses is evaluated based on an assessment of the losses inherent in the loan portfolio. This assessment results in an allowance consisting of two components, allocated and unallocated.

Management considers several different risk assessments in determining the allowance for loan losses. The allocated component of the allowance for loan losses reflects expected losses resulting from an analysis of individual loans, developed through specific credit allocations for individual loans and historical loss experience for each loan category. For those loans where the internal credit rating is at or below a predetermined classification and management can reasonably estimate the loss that will be sustained based upon collateral, the borrowers operating activity and economic conditions in which the borrower operates, a specific allocation is made. For those borrowers that are not currently behind in their payment, but for which management believes based on economic conditions and operating activities of the borrower, the possibility exists for future collection problems, a reserve is established. The amount of reserve allocated to each loan portfolio is based on past loss experiences and the different levels of risk within each loan portfolio. The historical loan loss portion is determined using a historical loss analysis by loan category.

The unallocated portion of the reserve for loan losses is determined based on management's assessment of general economic conditions as well as specific economic factors in the Bank's marketing area. This assessment inherently involves a higher degree of uncertainty. It represents estimated inherent but undetected losses within the portfolio that are probable due to uncertainties in economic conditions, delays in obtaining information, including unfavorable information about a borrower's financial condition and other current risk factors that may not have yet manifested themselves in the Bank's historical loss factors used to determine the allocated component of the allowance.

Actual charge-off of loan balances is based upon periodic evaluations of the loan portfolio by management. These evaluations consider several factors, including, but not limited to, general economic conditions, financial condition of the borrower, and collateral.

As presented below, charge-offs increased to $2.1 million for 2005, and the provision was a negative $425 thousand. A few large commercial credits included in the $5.7 charged off in the commercial and agricultural segment in 2003 caused 2003 to have the largest charge offs of the years presented. The commercial and agricultural segment was in a net recovery position for 2004. The negative provision of 2005 was necessary to decrease the allowance because of the overall decrease of the loan portfolio and the improved asset quality position.

The following table presents a reconciliation of the allowance for credit losses:

	(In Thousands) 2005	2004	2003	2002	2001
Loans	$464,488	$479,681	$ 488,247	$ 498,078	$ 461,689
Daily average of outstanding loans	$469,326	$491,104	$ 500,517	$ 475,035	$ 472,181
Allowance for Loan Losses-Jan. 1	$1 6,814	$ 7,300	$ 6,400	$ 7,275	$ 7,160
Loans Charged off:					
Commercial & Agricultural	945	491	5,706	2,987	1,826
Consumer	722	739	1,156	1,050	1,254
Real estate mortgages	429	549	424	215	54
	2,096	1,779	7,286	4,252	3,134
Loan Recoveries:					
Commercial & Agricultural	631	652	601	801	421
Consumer	412	405	546	366	191
Real estate mortgages	52	38	136	16	5
	1,095	1,095	1,283	1,183	617
Net Charge Offs	1,001	684	6,003	3,069	2,517
Provision for loan loss	(425)	884	6,903	2,194	2,632
Allowance for Loan & Lease Losses - Dec 31	$ 5,388	$ 6,814	$ 7,300	$ 6,400	$ 7,275
Allowance for Unfunded Loan Commitments & Letters of Credit Dec 31	$ 841	$ 686	$ -	$ -	$ -
Total Allowance for Credit Losses - Dec 31	$ 6,229	$ 7,500	$ 7,300	$ 6,400	$ 7,275
Ratio of net charge-offs to average Loans outstanding	0.21%	0.14%	1.20%	0.65%	0.53%

Allocation of the allowance for credit losses per Loan Category in terms of dollars and percentage among the various loan categories is as follows:

	2005 Amount (000's)	%	2004 Amount (000's)	%	2003 Amount (000's)	%	2002 Amount (000's)	%	2001 Amount (000's)	%
Balance at End of Period Applicable To:										
Commercial/industrial	$ 2,753	2.77%	$ 3,917	3.98%	$ 1,816	1.78%	$ 3,170	1.91%	$ 4,235	2.26%
Agricultural	390	0.63%	681	1.23%	674	1.07%	-	-	-	-
Real estate	910	0.34%	644	0.23%	531	0.20%	1,306	0.48%	1,101	0.44%
Consumer	557	1.61%	549	1.33%	451	0.94%	1,140	2.23%	1,526	2.73%
Unallocated	778		1,024		3,928		784		413	
Allowance for Loan & Lease Losses	$ 5,388	1.16%	$ 6,815	1.42%	$ 7,400	1.52%	$ 6,400	4.61%	$ 7,275	1.60%
Off Balance Sheet Commitments	$ 841	0.60%	$ 686	0.56%	$ -		$ -		$ -	-
Total Allowance for Credit Losses	$ 6,229		$ 7,500		$ 7,500		$ 7,500		$ 7,500	

DEPOSITS

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

	(In Thousands) Under Three Months	Over Three Months Less Than One Year	Over One Year Less Than Three Years	Over Three Years
Time Deposits	$ 30,034	$ 28,101	$ 10,981	$ 5,866

The following table presents the average amount of and average rate paid on each deposit category:

	(In Thousands)			
	Demand Deposits	NOW Accounts	Savings Accounts	Time Accounts
December 31, 2005:				
Average balance	$ 42,363	$ 83,107	$ 112,642	$ 311,855
Average rate	0.00%	1.31%	1.14%	3.03%
December 31, 2004:				
Average balance	$ 42,205	$ 88,666	$ 115,383	$ 323,527
Average rate	0.00%	0.67%	0.58%	2.69%
December 31, 2003:				
Average balance	$ 43,924	$ 101,132	$ 107,912	$ 326,966
Average rate	0.00%	0.77%	0.66%	3.47%

LIQUIDITY

Maintaining sufficient funds to meet depositor and borrower needs on a daily basis continues to be among our management's top priorities. This is accomplished not only by the immediately liquid resources of cash, due from banks and federal funds sold, but also by the Bank's available for sale securities portfolio. The average aggregate balance of these assets was $196 million during 2003, $198 million for 2004, compared to $207 million for 2005. This represented 27 percent, 28 percent, and 29.67 percent of total average assets, respectively. Of the almost $206 million of debt securities in the company's portfolio as of December 31, 2005, $54.4 million or 26 percent of the portfolio is expected to mature in 2005. Taking into consideration possible calls of the debt securities, the amount climbs to $84.9 million or 41 percent of the portfolio becomes a source of funds. This liquidity provides the opportunity to fund loan growth without having to over aggressively price deposits.

Historically, the primary source of liquidity has been core deposits that include non-interest bearing demand deposits, NOW, money market accounts and time deposits of individuals. Core deposits decreased in 2005, pushed by the move of customers seeking higher rates. Overall deposits decreased an average of $19.8 million over 2004 compared to 2004's decrease over 2003 of $10.2 million in average deposits. These represent changes of (3.5) percent and (1.8) percent in average total deposits, respectively. The biggest change shows in the most expensive time accounts and represents rate shoppers moving funds out of the Bank.

Again, historically, the primary use of new funds is placing the funds back into the community through loans for the acquisition of new homes, consumer products and for business development. The use of new funds for loans is measured by the loan to deposit ratio. The Company's loan to deposit ratio for 2005 was 79.6 percent, 2004 was 82.23 percent, 2003 was 83.53 percent. The decrease in 2004 and 2005 is due to the lack of growth in both the credit and deposit portfolios. The Company's goal is for this ratio to be higher with loan growth the driver.

Short-term debt such as federal funds purchased and securities sold under agreement to repurchase also provides the Company with liquidity. Short-term debt for both federal funds purchased and securities sold under agreement to repurchase amounted to $21.2 million at the end of 2005 compared to $22.9 million at the end of 2004 and $27.3 million at December 31, 2003. Though no federal funds were purchased at year end, the Bank does have arrangements with correspondent Banks that can be utilized when necessary.

