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

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# FORM 10-Q

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

**For the quarterly period September 30, 2022**

**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 001-38084**

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# FARMERS & MERCHANTS BANCORP, INC.
**(Exact name of registrant as specified in its charter)**

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| | |
|---|---|
| **OHIO**<br>**(State or other jurisdiction of incorporation or organization)** | **34-1469491**<br>**(IRS Employer Identification No.)** |
| **307 North Defiance Street, Archbold, Ohio**<br>**(Address of principal executive offices)** | **43502**<br>**(Zip Code)** |

**(419) 446-2501**
**Registrant's telephone number, including area code**
**(Former name, former address and former fiscal year, if changed since last report.)**

Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Trading Symbol(s) | Name of Each Exchange |
|---|---|---|
| Common Stock, No Par Value | FMAO | NASDAQ Capital Market |

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 every Interactive Data File required to be submitted 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 such files). Yes ☒ No ☐

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

| | | | |
|---|---|---|---|
| Large accelerated filer | ☐ | Accelerated filer | ☐ |
| Non-accelerated filer | ☒ | Smaller reporting company | ☒ |
| Emerging growth company | ☐ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

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

| | |
|---|---|
| Common Stock, No Par Value | 13,606,651 |
| Class | Outstanding as of October 21, 2022 |

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

FARMERS & MERCHANTS BANCORP, INC.
INDEX



| | |
|---|---|
| 101.INS | Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. [1] |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document [1] |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document [1] |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document [1] |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document [1] |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document [1] |

[1] Pursuant to Rule 406T of Regulation S-T, the interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

PART 1 - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (in thousands of dollars) September 30, 2022 (Unaudited) | December 31, 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 69,680 | $ 135,485 |
| Federal funds sold | 990 | 45,338 |
| Total cash and cash equivalents | 70,670 | 180,823 |
| Interest-bearing time deposits | 5,187 | 10,913 |
| Securities - available-for-sale | 395,485 | 429,931 |
| Other securities, at cost | 8,227 | 8,162 |
| Loans held for sale | 2,182 | 7,714 |
| Loans, net | 2,122,626 | 1,841,177 |
| Premises and equipment | 26,484 | 26,913 |
| Goodwill | 80,434 | 80,434 |
| Mortgage servicing rights | 3,583 | 3,157 |
| Other real estate owned | - | 159 |
| Bank owned life insurance | 28,051 | 27,558 |
| Other assets | 40,831 | 21,359 |
| **Total Assets** | $ 2,783,760 | $ 2,638,300 |
| | | |
| **Liabilities and Stockholders' Equity** | | |
| | | |
| **Liabilities** | | |
| Deposits | | |
| Noninterest-bearing | $ 506,928 | $ 473,689 |
| Interest-bearing | | |
| NOW accounts | 705,888 | 650,466 |
| Savings | 607,375 | 597,828 |
| Time | 462,845 | 471,479 |
| Total deposits | 2,283,036 | 2,193,462 |
| Federal funds purchased and securities sold under agreements to repurchase | 55,802 | 29,268 |
| Federal Home Loan Bank (FHLB) advances | 102,147 | 24,065 |
| Other borrowings | 10,000 | 40,000 |
| Subordinated notes, net of unamortized issuance costs | 34,557 | 34,471 |
| Dividend payable | 2,727 | 2,461 |
| Accrued expenses and other liabilities | 14,913 | 17,406 |
| Total liabilities | 2,503,182 | 2,341,133 |
| | | |
| **Commitments and Contingencies** | | |
| | | |
| **Stockholders' Equity** | | |
| Common stock - No par value 20,000,000 shares authorized; issued and outstanding 14,063,999 shares 9/30/22 and 12/31/21 | 121,811 | 122,674 |
| Treasury stock - 956,499 shares 9/30/22, 997,766 shares 12/31/21 | (11,547) | (11,724) |
| Retained earnings | 208,051 | 189,401 |
| Accumulated other comprehensive loss | (37,737) | (3,184) |
| Total stockholders' equity | 280,578 | 297,167 |
| **Total Liabilities and Stockholders' Equity** | $ 2,783,760 | $ 2,638,300 |

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2021, Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of that date.

