UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2010

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 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 ☒

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 ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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. Yes ☐ No ☒

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

Large accelerated filer ☐	Accelerated filer ☒	Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of June 30, 2010, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was $86,373,431.65

As of February 25, 2011, the Registrant had 5,200,000 shares of common stock issued of which 4,693,969 shares are outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III of Form 10-K — Portions of the definitive Proxy Statement for the 2010 Annual Meeting of Shareholders of Farmers & Merchants Bancorp, Inc.

FARMERS & MERCHANTS BANCORP, INC.
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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 incorporated under the laws of Ohio in 1985. Our primary subsidiary, The Farmers & Merchants State Bank (Bank) is a community bank operating in Northwest Ohio since 1897. 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 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501.

For a discussion of the general development of the Company's business throughout 2010, please see the portion of Management's Discussion and Analysis of Financial Condition and Results of Operations captioned "2010 in Review".

Nature Of Activities

The Bank's primary service area, Ohio, continued to experience high but declining unemployment. After reaching a high of 11% unemployment in March, 2010, the unemployment rate decreased in each of the ensuing months and closed the year at 9.6%. The agricultural industry continued its strong performance in 2010. Steel and trucking showed renewed strength early in the year and provided a portent of an improving economy. 1-4 family residential and construction remain weak. The Consumer Confidence increased from an average of 45% in 2009 to 53% in 2010 and January, 2011 topped 60%.

The Farmers & Merchants State Bank engages in general commercial banking business. Their activities include commercial, agricultural and residential mortgage, consumer and credit card lending activities. Because the Bank's offices are located in Northwest Ohio and Northeast Indiana, a substantial amount of the loan portfolio is comprised of loans made to customers in the farming industry for such things as farm land, farm equipment, livestock and operating loans for seed, fertilizer, and feed. Other types of lending activities include loans for home improvements, and loans for such items as autos, trucks, recreational vehicles, motorcycles, etc.

The Bank also provides checking account services, as well as savings and time deposit services such as certificates of deposits. In addition ATM's (automated teller machines) are provided at most branch locations along with other independent locations such as major employers and hospitals in the market area. The Bank has custodial services for IRA's (Individual Retirement Accounts) and HSA's (Health Savings Accounts). The Bank provides on-line banking access for consumer and business customers. For consumers, this includes bill-pay and on-line statement opportunities. For business customers, it provides the option of electronic transaction origination such as wire and ACH file transmittal. In addition the Bank offers remote deposit capture or electronic deposit processing.

The Bank's underwriting policies, exercised through established procedures, facilitate operating in a safe and sound manner in accordance with supervisory and regulatory guidance. Within this sphere of safety and soundness, the Bank's practice has been not to promote innovative, unproven credit products which may not be in the best interest of the Bank or its customers. The Bank does offer a hybrid loan. Hybrid loans are loans that start as a fixed rate mortgage but after a set number of years automatically adjust to an adjustable rate mortgage. The Bank offers a three year fixed rate mortgage after which the interest rate will adjust annually. The majority of the Bank's adjustable rate mortgages are of this type. In order to offer longer term fixed rate mortgages, the Bank does participate in the Freddie Mac, Farmer Mac and Small Business Lending programs. The Bank also retains the servicing on these partially or 100% sold loans. In order for the customer to participate in these programs they must meet the requirements established by these agencies.

The Bank does not fund sub-prime loans. Sub-prime loans are characterized as a lending program or strategy that target borrowers who pose a significantly higher risk of default than traditional retail banking customers.

Following are the characteristics and underwriting criteria for each major type of loan the Bank offers:

Commercial Real Estate: Construction, purchase, and refinance of business purpose real estate. Risks include loan amount in relation to construction delays and overruns, vacancies, collateral value subject to market value fluctuations, interest rate, market demands, borrower's ability to repay in orderly fashion, and others. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer's ability to repay in a changing rate environment before granting loan approval.

Agricultural Real Estate: Purchase of farm real estate or for permanent improvements to the farm real estate. Cash flow from the farm operation is the primary repayment source and is therefore subject to the financial success of the farm operation.

Consumer Real Estate: Purchase, refinance, or equity financing of one to four family owner occupied dwelling. Success in repayment is subject to borrower's income, debt level, character in fulfilling payment obligations, employment, and other factors.

Commercial/Industrial: Loans to proprietorships, partnerships, or corporations to provide temporary working capital and seasonal loans as well as long term loans for capital asset acquisition. Risks include adequacy of cash flow, reasonableness of profit projections, financial leverage, economic trends, management ability, and others. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer's ability to repay in a changing rate environment before granting loan approval.

Agricultural: Loans for the production and housing of crops, fruits, vegetables, and livestock or to fund the purchase or re-finance of capital assets such as machinery and equipment, and livestock. The production of crops and livestock is especially vulnerable to commodity prices and weather. The vulnerability to commodity prices is offset by the farmer's ability to hedge their position by using future contracts. The risk related to weather is often mitigated by requiring federal crop insurance.

Consumer: Funding for individual and family purposes. Success in repayment is subject to borrower's income, debt level, character in fulfilling payment obligations, employment, and others.

Industrial Development Bonds: Funds for public improvements in the Bank's service area. Repayment ability is based on the continuance of the taxation revenue as the source of repayment.

All loan requests are reviewed as to credit worthiness and are subject to the Bank's underwriting guidelines as to secured versus unsecured credit. Secured loans are in turn subject to loan to value (LTV) requirements based on collateral types as set forth in the Bank's Loan Policy. In addition, credit scores of principal borrowers are reviewed and an approved exception from an additional officer is required should a credit score not meet the Bank's Loan Policy guidelines.

Consumer Loans:

Maximum loan to value (LTV) for cars, trucks and light trucks vary from 90% to 110% depending on whether direct or indirect. Loans above 100% are generally due to additional charges for extended warranties and/or insurance coverage periods of lost wages or death.

Boats, campers, motorcycles, RV's and Motor Coaches range from 80%-90% based on age of vehicle. 1st or 2nd mortgages on 1-4 family homes range from 75%-90% with "in-house" first real estate mortgages requiring private mortgage insurance on those exceeding 80% LTV.
Raw land LTV maximum ranges from 65%-75% depending on whether or not the property has been improved.

Commercial/Agriculture:
Real Estate:
Maximum LTVs range from 70%-80% depending on type.
Accounts Receivable:
Up 80% LTV

Inventory:

Agriculture:
Livestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%
Commercial:
Maximum LTV of 50% on raw and finished goods
Used vehicles, new recreational vehicles and manufactured homes not to exceed (NTE) 80% LTV

Equipment:

New not to exceed 80% of invoice, used NTE 50% of listed book or 75% of appraised value
Restaurant equipment up to 35% of market value
Heavy trucks, titled trailers and NTE 75% LTV and aircraft up to 75% of appraised value

We also provide checking account services, as well as savings and time deposit services such as certificates of deposits. In addition, ATM's (automated teller machines) are also provided at our Ohio offices in Archbold, Wauseon, Stryker, West Unity, Bryan, Delta, Napoleon, Montpelier, Swanton, Defiance, and Perrysburg, along with ones at our Auburn and Angola, Indiana offices. Two ATM's are located at Sauder Woodworking Co., Inc., a major employer in Archbold. Additional locations in Ohio are at Northwest State Community College, Archbold; Community Hospitals of Williams County, Bryan; Fairlawn Haven Wyse Commons, Archbold; R&H Restaurant, Fayette; Delta Eagles, Bryan Eagles; Sauder Village, Archbold; Fulton County Health Center, Wauseon; downtown Defiance; and a mobile trailer ATM. In Indiana, four additional ATM's are located at St. Joe; at Kaiser's Supermarket and Therma-Tru in Butler; and at DeKalb Memorial Hospital in Auburn.

F&M Investment Services, 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, and the Federal Deposit Insurance Corporation. The activities of our bank subsidiary are also subject to other federal and state laws and regulations.

The Bank's primary market includes communities located in the Ohio counties of Defiance, Fulton, Henry, Williams, and Wood. The commercial banking business in this market is highly competitive, with approximately 17 other depository institutions currently doing business in the Bank's primary market. In our banking activities, we compete directly with other commercial banks, credit unions, farm credit services, 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. On December 31, 2007, the Bank acquired the Knisely Bank of Indiana, expanding its market with the addition of offices in Butler and Auburn, Indiana, both located in DeKalb County. An additional office was opened in the summer of 2008 in Angola, Indiana, located in Steuben County. On July 9, 2010 the Bank purchased a branch office in Hicksville, Ohio shortening the distance between our Ohio and Indiana office.

At December 31, 2010, we had 248 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 (ODFI) and the Federal Deposit Insurance Corporation (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 quarterly basis information pursuant to the Act. The Federal Reserve Board may conduct examinations or inspections of the Company and its subsidiary.

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, adequately capitalized 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 acquirer 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 Board 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, 2010 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, 2010, 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 subsidiary 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. See Note 15 to the consolidated financial statements for the actual amount.

Deposit Insurance Assessments

The deposits of the Company's banking subsidiary are insured up to regulatory limits set by the FDIC, and, accordingly in 2010, were subject to deposit insurance assessments based on the Federal Deposit Insurance Reform Act of 2005, as adopted and effective on April 21, 2006. The FDIC maintains the Deposit Insurance Fund ("DIF") by assessing depository institutions an insurance premium (assessment). The amount assessed to each institution is based on statutory factors that include the balance of insured deposits as well as the degree of risk the institution poses to the DIF. The FDIC assesses higher rates to those institutions that pose greater risks to the insurance fund.

In order to recapitalize and restore the DIF, the FDIC initially established a Restoration Plan in October 2008 to return the DIF to the statutorily mandated minimum reserve ratio of 1.15 percent within five years. Since 2008 and due to the extraordinary circumstances facing the banking industry, the FDIC imposed an emergency special assessment in 2009 and has continued to make further amendments to its Restoration Plan by extending the restoration period for the DIF, increasing the premium assessments, and changing how regular deposit insurance premiums are assessed. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") revised the statutory authorities governing the FDIC's management of the DIF. Key requirements from the Dodd-Frank Act have resulted in the FDIC's adoption of the following proposed amendments: (1) redefined the assessment base used to calculate deposit insurance assessments to "average consolidated total assets minus average tangible equity"; (2) raised the DIF's minimum reserve ratio to 1.35 percent and removed the upper limit on the reserve ratio; (3) revised adjustments to the assessment rates by eliminating one adjustment and adding another; and (4) revised the deposit insurance assessment rate schedules due to changes to the assessment base. Revised rate schedules and other revisions to the deposit insurance assessment rules would become effective April 1, 2011 and would be used to calculate the June 30, 2011 assessments which are due September 30, 2011. Though deposit insurance assessments maintain a risk-based approach, the FDIC's proposed changes effective April 1, 2011, impose a more extensive risk-based assessment system on large insured depository institutions with at least $10 billion in total assets since they are more complex in nature and could pose greater risk. Due to the changes to the assessment base and assessment rates, as well as the DIF restoration time frame, the impact on the Company's future deposit insurance assessments will likely result in increased premiums in future years.

The Emergency Economic Stabilization Act of 2008 provided a temporary increase in deposit insurance coverage from $100,000 to $250,000 per depositor. This legislation was effective immediately upon the President's signature on October 3, 2008. The basic deposit insurance limit was set to return to $100,000 on January 1, 2010; however, on May 20, 2009 the temporary increase was extended through December 31, 2013.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") permanently raised the standard maximum deposit insurance coverage amount to $250,000 and made the increase retroactive to January 1, 2008. This was effective immediately upon the President's signature on July 21, 2010. The FDIC deposit insurance coverage limit applies per depositor, per insurance depository institution for each account ownership category.

The FDIC Board of Directors issued a final rule on November 9, 2010 implementing a provision of the Dodd-Frank Act which temporarily provided for separate deposit insurance coverage for noninterest-bearing transaction accounts. Funds held in noninterest-bearing transaction accounts are fully insured, without limit, and the temporary unlimited coverage is separate from, and in addition to, the deposit insurance coverage provided to depositors with respect to other accounts held at an insured depository institution. This temporary deposit insurance coverage became effective on December 31, 2010 and will terminate on December 31, 2012. A noninterest-bearing transaction account is a deposit account in which (1) interest is neither accrued nor paid, (2) depositors are permitted to make an unlimited number of transfers and withdrawals, and (3) the insured depository institution does not reserve the right to require advance notice of an intended withdrawal. As of January 1, 2013, noninterest-bearing transaction accounts will then be insured under the FDIC's general deposit insurance coverage rules. The Dodd-Frank Act provision did not include low-interest NOW (Negotiable Order of Withdrawal) Accounts or Interest on Lawyer Trust Accounts ("IOLTAs") within the definition of noninterest-bearing transaction accounts. On December 29, 2010, the FDIC Board of Directors issued a final rule amending the Federal Deposit Insurance Act (FDI Act) to include IOLTAs within the definition of a noninterest-bearing transaction account thereby providing such accounts with temporary, unlimited deposit insurance coverage.

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.

Capital Purchase Program

In response to the financial crisis affecting the banking system and financial markets, the Emergency Economic Stabilization Act of 2008 (the "EESA") was signed into law on October 3, 2008 creating the Troubled Assets Relief Program ("TARP"). As part of TARP, the U.S. Treasury established the Capital Purchase Program to provide up to

$700 billion of funding to eligible financial institutions through the purchase of capital stock and other financial institutions for the purpose of stabilizing and providing liquidity to the United States financial markets. The Company did not participate in the TARP Capital Purchase Program. In connection with the EESA, there have been numerous actions by the Federal Reserve Board, the United States Congress, the U.S. Treasury, the FDIC, the SEC and others to further the economic and banking industry stabilization efforts under the EESA. It remains unclear at this time what further legislative and regulatory measures will be implemented under the EESA that affect the Company.

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 federal Home Mortgage Disclosure Act and Regulation C, the federal Electronic Funds Transfer Act and Regulation E, the federal Truth in Lending Act and Regulation Z, the federal Truth in Savings Act and Regulation DD, the Bank Secrecy Act, the federal Community Reinvestment Act, HUD's Real Estate Settlement Act (RESPA) regulations, anti-discrimination laws and legislation, and antitrust laws.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 ("Dodd-Frank Act") signed by the President on July 21, 2010 posed a significant impact on financial regulations. Certain provisions such as the permanent increase in deposit insurance coverage had an immediate effective date. Provisions regarding rules for interchanges fees on electronic debit transactions must be effective by July 21, 2011. Other provisions which, though intended to provide regulatory relief to community banks, may require time and further analysis to evaluate the actual consequences. Implementation of the Dodd-Frank Act provisions, which are conservatively estimated at more than 5,000 pages of new or expanded regulations for banks, will result in new rulemaking by the federal regulatory agencies over the next several years. Fully implementing the new and expanded regulation will involve ensuring compliance with extensive new disclosure and reporting requirements. The Dodd-Frank Act created an independent regulatory body, the Bureau of Consumer Financial Protection ("Bureau"), with authority and responsibility to set rules and regulations for most consumer protection laws applicable to all banks — large and small — adds another regulator to scrutinize and police financial activities. Transfer to the Bureau of all consumer financial protection functions for designated laws by the other federal agencies must be completed no later than July 21, 2011. The Bureau has responsibility for mortgage reform and enforcement, as well as broad new powers over consumer financial activities which could impact what consumer financial services would be available and how they are provided. The following consumer protection laws are the designated laws that will fall under the Bureau's rulemaking authority: the Alternative Mortgage Transactions Parity Act of 1928, the Consumer Leasing Act of 1976, the Electronic Fund Transfer Act, the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Credit Reporting Act subject to certain exclusions, the Fair Debt Collection Practices Act, the Home Owners Protection Act, certain privacy provisions of the Gramm-Leach-Bliley Act, the Home Mortgage Disclosure Act (HMDA), the Home Ownership and Equity Protection Act of 1994, the Real Estate Settlement Procedures Act (RESPA), the S.A.F.E. Mortgage Licensing Act of 2008 (SAFE Act), and the Truth in Lending Act. Review and revision of current financial regulations in conjunction with added new financial service regulations will heighten the regulatory compliance burden and increase litigation risk for the banking industry.

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: 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.

Please see the Consolidated Financial Statements provided under Part II, Item 8 of this Form 10-K for information regarding the Company's revenues from external customers, profits, and total assets for and as of, respectively, the fiscal year ended December 31, 2010.

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 the loan approval process. However, there can be no assurance that such monitoring and procedures will totally mitigate the risks. Credit losses can cause insolvency and failure of a financial institution and, in such event, its shareholders could lose their entire investment. For 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 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 drastic interest rate fluctuations have made it difficult to maintain a more favorable net interest spread. During 2010, the Bank's margin and spread tightened slightly as the rate environment remained low and flat. Maturities of higher rate deposits aided the decrease in cost of funds.

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.

A key component of employee retention is providing a fair compensation base combined with the opportunity for additional compensation for above average performance. In this regard, the Company and the Bank use two incentive programs. The Company uses a stock award program to recognize and incent officers of the Bank. Under the long-term incentive compensation plan, restricted stock awards may be granted to officers. The amount of shares to be granted each year is determined by the Board Compensation Committee and may vary each year in its amount of shares and the number of recipients. The Compensation Committee determines the number of shares to be awarded overall and to the Chief Executive Officer ("CEO"). The CEO then makes recommendations to the committee as to the recipients of the remaining shares. The full Board of Directors approves the action of the Committee. Since the plan's inception in 2005, all granted stock awards have utilized a three year cliff vesting feature. This is viewed as a retention aid as the awards may be forfeited should an officer leave employment during the vesting period.