Other borrowings are also a source of funds. Other borrowings consist of loans from the Federal Home Loan Bank of Cincinnati. These funds are then used to provide fixed rate mortgage loans secured by homes in our community. Borrowings from this source increased by $13 million to $35 million at December 31, 2005. This compares to decreased borrowings during 2003 and 2004 of $4.3 to $24.4 million at December 31, 2003, and of $2.4 to $22 million at December 31, 2004. The increased borrowings of 2005 were used to leverage the Company with the proceeds purchasing tax exempt municipals that provided a set profit margin.

CONTRACTUAL OBLIGATIONS

Contractual Obligations of the Company totaled $368.8 million as of December 31,2005. Time deposits represent contractual agreements for certificates of deposits held by its customers. Long term debt represents the borrowings with the Federal Home Loan Bank and are further defined in Note 4 and 9 of the Consolidated Financial Statements.

Contractual Obligations	Total	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
	Payment Due by Period (In Thousands)				
Securities sold under agreement to repurchase	$ 21,158	$ 21,158	$ -	$ -	$ -
Time Deposits	311,846	192,000	99,205	19,654	987
Dividends Payable	844	844			
Long Term Debt	34,952	11,720	7,127	6,105	10,000
Total	$ 368,800	$ 225,722	$ 106,332	$ 25,759	$ 10,987

CAPITAL RESOURCES

Shareholders' equity was $82.6 million as of December 31, 2005 compared to $78.8 million at December 31, 2004. Dividends declared during 2005 were $2.00 per share totaling $2.6 million, slightly higher than 2004 declared dividends of $1.90 per share. The Company purchased back 1,000 shares in the third quarter of 2005 to award to employees of the Bank under its long-term incentive plan. 20 shares were held in Treasury stock at year-end after having been forfeited by an employee. The Company continues to have a strong capital base and to maintain regulatory capital ratios that are significantly above the defined regulatory capital ratios.

At December 31, 2005, The Farmers & Merchants State Bank and Farmers & Merchants Bancorp, Inc had total risk-based capital ratios of 17.49% and 17.68%, respectively. Core capital to risk-based asset ratios of 13.35% and 16.47% are well in excess of regulatory guidelines. The Bank's leverage ratio of 9.5% is also substantially in excess of regulatory guidelines as is the Company's at 11.9%.

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

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 those related to volume 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 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 that 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 Bank utilizes shock analysis to examine the amount of exposure an instant rate change of 100, 200, and 300 basis points in both increasing and decreasing directions would have on the financials. Acceptable ranges of earnings and equity at risk are established and decisions are made to maintain those levels based on the shock results.

IMPACT OF INFLATION AND CHANGING PRICES

The consolidated financial statements and notes thereto presented herein have been prepared in accordance with generally accepted accounting principles, which require the measurement of financial position and operating results in terms of historical dollars without considering the changes in the relative purchasing power of money over time due to inflation. The impact of inflation is reflected in the increased cost of the Company's operations. Unlike most industrial companies, nearly all the assets and liabilities of the Company are monetary in nature. As a result, interest rates have a greater impact on the Company's performance than do the effects of general levels of inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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 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 utilizing interest rate shocks to help in this analysis. The shocks presented on the next page assume an immediate change of rate in the percentages and direction shown:

Interest Rate Shock on Net Interest Margin				Interest Rate Shock on Net Interest Income	
Net Interest Margin (Ratio)	% Change to Flat Rate	Rate Direction	Rate changes by	Cumulative Total ($000)	% Change to Flat Rate
3.83%	-5.18%	Rising	3.00%	24,671	-9.51%
3.90%	-3.52%	Rising	2.00%	25,526	-6.38%
3.97%	-1.89%	Rising	1.00%	26,375	-3.26%
4.04%	0.00%	Flat	0	27,264	0.00%
4.06%	0.49%	Falling	-1.00%	27,593	1.21%
4.00%	-1.04%	Falling	-2.00%	27,272	0.03%
3.92%	-3.11%	Falling	-3.00%	26,741	-1.92%

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 those related to volume 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 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 that 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 Bank utilizes shock analysis to examine the amount of exposure an instant rate change of 100, 200, and 300 basis points in both increasing and decreasing directions would have on the financials. Acceptable ranges of earnings and equity at risk are established and decisions are made to maintain those levels based on the shock results.

ITEM 8. FINANCIAL STATEMENTS

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

[PLANTE & MORAN LOGO]

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders
Farmers & Merchants Bancorp, Inc. and Subsidiaries
Archbold, Ohio

We have audited the accompanying consolidated balance sheet of Farmers & Merchants Bancorp, Inc. and Subsidiaries as of December 31, 2005 and December 31, 2004 and the related consolidated statements of income, stockholders' equity, and cash flows for each year in the three year period ended December 31, 2005. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 audit provides a reasonable basis for our opinion.

In our opinion, the 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, 2005 and December 31, 2004 and the consolidated results of its operations and its cash flows for each year in the three year period ended December 31, 2005, in conformity with U.S. generally accepted accounting principles.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Farmers & Merchants Bancorp, Inc. and Subsidiaries internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 17, 2006, expressed an unqualified opinion thereon.

PLANTE & MORAN, PLLC

February 17, 2006
Auburn Hills, Michigan

CONSOLIDATED BALANCE SHEET
DECEMBER 31, 2005 AND 2004
(000's OMITTED, EXCEPT PER SHARE DATA)

	2005	2004
ASSETS		
ASSETS		
Cash and due from banks (Note 2)	$ 20,056	$ 15,026
Interest-bearing deposits in banks	2,533	9,230
Total cash and cash equivalents	22,589	24,256
Securities - available for sale (Note 3)	203,651	173,127
Federal Home Loan Bank stock, at cost	3,791	3,607
Loans held for sale	-	175
Loans, net (Note 4)	458,704	472,011
Premises and equipment (Note 5)	14,874	15,520
Other assets (Note 6 & 10)	17,336	13,817
TOTAL ASSETS	$ 720,945	$ 702,513
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
Deposits (Note 7)		
Noninterest-bearing	$ 64,791	$ 47,958
Interest-bearing		
NOW accounts	84,835	92,178
Savings	114,825	121,168
Time (Note 7)	311,846	312,901
Total deposits	576,297	574,205
Federal funds purchased	-	-
Securities sold under agreement to repurchase (Note 8)	21,158	22,852
Long-term debt (Note 9)	34,952	21,964
Dividend payable	844	715
Accrued expenses and other liabilities	5,106	3,932
Total liabilities	638,357	623,668
STOCKHOLDERS' EQUITY (NOTE 14 AND 15)		
Common stock - No par value - 1,500,000 shares authorized; 1,300,000 shares issued & outstanding	12,677	12,677
Treasury Stock - 20 Shares	(2)	-
Unearned Stock Awards - 980 Shares	(113)	-
Retained earnings	71,933	65,956
Accumulated other comprehensive income (Loss)	(1,907)	212
Total stockholders' equity	82,588	78,845
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 720,945	$ 702,513

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CONSOLIDATED STATEMENT OF INCOME
YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(000's OMITTED, EXCEPT PER SHARE DATA)