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

| | (in thousands of dollars, except per share data) Three Months Ended | | (in thousands of dollars, except per share data) Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Interest Income** | | | | |
| Loans, including fees | $ 24,119 | $ 18,766 | $ 66,962 | $ 50,637 |
| Debt securities: | | | | |
| U.S. Treasury and government agencies | 1,049 | 924 | 3,107 | 2,532 |
| Municipalities | 373 | 284 | 995 | 881 |
| Dividends | 93 | 44 | 192 | 125 |
| Federal funds sold | - | 10 | 19 | 21 |
| Other | 213 | 94 | 382 | 221 |
| Total interest income | 25,847 | 20,122 | 71,657 | 54,417 |
| **Interest Expense** | | | | |
| Deposits | 2,166 | 1,221 | 4,905 | 3,837 |
| Federal funds purchased and securities sold under agreements to repurchase | 416 | 165 | 734 | 494 |
| Borrowed funds | 398 | 87 | 951 | 424 |
| Subordinated notes | 284 | 199 | 837 | 199 |
| Total interest expense | 3,264 | 1,672 | 7,427 | 4,954 |
| **Net Interest Income - Before Provision for Loan Losses** | 22,583 | 18,450 | 64,230 | 49,463 |
| **Provision for Loan Losses** | 1,637 | 659 | 3,845 | 3,000 |
| **Net Interest Income After Provision for Loan Losses** | 20,946 | 17,791 | 60,385 | 46,463 |
| **Noninterest Income** | | | | |
| Customer service fees | 2,300 | 2,242 | 7,096 | 7,254 |
| Other service charges and fees | 1,105 | 1,010 | 3,111 | 2,722 |
| Net gain on sale of loans | 327 | 822 | 1,188 | 2,823 |
| Net gain on sale of available-for-sale securities | - | - | - | 293 |
| Total noninterest income | 3,732 | 4,074 | 11,395 | 13,092 |
| **Noninterest Expense** | | | | |
| Salaries and wages | 5,479 | 5,442 | 16,347 | 14,423 |
| Employee benefits | 1,392 | 1,621 | 4,992 | 5,530 |
| Net occupancy expense | 693 | 529 | 1,813 | 1,652 |
| Furniture and equipment | 1,047 | 903 | 3,111 | 2,542 |
| Data processing | 781 | 1,548 | 2,039 | 2,481 |
| Franchise taxes | 254 | 372 | 1,429 | 1,112 |
| ATM expense | 580 | 460 | 1,656 | 1,368 |
| Advertising | 578 | 439 | 1,115 | 1,005 |
| Net (gain) loss on sale of other assets owned | - | 219 | (271) | 421 |
| FDIC assessment | 271 | 296 | 655 | 808 |
| Mortgage servicing rights amortization - net | (50) | 285 | 35 | 1,314 |
| Consulting fees | 254 | 256 | 665 | 873 |
| Other general and administrative | 2,192 | 1,951 | 6,613 | 6,211 |
| Total noninterest expense | 13,471 | 14,321 | 40,199 | 39,740 |
| **Income Before Income Taxes** | 11,207 | 7,544 | 31,581 | 19,815 |
| **Income Taxes** | 2,253 | 1,624 | 6,254 | 4,003 |
| **Net Income** | $ 8,954 | $ 5,920 | $ 25,327 | $ 15,812 |
| **Basic Earnings Per Share** | $ 0.68 | $ 0.53 | $ 1.94 | $ 1.41 |
| **Diluted Earnings Per Share** | $ 0.68 | $ 0.53 | $ 1.94 | $ 1.41 |
| **Dividends Declared** | $ 0.2100 | $ 0.1800 | $ 0.6025 | $ 0.5200 |

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited)

| | (in thousands of dollars) Three Months Ended | | (in thousands of dollars) Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Net Income** | $ 8,954 | $ 5,920 | $ 25,327 | $ 15,812 |
| **Other Comprehensive Income (Loss) (Net of Tax):** | | | | |
| Net unrealized gain (loss) on available-for-sale securities | (8,197) | 173 | (43,738) | (5,778) |
| Reclassification adjustment for realized gain on sale of available-for-sale securities | - | - | - | (293) |
| Net unrealized gain (loss) on available-for-sale securities | (8,197) | 173 | (43,738) | (6,071) |
| Tax expense (benefit) | (1,721) | 36 | (9,185) | (1,275) |
| Other comprehensive income (loss) | (6,476) | 137 | (34,553) | (4,796) |
| **Comprehensive Income (Loss)** | $ 2,478 | $ 6,057 | $ (9,226) | $ 11,016 |

See Notes to Condensed Consolidated Unaudited Financial Statements

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FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES TO STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2022
(000'S OMITTED, EXCEPT PER SHARE DATA)
(Unaudited)

| | Shares of Common Stock | Common Stock | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Loss | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance - January 1, 2022** | 13,066,233 | $ 122,674 | $ (11,724) | $ 189,401 | $ (3,184) | $ 297,167 |
| Net income | - | - | - | 8,102 | - | 8,102 |
| Other comprehensive loss | - | - | - | - | (16,542) | (16,542) |
| Issuance of 500 shares of restricted stock (Net of forfeitures - 650) | (150) | (1) | (15) | 16 | - | - |
| Stock-based compensation expense | - | 213 | - | - | - | 213 |
| Cash dividends declared - $0.19 per share | - | - | - | (2,462) | - | (2,462) |
| **Balance - March 31, 2022** | 13,066,083 | 122,886 | (11,739) | 195,057 | (19,726) | 286,478 |
| Net income | - | - | - | 8,271 | - | 8,271 |
| Other comprehensive loss | - | - | - | - | (11,535) | (11,535) |
| Purchase of treasury stock | (1,388) | - | (54) | - | - | (54) |
| Forfeiture of 1,750 shares of restricted stock | (1,750) | 40 | (63) | 23 | - | - |
| Stock-based compensation expense | - | 219 | - | - | - | 219 |
| Director stock award | 2,880 | - | 34 | 86 | - | 120 |
| Cash dividends declared - $0.2025 per share | - | - | - | (2,626) | - | (2,626) |
| **Balance - June 30, 2022** | 13,065,825 | 123,145 | (11,822) | 200,811 | (31,261) | 280,873 |
| Net income | - | - | - | 8,954 | - | 8,954 |
| Other comprehensive loss | - | - | - | - | (6,476) | (6,476) |
| Purchase of treasury stock | (8,100) | - | (254) | - | - | (254) |
| Issuance of 53,375 shares of restricted stock (Net of forfeitures - 3,600) | 49,775 | (1,542) | 529 | 1,013 | - | - |
| Stock-based compensation expense | - | 208 | - | - | - | 208 |
| Cash dividends declared - $0.21 per share | - | - | - | (2,727) | - | (2,727) |
| **Balance - September 30, 2022** | 13,107,500 | $ 121,811 | $ (11,547) | $ 208,051 | $ (37,737) | $ 280,578 |