A second incentive program of the Bank is based on cash compensation of which almost all employees participate (excluding commission based employees and other employees paid for specific higher paid positions, such as peak time.) A discussion of executive officer pay is incorporated within the proxy and as such, this discussion will pertain to all other employees. Non-officer employees are paid a cash incentive based on the projected overall performance of the Bank in terms of Return of Average Assets ("ROA"). The Compensation Committee determines the target performance levels on which the percentage of pay will be based. The Committee takes into account the five and ten year trend of ROA along with budget forecasted for the next year and the Bank's past year performance. The Committee also considers the predicted banking environment under which the Bank will be operating. Non-officers receive incentive pay in December of the same year based on the year-to-date base compensation through the last pay received in November.

Officers, other than executive, receive incentive pay based on additional criterion. The officers are rewarded based on overall ROA of the Bank along with individual pre-established goals. Officers, therefore, have incentive pay at risk for individual performance. The individualized goals are recommended by each officer's supervisor and are approved by an incentive committee of the Bank. The goals are designed to improve the performance of the Bank while also limiting the risk of a short-term performance focus. For example, a lending officer may be given two goals of which one is to grow loans within specific targets and another is tied to a specific level of past dues and charge-offs. The second goal limits the ability to be rewarded for growth at all costs along with the specific target levels within the growth goal itself. Officers in a support department may be given goals which create efficiencies, ensure compliance with procedures, or generate new fee or product opportunities. An average of four goals were given to each officer in 2010. Officers are paid cash incentives based on the year end ROA of the Bank and receive it within the first quarter of the following year. Should the ROA be forecasted to be positive but below the base target set by the Board, the officers are paid an incentive under the same basis and timing as non-officers disclosed above.

The percentages of base pay on which the incentive is calculated graduates higher as does the responsibility level of the employee and their ability to impact the financial performance of the Bank. These percentages are recommended by management to the Compensation Committee and Board for approval. The cash incentive plan along with its targets and goals are subject to modification at the Compensation Committee and Board's discretion throughout each year.

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 operational 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. Our stock is currently quoted in the over-the-counter markets.

ITEM 1b. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal office is located in Archbold, Ohio.

The Bank operates from the facilities at 307 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 occupies an Operations Center at 622 Clydes Way in Archbold, Ohio to accommodate our growth over the years. The bank owns a parking lot in downtown Montpelier which had been provided for customer use. The bank owns a property at 204 Washington Street, St Joe, Indiana at which an ATM is located.

The Bank owns all of its office locations, with the exception of Angola, Indiana. The Angola office location is leased. Current locations of retail banking services are:

Office	Location
Archbold, Ohio	1313 S Defiance Street
Wauseon, Ohio	1130 N Shoop Avenue 119 N Fulton Street
Stryker, Ohio	300 S Defiance Street
West Unity, Ohio	200 W Jackson Street
Bryan, Ohio	929 E High Street 1000 S Main Street
Delta, Ohio	101 Main Street
Montpelier, Ohio	1150 E Main Street
Napoleon, Ohio	2255 Scott Street
Swanton, Ohio	7 Turtle Creek Circle
Defiance, Ohio	1175 Hotel Drive
Perrysburg, Ohio	7001 Lighthouse Way
Butler, Indiana	200 S Broadway
Auburn, Indiana	403 Erie Pass
Angola, Indiana	2310 N Wayne Street
Hicksville, Ohio	100 N. Main Street

All but one of the above locations have drive-up service facilities and an ATM.

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. No longer applicable.

PART II.

ITEM 5. MARKET FOR REGISTRANT’S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is not listed on the NASDAQ stock market or any other stock exchange. While there is no established public trading market for our common stock, our shares are currently dually-quoted by various market makers on the Pink Sheets and the Over the Counter Bulletin Board, which are both over-the-counter quotation services for participant broker-dealers.

There are market makers that set a price for our stock; however, private sales continue to occur. The high and low sale prices were from sales of which we have been made aware by researching daily on Bloomberg.com. The high and low sale prices known to our management are as follows:

	Stock Prices 2010	
Quarter	Low	High
1st	$ 16.00	$ 19.00
2nd	17.00	20.00
3rd	17.95	19.45
4th	16.95	18.75

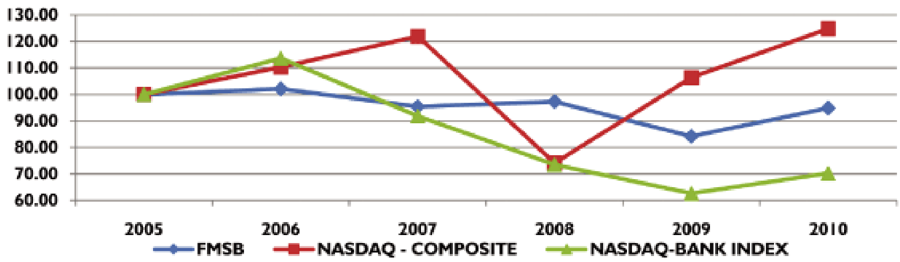
	Stock Prices 2009	
Quarter	Low	High
1st	$ 17.60	$ 20.00
2nd	17.55	20.50
3rd	19.25	20.99
4th	15.20	19.00

The Company utilizes Registrar and Transfer Company as its transfer agent.

As of February 7, 2011 there were 2,052 record holders of our common stock.

Below is a line-graph presentation comparing the cumulative total shareholder returns for the Corporation, an index for NASDAQ Stock Market (U.S. Companies) comprised of all domestic common shares traded on the NASDAQ National Market System and the NASDAQ Bank Index for the five-year period ended December 31, 2010. The chart compares the value of $100 invested in the Corporation and each of the indices and assumes investment on December 31, 2005 with all dividends reinvested.

The Board of Directors recognizes that the market price of stock is influenced by many factors, only one of which is performance. The stock price performance shown on the graph is not necessarily indicative of future performance.



I. Year 2005 as the Base

	2005	2006	2007	2008	2009	2010
FMSB	100.00	102.11	95.40	97.31	84.16	94.87
NASDAQ — COMPOSITE	100.00	110.33	121.98	74.11	106.34	124.87
NASDAQ-BANK INDEX	100.00	113.65	91.88	73.53	62.73	70.25

Dividends are declared and paid quarterly. Per share dividends declared for the years ended 2010 and 2009 are as follows:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
2010	0.18	0.18	0.18	0.19	0.73
2009	0.18	0.18	0.18	0.18	0.72

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.

Dividends declared during 2010 were $0.73 per share totaling $3.44 million, 1.39% higher than 2009 declared dividends of $0.72 per share. During 2010, the Company purchased 48,130 shares and awarded 10,150 shares to 53 employees and 1,575 shares were forfeited under its long term incentive plan. At year end, 2010, the Company held 477,106 shares in Treasury stock and 28,925 in unearned stock awards.

Dividends declared during 2009 were $0.72 per share totaling $3.41 million, 5.88% higher than 2008 declared dividends of $0.68 per share. During 2009, the Company purchased 28,907 shares and awarded 10,000 restricted shares to 49 employees under its long term incentive plan. 350 shares were forfeited during 2009. At year end 2009, the Company held 437,551 shares in Treasury stock and 27,775 in unearned stock awards.

The Company continues to have a strong capital base and to maintain regulatory capital ratios that are significantly above the defined regulatory capital ratios. On January 21, 2011, the Company announced the authorization by its Board of Directors for the Company's repurchase, either on the open market, or in privately negotiated transactions, of up to 200,000 shares of its outstanding common stock commencing January 1, 2011 and ending December 31, 2011.

ISSUER PURCHASES OF EQUITY SECURITIES

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Remaining Share Repurchase Authorization
10/1/2010 to 10/31/2010	—	—	—	172,275
11/1/2010 to 11/30/2010	5,000	$ 18.00	5,000	167,275
12/1/2010 to 12/31/2010	15,405	$ 17.61	15,405	151,870
Total (l)	20,405	$ 17.70	20,405	151,870

(1) The Company purchased shares in the market pursuant to stock repurchase program publicly announced on December 18, 2009. On that date, the Board of Directors authorized the repurchase of 200,000 common shares between January 1, 2010 and December 31, 2010. 20,405 shares were repurchased in the fourth quarter. In total for 2010, 48,130 shares were repurchased.

Reclassification

Certain amounts in the 2009 and 2008 consolidated financial statements have been reclassified to conform with the 2010 presentation.

ITEM 6. SELECTED FINANCIAL DATA

SUMMARY OF SELECTED CONSOLIDATED FINANCIAL DATA

Summary of Consolidated Statement of Income — UNAUDITED

	(In Thousands, except share data)				
	2010	2009	2008	2007	2006
Summary of Income:					
Interest income	$ 39,893	$ 41,114	$ 43,824	$ 45,424	$ 42,269
Interest expense	10,863	13,220	18,101	21,722	18,535
Net Interest Income	29,030	27,894	25,723	23,702	23,734
Provision for loan loss	5,325	3,558	1,787	871	525
Net interest income after provision for loan loss	23,705	24,336	23,936	22,831	23,209
Other income (expense), net	(14,342)	(15,256)	(14,763)	(12,269)	(11,966)
Net income before income taxes	9,363	9,080	9,173	10,562	11,243
Income taxes	2,382	2,475	2,450	2,828	3,107
Net income	$ 6,981	$ 6,605	$ 6,723	$ 7,734	$ 8,136
Per Share of Common Stock:					
Earnings per common share outstanding *					
Net income	$ 1.48	$ 1.39	$ 1.39	$ 1.52	$ 1.57
Dividends	$ 0.730	$ 0.720	$ 0.680	$ 0.640	$ 0.575
Weighted average number of shares outstanding	4,721,235	4,741,392	4,846,310	5,097,636	5,186,329

* Based on weighted average number of shares outstanding

Summary of Consolidated Balance Sheet — UNAUDITED

	(In Thousands)				
	2010	2009	2008	2007	2006
Total assets	$906,363	$853,860	$805,729	$803,974	$737,096
Loans, net	521,883	563,911	562,336	523,474	498,580
Total Deposits	724,513	676,444	615,732	634,593	585,409
Stockholders' equity	94,403	93,584	90,547	89,375	87,732
Key Ratios					
Return on average equity	7.38%	7.19%	7.51%	8.71%	9.64%
Return on average assets	0.80%	0.80%	0.84%	1.06%	1.14%
Loans to deposits	72.03%	83.36%	91.33%	82.49%	85.17%
Capital to assets	10.42%	10.96%	11.24%	11.12%	11.90%
Dividend payout	49.33%	51.66%	48.77%	42.00%	36.63%

ITEM 7. MANAGEMENTS DISCUSSION 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 and Other Real Estate Owned (OREO) 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.

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of fair value or the loan carrying amount at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by Management and the assets are carried at the lower of carrying amount or fair value less cost to sell.

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 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 into like groups based on loan type, term, new versus seasoned and interest rate. The valuation is completed by an independent third party.

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.

The Company's mortgage servicing rights relating to loans serviced for others represent an asset of the Company. This asset is initially capitalized and included in other assets on the Company's consolidated balance sheet. The mortgage servicing rights are then amortized against noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying mortgage servicing rights. There are a number of factors, however, that can affect the ultimate value of the mortgage servicing rights to the Company, including the estimated prepayment speed of the loan and the discount rate used to present value the servicing right. For example, if the mortgage loan is prepaid, the Company will receive fewer servicing fees, meaning that the present value of the mortgage servicing rights is less than the carrying value of those rights on the Company's balance sheet. Therefore, in an attempt to reflect an accurate expected value to the Company of the mortgage servicing rights, the Company receives a valuation of its mortgage servicing rights from an independent third party. The independent third party's valuation of the mortgage servicing rights is based on relevant characteristics of the Company's loan servicing portfolio, such as loan terms, interest rates and recent national prepayment experience, as well as current national market interest rate levels, market forecasts and other economic conditions. Management, with the advice from its third party valuation firm, review the assumptions related to prepayment speeds, discount rates, and capitalized mortgage servicing income on a quarterly basis. Changes are reflected in the following quarter's analysis related to the mortgage servicing asset. In addition, based upon the independent third party's valuation of the Company's mortgage servicing rights, management then establishes a valuation allowance by each strata, if necessary, to quantify the likely impairment of the value of the mortgage servicing rights to the Company. The estimates of prepayment speeds and discount rates are inherently uncertain, and different estimates could have a material impact on the Company's net income and results of operations. The valuation allowance is evaluated and adjusted quarterly by management to reflect changes in the fair value of the underlying mortgage servicing rights based on market conditions. The accuracy of these estimates and assumptions by management and its third party can be directly tied back to the fact that management has not been required to record a valuation allowance through its income statement based upon the valuation of each stratum of serving rights.

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.

2010 in Review

During 2010 the Company proved it was up to the challenges presented by another tough year. One of the first indications of decreased revenue caused by regulatory changes was felt in the overdraft fee arena. The impact of regulatory reform on fees in banking remains a concern for the Company in the coming years. Economic challenges were also faced by the Company, our shareholders, employees and customers. Unemployment remained high in the markets we serve, though slight improvements began towards the second half of the year. The economic outlook appears to favor the economic recovery, though recognition of its fragility exists.

Continued difficult economic stresses caused the Company to experience significant expenses to improve its loan quality and to seek additional sources of revenue to offset these costs. Loan costs included increased collection, loss provision, and legal expenses. The benefits of those costs were an $8.2 million decrease in nonaccrual loans, $7.8 million decrease in loans classified as impaired, and an overall $8.7 million decrease in the Bank's watch list loans, as of December 31, 2010 as compared to 2009, all of which; positions the Company for better earnings in the year to come.

The improvement in asset quality also correlates to a $42 million decrease in the net loan balances when comparing December 31, 2010 to the same date in 2009. This smaller loans balance in turn explains a somewhat hidden cost — a decline in the interest income from loans for 2010 as compared to 2009. This is discussed in greater detail in the net interest income section.

Offsetting the additional expenses in the loan portfolio was the $956 thousand gain on sale of investments and an increase in noninterest income during 2010. A decrease in long-term rates during the fourth quarter spurred activity in the consumer real estate market and the addition of the Hicksville office in July 2010 contributed to the increase in noninterest income.

The Company is proud of the strides that were achieved in improving asset quality while increasing 2010's net income over 2009. Earnings per share were $0.09 higher than the previous two years. The Company is well positioned to face the challenges of 2011.

Material Changes in Results of Operations

The discussion now turns to more financial based results and trends as a result of 2010 operations. In comparing line items of the consolidated statement of income for years ended 2008 through 2010, it is easily seen where the Company has been spending its time and the impact of the recession. Decreasing interest income and expense are obvious large factors on the profitability of the Company for 2010; however, that discussion can be found in the net interest income section. This discussion will focus on the significant noninterest items that impacted the operations of the Company.

Looking at the positive items first; overall, non-interest income shows a trend of improvement. A nice improvement of $1.1 million in 2010 over 2009 was preceded by a more significant gain of over $1.3 million in 2009 as compared to 2008. Accounting for over $1 million of the gain in 2009 was the revenue generated from mortgage loan activity through establishing mortgage servicing rights and gain on the sale of loans into the secondary market. As mentioned earlier, the fourth quarter of 2010 was also a busy time handling refinance activity for mortgages; however the volume was below 2009. In terms of dollars, 2010 was $381 thousand lower than 2009's noninterest income from mortgage activities. It did make up almost $1.4 million of noninterest income in 2010. It was a much needed, but unexpected source of increased revenue.

The largest difference in noninterest income for 2010 compared to the previous years was the gain on sale of securities. For 2010, it accounted for $956 thousand compared to $230 and $15 thousand for 2009 and 2008 respectively. The Bank was able to take advantage of the ability to book some gains on the sale of securities. This opportunity presented itself in the first and last quarter of 2009 and the first three quarters of 2010. The Bank did not sacrifice long term profitability for short term gains as the yields of the portfolio were not negatively impacted by the sales. The discussion on causes for changes to yields follows in the interest section. The Bank did recognize a loss of just over $50 thousand on an equity security of a Banker's Bank in 2009. The entity had been taken over by the FDIC with its assets and deposits being bought by another financial institution.

Another increase to non-interest income was derived from increased debit card usage. As the Bank receives interchange revenue from each "swipe" of the card, usage increased thereby increasing revenue over $232 thousand in 2010 as compared to 2009 and over $126.5 thousand in 2009 over 2008. Both increases are attributed to the growth and popularity of the Bank's Reward checking product which migrated to KASASA in 2010. One of the criteria for the payment of high interest on the account is utilizing the debit card at least twelve times per statement cycle. The Bank's Reward & KASASA Checking customers averaged 25 transactions per statement during 2009 and 2010, surpassing the 9 transactions average of our Free Checking customers. The additional revenue from debit card usage offsets the interest expense, creating a win-win situation for the customers and the Bank. In 2011, this revenue stream may be reduced by the Federal Reserve regulating the interchange fee. All of the KASASA products have a debit card usage qualification; however, interest income is not the customer benefit for all accounts. As an alternative to receiving interest on their deposits, customers may choose to receive credit towards iTunes downloads or donate earnings to charity.