	2005	2004	2003
INTEREST INCOME			
Loans, including fees	$ 32,003	$ 31,767	$ 34,233
Debt securities:			
U.S. Treasury and government agency	4,142	3,912	4,454
Municipalities	2,121	2,020	2,196
Corporate debt securities	-	3	29
Dividends	185	146	136
Federal funds sold	9	34	33
Other	256	80	26
Total interest income	38,716	37,962	41,107
INTEREST EXPENSE			
Deposits	11,844	9,980	12,830
Federal funds purchased and securities sold under agreements to repurchase	799	425	376
Borrowed funds	896	817	1,077
Total interest expense	13,539	11,222	14,283
NET INTEREST INCOME - Before provision for loan losses	25,177	26,740	26,824
PROVISION FOR LOAN LOSSES (Note 4)	(425)	884	6,903
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,602	25,856	19,921
NONINTEREST INCOME			
Customer service fees	3,618	2,140	2,028
Other service charges and fees	1,494	1,623	2,120
Net gain on sale of loans (Note 6)	704	925	3,309
Net gain on sale of available-for-sale securities	9	127	528
Total noninterest income	5,825	4,815	7,985
NONINTEREST EXPENSES			
Salaries and Wages	8,411	7,970	7,067
Employee benefits (Note 11)	2,275	2,252	2,181
Occupancy expense	656	649	592
Furniture and equipment	1,492	1,437	1,445
Data processing	1,013	1,101	996
Franchise taxes	817	712	922
Mortgage servicing rights amortization (Note 6)	293	332	723
Other general and administrative	4,692	4,415	3,895
Total other operating expenses	19,649	18,868	17,821
INCOME BEFORE INCOME TAXES	11,778	11,803	10,085
INCOME TAXES (NOTE 10)	3,202	3,573	2,459
NET INCOME	$ 8,576	$ 8,230	$ 7,626
EARNINGS PER SHARE - BASIC	$ 6.60	$ 6.33	$ 5.87
WEIGHTED AVERAGE SHARES OUTSTANDING	1,299,682	1,300,000	1,300,000

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(000's OMITTED, EXCEPT PER SHARE DATA)

	Shares of Common Stock	Common Stock	Treasury Stock	Unearned Stock Awards	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
BALANCE - January 1, 2003	1,300,000	$12,677	$ -	$ -	$ 61,345	$ 3,716	$ 77,738
Comprehensive income (Note 1):							
Net income	-	$ -	$ -	$ -	$ 7,626	$ -	$ 7,626
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and tax effects	-	$ -	$ -	$ -	$ -	$ (1,733)	$ (1,733)
Total comprehensive income							$ 5,893
Cash dividends declared - $6.75 per share	-	$ -	$ -	$ -	$ (8,775)	$ -	$ (8,775)
BALANCE - December 31, 2003	1,300,000	$12,677	$ -	$ -	$ 60,196	$ 1,983	$ 74,856
Comprehensive income (Note 1):							
Net income	-	$ -	$ -	$ -	$ 8,230	$ -	$ 8,230
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and tax effects	-	$ -	$ -	$ -	$ -	$ (1,771)	$ (1,771)
Total comprehensive income							$ 6,459
Cash dividends declared - $1.90 per share	-	$ -	$ -	$ -	$ (2,470)	$ -	$ (2,470)
BALANCE - December 31, 2004	1,300,000	$12,677	$ -	$ -	$ 65,956	$ 212	$ 78,845

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(000's OMITTED, EXCEPT PER SHARE DATA)

	Shares of Common Stock	Common Stock	Treasury Stock	Unearned Stock Awards	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Comprehensive income (Note 1):							
Net income	-	$ -	$ -	$ -	$ 8,576	$ -	$ 8,576
Change in net unrealized gain on securities available for sale, net of reclassification adjustment and tax effects	-	$ -	$ -	$ -	$ -	$ (2,119)	$ (2,119)
Total comprehensive income							$ 6,457
Purchase of Treasury Stock 1000 shares	(1,000)		$ (115)	$ -			$ (115)
Grant of Restricted Stock Awards-1000 shares (Net of Forfeiture - 20)	980		$ 113	$ (113)			$ -
Cash dividends declared - $2.00 per share	-	$ -	$ -	$ -	$ (2,599)	$ -	$ (2,599)
BALANCE - December 31, 2005	1,299,980	$12,677	$ (2)	$ (113)	$ 71,933	$ (1,907)	$ 82,588

CONSOLIDATED STATEMENTS OF CASH FLOW
FOR THE YEARS ENDED DECEMBER 31, 2005, 2004 AND 2003
(000's OMITTED)

	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 8,576	$ 8,230	$ 7,626
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	1,167	1,142	1,216
Amortization of servicing rights	293	332	723
Provision for loan loss	(425)	884	6,903
Accretion and amortization of securities	989	1,223	1,406
Deferred income taxes (benefit)	387	(14)	(126)
(Gain) loss on sale of other assets	(2)	2	12
Realized gain on sales of available-for-sale securities, net	(9)	(127)	(528)
Net Change in:			
Loans held for sale	175	1	5,900
Change in other assets and other liabilities, net	(1,931)	3,019	(3,651)
Net cash provided (used) by operating activities	9,220	14,692	19,481
CASH FLOWS FROM INVESTING ACTIVITIES			
Activity in available-for-sale securities:			
Sales	-	10,740	16,036
Maturities, prepayments and calls	38,477	64,599	75,412
Purchases	(73,376)	(81,553)	(86,849)
Loan and lease originations and principal collections, net	13,732	7,241	3,955
Proceeds from sales of assets	18	3	-
Additions to premises and equipment	(539)	(793)	(2,068)
Net cash provided (used) by investing activities	(21,688)	237	6,486
CASH FLOWS FROM FINANCING ACTIVITIES			
Net increase (decrease) in deposits	2,092	(861)	(1,307)
Net change in federal funds purchased and securities sold under agreements to repurchase	(1,694)	(4,467)	(10,881)
Proceeds from issuance of long-term debt	15,000	-	10,000
Repayment of long-term debt	(2,012)	(2,410)	(14,322)
Purchase of Treasury Stock	(115)	-	-
Cash dividends paid on common stock	(2,470)	(2,470)	(8,709)
Net cash provided (used) by financing activities	10,801	(10,208)	(25,219)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,667)	4,721	748
CASH AND CASH EQUIVALENTS - Beginning of Year	24,256	19,535	18,787
CASH AND CASH EQUIVALENTS - End of Year	$ 22,589	$ 24,256	$ 19,535
SUPPLEMENTAL INFORMATION			
Cash paid during the year for:			
Interest	$ 13,227	$ 11,283	$ 14,824
Income taxes	$ 2,640	$ 2,840	$ 5,326

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The Farmers & Merchants Bancorp, Inc. (the Company) through its bank subsidiary, The Farmers & Merchants State Bank (the Bank) provide a variety of financial services to individuals and small businesses through its offices in Northwest Ohio.

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 reinsurance company for life, accident and health insurance for the Bank's consumer credits. All significant inter-company balances and transactions have been eliminated.

USE OF ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses and the valuation of mortgage servicing rights. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated 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.

SECURITIES

Debt securities are classified as available-for-sale. Securities available-for-sale are carried at fair value with unrealized gains and losses reported in other comprehensive income. Realized gains and losses on securities available for sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. Gains and losses on sales of securities are determined on the specific-identification method.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Declines in the fair value of securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The related write-downs are included in earnings as realized losses.

FEDERAL HOME LOAN BANK STOCK

The Federal Home Loan Bank stock is recorded at cost since it is a restricted stock. The Federal Home Loan Bank sells and purchases its stock at par; therefore cost approximates market value. The stock is held as collateral security for all indebtedness of the Bank to the Federal Home Loan Bank.

LOANS

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported 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 income is accrued on a daily basis based on the principal outstanding.

Generally, a loan is classified as nonaccrual and the accrual of interest income is generally discontinued when a loan becomes ninety 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. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest receivable is charged against income.

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.

ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses is established through a provision for loan losses charged to income. Loans deemed to be uncollectable and changes in the allowance relating to impaired loans are charged against the allowance for loan losses, and subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based on management's periodic review of the collectibility of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are classified as either doubtful, substandard or special mention. For such loans that are also classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-classified loans and is based on historical loss experience adjusted for qualitative factors. The unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer loans for impairment disclosures.