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES TO STOCKHOLDERS' EQUITY
FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2021
(000'S OMITTED, EXCEPT PER SHARE DATA)
(Unaudited)

| | Shares of Common Stock | Common Stock | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance - January 1, 2021** | 11,197,544 | $ 81,804 | $ (11,932) | $ 173,591 | $ 5,697 | $ 249,160 |
| Net income | - | - | - | 4,909 | - | 4,909 |
| Other comprehensive loss | - | - | - | - | (5,554) | (5,554) |
| Purchase of treasury stock | (950) | - | (23) | - | - | (23) |
| Issuance of 750 shares of restricted stock (Net of forfeitures - 600) | 150 | 1 | (7) | 6 | - | - |
| Stock-based compensation expense | - | 225 | - | - | - | 225 |
| Cash dividends declared - $0.17 per share | - | - | - | (1,889) | - | (1,889) |
| **Balance - March 31, 2021** | 11,196,744 | 82,030 | (11,962) | 176,617 | 143 | 246,828 |
| Net income | - | - | - | 4,983 | - | 4,983 |
| Other comprehensive income | - | - | - | - | 621 | 621 |
| Purchase of treasury stock | (8,929) | - | (201) | - | - | (201) |
| Forfeiture of 1,975 shares of restricted stock | (1,975) | 58 | (47) | (11) | - | - |
| Stock-based compensation expense | - | 171 | - | - | - | 171 |
| Director stock award | 3,212 | - | 38 | 33 | - | 71 |
| Cash dividends declared - $0.17 per share | - | - | - | (1,888) | - | (1,888) |
| **Balance - June 30, 2021** | 11,189,052 | 82,259 | (12,172) | 179,734 | 764 | 250,585 |
| Net income | - | - | - | 5,920 | - | 5,920 |
| Other comprehensive income | - | - | - | - | 137 | 137 |
| Purchase of treasury stock | (4,732) | - | (107) | - | - | (107) |
| Issuance of 48,000 shares of restricted stock | 48,000 | (1,090) | 561 | 529 | - | - |
| Stock-based compensation expense | - | 213 | - | - | - | 213 |
| Cash dividends declared - $0.18 per share | - | - | - | (2,002) | - | (2,002) |
| **Balance - September 30, 2021** | 11,232,320 | $ 81,382 | $ (11,718) | $ 184,181 | $ 901 | $ 254,746 |

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

| | (in thousands of dollars) Nine Months Ended | |
|---|---|---|
| | September 30, 2022 | September 30, 2021 |
| **Cash Flows from Operating Activities** | | |
| Net income | $ 25,327 | $ 15,812 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| Depreciation | 2,148 | 2,073 |
| Amortization of premiums on available-for-sale securities, net | 1,632 | 1,598 |
| Servicing rights amortization and impairment | 35 | 1,314 |
| Amortization of core deposit intangible | 597 | 478 |
| Amortization of customer list intangible | 92 | 92 |
| Net amortization (accretion) of fair value adjustments | (3,392) | (170) |
| Amortization of subordinated note issuance costs | 86 | 20 |
| Stock-based compensation expense | 640 | 609 |
| Director stock award | 120 | 71 |
| Provision for loan loss | 3,845 | 3,000 |
| Gain on sale of loans held for sale | (1,188) | (2,823) |
| Originations of loans held for sale | (61,285) | (86,720) |
| Proceeds from sale of loans held for sale | 68,005 | 93,548 |
| (Gain) Loss on sale of other assets owned | (271) | 421 |
| Gain on sales of securities available-for-sale | - | (293) |
| Increase in cash surrender value of bank owned life insurance | (493) | (475) |
| Change in other assets and other liabilities, net | (13,929) | (1,278) |
| Net cash provided by operating activities | 21,969 | 27,277 |
| **Cash Flows from Investing Activities** | | |
| Activity in available-for-sale securities: | | |
| Maturities, prepayments and calls | 25,061 | 41,305 |
| Sales | - | 9,291 |
| Purchases | (35,986) | (146,634) |
| Activity in other securities, at cost: | | |
| Purchases | (65) | (207) |
| Proceeds from redemption of FHLB stock | - | 1,522 |
| Change in interest-bearing time deposits | 5,726 | 10,257 |
| Proceeds from sale of other assets owned | 430 | 196 |
| Additions to premises and equipment | (1,706) | (1,418) |
| Loan originations and principal collections, net | (283,836) | (141,116) |
| Acquisition of Ossian Financial Services, Inc., net of cash received | - | 228 |
| Net cash used in investing activities | (290,376) | (226,576) |
| **Cash Flows from Financing Activities** | | |
| Net change in deposits | 91,432 | 154,042 |
| Net change in federal funds purchased and securities sold under agreements to repurchase | 26,534 | (638) |
| Proceeds from FHLB advances | 100,000 | - |
| Repayment of FHLB advances | (21,855) | (157) |
| Repayment of other borrowings | (30,000) | - |
| Purchase of treasury stock | (308) | (331) |
| Proceeds from issuance of subordinated notes | - | 34,421 |
| Cash dividends paid on common stock | (7,549) | (5,666) |
| Net cash provided by financing activities | 158,254 | 181,671 |
| **Net Decrease in Cash and Cash Equivalents** | (110,153) | (17,628) |
| **Cash and Cash Equivalents - Beginning of year** | 180,823 | 175,706 |
| **Cash and Cash Equivalents - End of period** | **$ 70,670** | **$ 158,078** |