One additional noninterest income item to mention is overdraft and return check fee income. This revenue source increased $37.7 thousand or 1.6% in 2010 over 2009 supported by a 9% increase in the number of accounts and a $20 million increase in year-end balances. Hicksville accounted for 44% of the increase in the number of accounts and only 19% in the balances. During 2009, this revenue stream decreased 6.5%, or $176 thousand, during 2009 even though the number of checking accounts increased 4.16% and the portfolio yearend balance was $23.6 million higher in 2009 than 2008. Over the last three years, the average revenue per account continued to decrease due to regulatory changes. This revenue source remains under intense regulatory review and additional changes are required in 2011 that may negatively impact revenue.

Service charge income remained virtually unchanged from 2008 even with the increase in accounts. Most of the new accounts added either don't have service fee charges and/or the balances are high enough to offset any charges. The largest increase was in the Health Savings Account portfolio where the volume of accounts has increased steadily the last two years. Both the OD and return check and service charge income from checking accounts are included in the customer service fees line item on the income statement.

Switching to the expense side, overall, non-interest expense increased less than 1% in 2010 over 2009 while an increase of 8.6% or $1.8 million occurred in 2009 over 2008. The largest factor behind the 2009 increase was FDIC assessment, which was broken out as its own line item on the statement of income due to its significance. Of the $1.8 million increase in 2009 noninterest expense, $1.2 million is attributed to the cost of FDIC insurance. FDIC insurance, while still costly at $1.1 million, decreased in 2010 as compared to 2009 by $253 thousand.

The largest increase in 2010 over 2009 in noninterest expense, aside from provision expense, was the summation line of “Other general and administrative” expenses on the income statement. Within this summation line, the larger increases correspond to the asset quality issues and included an increase in loan collection expenses, cost of appraisals, and insurance cost for other real estate owned totaling $403 thousand. This was the second year of increased cost due to collection as 2009 had an increase of $251 thousand as compared to 2008. These costs were necessary to improve the asset quality and position the Bank for higher profitability in the future.

Also mentioned previously was the mortgage refinancing activity of the last two years. A correlating expense to that activity is the amortization of mortgage servicing rights. The income was discussed previously; the amortization is the offset to the income recognized. These remain large line items on both sides of the income statement. Income is recorded when the mortgage loan is first sold with servicing retained and is therefore recognized within one year. The amortization, however, is calculated over the life of the loan and accelerated when paid off early. An increase in this expense can be driven by two activities: an increase in the number of sold loans and/or by the acceleration of the expense from payoff and refinance activity. The best picture of the bottom line impact is achieved by netting the income with the expense each year. 2008 had net income of $77 thousand, 2009 had net income of $225 thousand and 2010 had net income of only $1.1 thousand. Of course, the value (or income) of the mortgage servicing right when sold also impacts the net position. The reason for 2009’s larger net position is due to the increase in the number of loans being serviced; thereby new rights are being established without having been offset by accelerated expense. This is evidenced by the year end number of loans and balances being up significantly. In 2010, the income barely offset the amortization expense. As of December 31, 2010 there were 3,647 loans serviced with outstanding balances of $275.7 million, there were 3,571 loans serviced with outstanding balances of $267.8 million for 2009, and 3,472 loans with balances of $277.5 million for 2008. Returning to the expense only portion, expense for 2010 was $250 thousand lower than 2009, 2009 was $563 thousand higher than the expense for 2008.

The impact of mortgage servicing rights to both noninterest income and expense is shown in the following table:

	December 31 2010	December 31 2009 (In thousands)	December 31 2008
Capitalized Additions (Noninterest income)	$ 685	$ 1,158	$ 447
Amortizations (Noninterest expense)	(684)	(933)	(370)
Net Noninterest income	$ 1	$ 225	$ 77

Salaries and wages increased $172 thousand in 2010 over 2009. Three main components flow into salaries and wages: base salary, deferred costs from loans and incentive pay. Base salaries decreased during 2010 even with the addition of the Hicksville office by $338 thousand. The deferred costs component actually decreased by $318 thousand which in effect increases salary expense and incentive pay increased $192 thousand. (For further discussion on incentive pay, see note 11 of the consolidated financial statements). During the first part of 2009, some of the Bank’s lending officers were also very busy in auto loan financing. This activity was spurred by government and auto manufacturer incentives along with large banks exiting the market in the first half of the year. The consumer loan portfolio grew by 26%, or almost $6 million. This increased activity offset the increased salary expense as deferred costs from these loans are recorded as a deduction to the salary expense when the loans are made. While salaries and wages decreased in 2009 as compared to 2008, it was this component that made it possible. Base salary expense increased just over $400 thousand with the deferred costs offsetting with a $50 thousand increase for 2009. The increases in base salary have been driven by additional offices being opened and increase in revenue generating positions, such as additional staff in the Bank's financial planning division.

Employee benefits decreased $109 thousand in 2010 as compared to 2009 and 2009 ended at $185 less than (or basically even) 2008's. The Bank is partially self-insured and fluctuations to costs are therefore caused by fluctuations in claims made by employees. Employee's group insurance costs were lower in 2010 than 2009 by $139 thousand and were up $224 for 2009 over 2008. In 2009, the Bank offered a traditional medical plan along with a Health Savings Account (HSA) option. Both options were available in 2009 and the decision was made to implement the HSA plan only bank-wide for 2010. The increase in medical expense in 2009 was offset by a decrease of $201.5 thousand in miscellaneous personnel expense and in the BOLI retirement expense for 2009 as compared to 2008. Miscellaneous personnel expense includes such items as employee outings and the use of employment and executive search agencies. Bank Owned Life Insurance (BOLI) retirement expense represents the yearly cost to fund the liability of post retirement officers upon which the Bank has an insurance policy of which the Bank is the beneficiary. The total of these two expenses increased $47 thousand in 2010 as compared to 2009 and as stated previously was opposite of the movement in 2009 as compared to 2008.

Occupancy expense decreased by only $14 thousand in 2010 as compared to 2009. In 2009 it increased $84 thousand over 2008 with the largest impact stemming from the costs associated with holding Other Real Estate Owned (OREO). The balance in OREO increased from $426.7 thousand as of December 31, 2008 to $1.4 million as of December 31, 2009. The largest expense increase in occupancy was real estate taxes, which was driven by the additional holding of OREO and had increased $82.9 thousand in 2009 and held steady in 2010. OREO increased to $4.5 million in 2010 which included some rental properties and thereby had rental income of $45 thousand to help offset the cost of holding.

A positive reduction in data processing expense of $183 thousand occurred in 2010. This was preceded by a reduction of $98 thousand in 2009 as compared to 2008. The larger reduction in 2010 was mainly due to the reduction of costs as the Bank switched its core service provider in February. In 2009, the decrease is not attributable to just one vendor, but rather a negotiation with multiple vendors. The Company continues to investigate ways to reduce this expense. The pricing on many services, however, is based on number of accounts and the Bank fully expects those to increase with the KASASA additions and an improving economy.

The largest cost increase to the Bank in 2010 and 2009 was the Provision for Loan Losses. A tough economic environment existed for most businesses in our primary market area during 2007 through 2010. In 2010, the provision expense was $1.8 million higher than 2009 and $3.5 million over 2008. Gross charge-offs were $6.4 million for 2010, $3.3 million for 2009, as compared to 2008's $2.6 million. Recoveries were $795, $242, and $348 thousand for 2010, 2009, and 2008, respectively. Unfortunately, 2010 had the highest charge-off and lowest recovery amounts, making the net charge-offs the highest at $5.6 million. 2009 had a net charge-off position of $3.0 million and 2008 had a net charge-off position of $2.2 million. 2008 was impacted by mostly agricultural business and 2009 and 2010 activity was mainly commercial driven. Further analysis by loan type is presented in the discussion of the allowance for credit losses.

Net Interest Income

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 noninterest bearing sources of funds such as demand deposits and stockholders' equity also support earning assets, the net interest margin exceeds the interest spread.

Overall, we continue to see pressure in the net interest margin and spread with the risk remaining fairly constant. The net interest margin decreased by 11 basis points and the net interest spread decreased by 5 basis points in comparing 2010 to 2009, with both sides of the equation having lower yields. In connection with interest concerns was the high level of nonaccruals and watch list loans throughout the year. Major improvement occurred in the decrease of nonaccrual and watch list loans to make the future look bright for 2011. Nonaccruals increased during the first part of the year and decreased due to charge-off and payoff during the second half, specifically the fourth quarter. Sustained improvement in the margin will be helped as a large portion of the nonaccruals have been removed from the books. Short term rates remained flat throughout the year and long term rates lowered during the fourth quarter and have since increased in the first two months of 2011.

Earnings assets increased during the year in actual and average balance. The interest collected on the earning assets decreased; the yield decreasing for 2010 as compared to 2009 in all portfolios. The largest decrease in yield occurred in the taxable investment securities and was due to the large amount of calls on government sponsored agencies and the yield on new purchases as the growth in the portfolio was over $30 million in average. It was not unusual for a called security to be replaced with a new security with a yield lower by 100 basis points or more. Overall, this portfolio's yield was 121 basis points lower in 2010 than in 2009.

Loans which have the highest earning asset yield decreased in average by $8 million when comparing 2010 average to 2009 average balance. The overall change in yield in the loan portfolio for 2010 was due mainly to the change in balance than to the change in rate. Given that the loan portfolio represented only 67% of the earning assets in 2010 as compared to 2009's 73% and the yield is the highest, it stands to reason that the overall asset yield decreased in 2010 as compared to 2009. Coupling this with the growth in earning assets being invested in securities and Federal Funds Sold and interest bearing bank balances, the overall yield on earning assets decreased 52 basis points as compared to 2009 and 103 basis points lower than 2008.

While the loan portfolio size had remained fairly constant in 2009, the yield, or income, generated had decreased for the second straight year. This was due to the low interest rate environment, with the lending prime rate within 26 basis points of the Company's net interest spread at that time. Spread is the difference between what the Company earns on its assets and pays on its liabilities. It is on this spread that the Company must fund its operations and generate profit. When the asset yield decreases so must the cost of funds to maintain profitability. It becomes increasingly challenging as the asset yield gets closer to the prime lending rate, or the break-even point, of operations. To mitigate the low rate environment, the Bank placed rate floors on most variable loans during 2009, which were typically 125 basis points over the current prime rate. This protected the Bank during a flat rate environment. The challenge will come when rates start to rise and the Bank will be affected by the index spreads also placed on the loans. The Bank worked to increase the spread on loans during 2010 to minimize the impact of an increased prime rate not directly correlating to an increased yield on loans.

Looking at the other side of the balance sheet and the interest cost of funds, a decrease in the cost is apparent for 2010 as compared to both 2009 and 2008. Fortunately, the cost of funds decreased at a faster rate than the asset yield in 2009 and the net interest margin and spread improved over 2008. Unfortunately, in 2010, the asset yield decreased more than the cost of funds and the net interest margin and spread decreased as compared to 2009.

The impact of the change in the portfolio mix was a factor in the liabilities as it was in the assets. All portfolios decreased in cost of funds with the exception of the one, savings deposits, which represented 94% of the growth in average balances between 2010 and 2009. Savings deposits increased $48 million and the cost increased 4 basis points. The growth in balances was related to the growth in the new KASASA product offerings which rewarded customers by paying a higher interest rate for deposits which was offset by noninterest related Bank earnings and savings. By participating in the KASASA Saver product, a customer may have earned as much as 160 basis points more than the Bank's basic savings account. Even with the increased interest cost to the Bank for offering these products, the Bank was still able to decrease its cost of funds by 47 basis points. Time deposits, other borrowed money and securities sold under agreement to repurchase all decreased. The Bank borrowed funds from the Federal Home Loan Bank in the first quarter of 2010, to lock in lower rates to replace maturities coming due in the second through fourth quarter of the year. If the Bank does not borrow any additional funds in 2011, the cost of these funds will again be lower in 2011since the associated expense of the matured advances will be off for a full year. The average balance will also be lower by $7.5 million.

The following tables present net interest income, interest spread and net interest margin for the three years 2008 through 2010, 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.

The percentage of interest earning assets to total assets decreased in 2010 over 2009 and increased slightly in 2009 over 2008 and remained above 90% at a respectable 90.73% and 93.55% for 2010 and 2009, respectively.

As stated previously, the decreased yield on the assets was outpaced by the decreased cost of funds in 2009. The average balances for interest bearing liabilities increased only $17.4 million compared to 2008. While the balance increased, the costs on those funds were significantly lower. The average cost for 2009 was 2.00% compared to 2008’s 2.82%. The balances in noninterest bearing liabilities also increased during the last three years.

As with the yields on assets for 2009, the largest fluctuation in the cost of funds was in the shorter term liabilities, savings deposits. The cost on savings decreased 66% while on time deposits the cost decreased 38%. The Bank has focused on increasing its core deposit base to lessen the dependency on higher cost time deposits. The Bank has also attempted to increase the duration of the time deposits; however, customers have maintained a short-term, twelve month focus.

The yield on Tax-Exempt investments securities shown in the following charts were computed on a tax equivalent basis. The yield on Loans has been tax adjusted for the portion of tax-exempt IDB loans included in the total. Total Interest Earning Assets is therefore also reflecting a tax equivalent yield in both line items, also with the Net Interest Spread and Margin. The adjustments were based on a 34% tax rate.

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	2010 (In Thousands) Average Balance	Interest / Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans (1)	$550,698	$ 32,860	6.00%
Taxable investment securities	176,885	4,847	2.74%
Tax-exempt investment securities	59,537	2,091	5.32%
Federal funds sold & interest bearing deposits	35,195	95	0.27%
Total Interest Earning Assets	822,315	$ 39,893	5.00%
Non-Interest Earning Assets:			
Cash and cash equivalents	14,046		
Other assets	42,096		
Total Assets	$878,457		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$305,426	$ 2,190	0.72%
Other time deposits	321,018	6,936	2.16%
Other borrowed money	37,517	1,459	3.89%
Federal funds purchased and securties sold under agreement to repurchase	46,530	278	0.60%
Total Interest Bearing Liabilities	710,491	$ 10,863	1.53%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	63,108		
Other	10,207		
Total Liabilities	783,806		
Shareholders' Equity	94,651		
Total Liabilities and Shareholders' Equity	$878,457		
Interest/Dividend income/yield		$ 39,893	5.00%
Interest Expense / yield		$ 10,863	1.53%
Net Interest Spread		$ 29,030	3.47%
Net Interest Margin			3.68%

	2009 (In Thousands) Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans (1)	$558,869	$ 33,585	6.04%
Taxable investment securities	146,872	5,798	3.95%
Tax-exempt investment securities	46,736	1,686	5.47%
Federal funds sold & interest bearing deposits	11,937	45	0.38%
Total Interest Earning Assets	764,414	$ 41,114	5.52%
Non-Interest Earning Assets:			
Cash and cash equivalents	19,209		
Other assets	39,007		
Total Assets	$822,630		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$257,345	$ 1,755	0.68%
Other time deposits	317,619	9,252	2.91%
Other borrowed money	38,498	1,727	4.49%
Federal funds purchased and securities sold under agreement to repurchase	45,920	486	1.06%
Total Interest Bearing Liabilities	659,382	$ 13,220	2.00%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	57,630		
Other	13,778		
Total Liabilities	730,790		
Shareholders' Equity	91,840		
Total Liabilities and Shareholders' Equity	$822,630		
Interest/Dividend income/yield		$ 41,114	5.52%
Interest Expense / yield		$ 13,220	2.00%
Net Interest Spread		$ 27,894	3.52%
Net Interest Margin			3.79%

	2008 (In Thousands) Average Balance	Interest/ Dividends	Yield/Rate
ASSETS			
Interest Earning Assets:			
Loans (1)	$544,310	$ 34,994	6.46%
Taxable investment securities	146,877	6,963	4.74%
Tax-exempt investment securities	42,361	1,594	5.70%
Federal funds sold & interest bearing deposits	9,423	273	2.90%
Total Interest Earning Assets	742,971	$ 43,824	6.03%
Non-Interest Earning Assets:			
Cash and cash equivalents	19,399		
Other assets	35,317		
Total Assets	$797,687		
LIABILITIES AND SHAREHOLDERS' EQUITY			
Interest Bearing Liabilities:			
Savings deposits	$240,880	$ 2,760	1.15%
Other time deposits	314,005	12,467	3.97%
Other borrowed money	38,110	1,747	4.58%
Federal funds purchased and securities sold under agreement to repurchase	49,014	1,127	2.30%
Total Interest Bearing Liabilities	642,009	$ 18,101	2.82%
Non-Interest Bearing Liabilities:			
Non-interest bearing demand deposits	53,208		
Other	12,928		
Total Liabilities	708,145		
Shareholders' Equity	89,542		
Total Liabilities and Shareholders' Equity	$797,687		
Interest/Dividend income/yield		$ 43,824	6.03%
Interest Expense / yield		$ 18,101	2.82%
Net Interest Spread		$ 25,723	3.21%
Net Interest Margin			3.60%

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.