LOANS HELD FOR SALE

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance by charges to income.

SERVICING ASSETS

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Capitalized servicing rights are reported in other assets and are amortized into noninterest expense in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights by predominant characteristics, such as interest rates and terms. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market based assumptions. Impairment is recognized through a valuation allowance for an individual stratum, to the extent that fair value is less than the capitalized amount for the stratum. Fees received for servicing loans owned by investors are based on a percentage of the outstanding monthly principal balance of such loans and are included in operating income as loan payments are received. Costs of servicing loans are charged to expense as incurred.

OFF BALANCE SHEET INSTRUMENTS

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

BANK PREMISES AND EQUIPMENT

Land is carried at cost. 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 straight line and accelerated methods.

Costs for maintenance and repairs are charged to operations as incurred. Gains and losses on dispositions are included in current operations.

FEDERAL INCOME TAX

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the various temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EARNINGS PER SHARE

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The Company has no dilutive shares, as the restricted stock grants are anti-dilutive.

COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

The components of other comprehensive income and related tax effects are as follows:

	(In Thousands)		
	2005	2004	2003
Net Unrealized gain (loss) on available-for-sale securities	$(3,202)	$(2,556)	$(2,100)
Tax Effect	1,089	869	714
Net-of-tax amount	(2,113)	(1,687)	(1,386)
Reclassification adjustment for gain on sale of available-for-sale securities	$ (9)	$ (127)	$ (528)
Tax Effect	3	43	181
Net-of-tax amount	(6)	(84)	(347)
Other comprehensive income	$(2,119)	$(1,771)	$(1,733)

RECLASSIFICATION

Certain amounts in the 2004 and 2003 consolidated financial statements have been reclassified to conform with the 2005 presentation.

NOTE 2 - RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

The Bank is required to maintain average balances on hand with the Federal Reserve Bank. The aggregate reserve remains the same at December 31, 2005 as it was for December 31, 2004 at $4.6 million.

The Company and its subsidiaries maintain cash balances with high quality credit institutions. At times such balances may be in excess of the federally insured limits.

NOTE 3 - SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	(In Thousands) 2005			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale:				
U.S. Treasury	$ 2,380	$ -	$ 26	$ 2,354
U.S. Government agency	111,503	4	1,662	109,845
Mortgage-backed securities	29,470	10	966	28,514
State and local governments	63,141	426	676	62,891
Equity securities	47	-	-	47
	$ 206,541	$ 440	$ 3,330	$ 203,651

	(In Thousands) 2004			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale:				
U.S. Treasury	$ 4,856	$ 1	$ 5	$ 4,852
U.S. Government agency	84,095	155	758	83,492
Mortgage-backed securities	30,329	106	347	30,088
State and local governments	53,479	1,292	124	54,647
Equity securities	48	-	-	48
	$ 172,807	$ 1,554	$ 1,234	$ 173,127

Information pertaining to securities with gross unrealized losses at December 31, 2005 and 2004, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	2005			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U. S. Treasury	$ 2	$ 237	$ 24	$ 2,117
U. S. Government agency	$ 286	$ 39,837	$ 1,376	$ 63,039
Mortgage-backed securities	$ 123	$ 8,448	$ 843	$ 18,738
State and local governments	$ 480	$ 30,354	$ 196	$ 6,404

NOTE 3 - SECURITIES (CONTINUED)

	2004			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U S Treasury	$ 5	$ 2,870	$ -	$ -
U S Government agency	$ 563	$58,365	$ 195	$ 5,810
Mortgage-backed securities	$ 209	$18,317	$ 138	$ 6,347
State and local governments	$ 61	$ 9,483	$ 63	$ 2,258

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, the Bank has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is primarily due to increased market interest rates. The fair value is expected to recover as the bonds approach the maturity date.

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

	(In Thousands)		
	2005	2004	2003
Gross realized gains	$ 9	$ 133	$ 528
Gross realized losses	-	(6)	-
Net Realized Gains	$ 9	$ 127	$ 528
Tax expense related to net realized gains	$ 3	$ 43	$ 180

The amortized cost and fair value of debt securities at December 31, 2005, 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.

	(In Thousands)	
	Amortized Cost	Fair Value
One year or less	$ 54,756	$ 54,444
After one year through five years	101,342	99,643
After five years through ten years	29,107	28,558
After ten years	21,289	20,959
	206,494	203,604
Equity securities	47	47
Total	$206,541	$203,651

Investments with a carrying value and fair value of $140.3 million at December 31, 2005 and $127 million at December 31, 2004 were pledged to secure public deposits and securities sold under repurchase agreements.

NOTE 4 - LOANS

Loans at December 31, are summarized below:

	(In Thousands) 2005	2004
Loans:		
Real estate (Consumer, Cml & Ag)	$ 268,315	$ 273,981
Commercial and industrial	90,227	98,518
Agricultural	62,023	55,219
Consumer, Overdrafts and other loans	34,686	41,276
Industrial Development Bonds	9,237	10,687
	464,488	479,681
Less: Deferred loan fees and costs	(396)	(856)
	464,092	478,825
Less: Allowance for loan losses	(5,388)	(6,814)
Loans - Net	$ 458,704	$ 472,011

The following is a maturity schedule by major category of loans including available for sale loans:

	(In Thousands) Principal Payments Due Within		
	One Year	Two to Five Years	After Five Years
Real estate loans (Consumer, Cml & Ag)	$ 10,043	$ 12,793	$245,479
Commercial and industrial loans	28,695	40,862	20,670
Agricultural	28,349	28,463	5,211
Consumer, Master Card and Overdrafts	7,354	22,288	5,044
Industrial Development Bonds	1,316	6,652	1,269

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of December 31, 2005:

	(In Thousands) Fixed Rate	Variable Rate
Real estate loans (Consumer, Cml & Ag)	$ 28,337	$ 239,978
Commercial and industrial loans	45,394	44,833
Agricultural	20,710	41,313
Consumer, Master Card and Overdrafts	32,718	1,968
Industrial Development Bonds	9,237	-

One to four family residential mortgage loans amounting to $80.8 million have been pledged as security for loans the Bank has received from the Federal Home Loan Bank.

As of December 31, 2005 and 2004 there were $8.9 and $3.2 million, respectively, of undisbursed loans in process.

NOTE 4 - LOANS (CONTINUED)

The following is an analysis of the allowance for loan loss:

	(In Thousands)		
	2005	2004	2003
Allowance for Loan Losses			
Balance at beginning of year	$ 6,814	$ 7,300	$ 6,400
Provision for loan loss	(425)	884	6,903
Loans charged off	(2,096)	(1,779)	(7,286)
Recoveries	1,095	1,095	1,283
Allowance for Unfunded Loan Commitments & Letters of Credit	$ -	$ (686)	$ -
Allowance for Loan & Leases Losses	$ 5,388	$ 6,814	$ 7,300
Allowance for Unfunded Loan Commitments & Letters of Credit	$ 841	$ 686	$ --
Total Allowance for Credit Losses	$ 6,229	$ 7,500	$ 7,300

The company segregated its Allowance for Loan and Lease Losses (ALLL) into two reserves at the period ending December 31, 2004: The ALLL and the Allowance for Unfunded Loan Commitments and Letters of Credit (AULC). When combined, these reserves constitute the total Allowance for Credit Losses (ACL). The portion of 2003 ACL attributable to AULC was $402 thousand.

The AULC is reported within other liabilities on the balance sheet while the ALLL is netted within the loans, net asset line. The ACL presented above represents the full amount of reserves available to absorb possible credit losses.