(continued)

| | (in thousands of dollars) Nine Months Ended | |
|---|---|---|
| | September 30, 2022 | September 30, 2021 |
| **Supplemental Information** | | |
| Supplemental cash flow information: | | |
| Interest paid | $ 7,765 | $ 4,559 |
| Income taxes paid | 5,700 | 5,100 |
| Supplemental noncash disclosures: | | |
| Transfer of loans to other real estate owned | - | 209 |
| Cash dividends declared not paid | 2,627 | 2,002 |
| The Company purchased the assets of Ossian Financial Services, Inc. for $20,001 on April 30, 2021. | | |
| Fair value of assets acquired | $ - | $ 137,058 |
| Cash paid for the capital stock | - | 20,001 |
| Liabilities assumed | $ - | $ 117,057 |

See Notes to Condensed Consolidated Unaudited Financial Statements.

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## NOTE 1 BASIS OF PRESENTATION AND OTHER

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2022 are not necessarily indicative of the results that are expected for the year ended December 31, 2022. The condensed consolidated balance sheet of the Company as of December 31, 2021, has been derived from the audited consolidated balance sheet of the Company as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2021.

The Company recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The Company’s principal source of revenue is interest income from loans and investment securities. The Company also earns noninterest income from various banking and financial services offered primarily through Farmers & Merchants State Bank. Interest income is primarily recognized on an accrual basis according to nondiscretionary formulas written in contracts, such as loan agreements or investment security contracts. The Company also earns noninterest income from various banking and financial services provided to business and consumer clients such as deposit account, debit card, and mortgage banking services. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed.

## NOTE 2 BUSINESS COMBINATION AND ASSET PURCHASE

On October 1, 2021, the Company acquired Perpetual Federal Savings Bank, (PFSB), a community bank with one full-service office in Urbana, Ohio. Shareholders of PFSB elected to receive either 1.7766 shares of FMAO stock or $41.20 per share in cash for each PFSB share owned, subject to adjustment based upon 1,833,999 shares of FMAO to be issued in the merger. PFSB had 2,470,032 shares outstanding on October 1, 2021. The share price of Farmers & Merchants Bancorp, Inc. (FMAO) stock on October 1, 2021 was $22.40. Total consideration for the acquisition was approximately $100.3 million consisting of $59.2 million in cash and $41.1 million in stock. As a result of the acquisition, the Company has had an opportunity to increase its deposit base and reduce transaction costs. The Company has reduced costs through economies of scale.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of $100.3 million, $668 thousand has been allocated to core deposit intangible included in other assets and is being amortized over seven years on a straight line basis. Goodwill of $25.2 million, resulting from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Perpetual Federal Savings Bank. Of that total amount, none of the purchase price is deductible for tax purposes. The following table summarizes the consideration paid for Perpetual Federal Savings Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

**Fair Value of Consideration Transferred**

| | | (In Thousands) |
|---|---|---|
| Cash | $ | 59,234 |
| Common Shares | | 41,078 |
| Total | $ | 100,312 |

**Recognized amounts of identifiable assets acquired and liabilities assumed**

| | | |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ | 44,975 |
| Federal funds sold | | 1,672 |
| Interest-bearing time deposits | | 6,250 |
| Other securities, at cost | | 2,794 |
| Loans, net | | 334,661 |
| Premises and equipment | | 615 |
| Goodwill | | 25,220 |
| Other assets | | 3,975 |
| **Total Assets Purchased** | $ | 420,162 |
| | | |
| **Liabilities** | | |
| Deposits | | |
| Noninterest bearing | $ | 2,018 |
| Interest bearing | | 309,090 |
| Total deposits | | 311,108 |
| Federal Home Loan Bank (FHLB) advances | | 6,218 |
| Accrued expenses and other liabilities | | 2,524 |
| **Total Liabilities Assumed** | $ | 319,850 |

The fair value of the assets acquired includes loans with a fair value of $334.7 million. The gross principal and contractual interest due under the contracts is $403.3 million, of which $5.6 million is expected to be uncollectible. The loans have a weighted average life of 52 months.

The fair value of building and land included in premises and equipment was written down by $4 thousand with $297 thousand attributable to the buildings and is being amortized over the useful life of 16.2 years.

The fair value for certificates of deposit incorporates a valuation amount of $3.9 million which is being accreted over 1.6 years. The fair value of Federal Home Loan Bank (FHLB) advances included a valuation amount of $218 thousand which is being accreted over 2.6 years.

The Company acquired loans in the acquisition that had evidence of deterioration of credit quality since origination and it was probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it was probable that all contractually required payments would not be collected were considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date included information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans were accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which included estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans was not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporated the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in loans, net on the balance sheet at September 30, 2022. The amounts of loans at October 1, 2021, December 31, 2021 and September 30, 2022 are as follows:

| | | (In Thousands) |
|---|---|---|
| Balance - October 1, 2021 | | |
| Consumer Real Estate | $ | 608 |
| Agricultural Real Estate | | 118 |
| Commercial Real Estate | | 234 |
| Commercial & Industrial | | 5 |
| Carrying amount, net of fair value adjustment of $237 | $ | 728 |
| | | |
| Balance - December 31, 2021 | | |
| Consumer Real Estate | $ | 581 |
| Agricultural Real Estate | | 114 |
| Commercial Real Estate | | 5 |
| Commercial & Industrial | | - |
| Carrying amount, net of fair value adjustment of $190 | $ | 510 |
| | | |
| Balance - September 30, 2022 | | |
| Consumer Real Estate | $ | 336 |
| Agricultural Real Estate | | 108 |
| Commercial Real Estate | | - |
| Commercial & Industrial | | - |
| Carrying amount, net of fair value adjustment of $141 | $ | 303 |