	2010 vs 2009 (In Thousands)		
	Net Change	Due to change in Volume	Rate
Interest Earning Assets:			
Loans	$ (725)	$ (494)	$ (231)
Taxable investment securities	(951)	1,185	(2,136)
Tax-exempt investment securities	405	700	(295)
Federal funds sold & interest bearing deposits	50	88	(38)
Total Interest Earning Assets	$ (1,221)	$ 1,479	$ (2,700)
Interest Bearing Liabilities:			
Savings deposits	$ 435	$ 328	$ 107
Other time deposits	(2,316)	99	(2,415)
Other borrowed money	(268)	(44)	(224)
Federal funds purchased and securities sold under agreement to repurchase	(208)	6	(214)
Total Interest Bearing Liabilities	$ (2,357)	$ 389	$ (2,746)

	2009 vs 2008 (In Thousands)		
	Net Change	Due to change in Volume	Rate
Interest Earning Assets:			
Loans	**$ (1,409)**	**$ 941**	**$ (2,350)**
Taxable investment securities	**(1,165)**	**(0)**	**(1,165)**
Tax-exempt investment securities	**92**	**249**	**(157)**
Federal funds sold & interest bearing deposits	**(228)**	**73**	**(301)**
Total Interest Earning Assets	**$ (2,710)**	**$ 1,263**	**$ (3,973)**
Interest Bearing Liabilities:	**$ (1,005)**	**$ 189**	**$ (1,194)**
Savings deposits	**(3,215)**	**143**	**(3,358)**
Other time deposits	**(20)**	**18**	**(38)**
Other borrowed money		**—**	
Federal funds purchased and securities sold under agreement to repurchase	**(641)**	**(71)**	**(570)**
Total Interest Bearing Liabilities	**$ (4,881)**	**$ 279**	**$ (5,160)**

As mentioned in the discussion earlier, in reviewing the 2010 to 2009 comparison, an impact in change due to volume is evident, where as the 2009 to 2008 comparison shows the impact was due mainly to rate. What did remain the same in the two comparisons is that the change in interest in total is still due mainly to rate change. The strategy during 2010 and currently is to extend the maturities of time deposit “specials” to over 24 months to prepare for rising rates. The other strategy employed during 2009 and 2010 was to increase core deposits by offering innovative products focused on customer needs: higher interest rates. In exchange for a high interest-bearing checking account, customers were asked to utilize services that benefited both the Bank and themselves. Smaller time deposit rate shoppers had an option to perhaps change their behavior of banking or those deposits were allowed to run off. The new core deposit products were indeed embraced by our customers and have helped to reach the deposit portfolio mix the Bank was after.

Allowance for Credit Losses

The Company segregates its Allowance for Loan and Lease Losses (ALLL) into two reserves: 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 Bank's ALLL methodology captures trends in leading, current, and lagging indicators which will directly affect the Bank's allocation amount. Trends in such leading indicators as delinquency, unemployment changes in the Bank's service area, experience and ability of staff, regulatory trends, and credit concentrations are referenced. A current indicator such as the total watch list loan amount to Capital, and a lagging indicator such as the charge off amount are referenced as well. A matrix is formed by loan type from these indicators that is responsive in making ALLL adjustments.

The Bank experienced a 7% decrease in Special Mention loan balances as of December 31, 2010 as compared to December 31, 2009. The Bank also experienced a 23% decrease or $8.7 million decrease in Special Mention and Substandard loan balances as of December 31, 2010 as compared to 2009. In response to this decrease, the Bank continued the increase of its ALLL to outstanding loans coverage percentage to 1.08% as of December 31, 2010. As a group, the Special Mention and Substandard loans increased 16.8% or $5.4 million in comparing year-end balances December 31, 2009 to December 31, 2008. In response to this increase, the Bank's ALLL to outstanding loans coverage percentage increased from .97% as of December 31, 2008 to 1.05% as of December 31, 2009.

The above indicators are reviewed quarterly. Some of the indicators are quantifiable and as such will automatically adjust the ALLL once calculated. These indicators include the ratio of past due loans to total loans, loans past due greater than 30 days, and watch list to capital ratios with the watch list made up of loans graded 5,6 or 7 on a 1 to 7 scale, 1 being the best rating. Other indicators use more subjective data to the extent possible to evaluate the potential for inherent losses in the Bank's loan portfolio. For example, the economic indicator uses the unemployment statistics from the communities in our market area to help determine whether the ALLL should be adjusted. At the end of 2010, a slight improvement was noted in unemployment figures and several local firms were calling a small number of employees back from layoff. The current recalls do not begin to approximate the number of positions lost.

All aggregate commercial and agricultural credits include real estate loans of $250,000 and over are reviewed annually by both credit committees and internal loan review to look for early signs of deterioration.

To establish the specific reserve allocation in the instance of real estate, a discount to the market value is established to account for liquidation expenses. The discounting percentage used for real estate mirrors the discounting of real estate as provided for in the Bank's Loan Policy. However, unique or unusual circumstances may be present which will affect the real estate value and, when appropriately identified, can adjust the discounting percentage at the discretion of management.

The ACL decreased $375 thousand during 2010 as compared to 2009. With the decrease in loan balances, the percentage of ACL to the total loan portfolio actually increased from 1.09% as of December 31, 2009 to 1.12% as of December 31, 2010. The ACL increased during 2009 as compared to 2008 as net charge-offs and past due loans had increased during 2009. The increase took into account the high level of nonaccruals and watch list loans and the extended time period it involved for resolution.

Please see Note 4 in the consolidated financial statement for additional tables regarding the composition of the ACL.

Federal Income Taxes

Effective tax rates were 25.44%, 27.26%, and 26.71%, for 2010, 2009, and 2008, respectively. The effect of tax-exempt interest from holding tax-exempt securities and Industrial Development Bonds (IDBs) was $744, $629, and $654 thousand for 2010, 2009, and 2008, respectively.

Financial Condition

Average earning assets increased $57.9 million during 2010 over 2009 and were higher by $79.3 million as compared to 2008. The main cause of fluctuation was the Hicksville acquisition and the repositioning of the balance sheet. Average interest bearing liabilities increased $51.1 million over 2009 and $68.5 million from 2008. The increase in 2009 over 2008 was due to the success of the Reward Checking product to attract funds into the savings deposit bucket. The increase continued into 2010 with the addition of the full line of KASASA products in 2010. It also included an overlapping of $9 million in loan advances from the Federal Home Loan Bank for a couple of quarters.

Securities

The investment portfolio is first used mainly to provide overall liquidity for the Bank. It is also used to provide required collateral for pledging to the Bank's Ohio public depositors for amounts on deposit over the FDIC coverage limits. It may also be used to pledge for additional borrowings from third parties. Investments are made with the above criteria in mind while still seeking a fair market value of return, and looking for maturities that fall within the projected overall strategy of the Bank. The possible need to fund growth is also a consideration.

All of the Bank's security portfolio is categorized as available for sale, with the exception of stock, and as such is recorded at market value.

Security balances as of December 31 are summarized below:

	(In Thousands)		
	2010	2009	2008
U.S. Treasury	$ 32,278	$ 5,219	$ —
U.S. Government agency	165,704	104,676	82,675
Mortgage-backed securities	24,531	36,848	51,826
State and local governments	64,804	60,538	43,160
	$287,317	$207,281	$177,661

The following table sets forth the maturities of investment securities as of December 31, 2010 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 (Amounts in Thousands)			
	Within One Year		After One Year Within Five Years	
	Amount	Yield	Amount	Yield
U.S. Treasury	—	$ 0.00%	$ 22,726	1.06%
U.S. Government agency	—	0.00%	126,890	1.45%
Mortgage-backed securities	1,169	4.25%	2,600	4.31%
State and local governments	2,092	2.21%	15,928	2.77%
Taxable state and local governments	—	0.00%	1,944	3.14%

	Maturities (Amounts in Thousands)			
	After Five Years Within Ten Years		After Ten Years	
	Amount	Yield	Amount	Yield
U.S. Treasury	$ 9,552	1.62%	—	$ 0.00%
U.S. Government agency	38,814	2.26%	—	0.00%
Mortgage-backed securities	2,564	4.70%	18,198	4.63%
State and local governments	28,795	3.31%	15,078	4.23%
Taxable state and local governments	967	3.14%	—	0.00%

As of December 31, 2010 the Bank did not hold a large block of any one investment security, except for U.S. Government agencies. The Bank also holds stock in the Federal Home Loan Bank of Cincinnati at a cost of $4.2 million. This is required in order to obtain Federal Home Loan Bank Loans. The Bank also acquired stock in the Federal Home Loan Bank of Indianapolis at a cost of $231.4 thousand and Banker's Bancorp, Inc at a cost of $50.8 thousand through its acquisition of Knisely Bank. There were no borrowings at the time of acquisition associated with Federal Home Loan Bank of Indianapolis. The Bank had requested Federal Home Loan Bank of Indianapolis to buy back its stock when the acquisition of Knisely was completed in January 2008. A five year waiting period was imposed and the stock will be redeemed in full by January 3, 2013. An early redemption of 42,000 shares occurred in November 2010, decreasing the holdings to a value of $189.4 thousand. The value of the stock in Banker's Bancorp, Inc was written down to zero at the end of 2009 as the institution was taken over by its regulators. The Bank also owns stock of Farmer Mac with a carrying value of $27.4 thousand which is required to participate loans in the program.

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.

Risks are mitigated through an adherence to Loan Policy with any exception being recorded and approved by Senior Management or committees comprised of Senior Management. Loan Policy defines parameters to essential underwriting guidelines such as loan-to-value ratio, cash flow and debt-to-income ratio, loan requirements and covenants, financial information tracking, collection practice and others. Limitation to any one borrower is defined by the Bank's legal lending limits and is stated in policy. On a broader basis, the Bank restricts total aggregate funding in comparison to Bank capital to any one business or agricultural sector by an approved sector percentage to capital limitation.

The following table shows the Bank's loan portfolio by category of loan as of December 31 st of each year, including loans held for sale:

	(In Thousands)				
Loans:	**2010**	**2009**	**2008**	**2007**	**2006**
Commercial real estate	$185,033	$214,849	$226,761	$181,340	$162,363
Agricultural real estate	33,650	41,045	48,607	45,518	49,564
Consumer real estate	95,271	98,599	89,773	102,660	86,688
Commercial and industrial	117,344	120,543	112,526	104,188	101,788
Agricultural	65,400	59,813	56,322	58,809	69,301
Consumer	29,008	32,581	26,469	27,796	27,388
Industrial Development Bonds	1,965	2,552	7,572	9,289	7,335
	$527,671	$569,982	$568,030	$529,600	$504,427

The following table shows the maturity of loans as of December 31, 2010:

	(In Thousands)			
	Within One Year	After One Year Within Five Years	After Five Years	Total
Commercial Real Estate	$ 36,523	$ 105,168	$ 43,342	$185,033
Agricultural Real Estate	2,738	13,546	17,366	33,650
Consumer Real Estate	8,009	23,094	64,168	95,271
Commercial and industrial loans	83,554	25,387	8,403	117,344
Agricultural	48,038	14,196	3,166	65,400
Consumer, Credit Card and Overdrafts	6,002	20,723	2,283	29,008
Industrial Development Bonds	556	446	963	1,965

The following table presents the total of loans due after one year which has either 1) predetermined interest rates (fixed) or 2) floating or adjustable interest rates (variable):

	(In Thousands)		
	Fixed Rate	Variable Rate	Total
Commercial Real Estate	$ 57,162	$ 91,314	$148,476
Agricultural Real Estate	18,918	11,682	30,600
Consumer Real Estate	74,095	13,267	87,362
Commercial and industrial loans	26,831	6,324	33,155
Agricultural	17,138	224	17,362
Consumer, Master Card and Overdrafts	23,006	3,664	26,670
Industrial Development Bonds	1,409	—	1,409

The following table summarizes the Company’s nonaccrual and past due loans as of December 31 for each of the last five years:

	(In Thousands)				
	2010	2009	2008	2007	2006
Nonaccrual loans	$ 5,844	$ 14,054	$ 13,575	4918	4254
Accruing loans past due 90 days or more	48	69	2,524	—	—
Total	$ 5,892	$ 14,123	$ 16,099	$ 4,918	$ 4,254

Although loans may be classified as non-performing, some pay on a regular basis, and 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 $0.91 million for 2010, $2.0 for 2009, and $1.4 for 2008. Any collections of interest on nonaccrual loans are included in interest income when collected unless it is on an impaired loan with a specific allocation. A collection of interest on an impaired loan with a specific allocation is applied to the loan balance to decrease the allocation needed. Total interest collections amounted to $41 thousand for 2010, $290 thousand for 2009, and $332 thousand for 2008. $3 thousand of interest collected in 2010 was applied to reduce the specific allocation, $6 thousand of interest collected in 2009 and $20 thousand of interest collected in 2008 was applied to reduce the specific allocations.

Loans are placed on nonaccrual 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 loss of interest due to the high balances in nonaccruals as of the last three years has significantly impacted the yield on loans. A lower balance of $5.8 million in nonaccrual as of December 31, 2010 is an improvement which should help the yield going forward. The balance of December 31, 2010 nonaccrual loans of $5.8 million and the $14.1 million of nonaccrual loans as of December 31, 2009 were secured.

As of December 31, 2010 the Bank had $27.4 million of loans which it considers to be potential problem loans in that the borrowers are experiencing financial difficulties compared to December 31, 2009 when the Bank had $25.6 million of these loans. These loans are subject to constant management attention and are reviewed at least monthly.

The amount of the potential problem loans was considered in management's review of the loan loss reserve required at December 31, 2010 and 2009.

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, 2010, the Bank had loans outstanding to individuals and firms engaged in the various fields of agriculture in the amount of $65.4 million with an additional $33.7 million in agricultural real estate loans. 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.

Modifications granted are typically for seasonality issues where cash flow is decreased. The time period involved is generally quite short in relation to the loan term. For example, a typical modification may consist of interest only payments for 90 days. We consider this treatment of interest only payments for a short time as an insignificant delay in payment. Consequently, we do not consider these occurrences as "troubled debt restructurings". Interest rate modification to reflect a decrease in market interest rates or maintain a relationship with the debtor, where the debtor is not experiencing financial difficulty and can obtain funding from other sources, is not considered a troubled debt restructuring. As of December 31, 2010, the Bank had almost $3.5 million of its impaired loans that were classified as trouble debt restructurings. The Bank did not have any classified as such as of December 31, 2009. The Bank is occasionally ordered by the courts to give terms to a borrower that are better than what the Bank would like for the risk associated with that credit but not below or beyond rates and terms available for better credits in our market. Therefore, the Bank has not done any modifications that it would classify as "troubled debt restructurings" under those circumstances.

Updated appraisals are required on all collateral dependent loans once they are deemed impaired. The Bank may also require an updated appraisal of a watch list loan which the Bank monitors under their loan policy. On a quarterly basis, Bank management reviews properties supporting asset dependent loans to consider market events that may indicate a change in value has occurred.

To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the existing collateral value used.

Performing non-watch list customers secured in whole or in part by real estate do not require an updated appraisal unless the loan is rewritten and additional funds advanced. Watch List customers secured in whole or in part by real estate require updated appraisals every two years. All loans are subject to loan to values as found in Loan Policy no matter what their grade. Our watch list is reviewed on a quarterly basis by management and any questions to value are addressed at that time.

The majority of the Bank's loans are made in the market by lenders that live and work in the market. Thus, their evaluation of the independent valuation is also valuable and serves as a double check.

On extremely rare occasions, the Bank will make adjustments to the recorded values of collateral securing commercial real estate loans without acquiring an updated appraisal for the subject property. The Bank has no formalized policy for determining when collateral value adjustments between regularly scheduled appraisals are necessary, nor does it use any specific methodology for applying such adjustments. However, on a quarterly basis as part of its normal operations, the Bank's senior management and the Loan Review Committee will meet to review all commercial credits either deemed to be impaired or on the Bank's Watch List. In addition to analyzing the recent performance of these loans, management and the Loan Review Committee will also consider any general market conditions that might warrant adjustments to the value of particular real estate collateralizing commercial loans. In addition, management conducts annual reviews of all commercial loans exceeding certain outstanding balance thresholds. In each of these situations, any information available to management regarding market conditions impacting a specific property or other relevant factors is considered, and lenders familiar with a particular commercial real estate loan and the underlying collateral may be present to provide their opinion on such factors. If the available information leads management to conclude a valuation adjustment is warranted, such an adjustment may be applied on the basis of the information available. If management concludes that an adjustment is warranted but lacks the specific information needed to reasonably quantify the adjustment, management will order a new appraisal on the subject property even though one may not be required under the Bank's general policies for updating appraisal.

Note 4 of the Consolidated Financial Statements may also be reviewed for additional tables dealing with the Bank's loans and ALLL.

ALLL 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 ALLL. The allocated component of ALLL 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 $6.4 million for 2010 preceded by an increase to $3.3 million for 2009. The provision also increased each year for the three years shown. 2010 had provision expense of $5.3 million, 2009 had $3.6 million and 2008 had provision expense of $1.8 million. The Commercial and Industrial portfolio was the only segment in a net recovery for 2008; however it had the largest net charge-off position in 2009 and 2010. The ratio of net charge offs to average loans outstanding is evidence of the recognition of troubled loans and the write down of collateral values. The improvement in asset quality during the periods shown is reflected in the increased percentage of the allowance for loan loss to nonperforming loans.

With the charge-offs going higher in 2009, it became prudent to increase the ALLL for 2009. The increase provides for the high level of nonaccrual and watch list loans and recognizes the extended time period with which it has taken to achieve resolution and/or collection of these loans. The ALLL for 2010 decreased due to the improvement in the asset quality as the balances in impaired loans and nonaccruals were drastically reduced over the same time periods. A smaller portion of the allowance was needed to fund the impaired loans as collateral remained sufficient to cover the outstanding amounts in most cases.