The following is a summary of information pertaining to impaired loans:

	(In Thousands)	
	2005	2004
Impaired loans without a valuation allowance	$ 1,273	$ 397
Impaired loans with a valuation allowance	7,221	10,960
Total impaired loans	$ 8,494	$11,357
Valuation allowance related to impaired loans	$ 1,978	$ 2,624
Total non-accrual loans	$ 5,060	$ 6,059
Total loans past-due ninety days or more and still accruing	$ -	$ 393

	(In Thousands)		
	2005	2004	2003
Average investment in impaired loans	$ 9,926	$16,030	$19,040
Interest income recognized on impaired loans	$ 480	$ 572	$ 1,227
Interest income recognized on a cash basis on impaired loans	$ 473	$ 279	$ 346

No additional funds are committed to be advanced in connection with impaired loans.

NOTE 5 - PREMISES AND EQUIPMENT

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

	(In Thousands)	
	2005	2004
Land	$ 2,756	$ 2,756
Buildings (useful life 15-39 years)	15,080	15,052
Furnishings (useful life 3-15 years)	9,758	10,063
	27,594	27,871
Less: Accumulated depreciation	(12,720)	(12,351)
Premises and Equipment (Net)	$ 14,874	$ 15,520

NOTE 6 - SERVICING

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were $249 and $244 million at December 31, 2005 and 2004, respectively.

The balance of capitalized servicing rights included in other assets at December 31, 2005 and 2004, was $1.7 and $1.5 million, respectively. The capitalized addition of servicing rights is included in net gain on sale of loans on the consolidated statement of income. The capitalized additions are as shown in the table following.

The fair market value of the capitalized servicing rights as of December 31, 2005 and 2004 was $1.9 and $2.1 million, respectively. The valuation for 2005 was completed by stratifying the loans into like groups based on loan type, term and new versus seasoned. Impairment was measured by estimating the fair value of each stratum, taking into consideration an estimated level of prepayment based upon current market conditions. All stratums showed positive values compared to carrying value using a discount yield of 8.5%. The valuation for 2004 was calculated using a present value calculation on the discounted cash flows of each individual capitalized servicing right. The discount rate utilized was the average internal rate of return of the portfolio, 5.8%. The stated fair value represents the present value over an 84-month time frame.

The following summarizes mortgage servicing rights capitalized and amortized during each year:

	(In Thousands)	
	2005	2004
Beginning Year	$ 1,500	$ 1,441
Capitalized Additions	$ 483	$ 391
Amortization	$ (293)	$ (332)
Valuation Allowance	$ -	$ -
End of Year	$ 1,690	$ 1,500

NOTE 7 - DEPOSITS

Time deposits at December 31 consist of the following:

	(In Thousands)	
	2005	2004
Time deposits under $100,000	$236,864	$220,905
Time deposits of $100,000 or more	74,982	91,996
	$311,846	$312,901

At December 31, 2005 the scheduled maturities for time deposits are as follows:

	(In Thousands)
2006	$ 192,000
2007	71,858
2008	27,347
2009	18,909
2010	745
thereafter	987
	$ 311,846

NOTE 8 - SECURITIES SOLD UNDER AGREEMENT TO REPURCHASE

The Bank's policy requires qualifying securities to be used as collateral for the underlying repurchase agreements. As of December 31, 2005 and 2004 securities with a book value of $38.8 million and $31.6 million, respectively, were underlying the repurchase agreements and were under the Bank's control.

NOTE 9 - LONG TERM DEBT

Long term debt consists of various loans from the Federal Home Loan Bank. Repayment structures vary, ranging from monthly installments, annual payments or upon maturity. Interest payments are due monthly with interest rates on the loans varying from 2.24% to 7.05%. Total borrowings were $35.0 and $22.0 million for 2005 and 2004, respectively. Notes are secured by a blanket lien on 100% of the one to four family residential mortgage loan portfolio (Note 4).

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

	(In Thousands)
2006	$ 11,720
2007	6,416
2008	711
2009	464
2010	5,641
thereafter	10,000
	$ 34,952

NOTE 10 - FEDERAL INCOME TAXES

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

	(In Thousands)		
	2005	2004	2003
Current:			
Federal	$ 2,815	$ 3,587	$ 2,585
Deferred:			
Federal	387	(14)	(126)
	$ 3,202	$ 3,573	$ 2,459

The following is a reconciliation of the statutory federal income tax rate to the effective tax rate:

	(In Thousands)		
	2005	2004	2003
Income tax at statutory rates	$ 4,004	$ 4,013	$ 3,429
Increase(decrease) resulting from:			
Tax exempt interest	(784)	(706)	(571)
Change in prior estimates and other	(18)	266	(399)
	$ 3,202	$ 3,573	$ 2,459

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

	(In Thousands)	
	2005	2004
Deferred Tax Assets:		
Allowance for loan losses	$1,832	$2,263
Net unrealized loss on available-for-sale securities	984	-
Other	484	256
Total deferred tax assets	3,300	2,519
Deferred Tax Liabilities:		
Accreted discounts on bonds	74	29
FHLB stock dividends	721	659
Mortgage servicing rights	572	507
Other	505	494
Net unrealized gain on available-for-sale securities	-	107
Total deferred tax liabilities	1,872	1,796
Net Deferred Tax Asset (Liability)	$1,428	$ 723

NOTE 11 - EMPLOYEE BENEFIT 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. A participant is 100% vested in the participant's deferral contributions and employer matching contributions. A six-year vesting schedule applies to employer discretionary contributions. Contributions to the 401(k) profit sharing plan for both the employer matching contribution and the discretionary contribution were $608, $546, and $505 thousand for 2005, 2004 and 2003, respectively.

The Company has a Long-Term Stock Incentive Plan under which 1,000 shares of restricted stock were issued to 38 employees during 2005. Under the plan, the shares vest 100% in three years. Due to employee termination, there were 20 shares forfeited during 2005. Compensation expense applicable to the restricted stock totaled $14 thousand for the year ended December 31, 2005.

NOTE 12 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to senior officers and directors and their affiliated companies amounting to $22.3 and $20.3 million at December 31, 2005 and 2004, respectively. Loans made during 2005 were $168.4 million and repayments were $165.1 million. During 2005, two directors retired from the Board and two directors were added. Their difference in related borrowings amounted to $1.3 million, net deletion. Deposits of directors, executive officers and companies in which they have a direct or indirect ownership as of December 31, 2005 and 2004 amounted to $23.4 million and $17.3 million, respectively.

NOTE 13 - OFF BALANCE SHEET ACTIVITIES

CREDIT RELATED FINANCIAL INSTRUMENTS

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing need of its customer. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments. At year end 2004 the Bank segregated the Allowance for Loan Losses into two components. The allowance as it relates to unfunded loan commitments (AULC) is included under other liabilities. The AULC as of December 31, 2005 and 2004 was $841 and 686 thousand, respectively. At December 31, 2005 and 2004, the following financial instruments were outstanding whose contract amounts represent credit risk:

	(In Thousands)	
	2005	2004
Commitments to extend credit	$ 121,857	$ 108,731
Credit card arrangements	16,092	15,404
Standby letters of credit	12,039	1,950

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.

COLLATERAL REQUIREMENTS

To reduce credit risk related to the use of credit-related financial instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, and equipment and real estate.

LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

NOTE 14 - MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier I capital to risk-weighted assets (as defined in the regulations), and Tier I capital to adjusted total assets (as defined). Management believes, as of December 31, 2005, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2005 the most recent notification from the FDIC indicated the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To remain categorized as well capitalized, the Bank will have to maintain minimum total risk-based, Tier I risk-based, and Tier I leverage ratios as disclosed in the table to follow. There are no conditions or events since the most recent notification that management believes have changed the Bank's prompt corrective action category.