Loans acquired during 2021 for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

| | | (In Thousands) |
|---|---|---|
| Contractually required payments receivable at acquisition | | |
| Consumer Real Estate | $ | 962 |
| Agricultural Real Estate | | 146 |
| Commercial Real Estate | | 293 |
| Commercial & Industrial | | 6 |
| Total required payments receivable | $ | 1,407 |
| | | |
| Cash flows expected to be collected at acquisition | $ | 728 |
| | | |
| Basis in acquired loans at acquisition | $ | 965 |

During the third quarter 2022, the associated discount of $1 thousand for one consumer real estate purchased credit impaired loan was included in the loan interest income in the Company's consolidated statement of income. Two consumer real estate purchased credit impaired loans with an associated discount of $36 thousand were paid off during the second quarter 2022 in addition to one consumer real estate purchased credit impaired loan with an associated discount of $12 thousand was paid off during the first quarter 2022 and has been included in the loan interest income in the Company’s consolidated statement of income for the nine months ended September 30, 2022. During the fourth quarter 2021, two commercial real estate and one consumer purchased credit impaired loans were paid off in full. The associated discount originally recognized at acquisition of $47 thousand was included in the loan interest income in the Company’s consolidated statement of income for the year ended December 31, 2021. The balance of the fair value adjustment for loans acquired and accounted for under this guidance (ASC 310-30) was $141 thousand at September 30, 2022, $190 thousand at December 31, 2021 and $237 thousand at October 1, 2021.

Changes in accretable yield, or income expected to be collected, are as follows:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| | (In Thousands) | (In Thousands) | (In Thousands) | (In Thousands) |
| Beginning Balance | $ 4,710 | $ - | $ 5,262 | $ - |
| Additions | 28 | - | 125 | - |
| Accretion | (330) | - | (979) | - |
| Reclassification from nonaccretable difference | - | - | - | - |
| Disposals | (2) | - | (2) | - |
| Ending Balance | $ 4,406 | $ - | $ 4,406 | $ - |

On April 30, 2021, the Company acquired Ossian Financial Services, Inc., (OFSI), the bank holding company for Ossian State Bank, a community bank based in Ossian, Indiana. Ossian State Bank operated two full-service offices in the northeast Indiana communities of Ossian and Bluffton. Shareholders of OFSI received $67.71 in cash for each share. OFSI had 295,388 shares outstanding on April 30, 2021. Total consideration for the acquisition was approximately $20.0 million in cash. As a result of the acquisition, the Company has increased its deposit base and is working to reduce transaction costs. The Company has reduced costs through economies of scale.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of $20.0 million, $980.2 thousand has been allocated to core deposit intangible included in other assets and will be amortized over seven years on a straight line basis. Goodwill of $7.9 million which resulted from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Ossian State Bank and is deductible for tax purposes over 15 years. The following table summarizes the consideration paid for Ossian State Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

**Fair Value of Consideration Transferred**

| | (In Thousands) |
|---|---|
| Cash | $ 20,001 |
| Total | $ 20,001 |

**Recognized amounts of identifiable assets acquired and liabilities assumed**

| | |
|---|---|
| **Assets** | |
| Cash and cash equivalents | $ 20,229 |
| Interest-bearing time deposits | 20,226 |
| Securities - available-for-sale | 30,243 |
| Other securities, at cost | 281 |
| Loans, net | 52,403 |
| Premises and equipment | 494 |
| Goodwill | 7,874 |
| Other assets | 5,308 |
| **Total Assets Purchased** | $ 137,058 |
| | |
| **Liabilities** | |
| Deposits | |
| Noninterest bearing | $ 34,509 |
| Interest bearing | 81,535 |
| Total deposits | 116,044 |
| Accrued expenses and other liabilities | 1,013 |
| **Total Liabilities Assumed** | $ 117,057 |

The fair value of the assets acquired includes loans with a fair value of $52.4 million. The gross principal and contractual interest due under the contracts is $63.7 million, of which $1.1 million is expected to be uncollectible. The loans have a weighted average life of 52 months.

The fair value of building and land included in premises and equipment was written down by $596 thousand with $244 thousand attributable to buildings and will be accreted over the useful life of 39 years,

The fair value for certificates of deposit incorporates a valuation amount of $59 thousand which will be accreted over 1.4 years.

Certain transferred loans evidenced deterioration of credit quality since origination and management deemed it probable, at acquisition, that all contractually required payments would not be collected.

Loans purchased with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be credit impaired. Evidence of credit quality deterioration as of the purchase date may include information such as past-due and nonaccrual status, borrower credit scores and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30) and initially measured at fair value, which includes estimated future credit losses expected to be incurred over the life of the loan. Accordingly, an allowance for credit losses related to these loans is not carried over and recorded at the acquisition date. Management estimated the cash flows expected to be collected at acquisition using our internal risk models, which incorporate the estimate of current key assumptions, such as default rates, severity and prepayment speeds.