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

	(In Thousands)		
	2010	2009	2008
Loans	$527,589	$569,919	$568,030
Daily average of outstanding loans	$550,698	$558,869	$544,859
Allowance for Loan Losses-Jan 1	$ 6,008	$ 5,496	$ 5,922
Loans Charged off:			
Commercial Real Estate	1,147	—	—
Ag Real Estate	—	—	—
Consumer Real Estate	507	452	194
Commercial and Industrial	4,188	2,235	71
Agricultural	136	230	1,912
Consumer & other loans	444	371	384
	6,422	3,288	2,561
Loan Recoveries:			
Commercial Real Estate	52	—	—
Ag Real Estate	—	—	—
Consumer Real Estate	55	11	87
Commercial and Industrial	515	72	78
Agricultural	17	6	4
Consumer & other loans	156	153	179
	795	242	348
Net Charge Offs	5,627	3,046	2,213
Provision for loan loss	5,325	3,558	1,787
Acquisition provision for loan loss	—	—	—
Allowance for Loan & Lease Losses — Dec 31	$ 5,706	$ 6,008	$ 5,496
Allowance for Unfunded Loan Commitments & Letters of Credit Dec 31	153	227	226
Total Allowance for Credit Losses — Dec 31	$ 5,859	$ 6,235	$ 5,722
Ratio of net charge-offs to average Loans outstanding	1.02%	0.55%	0.41%
Ratio of the Allowance for Loan Loss to Nonperforming Loans	97.63%	42.75%	40.48%

* Nonperforming loans are defined as all loans on nonaccrual, plus any loans past due 90 days not on nonaccrual.

Allocation of ALLL per Loan Category in terms of dollars and percentage of loans in each category to total loans is as follows:

	2010 Amount (000's)	%	2009 Amount (000's)	%	2008 Amount (000's)	%	2007 Amount (000's)	%	2006 Amount (000's)	%
Balance at End of Period Applicable To:										
Commercial Real Estate	$ 1,868	35.07	$ 1,810	37.69	$ 1,810	39.92	$ 1,358	34.24	$ 1,221	32.19
Ag Real Estate	122	6.38	120	7.20	130	8.56	117	8.59	162	9.83
Consumer Real Estate	258	16.31	439	17.30	386	15.80	381	19.38	288	17.19
Commercial and Industrial	2,354	14.23	2,494	21.15	2,278	19.81	1,859	19.67	2,721	20.18
Agricultural	327	22.24	647	10.49	413	9.92	1,676	11.10	250	13.74
Consumer, Overdrafts and other loans	777	5.77	498	6.16	479	5.99	531	7.00	634	6.88
Unallocated	—		—		—		—		318	
Allowance for Loan & Lease Losses	5,706	100.00	6,008	100.00	5,496	100.00	5,922	100.00	5,594	100.00
Off Balance Sheet Commitments	153		227		226		156		168	
Total Allowance for Credit Losses	$ 5,859		$ 6,235		$ 5,722		$ 6,078		$ 5,762	

Deposits

The amount of outstanding time certificates of deposits and other time deposits in amounts of $100,000 or more by maturity as of December 31, 2010 are as follows:

	(In Thousands) Under Three Months	Over Three Months Less than Six Months	Over Six Months Less Than One Year	Over One Year
Time Deposits	$ 30,925	$ 25,178	$ 24,969	$ 51,299

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

	(In Thousands) Non-Interest DDAs	Interest DDAs	Savings Accounts	Time Accounts
December 31, 2010:				
Average balance	$ 60,489	$167,382	$138,044	$321,018
Average rate	0.00%	0.96%	0.42%	2.16%
December 31, 2009:				
Average balance	$ 55,793	$145,259	$112,086	$317,619
Average rate	0.00%	1.02%	0.24%	2.91%
December 31, 2008:				
Average balance	$ 52,152	$130,887	$109,993	$314,005
Average rate	0.00%	1.46%	0.77%	3.97%

Liquidity

Liquidity remains high with the Bank also having access to $27 million of unsecured borrowings through correspondent banks and $76 million of unpledged securities which may be sold or used as collateral. An additional $6.2 million is also available from the Federal Home Loan Bank based on current collateral pledging with up to $115 million available provided adequate collateral is pledged.

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 $274 million for 2010, compared to $216 million for 2009, and $220 million for 2008. This represented 31.25 percent, 26.3 percent, and 28.0 percent of total average assets, respectively. Of the almost $288 million of debt securities in the company's portfolio as of December 31, 2010, $39 million or 13.7 percent of the portfolio is expected to receive payments or mature in 2011. Taking into consideration possible calls of the debt securities, the amount climbs to $62 million or 21.7 percent of the portfolio becomes a source of funds. The availability of the funds may be reduced by the need to utilize securities for pledging purposes on public deposits. This liquidity provides the opportunity to fund loan growth without having to aggressively price deposits.

Historically, the primary source of liquidity has been core deposits that include noninterest bearing and interest bearing demand deposits, savings, money market accounts and time deposits of individuals. Core deposits increased as of year end balances in 2010, in all categories. Overall deposits increased an average of $53.2 million during 2010 compared to 2009's increase over 2008 of $29.3 million in average deposits. These represent changes of 8.3 percent and 4.8 percent in average total deposits, respectively. The Bank also utilized Federal Funds purchased at times during 2010. The average balance for 2010 was $13 thousand.

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 average loan to deposit ratio for 2010 was 78.13 percent, 2009 was 85.95 percent, and 2008 was 87.81 percent. The lower ratio in 2010 and 2009 was due to the success of the deposit gathering function and the residential mortgage loans being sold in the secondary market. The lower ratio in 2008 is due to the lower loan to deposit ratio of the acquisition and utilizing excess funds to grow loans. 2007 represented the increased loan growth outpacing deposit growth. The Company's goal is for this ratio to be higher with loan growth the driver; however, this was difficult to achieve in 2009 with borrowers taking a conservative approach to increasing their liabilities.

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 $51.2 million at the end of 2010 compared to $43.3 million at the end of 2009 and to $48.2 million at the end of 2008. Though no federal funds were purchased at year end, the Bank does have arrangements with correspondent Banks that can be utilized when necessary. Following is a table showing the daily securities sold under agreement to repurchase activity for 2010, 2009, and 2008. These accounts are used to provide a sweep product to the Bank's commercial customers. The decrease in balances during 2009 was due to business' discontinuing the sweep as the cost of fees were higher than the interest benefit on lower balance accounts. These funds may return in the future when short-term rates increase.

Daily Securities Sold Under Agreement to Repurchase

	Amount Outstanding at End of Period (000'S)	Weighted Average Rate End of Period	Maximum Amount Borrowings Outstanding Month End (000's)	Approximate Average Outstanding in Period (000's)	Approximate Weighted Average Interest Rate For the period
2010	$ 37,191	0.36%	$ 37,501	$ 34,046	0.36%
2009	$ 33,457	0.42%	$ 40,530	$ 37,696	0.48%
2008	$ 40,014	0.50%	$ 47,644	$ 40,113	1.96%

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 decreased by $4.3 million to $29.9 million at December 31, 2010. This compares to decreased borrowings during 2009 of $11.4 million to $34.2 million at December 31, 2009 and increased borrowings during 2008 of $13.8 million to $45.6 million to end at December 31, 2008. The increased borrowings in 2008 and 2007 were used to fund loan growth and were a cheaper source of funds than certificate of deposits. The decreased borrowings were payoffs of matured notes in 2009. Sufficient funds were available to fund growth so new advances were not needed in 2009.

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, re-pricing 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 re-price in a time frame or interest rate environment that is different from that of the re-pricing 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 service.

Contractual Obligations

Contractual Obligations of the Company totaled $399.4 million as of December 31, 2010. 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 is further defined in Note 4 and 9 of the Consolidated Financial Statements.

	Payment Due by Period (In Thousands)				
Contractual Obligations	**Total**	**Less than 1 year**	**1-3 Years**	**3-5 Years**	**More than 5 years**
Securities sold under agreement to repurchase	$ 51,241	$ 51,241	$ —	$ —	$ —
Time Deposits	317,364	176,254	106,498	33,211	1,401
Dividends Payable	894	894	—	—	—
Long Term Debt	29,874	13,212	12,162	4,500	—
Total	$399,373	$ 241,601	$ 118,660	$ 37,711	$ 1,401

Capital Resources

Stockholders' equity was $94.4 million as of December 31, 2010 compared to $93.6 million at December 31, 2009. Dividends declared during 2010 were $0.73 per share totaling $3.44 million and 2009 were $0.72 per share totaling $3.41 million. During 2010, the Company purchased 48,130 shares and awarded 10,150 restricted shares to 53 employees under its long term incentive plan. During 2009, the Company purchased 28,907 shares and awarded 10,000 restricted shares to 49 employees. For a summary of activity as it relates to the Company's restricted stock awards, please refer to Note 11: Employee Benefit Plans in the consolidated financial statements. At year end 2010, the Company held 477,106 shares in Treasury stock and 28,925 shares in unearned stock awards as compared to 2009, the Company held 437,551 shares in Treasury stock and 27,775 in unearned stock awards. On January 21, 2011 the Company announced the authorization by its Board of Directors for the Company's repurchase, either on the open market, or in privately negotiated transactions, of up to 200,000 shares of its outstanding common stock commencing January 21, 2011 and ending December 31, 2011.

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, 2010, The Farmers & Merchants State Bank and Farmers & Merchants Bancorp, Inc had total risk-based capital ratios of 14.88% and 14.95%, respectively. Core capital to risk-based asset ratios of 11.56% and 14.02% are well in excess of regulatory guidelines. The Bank's leverage ratio of 8.1% is also substantially in excess of regulatory guidelines as is the Company's at 9.82%.

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

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 we are subject is interest rate risk. The majority of our 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 re-price 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. 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. The Company employs a sensitivity analysis utilizing interest rate shocks to help in this analysis.

The shocks presented below assume an immediate change of rate in the percentages and directions 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**
2.91%	-0.19%	Rising	-6.10%	24,633	-6.54%
2.98%	-0.13%	Rising	-4.02%	25,221	-4.31%
3.04%	-0.07%	Rising	-2.19%	25,739	-2.34%
3.10%	0.00%	Flat	0	26,356	0.00%
3.13%	0.03%	Falling	0.86%	26,607	0.95%
3.03%	-0.07%	Falling	-2.34%	25,733	-2.36%
2.92%	-0.18%	Falling	-5.87%	24,765	-6.04%

The shock chart currently shows a tightening in net interest margin over the next twelve months in a rising rate environment. It shows expansion of net interest margin should rates fall. Both directional changes are well within risk exposure guidelines. The effect of the rate shocks may be mitigated to the extent that not all lines of business are directly tied to an external index.

ITEM 8. FINANCIAL STATEMENTS

Index To Consolidated Financial Statements

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Report of Independent Registered Public Accounting Firm

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

We have audited the accompanying consolidated balance sheets of Farmers & Merchants Bancorp, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2010. We also have audited the Company's internal control over financial reporting as of December 31, 2010, 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 these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying financial statements. Our responsibility is to express an opinion on these financial statements and an opinion on the company's internal control over financial reporting based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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. 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 its 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, the financial statements referred to above present fairly, in all material respects, the financial position of Farmers & Merchants Bancorp, Inc. and Subsidiaries as of December 31, 2010 and 2009, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2010 in conformity with accounting principles generally accepted in the United States of America. 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, 2010, based on criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

/s/ Plante & Moran, PLLC
Plante & Moran, PLLC

February 25, 2011
Columbus, Ohio

Farmers & Merchants Bancorp, Inc and Subsidiaries

Consolidated Balance Sheet
December 31, 2010 and 2009
(000's Omitted, Except Per Share Data)

Farmers & Merchants Bancorp, Inc and Subsidiaries
Consolidated Balance Sheet
December 31, 2010 and 2009

	2010	2009
Assets		
Assets		
Cash and due from banks (Note 1)	$ 28,987	$ 28,691
Federal Funds Sold	14,392	4,957
Total cash and cash equivalents	43,379	33,648
Securities — available for sale (Note 3)	287,317	207,281
Other Securities, at cost (Note 3)	4,406	4,448
Loans, net (Note 4)	521,883	563,911
Premises and equipment (Note 5)	17,202	16,053
Goodwill (Note 2)	4,074	4,074
Mortgage Servicing Rights (Note 6)	2,178	2,177
Other Real Estate Owned	4,468	1,438
Other assets (Note 2)	21,456	20,830
Total Assets	$906,363	$853,860
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 70,554	$ 65,302
Interest-bearing		
NOW accounts	176,897	160,432
Savings	159,698	123,753
Time (Note 7)	317,364	326,957
Total deposits	724,513	676,444
Securities sold under agreement to repurchase (Note 8)	51,241	43,257
FHLB Advances (Note 9)	29,874	34,199
Dividend payable	894	853
Accrued expenses and other liabilities (Note 10)	5,438	5,523
Total liabilities	811,960	760,276
Stockholders' Equity (Note 14 and 15)		
Common stock — No par value - 6,500,000 shares authorized; 5,200,000 shares issued & outstanding	12,677	12,677
Treasury Stock - 477,106 Shares 2010, 437,551 Shares 2009	(9,799)	(9,082)
Unearned Stock Awards - 28,925 Shares 2010, 27,775 Shares 2009	(580)	(573)
Retained earnings	91,567	88,048
Accumulated other comprehensive income	538	2,514
Total stockholders' equity	94,403	93,584
Total Liabilities and Stockholders' Equity	$906,363	$853,860

See Notes to Consolidated Financial Statements

Farmers & Merchants Bancorp, Inc and Subsidiaries

Consolidated Statement of Income
Years Ended December 31, 2010, 2009 and 2008
(000's Omitted, Except Per Share Data)

Farmers & Merchants Bancorp, Inc. and Subsidiaries
Consolidated Statement of Income
December 31, 2010, 2009 and 2008

	2010	2009	2008
Interest Income			
Loans, including fees	$ 32,860	$ 33,585	$ 34,994
Debt securities:			
U.S. Treasury and government agency	4,583	5,496	6,634
Municipalities	2,167	1,788	1,697
Dividends	188	200	226
Federal funds sold	26	19	273
Other	69	26	—
Total interest income	39,893	41,114	43,824
Interest Expense			
Deposits	9,126	11,007	15,227
Federal funds purchased and securities sold under agreements to repurchase	278	486	1,127
Borrowed funds	1,459	1,727	1,747
Total interest expense	10,863	13,220	18,101
Net Interest Income — Before provision for loan losses	29,030	27,894	25,723
Provision for Loan Losses (Note 4)	5,325	3,558	1,787
Net Interest Income After Provision For Loan Losses	23,705	24,336	23,936
Noninterest Income			
Customer service fees	3,464	3,276	3,436
Other service charges and fees	3,062	2,541	2,322
Net gain on sale of loans	1,395	1,776	708
Net gain on sale of securities (Note 3)	956	230	15
Total noninterest income	8,877	7,823	6,481
Noninterest Expenses			
Salaries and Wages	8,773	8,601	8,715
Employee benefits (Note 11)	2,909	3,018	3,018
Net occupancy expense	1,099	1,113	1,029
Furniture and equipment	1,504	1,504	1,443
Data processing	953	1,136	1,234
Franchise taxes	904	914	863
FDIC Assessment	1,053	1,306	151
Mortgage servicing rights amortization (Note 6)	683	933	370
Other general and administrative	5,341	4,554	4,421
Total other operating expenses	23,219	23,079	21,244
Income Before Income Taxes	9,363	9,080	9,173
Income Taxes (Note 10)	2,382	2,475	2,450
Net Income	$ 6,981	$ 6,605	$ 6,723
Earnings Per Share — Basic and Diluted	$ 1.48	$ 1.39	$ 1.39
Weighted Average Shares Outstanding	4,721,235	4,741,392	4,846,310

See Notes to Consolidated Financial Statements

Farmers & Merchants Bancorp, Inc. and Subsidiaries

Consolidated Statement of Changes in Shareholders Equity
For the Years Ended December 31, 2010, 2009 and 2008
(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 01, 2008	4,943,840	$ 12,677	$ (5,366)	$ (391)	$ 81,575	$ 880	$ 89,375
Cumulative effect of adoption of EITF 06-4 for post retirement liability					(152)		(152)
Comprehensive income (Note 1):							
Net income					6,723		6,723
Change in net unrealized gain on securities sale, net of reclassification adjustment and tax						1,356	1,356
Total comprehensive income							8,079
Purchase of Treasury Stock	(171,889)		(3,576)				(3,576)
Shares issued for vested stock awards				98			98
Grant of Restricted Stock Awards-10,000 shares (Net of Forfeiture — 245)	9,755		215	(210)			5
Cash dividends declared — $0.68 per share					(3,282)		(3,282)
Balance — December 31, 2008	4,781,706	$ 12,677	$ (8,727)	$ (503)	$ 84,864	$ 2,236	$ 90,547
Comprehensive income (Note 1):							
Net income					6,605		6,605
Change in net unrealized gain on securities sale, net of reclassification adjustment and tax						278	278
Total comprehensive income							6,883
Purchase of Treasury Stock	(28,907)		(555)				(555)
Shares issued for vested stock awards				123			123
Grant of Restricted Stock Awards-10,000 shares (Net of Forfeiture — 350)	9,650		200	(193)	(8)		(1)
Cash dividends declared — $0.72 per share					(3,413)		(3,413)
Balance — December 31, 2009	4,762,449	$ 12,677	$ (9,082)	$ (573)	$ 88,048	$ 2,514	$ 93,584
Comprehensive income (Note 1):							
Net income					6,981		6,981
Change in net unrealized gain on securities sale, net of reclassification adjustment and tax						(1,976)	(1,976)
Total comprehensive income							5,005
Purchase of Treasury Stock	(48,130)		(894)				(894)
Shares issued for vested stock awards				151			151
Grant of Restricted Stock Awards-10,150 shares (Net of Forfeiture — 1,575)	8,575		177	(158)	(18)		1
Cash dividends declared — $0.73 per share					(3,444)		(3,444)
Balance — December 31, 2010	4,722,894	$ 12,677	$ (9,799)	$ (580)	$ 91,567	$ 538	$ 94,403