The Company and the Bank's actual and required capital amounts and ratios as of December 31, 2005 and 2004 are as follows:

NOTE 14 - MINIMUM REGULATORY CAPITAL REQUIREMENTS (CONTINUED)

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
As of December 31, 2005	(000's) Amount	Ratio	(000's) Amount	Ratio	(000's) Amount	Ratio
Total Risk-Based Capital						
(to Risk Weighted Assets)						
Consolidated	$ 90,724	17.68%	$ 41,042	8.00%	N/A	N/A
Farmers & Merchants State Bank	89,717	17.49%	41,044	8.00%	51,306	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	84,495	16.47%	20,521	4.00%	N/A	N/A
Farmers & Merchants State Bank	68,488	13.35%	20,522	4.00%	30,783	6.00%
Tier 1 Capital						
(to Adjusted Total Assets)						
Consolidated	84,495	11.87%	28,475	4.00%	N/A	N/A
Farmers & Merchants State Bank	68,488	9.53%	28,759	4.00%	35,949	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
	(000's) Amount	Ratio	(000's) Amount	Ratio	(000's) Amount	Ratio
As of December 31, 2004						
Total Risk-Based Capital						
(to Risk Weighted Assets)						
Consolidated	$ 84,939	16.88%	$ 40,264	8.00%	N/A	N/A
Farmers & Merchants State Bank	84,313	16.75%	40,271	8.00%	50,339	10.00%
Tier 1 Capital						
(to Risk Weighted Assets)						
Consolidated	78,633	15.62%	20,132	4.00%	N/A	N/A
Farmers & Merchants State Bank	63,006	12.52%	20,136	4.00%	30,203	6.00%
Tier 1 Capital						
(to Adjusted Total Assets)						
Consolidated	78,633	11.17%	28,160	4.00%	N/A	N/A
Farmers & Merchants State Bank	63,006	8.90%	28,308	4.00%	35,385	5.00%

NOTE 15 - RESTRICTIONS OF DIVIDENDS & INTER-COMPANY BORROWINGS

The Bank is restricted as to the amount of dividends that 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 $5.2 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. Under current Federal Reserve regulations, the Bank is limited as to the amount and type of loans it may make to the Company and its non-bank subsidiary. These loans are subject to qualifying collateral requirements on which the amount of the loan may be based.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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. In addition, other significant assets are not considered financial assets including deferred tax assets, premises, equipment and intangibles. 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 estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of December 31, 2005 and 2004 are reflected below.

	(In Thousands)			
	2005		2004	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and due from banks	$ 20,056	$ 20,056	$ 15,026	$ 15,026
Interest-bearing deposits in banks	2,533	2,533	9,230	9,230
Securities - available for sale	203,651	203,651	173,127	173,127
Federal Home Loan Bank Stock	3,791	3,791	3,607	3,607
Loans, net	458,704	459,598	472,011	475,228
Interest receivable	5,036	5,036	4,686	4,686
Loans held for sale	-	-	175	175
Financial Liabilities:				
Deposits	$ 576,297	$ 575,554	$ 574,205	$ 573,616
Short-term debt				
Federal funds purchased	-	-	-	-
Repurchase agreement sold	21,158	21,158	22,852	22,852
Long -term debt	34,952	34,551	21,964	20,374
Interest payable	1,191	1,191	879	879
Dividends payable	844	844	715	715
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ -	$ -	$ -	$ -
Standby letters of credit	-	-	-	-

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

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

CASH AND DUE FROM BANKS

The carrying amounts reported in the balance sheet for cash and due from banks and federal funds sold approximate their fair values.

INTEREST BEARING DEPOSITS

The carrying amounts of interest-bearing deposits maturing within ninety days approximate their fair values. Fair values of other interest-bearing deposits are estimated using discounted cash flow analyses based on current rates for similar types of deposits.

SECURITIES AND FEDERAL HOME LOAN BANK STOCK

Fair values for securities, excluding Federal Home Loan Bank stock, are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. The carrying value of Federal Home Loan Bank stock approximates fair value based on the redemption provisions of the Federal Home Loan Bank.

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 fair values of the fixed rate and all other loans are estimated using discounted cash flow analysis, using interest rates currently being offered for loans with similar terms to borrowers with similar credit quality.

LOANS HELD FOR SALE

Fair values for loans held for sale approximate the carrying values as these loans are generally sold within forty-five days of being made.

DEPOSITS

The fair values disclosed for deposits with no defined maturities are equal to their carrying amounts, which represent the amount payable on demand. The carrying amounts for variable-rate, fixed-term money market accounts and certificates of deposit approximate their fair value at the reporting date. Fair value for fixed-rate certificates of deposit are estimated using a discounted cash flow analysis that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

BORROWINGS

Short-term borrowings are carried at cost that 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.

ACCRUED INTEREST RECEIVABLE AND PAYABLE

The carrying amounts of accrued interest approximate their fair values.

DIVIDENDS PAYABLE

The carrying amounts of dividends payable approximate their fair values and are generally paid within forty days of declaration.

NOTE 16 - FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

OFF BALANCE SHEET FINANCIAL INSTRUMENTS

Fair values for off-balance-sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the counterparties' credit standing.

NOTE 17 - CONDENSED FINANICAL STATEMENTS OF PARENT COMPANY

BALANCE SHEET	(In Thousands)	
	2005	2004
ASSETS		
Cash	$ 325	$ 651
Related party receivables:		
Dividends receivable from subsidiaries	1,100	300
Note receivable from Bank subsidiary	15,000	15,000
Investment in subsidiaries	67,164	63,799
TOTAL ASSETS	$ 83,589	$ 79,750
LIABILITIES		
Accrued expenses	$ 157	$ 190
Dividends payable	844	715
Total Liabilities	1,001	905
STOCKHOLDERS' EQUITY		
Common stock - No par value - 1,500,000 shares authorized; 1,300,000 shares issued	12,677	12,677
Treasury Stock - 20 shares	(2)	-
Unearned Stock Awards - 980 shares	(113)	-
Retained earnings	71,933	65,956
Accumulated other comprehensive income (Loss)	(1,907)	212
Total Stockholders' Equity	82,588	78,845
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 83,589	$ 79,750

NOTE 17 - CONDENSED FINANICAL STATEMENTS OF PARENT COMPANY (CONTINUED)

STATEMENT OF INCOME

	(In Thousands)		
	2005	2004	2003
INCOME			
Dividends from subsidiaires	$ 2,855	$ 2,185	$ 13,273
Interest	713	713	604
Total Income	3,568	2,898	13,877
OPERATING EXPENSES	344	170	125
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS AND SUBSIDIARIES	3,224	2,728	13,752
INCOME TAXES	132	185	175
	3,092	2,543	13,577
Equity in undistributed earnings of subsidiaries	5,484	5,687	(5,951)
NET INCOME	$ 8,576	$ 8,230	$ 7,626

STATEMENTS OF CASHFLOWS

	(In Thousands)		
	2005	2004	2003
CASH FLOWS FROM OPERATING ACTIVITIES			
Net income	$ 8,576	$ 8,230	$ 7,626
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed net income of subsidiaries	(5,484)	(5,687)	5,951
Changes in Operating Assets and Liabilities:			
Note receivable	-	-	(5,000)
Dividends receivable	(800)	(300)	325
Other Liabilities	(33)	(25)	55
Net Cash Provided by Operating Activities	2,259	2,218	8,957
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of dividends	(2,470)	(2,470)	(8,709)
Purchase of Treasury Stock	(115)	-	-
Net Change in Cash and Cash Equivalents	(326)	(252)	248
CASH AND CASH EQUIVALENTS Beginning of year	651	903	655
CASH AND CASH EQUIVALENTS End of year	$ 325	$ 651	$ 903

(000s OMITTED EXCEPT PER SHARE DATA)