The carrying amount of those loans is included in loans, net on the balance sheet at September 30, 2022. The amounts of loans at April 30, 2021, December 31, 2021 and September 30, 2022 are as follows:

| | | (In Thousands) |
|---|---|---|
| Balance - April 30, 2021 | | |
| Consumer Real Estate | $ | 24 |
| Agricultural Real Estate | | 981 |
| Commercial Real Estate | | 315 |
| Commercial & Industrial | | 314 |
| Carrying amount, net of fair value adjustment of $325 | $ | 1,309 |
| | | |
| Balance - December 31, 2021 | | |
| Consumer Real Estate | $ | 22 |
| Agricultural Real Estate | | - |
| Commercial Real Estate | | 222 |
| Commercial & Industrial | | 285 |
| Carrying amount, net of fair value adjustment of $321 | $ | 208 |
| | | |
| Balance - September 30, 2022 | | |
| Consumer Real Estate | $ | 20 |
| Agricultural Real Estate | | - |
| Commercial Real Estate | | - |
| Commercial & Industrial | | - |
| Carrying amount, net of fair value adjustment of $10 | $ | 10 |

Loans acquired during 2021 for which it was probable at acquisition that all contractually required payments would not be collected are as follows:

| | | (In Thousands) |
|---|---|---|
| Contractually required payments receivable at acquisition | | |
| Consumer Real Estate | $ | 28 |
| Agricultural Real Estate | | 1,142 |
| Commercial Real Estate | | 527 |
| Commercial & Industrial | | 360 |
| Total required payments receivable | $ | 2,057 |
| | | |
| Cash flows expected to be collected at acquisition | $ | 1,309 |
| | | |
| Basis in acquired loans at acquisition | $ | 1,634 |

During the third quarter 2022, the associated discount of $311 thousand for six purchased credit impaired loans between two relationships was included in the loan interest income in the Company's consolidated statement of income for the three and nine months ended September 30, 2022. The balance of the fair value adjustment for loans acquired and accounted for under this guidance (ASC 310-30) was $10 thousand at September 30, 2022, $321 thousand at December 31, 2021 and $325 thousand at April 30, 2021.

Changes in accretable yield, or income expected to be collected, are as follows:

| | Three Months Ended September 30, 2022 (In Thousands) | Three Months Ended September 30, 2021 (In Thousands) | Nine Months Ended September 30, 2022 (In Thousands) | Nine Months Ended September 30, 2021 (In Thousands) |
|---|---|---|---|---|
| Beginning Balance | $ 557 | $ 733 | $ 645 | $ - |
| Additions | 1 | - | 1 | 762 |
| Accretion | (44) | (44) | (132) | (73) |
| Reclassification from nonaccretable difference | - | - | - | - |
| Disposals | - | - | - | - |
| Ending Balance | $ 514 | $ 689 | $ 514 | $ 689 |

The results of operations of Ossian State Bank and Perpetual Federal Savings Bank have been included in the Company's consolidated financial statements since the acquisition dates of April 30, 2021 and October 1, 2021, respectively. The following schedule includes pro-forma results for the three and nine months ended September 30, 2022 and 2021 as if the Ossian State Bank and Perpetual Federal Savings Bank acquisitions had occurred as of the beginning of the comparable prior reporting period.

| | (in thousands of dollars, except per share data) Three Months Ended | | (in thousands of dollars, except per share data) Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Summary of Operations** | | | | |
| Net Interest Income - Before Provision for Loan Losses | $ 22,583 | $ 22,124 | $ 64,230 | $ 61,019 |
| Provision for Loan Losses | 1,637 | 659 | 3,845 | 3,001 |
| Net Interest Income After Provision for Loan Losses | 20,946 | 21,465 | 60,385 | 58,018 |
| Noninterest Income | 3,732 | 4,664 | 11,394 | 14,031 |
| Noninterest Expense | 12,941 | 14,167 | 39,668 | 41,436 |
| Income Before Income Taxes | 11,737 | 11,962 | 32,111 | 30,613 |
| Income Taxes | 2,320 | 2,433 | 6,321 | 6,101 |
| Net Income | $ 9,417 | $ 9,529 | $ 25,790 | $ 24,512 |
| Basic and Diluted Earnings Per Share | $ 0.72 | $ 0.73 | $ 1.97 | $ 1.88 |

The pro-forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transactions, interest expense on deposits acquired, premises expense for the branches acquired and the related income tax effects. The pro-forma information for the quarter and nine months ended September 30, 2022 includes approximately $2.9 million and $7.5 million, respectively, net of tax, of operating revenue from Ossian State Bank and Perpetual Federal Savings Bank since January 1, 2022.

The pro-forma financial information is presented for informational purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time, nor is it intended to be a projection of future results.

On January 1, 2019, the Company acquired Limberlost Bancshares, Inc. (“Limberlost”), the bank holding company for Bank of Geneva, a community bank based in Geneva, Indiana. Bank of Geneva operated six full-service offices in the northeast Indiana communities of Geneva, Berne, Decatur, Monroe, Portland and Monroeville. Shareholders of Limberlost received 1,830 shares of FMAO common stock and $8,465.00 in cash for each share. Limberlost had 1,000 shares outstanding on January 1, 2019. The share price of Farmers & Merchants Bancorp, Inc. (FMAO) stock on January 1, 2019 was $38.49. Total consideration for the acquisition was approximately $78.9 million consisting of $8.5 million in cash and $70.4 million in stock. As a result of the acquisition, the Company has had an opportunity to increase its deposit base and reduce transaction costs. The Company has also reduced costs through economies of scale.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of $78.9 million, $3.9 million has been allocated to core deposit intangible included in other assets and is being amortized over seven years on a straight line basis. Goodwill of $43.3 million resulting from the acquisition consists largely of the synergies and economies of scale expected from combining the operations of the Company and Bank of Geneva. Of that total amount, none of the purchase price is deductible for tax purposes.