See notes to Consolidated Financial Statements

Farmers & Merchants Bancorp, Inc and Subsidiaries

Consolidated Statement of Cash Flows
Years Ended December 31, 2010, 2009 and 2008
(000's Omitted)

	2010	2009	2008
Cash Flows from Operating Activities			
Net income	$ 6,981	$ 6,605	$ 6,723
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation	1,147	1,171	1,132
Amortization of servicing rights	684	933	370
Amortization of Core Deposit Intangible	235	157	157
Provision for loan loss	5,325	3,558	1,787
Gain on sale of loans held for sale	(1,392)	(1,203)	(968)
Originations of loans held for sale	(83,705)	(118,491)	(36,765)
Proceeds from sale of loans held for sale	82,315	118,284	37,735
Accretion and amortization of securities	1,595	809	300
Deferred income tax expense (benefit)	210	142	(39)
Loss on sale of other assets	109	75	194
Gain on sales of securities	(956)	(230)	(15)
Change in other assets and other liabilities, net	(1,113)	(6,026)	(1,943)
Net cash provided by operating activities	11,435	5,784	8,668
Cash Flows from Investing Activities			
Activity in securities:			
Sales	55,700	16,333	25
Maturities, prepayments and calls	104,602	78,292	75,084
Purchases	(244,812)	(124,354)	(65,580)
Loan and lease originations and principal collections, net	38,094	(3,723)	(41,268)
Proceeds from sales of assets	716	494	1,102
Additions to premises and equipment	(2,294)	(412)	(1,081)
Net cash paid for acquisition	(1,141)	—	—
Net cash used in investing activities	(49,135)	(33,370)	(31,718)
Cash Flows from Financing Activities			
Net increase (decrease) in deposits	48,069	60,712	(18,861)
Net change in federal funds purchased and securities sold under agreements to repurchase	7,984	(4,957)	6,885
Proceeds from issuance of long-term debt	9,000	—	19,600
Repayment of long-term debt	(13,326)	(11,436)	(5,781)
Purchase of Treasury Stock	(894)	(555)	(3,576)
Cash dividends paid on common stock	(3,402)	(3,417)	(3,217)
Net cash provided by (used) financing activities	47,431	40,347	(4,950)
Net Increase (Decrease) in Cash and Cash Equivalents	9,731	12,761	(28,000)
Cash and Cash Equivalents — Beginning of Year	33,648	20,887	48,887
Cash and Cash Equivalents — End of Year	$ 43,379	$ 33,648	$ 20,887
Supplemental Information Cash paid during the year for:			
Interest	$ 11,244	$ 13,275	$ 18,756
Income taxes	$ 1,875	$ 2,725	$ 2,445

See Notes to Consolidated Financial Statements

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) provides a variety of financial services to individuals and small businesses through its offices in Northwest Ohio and Northeast Indiana.

Consolidation Policy

The consolidated financial statements include the accounts of Farmers & Merchants Bancorp, Inc. and its wholly-owned subsidiary, The Farmers & Merchants State Bank (the Bank), a commercial banking institution. 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, goodwill, other real estate owned and impaired loans. 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 an original 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.

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 was $3.3 million for December 31, 2010 and it was $4.0 million for December 31, 2009.

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

Note 1 — Summary of Significant Accounting Policies (Continued)

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.

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.

Other Securities

Other Securities consists of Federal Home Loan Bank of Cincinnati and Indianapolis stock and Farmer Mac stock. These stocks are carried at cost and are held to enable the Bank to conduct business with the entities. The Federal Home Loan Banks sell and purchase their stock at par; therefore cost approximates market value. The Federal Home Loan Bank of Cincinnati 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 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 collectability of the loans in light of historical experiences, 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 subject to 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 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

Note 1 — Summary of Significant Accounting Policies (Continued)

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 and agricultural 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.

At 120 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency.

For the majority of the Bank's impaired loans, the Bank will apply the observable market price methodology. However, the Bank may also utilize a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the collateral value used.

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

For more information regarding the actual composition and classification of loans involved in the establishment of the allowance for loan loss, please see Note 4 provided here with the notes to consolidated financial statements.

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.

Note 1 — Summary of Significant Accounting Policies (Continued)

Goodwill and other Intangible Assets

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually with the assistance of an independent third party for impairment and any such impairment is recognized in the period identified. No impairment has been recognized from the goodwill established from the Bank's acquisition which occurred on December 31, 2007.

Other intangible assets consist of core deposit intangible assets arising from business acquisitions. They are initially measured at fair value and then are amortized on a straight line method over their estimated useful lives.

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.

Foreclosed Real Estate

Foreclosed real estate held for sale is carried at the lower of fair value minus estimated costs to sell, or cost. Costs of holding foreclosed real estate are charged to expense in the current period, except for significant property improvements, which are capitalized. Valuations are periodically performed by management and an allowance is established by a charge to non-interest expense if the carrying value exceeds the fair value minus estimated costs to sell. Foreclosed real estate is classified as other real estate owned. The net income from operations of foreclosed real estate held for sale is reported in non-interest income. At December 31, 2010, the Bank's holding of other real estate owned totaled approximately $4.5 million.

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.

Earnings Per Share

Basic earnings per share represent income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Basic and dilutive earnings per share are the same as the restricted stock grants are primarily anti-dilutive. As of December 31, 2010, the Company held 28,925 shares of anti-dilutive restricted stock awards.

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.

Note 1 — Summary of Significant Accounting Policies (Continued)

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

	(In Thousands)		
	2010	2009	2008
Net unrealized gain (loss) on available-for-sale securities	$ (2,037)	$ 701	$ 2,055
Reclassification adjustment for gain on sale of available-for-sale securities	(956)	(281)	—
Net unrealized gains (losses)	(2,993)	420	2,055
Tax effect	(1,017)	142	699
Other comprehensive income (loss)	$ (1,976)	$ 278	$ 1,356

Other securities, not classified as available for sale, had a realized loss of $51 thousand for 2009 and a $15 thousand gain in 2008. Those amounts are not included in the above table.

Post Retirement Liability

Effective in 2008, liability and related compensation costs are recognized for endorsement split-dollar life insurance policies that provide a benefit to an employee extending to postretirement periods. This accounting pronouncement was applied as a change in accounting principle through a cumulative-effect adjustment to retained earnings as of January 01, 2008 approximating $152,000.

Reclassification

Certain amounts in the 2009 and 2008 consolidated financial statements have been reclassified to conform with the 2010 presentation.

Recent Accounting Pronouncements

In July 2010, FASB issued ASU No. 2010-20 “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses”. The standard requires the Company to expand disclosures about the credit quality of our loans and the related reserves against them. The additional disclosures will include details on our past due loans and credit quality indicators. For public entities, ASU 2010-20 disclosures of period-end balances are effective for interim and annual reporting periods ending on or after December 15, 2010 and are included in Note 4 of the financial statements. Disclosures related to activity that occurs during the reporting period are required for interim and annual reporting periods beginning on or after December 15, 2010. The Company will adopt the disclosures related to the activity that occurs during the reporting period beginning with our March 31, 2011 consolidated financial statements.

In January 2010, the FASB issued ASU No. 2010-06 “Fair Value Measurements and Disclosures (Topic 820) — Improving Disclosures about Fair Value Measurements.” ASU 2010-06 amends the fair value disclosure guidance. The amendments include new disclosures and changes to clarify existing disclosure requirements. ASU 2010-06 was effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances, and settlements of Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The impact of ASU 2010-06 on the Company’s disclosures is reflected in Note 16 (Fair Value of Financial Instruments) of the consolidated financial statements.

Note 2 — Business Combination & Asset Purchase

On December 31, 2007, the Bank acquired 100% of the outstanding shares of Knisely Bank. Knisely Bank was merged with and into the Bank, and the Knisely Bank offices now operate as branches of the Bank. The merger enabled the Company to increase its market share in a community contiguous to its existing markets.

The aggregate acquisition cost of Knisely Bank was $10.4 million, which was all paid in cash. Direct acquisition costs approximated $222 thousand. The acquisition cost in excess of the net assets and identifiable intangible

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Note 2 — Business Combination & Asset Purchase (Continued)

assets acquired, has been recorded as goodwill of $4.1 million. Goodwill that is deductible for tax purposes is approximately $3.85 million.

On July 9, 2010 the Bank completed its purchase of a branch office in Hicksville, Ohio from First Place Bank. Deposits of approximately $28 million and loans of $14 million were included in the purchase. The new office is located within the Bank's current market area, shortening the distance between offices in the Ohio and Indiana market area. The following table summarizes the estimated values of the assets acquired and the liabilities assumed:

(Dollars in Thousands)	
Cash	$ 114
Loans, Net of Discount	13,792
Accrued Interest on Loans	64
Premises and Equipment	1,803
Core Deposit Intangible Asset	1,087
Other Assets	11
Total Assets Acquired	$ 16,871
Deposits	$ 27,749
Accrued Interest on Deposits	13
Other Liabilities	10
Total Liabilities Assumed	$ 27,772
Net Liabilities Assumed	$(10,901)

In connection with the Knisely acquisition, the Company recognized a core deposit intangible asset of $1.1 million, which is being amortized on a straight line basis over 7 years, which represents the estimated remaining economic useful life of the deposits.

The Company also recognized core deposit intangible assets of $1.09 million with the purchase of the Hicksville office. These are being amortized over an estimated remaining economic useful life of the deposits of 7 years on a straight line basis.

The estimated amortization expense for the years ended December 31, 2010, 2009 and 2008 was $235, $157 and $157 thousand, respectively. Amortization expense of the core deposit intangible assets remaining is as follows:

		(In Thousands)	
	Knisley	Hicksville	Total
2011	$ 157	$ 155	$ 312
2012	157	155	312
2013	157	155	312
2014	157	155	312
2015	—	155	155
Thereafter	—	235	235
Total	$ 628	$ 1,010	$ 1,638

Note 3 — Securities

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

	(In Thousands) 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale:				
U.S. Treasury	$ 32,698	$ —	$ (420)	$ 32,278
U.S. Government agency	166,000	1,308	(1,604)	165,704
Mort gage-backed securities	23,282	1,249	—	24,531
St ate and local governments	64,522	792	(510)	64,804
Total available-for-sale securities	$286,502	$ 3,349	$ (2,534)	$287,317

	(In Thousands) 2009			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Market Value
Available-for-Sale:				
U.S. Treasury	$ 5,244	$ —	$ (25)	$ 5,219
U.S. Government agency	103,311	1,501	(136)	104,676
Mort gage-backed securities	35,209	1,639	—	36,848
St ate and local governments	59,708	1,009	(179)	60,538
Total available-for-sale securities	$203,472	$ 4,149	$ (340)	$207,281

Investment securities will at times depreciate to an unrealized loss position. The Bank utilizes the following criteria to assess whether impairment is other than temporary. No one item by itself will necessarily signal that a security should be recognized as an other than temporary impairment.

1. The fair value of the security has significantly declined from book value.
2. A downgrade has occurred that lowered the credit rating to below investment grade (below Baa3 by Moody and BBB — by Standard and Poors.)
3. Dividends have been reduced or eliminated or scheduled interest payments have not been made.
4. The underwater security has longer than 10 years to maturity and the loss position had existed for more than 3 years.
5. Management does not possess both the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the impairment is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value, thereby establishing a new cost basis. The new cost basis shall not be changed for subsequent recoveries in fair value. The amount of the write down shall be included in current earnings as a realized loss. The recovery in fair value, if any, shall be recognized in earnings when the security is sold. The table below is presented by category of security and length of time in a continuous loss position. The Bank currently does not hold any securities with other than temporary impairment.

Note 3 — Securities (Continued)

Information pertaining to securities with gross unrealized losses at December 31, 2010 and 2009, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	2010			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ (420)	$ 32,278	$ —	$ —
U.S. Government agency	(1,604)	88,026	—	—
Mortgage-backed securities	—	—	—	—
State and local governments	(411)	20,386	(99)	11,302
Total available-for-sales securities	$ (2,435)	$ 140,690	$ (99)	$ 11,302

	2009			
	(In Thousands) Less Than Twelve Months		(In Thousands) Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ (25)	$ 5,219	$ —	$ —
U.S. Government agency	(136)	14,355	—	—
Mortgage-backed securities	—	—	—	—
State and local governments	(179)	15,754	—	—
Total available-for-sales securities	$ (340)	$ 35,328	$ —	$ —

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)		
	2010	2009	2008
Gross realized gains	$ 956	$ 281	$ 15
Gross realized losses	—	(51)	—
Net realized gains	$ 956	$ 230	$ 15
Tax expense related to net realized gains	$ 325	$ 78	$ 5

Note 3 — Securities (Continued)

The amortized cost and fair value of debt securities at December 31, 2010, 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	$ 2,067	$ 2,092
After one year through five years	167,779	167,488
After five years through ten years	78,167	78,128
After ten years	15,207	15,078
Total	$263,220	$262,786
Mortgage-backed securities	23,282	24,531
Total	$286,502	$287,317

Investments with a carrying value and fair value of $186.8 million at December 31, 2010 and $167.3 million at December 31, 2009 were pledged to secure public deposits and securities sold under repurchase agreements.

Other securities include Federal Home Loan Bank of Cincinnati and Indianapolis stock and Farmer Mac stock as of December 31, 2010. The stock is carried at cost, which approximates fair value. The loss recognized in 2009 was Bankers Bank stock which was written down to a carrying value of zero in December 2009 for a loss of $51 thousand.

Note 4 — Loans

Loans at December 31 are summarized below:

	(In Thousands)	
Loans:	2010	2009
Commercial real estate	$185,033	$214,849
Agricultural real estate	33,650	41,045
Consumer real estate	95,271	98,599
Commercial and industrial	117,344	120,543
Agricultural	65,400	59,813
Consumer	29,008	32,581
Industrial Development Bonds	1,965	2,552
	527,671	569,982
Less: Net deferred loan fees and costs	(82)	(63)
	527,589	569,919
Less: Allowance for loan losses	(5,706)	(6,008)
Loans — Net	$521,883	$563,911

Note 4 — Loans (Continued)

The following is a maturity schedule by major category of loans:

	(In Thousands) Within One Year	After One Year Within Five Years	After Five Years	Total
Commercial Real Estate	$ 36,523	$ 105,168	$ 43,342	$185,033
Agricultural Real Estate	2,738	13,546	17,366	33,650
Consumer Real Estate	8,009	23,094	64,168	95,271
Commercial and industrial	83,554	25,387	8,403	117,344
Agricultural	48,038	14,196	3,166	65,400
Consumer	6,002	20,723	2,283	29,008
Industrial Development Bonds	556	446	963	1,965
	$185,420	$ 202,560	$139,691	$527,671

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of December 31, 2010:

	(In Thousands) Fixed Rate	Variable Rate
Commercial Real Estate	$ 67,936	$117,097
Agricultural Real Estate	19,983	13,667
Consumer Real Estate	76,161	19,110
Commercial and industrial	92,950	24,394
Agricultural	58,939	6,461
Consumer	23,959	5,049
Industrial Development Bonds	1,965	—

As of December 31, 2010 and 2009 one to four family residential mortgage loans amounting to $75.3 million and $73.1 million, respectively, have been pledged as security for loans the Bank has received from the Federal Home Loan Bank.

The percentage of delinquent loans has trended downward since the beginning of 2010 from a high of 2.85% of total loans in January to a low of 1.09% as of the end of December 2010. These percentages do not include nonaccrual loans which are not past due. This level of delinquency is due in part to an adherence to sound underwriting practices over the course of time, an improvement in the financial status of companies to which the Bank extends credit, continued financial stability in the agricultural loan portfolio, and the writing down of uncollectable credits in a timely manner.

Industrial Development Bonds are included in the commercial and industrial category for the remainder of the tables in this Note 4.

The following table represents the contractual aging of the recorded investment in past due loans by class or loans as of December 31, 2010 (in thousands):

Note 4 — Loans (Continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
December 31, 2010							
Consumer real estate	$ 610	$ 29	$ 169	$ 808	$ 94,463	$ 95,271	$ —
Agricultural real estate	—	—	—	—	33,650	33,650	—
Agricultural	—	—	1,474	1,474	63,926	65,400	—
Commercial Real Estate	548	—	445	993	184,040	185,033	—
Commercial and Industrial	957	52	831	1,840	117,469	119,309	15
Consumer	147	6	33	186	28,822	29,008	33
Total	$ 2,262	$ 87	$ 2,952	$ 5,301	$522,370	$ 527,671	$ 48

The following table presents the recorded investment in nonaccrual loans by class or loans as of December 31, 2010 (in thousands):

	2010
Consumer real estate	$ 587
Agricultural real estate	531
Agriculture	1,474
Commercial real estate	1,705
Commercial and industrial	1,543
Consumer	4
Total	$ 5,844

The Bank uses a nine tier risk rating system to grade its loans. The grade of a loan may change during the life of the loan. The risk ratings are described as follows.