Quarterly Financial Data - UNAUDITED

	Quarter Ended in 2005			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 9,285	$ 9,207	$ 9,384	$ 10,135
Interest expense	3,018	3,159	3,442	3,920
Net Interest Income	6,267	6,048	5,942	6,215
Provision for loan loss	96	(205)	(352)	36
Net interest income after provision for loan loss	6,171	6,253	6,294	6,179
Other income (expense)	(3,426)	(3,243)	(3,245)	(3,205)
Net income before income taxes	2,745	3,010	3,049	2,974
Income taxes	712	803	821	866
Net income	$ 2,033	$ 2,207	$ 2,228	$ 2,108
Earnings per Common Share	$ 1.56	$ 1.70	$ 1.72	$ 1.62
Average common shares outstanding	1,300,000	1,300,000	1,299,739	1,299,000

	Quarter Ended in 2004			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 9,307	$ 9,365	$ 9,249	$ 9,387
Interest expense	2,768	2,758	2,759	2,938
Net Interest Income	6,539	6,607	6,490	6,449
Provision for loan loss	416	375	150	(56)
Net interest income after provision for loan loss	6,123	6,232	6,340	6,505
Other income (expense)	(3,296)	(3,312)	(3,270)	(3,519)
Net income before income taxes	2,827	2,920	3,070	2,986
Income taxes	821	879	929	944
Net income	$ 2,006	$ 2,041	$ 2,141	$ 2,042
Earnings per common share	$ 1.54	$ 1.57	$ 1.65	$ 1.57
Average common shares outstanding	1,300,000	1,300,000	1,300,000	1,300,000

ITEM 9. CHANGE IN AND DISAGREEMENTS WITH ACCOUNTING AND FINANCIAL DISCLOSURE

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

ITEM 9A. CONTROLS AND PROCEDURES

MANAGEMENTS DISCLOSURE OF INTERNAL CONTROLS & PROCEDURES

The Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2005, pursuant to Exchange Act 13a-15. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005, in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

MANAGEMENT REPORT REGARDING INTERNAL CONTROL AND COMPLIANCE WITH DESIGNATED LAWS AND REGULATIONS

Management of Farmers & Merchants Bancorp, Inc. and Subsidiaries is responsible for preparing the Bank's annual financial statements. Management is also responsible for establishing and maintaining internal control over financial reporting presented in conformity with both generally accepted accounting principles and regulatory reporting in conformity with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). The Bank's internal control contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

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

It is also management's responsibility to ensure satisfactory compliance with all designated laws and regulations and in particular, those laws and regulations concerning loans to insiders. The federal laws concerning loans to insiders are codified at 12 USC 375a and 375b, and the federal regulations are set forth at 12 CFR 23.5, 31, and 215.

Pursuant to Exchange Act Rule 13a-15, the company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2005. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2005 in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings.

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in Internal Control - Intergrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2005.

Plante & Moran, PLLC, the independent registered public accounting firm that audited the financial statements contained herein, has issued an attestation report on management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2005.

There was no change in the company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2005 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

February 3, 2006

Farmers & Merchants Bancorp, Inc. and Subsidiaries

/s/ Paul S. Siebenmorgen

- --

Paul S. Siebenmorgen, President/CEO

/s/ Barbara J. Britenriker

- --

Barbara J. Britenriker, Chief Financial Officer

[PLANTE MORAN LOGO]

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Fax: 248,375,7101
plantemoran.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors
Farmers & Merchants Bancorp, Inc. and Subsidiaries
Archbold, Ohio

We have audited management's assessment included in the accompanying Report of Management on Farmers & Merchants Bancorp, Inc. and Subsidiaries Internal Control over Financial Reporting, that the Company maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in Internal Control-Integrated Framework issued by the committee of Sponsoring Organizations of the Treadway Commission (COSO). Management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. Because management's assessment and our audit were conducted to also meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporations Improvement Act (FDICIA), management's assessment and our audit of the Company's internal control over financial reporting included controls over the preparation of financial statements in accordance with the instructions to the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls 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 assessment that Farmers & Merchants Bancorp, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on COSO criteria. Also in our opinion, Farmers & Merchants Bancorp, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005 based oh the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United State), the Consolidated Balance Sheets of Farmers & Merchants Bancorp, Inc. and Subsidiaries as of December 31, 2005 and 2004 and the related consolidated statements of earnings, shareholders equity and cash flow for each of the three years in the period ended December 31, 2005 and our report dated February 17, 2006, expressed an unqualified opinion thereon.

[PLANTE & MORAN, PLLC]

February 17, 2006
Auburn Hills, Michigan

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
Dexter Benecke	63	President, Freedom Ridge, Inc	1999
Joe E. Crossgrove	69	Chairman of the Corporation and The Farmers & Merchants State Bank	1992
Steven A. Everhart	51	Secretary/Treasurer, MBC Holdings, Inc	2003
Robert G. Frey	65	President, E.H. Frey & Sons, Inc.	1987
Jack C. Johnson	53	President, Hawk's Clothing, Inc.	1991
Dean E. Miller	62	President, MBC Holdings, Inc.	1986
Anthony J. Rupp	56	President, Rupp Furniture Co.	2000
David P. Rupp Jr.	64	Attorney	2001
James C. Saneholtz	59	President, Saneholtz-McKarns, Inc.	1995
Kevin J. Sauder	45	President, Chief Executive Officer Sauder Woodworking Company	2004
Merle J. Short	65	President Promow, Inc.	1987
Paul S. Siebenmorgen	56	President and CEO fo the Corporation and the Farmers & Merhcants State Bank	2005
Steven J. Wyse	61	Private Investor	1991
Dr. Betty K. Young	50	President, Northwest State Community College	2005

EXECUTIVE OFFICERS

Name	Age 69	Principal Occupation & offices Held with Corporation & Bank for Past Five Years
Joe E. Crossgrove	69	Chairman
Paul S. Siebenmorgan	56	President & Chief Executive Officer
Rex D. Rice	47	Executive Vice President Senior Commercial Loan Officer
Edward A. Leininger	49	Executive Vice President Chief Operating Officer
Barbara J. Britenriker	44	Executive Vice President Chief Financial Officer
Richard J. Lis	64	Executive Vice President Chief Lending Officer

The information called for under Rule 405 of Regulation S-K regarding compliance with Section 16(a) is presented in the proxy statement to be furnished in connection with the soliciation of proxies on behalf of the Board of Directors of the Registrant for use at its Annual Meeting to be held on April 23, 2005, and is incorporated herein by reference.

The Board of Directors of the Company adopted a Code of Business Conduct and Ethics (the "Code") at its meeting on February 13, 2004. While the Sarbanes-Oxley Act of 2002 mandates the adoption of a code of ethics for the most senior executive officers of all public companies, the Code adopted by the Corporation's Board of Directors is broader in the activities covered and applies to all officers, directors and employees of the Corporation and the Bank, including the chief executive officer, chief financial officer, principal accounting officer and other senior officers performing accounting, auditing, financial management or similar functions. The administration of the Code has been delegated to the Audit Committee of the Board of Directors, a Committee comprised entirely of "independent directors." The Code addresses topics such as compliance with laws and regulations, honest and ethical conduct, conflicts of interest, confidentiality and protection of Corporation assets, fair dealing and accurate and timely periodic reports, and also provides for enforcement mechanisms. The Board and management of the Corporation intends to continue to monitor not only the developing legal requirements in this area, but also the best practices of comparable companies, to assure that the Corporation maintains sound corporate governance practices in the future. The Board of Directors has determined that Steven A. Everhart, Chairman of the Audit Committee, is a "financial expert" as defined under the regulations promulgated under the Sarbanes Oxley Act discussed above.