Changes in accretable yield, or income expected to be collected, for the three and nine months ended are as follows:

| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 |
|---|---|---|---|---|
| | (In Thousands) | (In Thousands) | (In Thousands) | (In Thousands) |
| Beginning Balance | $ 994 | $ 1,439 | $ 1,198 | $ 1,653 |
| Additions | 2 | 3 | 10 | 8 |
| Accretion | (107) | (108) | (319) | (323) |
| Reclassification from nonaccretable difference | - | - | - | - |
| Disposals | - | - | - | (4) |
| Ending Balance | $ 889 | $ 1,334 | $ 889 | $ 1,334 |

As mentioned previously, the acquisition of Bank of Geneva resulted in the recognition of $3.9 million in core deposit intangible assets, the acquisition of Ossian State Bank resulted in the recognition of $980.2 thousand in core deposits assets and the acquisition of Perpetual Federal Savings Bank resulted in the recognition of $668 thousand in core deposits which are all being amortized over its remaining economic useful life of 7 years on a straight line basis. Core deposit intangible is included in other assets on the consolidated balance sheets.

The amortization expense of the core deposit intangible for the nine months ended September 30, 2021 was $478 thousand. Of the $795 thousand to be expensed in 2022, $597 thousand has been expensed for the nine months ended September 30, 2022. Annual amortization of core deposit intangible assets is as follows:

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Geneva | Ossian | Perpetual | Total |
| 2022 | $ 560 | $ 140 | $ 95 | $ 795 |
| 2023 | 560 | 140 | 95 | 795 |
| 2024 | 560 | 140 | 95 | 795 |
| 2025 | 560 | 140 | 95 | 795 |
| 2026 | - | 140 | 95 | 235 |
| Thereafter | - | 187 | 169 | 356 |
| | $ 2,240 | $ 887 | $ 644 | 3,771 |

On November 16, 2020, FM Investment Services, a division of the Bank, purchased the assets and clients of Adams County Financial Resources (ACFR), a full-service registered investment advisory firm located in Geneva, Indiana.

ACFR was founded in 1994 by R. Lee Flueckiger and provides clients and their families with financial confidence through personalized investment planning and services. As of November 30, 2020, ACFR had approximately $83 million of assets under management and over 450 clients.

Total consideration for the purchase was $825 thousand which consisted of 40,049 shares of stock. Under the acquisition method of accounting, the total purchase is allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of $825 thousand, $800 thousand has been allocated to customer list intangible, included in other assets, to be amortized over 6.5 years on a straight line basis.

The amortization expense of the customer list intangible for the nine months ended September 30, 2021 was $92 thousand. Of the $123 thousand to be expensed in 2022, $92 thousand has been expensed for the nine months ended September 30, 2022. Annual amortization expense of customer list intangible is as follows:

| | (In Thousands) |
|---|---|
| | Adams County Financial Resources |
| 2022 | $ 123 |
| 2023 | 123 |
| 2024 | 123 |
| 2025 | 123 |
| 2026 | 123 |
| Thereafter | 47 |
| | $ 662 |

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## NOTE 3 SECURITIES

Mortgage-backed securities, as shown in the following tables, are all government sponsored enterprises. The amortized cost and fair value of securities, with gross unrealized gains and losses at September 30, 2022 and December 31, 2021, are as follows:

| | (In Thousands) September 30, 2022 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-Sale: | | | | |
| U.S. Treasury | $ 105,219 | $ - | $ (10,057) | $ 95,162 |
| U.S. Government agencies | 154,905 | - | (16,885) | 138,020 |
| Mortgage-backed securities | 104,242 | - | (13,978) | 90,264 |
| State and local governments | 78,888 | 46 | (6,895) | 72,039 |
| Total available-for-sale securities | $ 443,254 | $ 46 | $ (47,815) | $ 395,485 |

| | (In Thousands) December 31, 2021 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Available-for-Sale: | | | | |
| U.S. Treasury | $ 90,775 | $ - | $ (1,598) | $ 89,177 |
| U.S. Government agencies | 159,673 | 695 | (3,482) | 156,886 |
| Mortgage-backed securities | 118,550 | 839 | (1,462) | 117,927 |
| State and local governments | 64,964 | 1,498 | (521) | 65,941 |
| Total available-for-sale securities | $ 433,962 | $ 3,032 | $ (7,063) | $ 429,931 |

Investment securities will at times depreciate to an unrealized loss position. The Company 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 Company currently does not hold any securities with other than temporary impairment.

Information pertaining to securities with gross unrealized losses at September 30, 2022 and December 31, 2021, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

| | (In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | September 30, 2022 | | | | | |
| | Less Than Twelve Months | | Twelve Months & Over | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| U.S. Treasury | $ (1,522) | $ 29,827 | $ (8,535) | $ 65,335 | $ (10,057) | $ 95,162 |
| U.S. Government agencies | (1,066) | 22,597 | (15,819) | 115,423 | (16,885) | 138,020 |
| Mortgage-backed securities | (3,176) | 33,338 | (10,802) | 56,926 | (13,978) | 90,264 |
| State and local governments | (3,840) | 51,876 | (3,055) | 18,257 | (6,895) | 70,133 |
| Total available-for-sale securities | $ (9,604) | $ 137,638 | $ (38,211) | $ 255,941 | $ (47,815) | $ 393,579 |

| | (In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | December 31, 2021 | | | | | |
| | Less Than Twelve Months | | Twelve Months & Over | | Total | |
| | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value |
| U.S. Treasury | $ (1,598) | $ 89,177 | $ - | $ - | $ (1,598) | $ 89,177 |
| U.S. Government agencies | (1,898) | 86,739 | (1,584) | 41,738 | (3,482) | 128,477 |
| Mortgage-backed securities | (1,050) | 63,157 | (412) | 16,434 | (1,462) | 79,591 |
| State and local governments | (296) | 17,727 | (225) | 5,487 | (521) | 23,214 |
| Total available-for-sale securities | $ (4,842) | $ 256,800 | $ (2,221) | $ 63,659 | $ (7,063) | $ 320,459 |

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, values have only been impacted by changes in interest rates since the securities were purchased, and the Company has the intent and ability to hold the securities for the foreseeable future. The fair value is expected to recover as the bonds approach the maturity date.