1. Zero (0) Unclassified. Any loan which has not been assigned a classification.

2. One (1) Excellent. Credit to premier customers having the highest credit rating based on an extremely strong financial condition, which compares favorably with industry standards (upper quartile of RMA ratios). Financial statements indicate a sound earnings and financial ratio trend for several years with satisfactory profit margins and excellent liquidity exhibited. Prime credits may also be borrowers with loans fully secured by highly liquid collateral such as traded stocks, bonds, certificates of deposit, savings account, etc. No credit or collateral exceptions exist and the loan adheres to the Bank’s loan policy in every respect. Financing alternatives would be readily available and would qualify for unsecured credit. This grade is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.

3. Two (2) Good. Desirable loans of somewhat less stature than Grade 1, but with strong financial statements. Loan supported by financial statements containing strong balance sheets, generally with a leverage position less than 1.50, and a history of profitability. Probability of serious financial deterioration is unlikely. Possessing a sound repayment source (and a secondary source), which would allow repayment in a reasonable period of time. Individual loans backed by liquid personal assets, established history and unquestionable character.

4. Three (3) Satisfactory. Satisfactory loans of average or slightly above average risk — having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects should normally demonstrate acceptable debt service coverage. Generally, customers should have a leverage position less than 2.00. May be some weakness but with offsetting features of other support readily available. Loans that are meeting the terms of repayment.

Note 4 — Loans (Continued)

Loans may be graded 3 when there is no recent information on which to base a current risk evaluation and the following conditions apply:

At inception, the loan was properly underwritten and did not possess an unwarranted level of credit risk;

a. At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss;

b. The loan exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance;

c. During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the business is in an industry which is known to be experiencing problems. If any of the credit weaknesses is observed, a lower risk grade is warranted.

5. Four (4) Satisfactory / Monitored. A “4” (Satisfactory/Monitored) risk grade may be established for a loan considered satisfactory but which is of average credit risk due to financial weakness or uncertainty. The loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in Satisfactory/Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given management supervision.

6. Five (5) Special Mention. Loans that possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a 5 (Special Mention) classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered “potential”, versus “defined”, impairments to the primary source of loan repayment and collateral.

7. Six (6) Substandard. One or more of the following characteristics may be exhibited in loans classified substandard:

   a. Loans, which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source, are uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.

   b. Loans are inadequately protected by the current net worth and paying capacity of the borrower.

   c. The primary source of repayment is weakened, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.

   d. Loans are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.

   e. Unusual courses of action are needed to maintain a high probability of repayment.

   f. The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.

   g. The lender is forced into a subordinate position or unsecured collateral position due to flaws in documentation.

   h. Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.

   i. The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan

   j. There is significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

8. Seven (7) Doubtful. One or more of the following characteristics may be exhibited in loans classified Doubtful:

   a. Loans have all of the weaknesses of those classified as Substandard. Additionally, however, these weaknesses make collection or liquidation in full based on existing conditions improbable.

   b. The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.

   c. The possibility of loss is high, but, because of certain important pending factors which may strengthen the loan, loss classification is deferred until its exact status is known. A Doubtful classification is established deferring the realization of the loss.

Note 4 — Loans (Continued)

9. Eight (8) Loss. Loans are considered uncollectable and of such little value that continuing to carry them as assets on the institution's financial statements is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

The following table represents the risk category of loans by class based on the most recent analysis performed as of December 31, 2010 (in thousands):

2010	Agriculture Real Estate	Agriculture	Commercial Real Estate	Commercial and Industrial	Industrial Development Bonds
1-2	$ 484	$ 109	$ —	$ 341	$ 275
3	12,216	27,964	23,017	14,026	733
4	19,624	35,655	148,481	92,066	957
5	208	173	6,765	3,388	—
6	1,097	1,474	6,319	6,688	—
7	21	25	451	835	—
8	—	—	—	—	—
Total	$ 33,650	$ 65,400	$ 185,033	$ 117,344	$ 1,965

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, which was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned grading as of December 31, 2010.

2010	Consumer Real Estate
Grade	
Pass	$ 93,958
Special mention (5)	387
Substandard (6)	639
Doubtful (7)	287
Total	$ 95,271

2010	Consumer Credit	Consumer Other
Performing	$ 3,553	$ 25,405
Nonperforming	5	44
Total	$ 3,559	$ 25,449

Note 4 — Loans (Continued)

Information about impaired loans as of and for the years ended December 31, 2010 and 2009 are as follows:

	(In Thousands) 2010	2009
Impaired loans without a valuation allowance	$ 2,849	$ 10,804
Impaired loans with a valuation allowance	1,520	1,385
Total impaired loans	$ 4,369	$ 12,189
Valuation allowance related to impaired loans	$ 632	$ 353
Total non-accrual loans	$ 5,844	$ 14,054
Total loans past-due ninety days or more and still accruing	$ 48	$ 69

		(In Thousands)	
	2010	2009	2008
Average investment in impaired loans	$ 10,136	$ 13,643	$ 10,767
Interest income recognized on impaired loans	$ 61	$ 290	$ 341
Interest income recognized on a cash basis on impaired loans	$ 41	$ 290	$ 332

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

The Bank did classify approximately $3.5 million of its impaired loans as troubled debt restructured during 2010.

For the majority of the Bank's impaired loans, the Bank will apply the observable market price methodology. However, the Bank may also utilize a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine observable market price, collateral asset values securing an impaired loan are periodically evaluated. Maximum time of re-evaluation is every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations are obtained and heavily relied upon. Until such time that updated appraisals are received, the Bank may discount the collateral value used.

The Bank uses the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge down in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 120 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial and agricultural credits are charged down at 120 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-off may be realized as further unsecured positions are recognized.

Note 4 — Loans (Continued)

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2010 (in thousands):

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Consumer real estate	$ —	$ —	$ —	$ —	$ —
Agriculture real estate	219	219	—	119	31
Agriculture	1,397	1,397	—	2,786	—
Commercial real estate	849	1,699	—	2,209	26
Commercial and industrial	—	—	—	2,221	2
Consumer	—	—	—	—	—
With a specific allowance recorded:					
Consumer real estate	671	701	66	1,375	—
Agriculture real estate	—	—	—	—	—
Agriculture	—	—	—	5	1
Commercial real estate	476	476	73	296	1
Commercial and industrial	757	757	493	1,125	—
Consumer	—	—	—	—	—
Totals:					
Consumer real estate	$ 671	$ 701	$ 66	$ 1,375	$ —
Agriculture real estate	$ 219	$ 219	$ 0	$ 119	$ 31
Agriculture	$ 1,397	$ 1,397	$ 0	$ 2,791	$ 1
Commercial real estate	$ 1,325	$ 2,175	$ 73	$ 2,505	$ 27
Commercial and industrial	$ 757	$ 757	$ 493	$ 3,346	$ 2
Consumer	$ —	$ —	$ —	$ —	$ —

The ALLL has a direct impact on the provision expense. An increase in the ALLL is funded through recoveries and provision expense. The following tables summarize the activities in the allowance for credit losses. The first table breaks down the activity within ALLL for each loan portfolio segment and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs. The second table discloses how much of ALLL is attributed to each segment of the loan portfolio, as well as the percent that each particular segment of the loan portfolio represents to the entire loan portfolio in the aggregate.

The following is an analysis of the allowance for credit losses:

	(In Thousands)		
	2010	2009	2008
Allowance for Loan Losses			
Balance at beginning of year	$ 6,008	$ 5,496	$ 5,922
Provision for loan loss	5,325	3,558	1,787
Loans charged off	(6,422)	(3,288)	(2,561)
Recoveries	795	242	348
Allowance for Loan & Leases Losses	$ 5,706	$ 6,008	$ 5,496
Allowance for Unfunded Loan Commitments & Letters of Credit	$ 153	$ 227	$ 226
Total Allowance for Credit Losses	$ 5,859	$ 6,235	$ 5,722

Note 4 — Loans (Continued)

The Company segregates its Allowance for Loan and Lease Losses (ALLL) into two reserves: 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 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.

Additional analysis related to the allowance for credit losses (in thousands) as of December 31, 2010 is as follows:

2010	Consumer Real Estate	Agriculture Real Estate	Agriculture	Commercial Real Estate	Commercial	Consumer (incl. Credit Cards)	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 439	$ 120	$ 647	$ 1,810	$ 2,494	$ 497	$ 227	$ 1	$ 6,235
Charge Offs	(507)	—	(136)	(1,147)	(4,188)	(444)	—	—	(6,422)
Recoveries	55	—	17	52	515	156	—	—	795
Provision	271	2	(201)	1,153	3,533	171	—	396	5,325
Other Non-interest expense related to unfunded	—	—	—	—	—	—	(74)	—	(74)
Ending Balance	$ 258	$ 122	$ 327	$ 1,868	$ 2,354	$ 380	$ 153	$ 397	$ 5,859
Ending balance: individually evaluated for impairment	$ 66	—	—	$ 73	$ 493	—			$ 632
Ending balance: collectively evaluated for impairment	$ 190	$ 122	$ 327	$ 1,795	$ 1,861	$ 380	$ 153	$ 397	$ 5,226
Ending balance: loans acquired with deteriorated credit quality	$ 2	—	—	—	—	—			$ 2
FINANCING RECEIVABLES:									
Ending balance	$ 75,785	$ 34,446	65,400	$ 204,327	$ 119,262	$ 28,451			$527,671
Ending balance: individually evaluated for impairment	$ 671	$ 219	$ 1,397	$ 1,325	$ 757	—			$ 4,369
Ending balance: collectively evaluated for impairment	$ 75,114	$ 34,227	64,004	$ 203,002	$ 118,505	$ 28,451			$523,302
Ending balance: loans acquired with deteriorated credit quality	$ 1,143	—	—	—	—	—			$ 1,143

Note 5 — Premises and Equipment

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

	(In Thousands) 2010	2009
Land	$ 3,635	$ 3,510
Buildings (useful life 15-39 years)	18,831	17,200
Furnishings (useful life 3-15 years)	9,640	9,435
	32,106	30,145
Less: Accumulated depreciation	(14,904)	(14,092)
Premises and Equipment (Net)	$ 17,202	$ 16,053

Depreciation expense for the years ended December 31, 2010, 2009 and 2008 amounted to $1.1, $1.2, and $1.1 million, respectively.

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 $278 and $267 million at December 31, 2010 and 2009, respectively.

The balance of capitalized servicing rights included in other assets at December 31, 2010 and 2009, was $2.2 and $2.2 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.

Note 6 — Servicing (Continued)

The fair market value of the capitalized servicing rights as of December 31, 2010 and 2009 was $2.5 million and 3.0 million, respectively. The valuations were completed by stratifying the loans into like groups based on loan type and term. Impairment was measured by estimating the fair value of each stratum, taking into consideration an estimated level of prepayment based upon current market conditions. An average constant prepayment rate of 16.6 and 11.3 were utilized for 2010 and 2009, respectively. All stratums showed positive values compared to carrying value using a discount yield of 7.75% for 2010 and for 2009.

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

	(In Thousands)	
	2010	2009
Beginning Year	$ 2,177	$ 1,952
Capitalized Additions	685	1,158
Amortization	(684)	(933)
Valuation Allowance	—	—
End of Year	$ 2,178	$ 2,177

Note 7 — Deposits

Time deposits at December 31 consist of the following:

	(In Thousands)	
	2010	2009
Time deposits under $100,000	$184,993	$212,298
Time deposits of $100,000 or more	132,371	114,659
	$317,364	$326,957

At December 31, 2010 the scheduled maturities for time deposits are as follows:

	(In Thousands)
2011	$ 176,254
2012	72,598
2013	33,900
2014	23,835
2015	9,376
thereafter	1,401
	$ 317,364

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, 2010 and 2009 securities with a book value of $74.8 million and $55.9 million, respectively, were pledged to secure the repurchase agreements.

Daily Securities Sold Under Agreement to Repurchase

	Amount Outstanding at End of Period (000's)	Weighted Average Rate End of Period	Maximum Amount Borrowings Outstanding Month End (000's)	Approximate Average Outstanding in Period (000's)	Approximate Weighted Average Interest Rate For the Period
2010	$ 37,191	0.36%	$ 37,501	$ 34,046	0.36%
2009	$ 33,457	0.42%	$ 40,530	$ 37,696	0.48%
2008	$ 40,014	0.50%	$ 47,644	$ 40,113	1.96%

Note 9 — Federal Home Loan Bank Advances

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 1.77% to 4.89%. Total borrowings were $29.9 million and $34.2 million for 2010 and 2009, respectively. The advances are secured by $75.3 and $73.1 million of mortgage loans as of December 31, 2010 and 2009, respectively under a blanket collateral agreement.

The advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank. Future obligations of the advances are as follows at December 31, 2010:

	(In Thousands)
2011	$ 13,212
2012	5,062
2013	7,100
2014	4,500
2015	0
	$ 29,874

Note 10 — Federal Income Taxes

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

	(In Thousands) 2010	2009	2008
Current:			
Federal	$ 2,172	$ 2,333	$ 2,489
Deferred:			
Federal	210	142	(39)
	$ 2,382	$ 2,475	$ 2,450

Note 10 — Federal Income Taxes (Continued)

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

	(In Thousands)		
	2010	2009	2008
Income tax at statutory rates	$ 3,183	$ 3,087	$ 3,119
Increase(decrease) resulting from:			
Tax exempt interest	(744)	(629)	(654)
Change in prior estimates and other	(57)	17	(15)
	$ 2,382	$ 2,475	$ 2,450

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

	(In Thousands)	
	2010	2009
Deferred Tax Assets:		
Allowance for loan losses	$ 1,940	$ 2,042
Other	749	650
Total deferred tax assets	2,689	2,692
Deferred Tax Liabilities:		
Accreted discounts on bonds	65	56
FHLB stock dividends	860	862
Mortgage servicing rights	741	740
Other	899	700
Net unrealized gain on available-for-sale securities	277	1,295
Total deferred tax liabilities	2,842	3,653
Net Deferred Tax Liability	$ (153)	$ (961)

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 $551, $570, and $524 thousand for 2010, 2009 and 2008, respectively.

Restricted Stock Awards

The Company has a Long-Term Stock Incentive Plan under which 10,150 shares of restricted stock were issued to 53 employees during 2010 and 10,000 shares of restricted stock were issued to 49 and 51 employees during 2009 and 2008, respectively. Under the plan, the shares vest 100% in three years. During the 3 year vesting period, the employees received dividends or dividend equivalent compensation on the shares. Due to employee termination, there were 1,575 and 350 shares forfeited during 2010 and 2009, respectively, 245 shares forfeited during 2008. During 2009, 5,450 shares awarded in 2006 were vested 100%. 36 employees were still employed and received the stock. During 2010, 7,425 shares awarded in 2007 were vested 100%. Forty employees were still employed and received the stock. Compensation expense applicable to the restricted stock totaled $191, $190, and $155 thousand for the year ending December 31, 2010, 2009 and 2008, respectively.

Note 11 — Employee Benefit Plan (Continued)

The following table summarizes the activity of restricted stock awards:

	Year Ended December 31,		
	2010	2009	2008
Beginning of period	27,775	23,575	17,240
Granted	10,150	10,000	10,000
Vested	(7,375)	(5,450)	(3,420)
Forfeited	(1,575)	(350)	(245)
Nonvested, end of period	28,975	27,775	23,575

As of December 31, 2010, there was $580 thousand of unrecognized compensation cost related to the nonvested portion of restricted stock awards under the plan.

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 $8.0 and $9.5 million at December 31, 2010 and 2009, respectively. New loans approved during 2010 were $328 thousand, which included $31 thousand of available funds at the time of approval. During 2010, subsequent advances totaled $17.0 million and payments of $18.5 million were received. The difference in related borrowings amounted to $1.5 million, net reduction. Deposits of directors, executive officers and companies in which they have a direct or indirect ownership as of December 31, 2010 and 2009, amounted to $3.8 million and $2.4 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. The allowance for credit losses as it relates to unfunded loan commitments (AULC) is included under other liabilities. The AULC as of December 31, 2010 and 2009 was $153 thousand and $227 thousand, respectively. At December 31, 2010 and 2009, the following financial instruments were outstanding whose contract amounts represent credit risk:

	(In Thousands)	
	2010	2009
Commitments to extend credit	$157,935	$151,696
Credit card arrangements	14,943	16,569
Standby letters of credit	17,446	18,085

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. Due to the fact that 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.

Note 13 — Off Balance Sheet Activities (Continued)

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 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, 2010, that the Bank meets all the capital adequacy requirements to which it is subject.