A copy of the Corporation's Code is available on the website of the Bank (www.fm-bank.com). In addition, a copy of the Code is available to any shareholder free of charge upon request. Shareholders desiring a copy of the Code should address written requests to Mr. Paul S. Siebenmorgen, President, Chief Executive Officer and Treasurer of Farmers & Merchants Bancorp, Inc., 307-11 North Defiance Street, Archbold, Ohio 43502, and are asked to mark Code of Business Conduct and Ethics on the outside of the envelope containing the request.

ITEM 11. EXECUTIVE COMPENSATION

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 22, 2006, and is incorporated herein by reference.

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 22, 2006, and is incorporated herein by reference.

On April 23, 2005 the Company's shareholders approved the Farmers & Merchants Bancorp, Inc. 2005 Long-Term Stock Incentive Plan. The plan authorizes the issuance of up to 200,000 of the Company's common shares in the form of stock options, restricted stock, performance shares, and unrestricted stock to employees of the Company and its subsidiaries. During 2005, 1,000 shares of restricted stock were issued under the plan to 38 employees of the Bank. These grants will become completely vested in three years. Due to employee termination, there were 20 shares forfeited during 2005.

EQUITY COMPENSATION PLAN INFORMATION

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	0	$0.00	199,020
Equity compensation plan not approved by security holders	0	$0.00	0
Total	0	$0.00	199,020

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED 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 22, 2006, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

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 22, 2006, and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES

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

(1) Financial Statements (included in this 10-K under item 8)
Report of Independent Accountants
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Changes in Shareholders' Equity
Consolidated Statements of Cash Flows
Note to Consolidated Financial Statements

(2) Financial Statement Schedules
Five Year Summary of Operations

(3) Exhibits Required by Item 601 of Regulation S-K

(3.1) Articles of Incorporation are incorporated by reference to the Company's Quarterly Report on Form 10-Q that was filed with the Commission on May 10, 2004.

(3.2) Code of Regulations are incorporated by reference to the Company's Quarterly Report on Form 10-Q that was filed with the Commission on May 10, 2004.

(10.1) Change in Control Agreement executed by and between the Company and Paul S. Siebenmorgen on February 18, 2005(incorporated by reference to the Current Report on Form 8-K filed with the Commission on February 22, 2005).

(10.2) Change in Control Agreement executed by and between the Company and Barbara J. Britenriker on February 18, 2005 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on February 22, 2005).

(10.3) Change in Control Agreement executed by and between the Company and Edward A. Leininger on February 18, 2005 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on February 22, 2005).

(10.4) Change in Control Agreement executed by and between the Company and Rex D. Rice on February 18, 2005 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on February 22, 2005).

(10.5) Employment Agreement by and between the Company and Paul S. Siebenmorgen, dated May 7, 2004 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on February 22, 2005).

(10.6) Change in Control Agreement executed by and between the Company and Richard J Lis on December 16, 2005 (incorporated by Reference to the Current Report on Form 8-K file with the Commission on December 16,2005).

(10.7) 2005 Long-Term Stock Incentive Plan (incorporated by reference to the Quarterly Report on Form 10-Q filed with the Commission on October 27, 2005)

(10.8) Form of Restricted Stock Agreement (incorporated by reference to the Quarterly Report on Form 10-Q filed with the Commission on October 27, 2005)

(21) Subsidiaries of Farmers & Merchants Bancorp, Inc.

(31.1) Certification of the Chief Executive Officer Required under Rule 13(a)-14(a)/15d-14(a)

(31.2) Certification of the Chief Financial Officer Required under Rule 13(a)- 14(a)/15d-14(a)

(32.1) Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(32.2) Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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, herunto duly authorized

By: /s/ Paul S. Siebenmorgen   Date: February 17, 2006
Paul S. Siebenmorgen
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/ Paul S Siebenmorgen Paul S Siebenmorgen Chief Executive Officer (Principal Executive Officer)	Date: February 17, 2006	/s/ Barbara J. Britenriker Barbara J. Britenriker Chief Financial Officer (Principal Financial Officer /Principal Accounting Officer)	Date: February 17, 2006
/s/ Joe E. Crossgrove Joe E. Crossgrove Director & Chairman	Date: February 17, 2006	/s/ Jack C. Johnson Jack C. Johnson, Director	Date: February 17, 2006
/s/ Anthony J. Rupp Anthony J. Rupp, Director	Date: February 17, 2006	/s/ Dean E. Miller Dean E. Miller, Director	Date: February 17, 2006
/s/ David P. Rupp Jr. David P. Rupp Jr, Director	Date: February 17, 2006	/s/ Steven A. Everhart Steven A. Everhart, Director	Date: February 17, 2006
/s/ James Saneholtz James Saneholtz, Director	Date: February 17, 2006	/s/ Kevin J. Sauder Kevin J. Sauder, Director	Date: February 17, 2006
/s/ Merle J. Short Merle J. Short, Director	Date: February 17, 2006	/s/ Robert G. Frey Robert G. Frey, Director	Date: February 17, 2006
/s/ Dexter Benecke Dexter Benecke, Director	Date: February 17, 2006	/s/ Steven J. Wyse Steven J. Wyse, Director	Date: February 17, 2006
/s/ Dr. Betty Young Dr Betty Young, Director	Date: February 17, 2006		

Exhibit Index

Exhibit	Description
(21)	Subsidiaries of Farmers & Merchants Bancorp, Inc.
(31.1)	Certification of the Chief Executive Officer Required under Rule 13(a)-14(a)/15d-14(a)
(31.2)	Certification of the Chief Financial Officer Required under Rule 13(a)- 14(a)/15d-14(a)
(32.1)	Certification of the Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
(32.2)	Certification of the Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Exhibit 21

SUBSIDIAIRIES OF FARMERS & MERCHANTS BANCORP, INC

FARMERS & MERCHANTS STATE BANK

FARMERS & MERCHANTS LIFE INSURANCE COMPANY

EXHIBIT 31.1

CERTIFICATIONS

I, Paul S. Siebenmorgen, President and Chief Executive Officer of Farmers & Merchants Bancorp, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Farmers & Merchants Bancorp, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2006

/s/ Paul S. Siebenmorgen

Paul S. Siebenmorgen, President and CEO

EXHIBIT 31.2

CERTIFICATIONS

I, Barbara J. Britenriker, Chief Financial Officer of Farmers & Merchants Bancorp, Inc., certify that:

1. I have reviewed this annual report on Form 10-K of Farmers & Merchants Bancorp, Inc.;

2. Based on my knowledge, this 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 report;

3. Based on my knowledge, the financial statements, and other financial information included in this 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 report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) for the registrant and have:

   (e) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, 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 report is being prepared;

   (f) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (g) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (h) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 17, 2006 /s/ Barbara J. Britenriker

Barbara J. Britenriker, Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

FARMERS & MERCHANTS BANCORP, INC

In connection with the Annual Report on Form 10-K of Farmers & Merchants Bancorp, Inc. for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (the "Report"), I, Paul S. Siebenmorgen, Chief Executive Officer, of the Company, certify, pursuant to 18 U.S.C. 1350, as added by 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirement 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 the Company.

Date: February 17, 2006

/s/ Paul S. Siebenmorgen

Paul S. Siebenmorgen
Chief Executive Officer

EXHIBIT 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

FARMERS & MERCHANTS BANCORP, INC

In connection with the Annual Report on Form 10-K of Farmers & Merchants Bancorp, Inc. for the year ended December 31, 2005, as filed with the Securities and Exchange Commission (the "Report"), I, Barbara J. Britenriker, Chief Financial Officer, of the Company, certify, pursuant to 18 U.S.C. 1350, as added by 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirement 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 the Company.

Date: February 17, 2006

/s/ Barbara J. Britenriker

Barbara J. Britenriker
Chief Financial Officer