As of December 31, 2010 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, 2010 and 2009 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, 2010	**(000's) Amount**	**Ratio**	**(000's) Amount**	**Ratio**	**(000's) Amount**	**Ratio**
Total Risk-Based Capital (to Risk Weighted Assets) Consolidated	$ 94,012	14.95%	$ 50,295	8.00%	N/A	N/A
Farmers & Merchants State Bank	93,572	14.88%	50,300	8.00%	$ 62,876	10.00%
Tier 1 Capital (to Risk Weighted Assets) Consolidated	88,153	14.02%	25,147	4.00%	N/A	N/A
Farmers & Merchants State Bank	72,713	11.56%	25,150	4.00%	37,725	6.00%
Tier 1 Capital (to Adjusted Total Assets) Consolidated	88,153	9.82%	35,901	4.00%	N/A	N/A
Farmers & Merchants State Bank	72,713	8.09%	35,956	4.00%	44,946	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under the Prompt Corrective Action Provisions	
As of December 31, 2009	**(000's) Amount**	**Ratio**	**(000's) Amount**	**Ratio**	**(000's) Amount**	**Ratio**
Total Risk-Based Capital (to Risk Weighted Assets) Consolidated	$ 92,447	14.14%	$ 52,294	8.00%	N/A	N/A
Farmers & Merchants State Bank	92,184	14.10%	52,305	8.00%	$ 65,382	10.00%
Tier 1 Capital (to Risk Weighted Assets) Consolidated	86,212	13.19%	26,147	4.00%	N/A	N/A
Farmers & Merchants State Bank	70,949	10.85%	26,153	4.00%	39,229	6.00%
Tier 1 Capital (to Adjusted Total Assets) Consolidated	86,212	10.33%	33,393	4.00%	N/A	N/A
Farmers & Merchants State Bank	70,949	8.47%	33,487	4.00%	41,858	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 $5.0 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 following assumptions and methods were used in estimating the fair value for financial instruments:

Cash and Cash Equivalents

The carrying amounts reported in the balance sheet for cash, cash equivalents and federal funds sold approximate their fair values. Also included in this line item are the carrying amounts of interest-bearing deposits maturing within ninety days which 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 Other Securities

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 re-price 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.

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.

Short-Term Borrowings

The carrying value of short-term borrowings approximates fair values.

FHLB Advances

Fair values or FHLB advances are estimated using discounted cash flow analysis based on the Company's current incremental borrowing rates for similar types or borrowing arrangements.

Accrued Interest Receivable and Payable

The carrying amounts of accrued interest approximate 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.

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of December 31, 2010 and 2009, are reflected below.

	(In Thousands)			
	2010		2009	
	Carrying	Fair	Carrying	Fair
Financial Assets:				
Cash and Cash Equivalents	$ 43,379	$ 43,379	$ 33,648	$ 33,648
Securities — available for sale	287,317	287,317	207,281	207,281
Other Securities	4,406	4,406	4,448	4,448
Loans, net	521,883	520,766	563,911	563,532
Accrued interest receivable	4,036	4,036	3,693	3,693
Financial Liabilities:				
Deposits	$724,513	$725,270	$676,444	$672,963
Short-term debt				
Repurchase agreement sold	51,241	51,241	43,257	43,257
Federal Home Loan Bank advances	29,874	30,764	34,199	34,947
Accrued interest payable	471	471	852	852
Dividends payable	894	894	853	853
Off-Balance Sheet Financial Instruments				
Commitments to extend credit	$ —	$ —	$ —	$ —
Standby letters of credit	—	—	—	—

Fair Value Measurements

The following table presents information about the recurring basis at December 31, 2010 and 2009, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access.

Available-for-sale securities- When quoted prices are available in an active market, securities are valued using the quoted price and are classified as Level 1. The quoted prices are not adjusted.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Note 16 — Fair Value of Financial Instruments (Continued)

Available-for-sale securities classified as Level 2 are valued using the prices obtained from an independent pricing service. The prices are not adjusted. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. During 2010, local municipals were purchased that the Bank evaluates based on the credit strength of the underlying project such as hospital or retirement housing. The fair value is determined by valuing similar credit payment streams at similar rates.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following summarizes financial assets measured at fair value on a recurring basis as of December 31, 2010 and December 31, 2009 segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

($ in Thousands) December 31, 2010	Quoted Prices in Active Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets-(Securities Available for Sale)			
U.S. Treasury	$ 32,279	$ —	$ —
U.S. Government agency	165,703	—	—
Mortgage-backed securities	24,531	—	—
State and local governments	—	53,502	11,302
Total Securities Available for Sale	$ 222,513	$ 53,502	$ 11,302

December 31, 2009	Quoted Prices in Active Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Observable Inputs (Level 3)
Assets-(Securities Available for Sale)			
U.S. Treasury	5,219	$ —	$ —
U.S. Government agency	104,675	—	—
Mortgage-backed securities	36,848	—	—
State and local governments	—	60,539	—
Total Securities Available for Sale	$ 146,742	$ 60,539	$ —

Note 16 — Fair Value of Financial Instruments (Continued)

Most of the Company's available for sale securities, including any bonds issued by local municipalities, have CUSIP numbers or have similar characteristics of those in the municipal markets, making them marketable and comparable as Level 2.

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. At December 31, 2010 and 2009, such assets consist primarily of impaired loans. Impaired loans categorized as Level 3 assets consist of non-homogeneous loans that are considered impaired. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals).

At December 31, 2010 and 2009, impaired loans categorized as Level 3 were $4.4 and $12.2 million, respectively. The specific allocation for impaired loans was $632 and $353 thousand as of December 31, 2010 and 2009, respectively, which are accounted for in the allowance for loan losses (see Note 4).

Other real estate is reported at the lower of either the fair value of the real estate, minus the estimated costs to sell the asset, or the cost of the asset. The determination of the fair value of the real estate relies primarily on appraisals from third parties. If the fair value of the real estate, minus the estimated costs to sell the asset, is less than the asset's cost, the deficiency is recognized as a valuation allowance against the asset through a charge to expense. The valuation allowance is therefore increased or decreased, through charges or credits to expense, for changes in the asset's fair value or estimated selling costs.

The following table presents impaired loans and other real estate owned as recorded at fair value:

		Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2010			
($ in Thousands)	Balance at December 31, 2010	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Change in fair value for twelve-month period ended Dec 31, 2010
Impaired loans	$ 4,369	$ —	$ —	$ 4,369	$ (850)
Other real estate owned — residential mortgages	$ 2,110	$ —	$ —	$ 2,110	$ (64)
Other real estate owned — commercial	$ 2,328	$ —	$ —	$ 2,328	$ —
Total change in fair value					$ (914)

		Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2009			
($ in Thousands)	Balance at December 31, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Change in fair value for twelve-month period ended Dec 31, 2009
Impaired loans	$ 12,189	$ —	$ —	$ 12,189	$ (1,499)
Other real estate owned — residential mortgages	$ 1,101	$ —	$ —	$ 1,101	$ (19)
Other real estate owned commercial	$ 338	$ —	$ —	$ 338	$ (40)
Total change in fair value					$ (1,558)

The Company also has other assets, which under certain conditions, are subject to measurement at fair value. These assets include loans held for sale, bank owned life insurance, and mortgage servicing rights. The Company estimated the fair values of these assets utilizing Level 3 inputs, including, the discounted present value of expected future cash flows. At December 31, 2010, the Company estimates that there is no impairment of these assets and therefore, no impairment charge to other expense was required to adjust these assets to their estimated fair values.

Note 17 — Condensed Financial Statements of Parent Company

Balance Sheet	(In Thousands) 2010	2009
Assets		
Cash	$ 598	$ 471
Related party receivables:		
Dividends & Accounts receivable from subsidiaries	1,103	1,060
Note receivable from Bank subsidiary	15,000	15,000
Investment in subsidiaries	78,963	78,322
Total Assets	$ 95,664	$ 94,853
Liabilities		
Accrued expenses	$ 367	$ 416
Dividends payable	894	853
Total Liabilities	1,261	1,269
Stockholders' Equity		
Total Stockholders' Equity	94,403	93,584
Total Liabilities and Stockholders' Equity	$ 95,664	$ 94,853

Statement of Income	(In Thousands) 2010	2009	2008
Income			
Dividends from subsidiaries	$ 4,205	$ 3,940	$ 6,708
Interest	713	713	717
Total Income	4,918	4,653	7,425
Operating Expenses	472	460	364
Income Before Income Taxes and Equity in Undistributed Earnings (Distributions in excess of earnings) and Subsidiaries	4,446	4,193	7,061
Income Taxes	82	161	167
	4,364	4,032	6,894
Equity in undistributed earnings (Distributions in excess of earnings) of subsidiaries	2,617	2,573	(171)
Net Income	$ 6,981	$ 6,605	$ 6,723

Note 17 — Condensed Financial Statements of Parent Company (Continued)

Statements of Cash Flows	2010	2009	2008
	(In Thousands)		
Cash Flows from Operating Activities			
Net income	$ 6,981	$ 6,605	$ 6,723
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Equity in undistributed net income (Distributions in excess earnings) of subsidiaries	(2,617)	(2,573)	171
Changes in Assets and Liabilities:			
Account receivable	—	—	—
Dividends receivable	(42)	(97)	(162)
Other Liabilities	101	193	(228)
Net Cash Provided by Operating Activities	4,423	4,128	6,504
Cash Flows from Investing Activities			
Return of Capital from Investment in Subsidiary	—	—	—
Cash Flows from Financing Activities			
Payment of dividends	(3,402)	(3,417)	(3,217)
Purchase of Treasury Stock	(894)	(555)	(3,575)
Net Change in Cash and Cash Equivalents	127	156	(288)
Cash and Cash Equivalents			
Beginning of year	471	315	603
Cash and Cash Equivalents			
End of year	$ 598	$ 471	$ 315

Note 18 – Quarterly Financial Data

(000s omitted except per share data)

Quarterly Financial Data — UNAUDITED

	Quarter Ended in 2010			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 10,325	$ 9,868	$ 10,025	$ 9,675
Interest expense	2,920	2,809	2,677	2,457
Net Interest Income	7,405	7,059	7,348	7,218
Provision for loan loss	1,690	1,984	1,200	451
Net interest income after provision for loan loss	5,715	5,075	6,148	6,767
Other income (expense)	(4,128)	(3,335)	(3,130)	(3,749)
Net income before income taxes	1,587	1,740	3,018	3,018
Income taxes	331	397	820	834
Net income	$ 1,256	$ 1,343	$ 2,198	$ 2,184
Earnings per Common Share	$ 0.27	$ 0.28	$ 0.47	$ 0.46
Average common shares outstanding	4,734,674	4,730,309	4,710,402	4,710,098

	Quarter Ended in 2009			
	Mar 31	June 30	Sep 30	Dec 31
Summary of Income:				
Interest income	$ 10,376	$ 10,459	$ 10,081	$ 10,198
Interest expense	3,474	3,427	3,220	3,099
Net Interest Income	6,902	7,032	6,861	7,099
Provision for loan loss	659	1,079	1,432	388
Net interest income after provision for loan loss	6,243	5,953	5,429	6,711
Other income (expense)	(3,880)	(4,016)	(3,739)	(3,621)
Net income before income taxes	2,363	1,937	1,690	3,090
Income taxes	633	536	414	892
Net income	$ 1,730	$ 1,401	$ 1,276	$ 2,198
Earnings per common share	$ 0.36	$ 0.30	$ 0.27	$ 0.46
Average common shares outstanding	4,756,389	4,742,910	4,731,841	4,734,674

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

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

ITEM 9a. CONTROLS AND PROCEDURES

MANAGEMENT REPORT REGARDING DISCLOSURE CONTROLS AND 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, 2010, 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, 2010, 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 it 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.

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 – Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2010. The registered public accounting firm that audited the financial statements included in this annual report has issued an attestation report on the Company's internal control over financial reporting which can be found under Item 8 of this form 10-K.

There was no change in the company's internal control over financial reporting that occurred during the Company's fiscal quarter ended December 31, 2010 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

ITEM 9b. OTHER INFORMATION

None.

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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 L. Benecke	68	President, Freedom Ridge, Inc.	1999
Steven A. Everhart	56	Self Employed	2003
Robert G. Frey	70	President, E.H. Frey & Sons, Inc.	1987
Jack C. Johnson	58	President, Hawk's Clothing, Inc.	1991
Marcia S. Latta	49	Vice President for Advancement, DePauw University	2009
Steven J. Planson	51	Self-Employed Farmer	2008
Anthony J. Rupp	61	President, Rupp Furniture Co.	2000
David P. Rupp, Jr. [1]	69	Attorney	2001
James C. Saneholtz	64	President, Saneholtz-McKarns, Inc.	1995
Kevin J. Sauder	50	President/CEO, Sauder Woodworking Co.	2004
Merle J. Short	70	Retired Farmer	1987
Paul S. Siebenmorgen	61	President/CEO of the Corporation and The Farmers & Merchants State Bank	2005
Steven J. Wyse	66	Private Investor	1991

Directors are elected annually at the annual meeting of shareholders

1 David P. Rupp, Jr. is an attorney with membership in the law firm of Plassman, Rupp, Short & Hagans of Archbold, Ohio. The law firm has been retained by the Corporation, and its subsidiaries, during the past twenty years and is to be retained currently.

EXECUTIVE OFFICERS

Name	Age	Principal Occupation & Offices Held with Corporation & Bank for Past Five Years
David P. Rupp, Jr.	69	Chairman
Paul S. Siebenmorgen	61	President & Chief Executive Officer
Barbara J. Britenriker	49	Executive Vice President Chief Financial Officer
Todd A. Graham	60	Executive Vice President Chief Lending Officer
Edward A. Leininger	54	Executive Vice President Chief Operating Officer
Rex D. Rice	52	Executive Vice President Senior Commercial Banking Director

Any remaining information required by Item 401 of Regulation S-K 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 14, 2011, and is incorporated herein by reference. The information called for under Item 405 of Regulation S-K regarding compliance with Section 16(a) and called for under Item 407(d)(5) regarding the existence of a Financial Expert on the Audit Committee of the Company's Board of Directors 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 14, 2011, 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.

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 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 14, 2011, and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for by Item 403 of Regulation S-K 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 Thursday, April 14, 2011 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 800,000 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, 4,000 shares of restricted stock were issued under the plan to 38 employees of the Bank. Due to employee termination, there were 80 shares forfeited during 2005. During 2006, the Company purchased 42,000 shares and awarded 6,100 restricted shares to 41 employees. 200 shares were forfeited during 2006. 8,760 shares of restricted stock were issued to 46 employees during 2007. Due to employee termination, 740 shares were forfeited during 2007. 600 shares had vesting accelerated and were paid to a retiring officer. 228,000 shares were purchased in 2007. In 2008, 171,889 shares were purchased with 10,000 shares being awarded to 51 employees. 245 shares were forfeited in 2008. 2009 had purchases of 28,907 shares with awards of 10,000 shares to 49 employees. 350 shares were forfeited during the year. 2010 had purchases of 48,130 shares with awards of 10,150 shares to 53 employees. 1,575 shares were forfeited in 2010. At year end, the Company held 477,106 shares in Treasury stock and 28,925 in unearned stock awards.

	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	754,180
Equity compensation plans not approved by security holders	0	$ 0.00	0
Total	0	$ 0.00	754,180

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 14, 2011, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information called for by this Item 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 14, 2011, 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

b. Exhibits Required by Item 601 of Regulation S-K

(3.1) a. Amended Articles of Incorporation are incorporated by reference to the Company's Quarterly Report on Form 10-Q that was filed with the Commission on August 1, 2006.

(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 November 27, 2007 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on November 30, 2007).

(10.2) Change in Control Agreement executed by and between the Company and Barbara J. Britenriker on November 27, 2007 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on November 30, 2007).

(10.3) Change in Control Agreement executed by and between the Company and Edward A. Leininger on November 27, 2007 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on November 30, 2007).

(10.4) Change in Control Agreement executed by and between the Company and Rex D. Rice on November 27, 2007 (incorporated by reference to the Current Report on Form 8-K filed with the Commission on November 30, 2007).

(10.5) 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).

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

ITEM 14. EXHIBITS AND FINANCIAL STATEMENTS SCHEDULES (Continued)

(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.

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FARMERS & MERCHANTS BANCORP, INC

Signatures

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934. The registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized

By: /s/ Paul S. Siebenmorgen
Paul S. Siebenmorgen
Chief Executive Officer Director

Date: February 25, 2011

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 25, 2011	/s/ Barbara J. Britenriker Barbara J. Britenriker Chief Financial Officer (Principal Financial Officer/ Principal Accounting Officer)	Date: February 25, 2011
/s/ Dexter L. Benecke Dexter L. Benecke, Director	Date: February 25, 2011	/s/ Steven A. Everhart Steven A. Everhart, Director	Date: February 25, 2011
/s/ Robert G. Frey Robert G. Frey, Director	Date: February 25, 2011	/s/ Jack C. Johnson Jack C. Johnson, Director	Date: February 25, 2011
/s/ Marcia S. Latta Marcia S. Latta, Director	Date: February 25, 2011	/s/ Steven J. Planson Steven J. Planson, Director	Date: February 25, 2011
/s/ Anthony J. Rupp Anthony J. Rupp, Director	Date: February 25, 2011	/s/ David P. Rupp, Jr David P. Rupp, Jr., Director	Date: February 25, 2011
/s/ James C. Saneholtz James C. Saneholtz, Director	Date: February 25, 2011	/s/ Kevin J. Sauder Kevin J. Sauder, Director	Date: February 25, 2011
/s/ Merle J. Short Merle J. Short, Director	Date: February 25, 2011	/s/ Steven J. Wyse Steven J. Wyse, Director	Date: February 25, 2011

Exhibit 21

SUBSIDIAIRIES OF FARMERS & MERCHANTS BANCORP, INC
FARMERS & MERCHANTS STATE BANK

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 25, 2011

/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:

   (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 25, 2011

/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, 2010, 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 25, 2011

/s/ Paul S. Siebenmorgen
Paul S. Siebenmorgen
Chief Executive Officer

A signed original of this written statement required by section 906 has been provided to Farmers & Merchants Bancorp, Inc. and will be retained by Farmers & Merchants Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

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, 2010, 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 25, 2011

/s/ Barbara J. Britenriker
Barbara J. Britenriker
Chief Financial Officer

A signed original of this written statement required by section 906 has been provided to Farmers & Merchants Bancorp, Inc. and will be retained by Farmers & Merchants Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.