Below are the gross realized gains and losses for the three and nine months ended September 30, 2022 and September 30, 2021.

| | Three Months (In Thousands) | | Nine Months (In Thousands) | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Gross realized gains | $ - | $ - | $ - | $ 293 |
| Gross realized losses | - | - | - | - |
| Net realized gains | $ - | $ - | $ - | $ 293 |
| Tax expense related to net realized gains | $ - | $ - | $ - | $ 62 |

The net realized gains on sales and related tax expense is a reclassification out of accumulated other comprehensive income (loss). The net realized gains are included in net gains on sale of available-for-sale securities and the related tax expense is included in income taxes in the condensed consolidated statements of income and comprehensive income (loss).

The amortized cost and fair value of debt securities at September 30, 2022, 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 | $ 17,262 | $ 16,909 |
| After one year through five years | 184,900 | 168,802 |
| After five years through ten years | 131,050 | 113,882 |
| After ten years | 5,800 | 5,628 |
| Total | $ 339,012 | $ 305,221 |
| Mortgage-backed securities | 104,242 | 90,264 |
| Total | $ 443,254 | $ 395,485 |

Investments with a carrying value of $133.0 million and $115.0 million at September 30, 2022 and December 31, 2021, respectively, were pledged to secure public deposits and securities sold under repurchase agreements.

Other securities include Federal Home Loan Bank of Cincinnati and Indianapolis stock in the amount of $6.8 million as of September 30, 2022 and $7.3 million as of December 31, 2021 . Other securities also includes Ohio Equity Fund for Housing Limited Partnership funding of $1.5 million as of September 30, 2022 out of a total of $4.0 million committed and $820 thousand as of December 31, 2021 out of a total $3.0 million committed.

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NOTE 4 LOANS

Loan balances as of September 30, 2022 and December 31, 2021 are summarized below:

| | (In Thousands) | |
|---|---|---|
| Loans: | September 30, 2022 | December 31, 2021 |
| Consumer Real Estate | $ 416,001 | $ 395,873 |
| Agricultural Real Estate | 205,089 | 198,343 |
| Agricultural | 128,615 | 118,368 |
| Commercial Real Estate | 1,063,661 | 848,477 |
| Commercial and Industrial | 229,388 | 208,270 |
| Consumer | 70,602 | 57,737 |
| Other | 30,662 | 32,089 |
| | 2,144,018 | 1,859,157 |
| Less: Net deferred loan fees and costs | (1,402) | (1,738) |
| | 2,142,616 | 1,857,419 |
| Less: Allowance for loan losses | (19,990) | (16,242) |
| Loans - Net | $ 2,122,626 | $ 1,841,177 |

Other loans primarily fund public improvements in the Bank's service area.

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of September 30, 2022:

| | (In Thousands) | |
|---|---|---|
| | Fixed | Variable |
| Consumer Real Estate | $ 293,912 | $ 122,089 |
| Agricultural Real Estate | 130,078 | 75,011 |
| Agricultural | 50,658 | 77,957 |
| Commercial Real Estate | 871,664 | 191,997 |
| Commercial and Industrial | 113,171 | 116,217 |
| Consumer | 67,154 | 3,448 |
| Other | 20,862 | 9,800 |

As of September 30, 2022 and December 31, 2021 one to four family residential mortgage loans amounting to $182.7 million and $193.2 million, respectively, have been pledged as security for future loans and existing loans the Bank has received from the Federal Home Loan Bank.

Unless listed separately, Other loans 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 thousands) in past due loans by portfolio classification of loans as of September 30, 2022 and December 31, 2021, net of deferred loan fees and costs:

| September 30, 2022 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Financing Receivables | Recorded Investment > 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| Consumer Real Estate | $ 1,056 | $ 167 | $ 216 | $ 1,439 | $ 414,605 | $ 416,044 | $ - |
| Agricultural Real Estate | 189 | 216 | 1,550 | 1,955 | 202,832 | 204,787 | - |
| Agricultural | 435 | 88 | 831 | 1,354 | 127,464 | 128,818 | - |
| Commercial Real Estate | 1 | - | 180 | 181 | 1,061,723 | 1,061,904 | - |
| Commercial and Industrial | 203 | 52 | 23 | 278 | 259,722 | 260,000 | - |
| Consumer | 14 | 45 | 47 | 106 | 70,957 | 71,063 | - |
| Total | $ 1,898 | $ 568 | $ 2,847 | $ 5,313 | $ 2,137,303 | $ 2,142,616 | $ - |

| December 31, 2021 | 30-59 Days Past Due | 60-89 Days Past Due | Greater Than 90 Days | Total Past Due | Current | Total Financing Receivables | Recorded Investment > 90 Days and Accruing |
|---|---|---|---|---|---|---|---|
| Consumer Real Estate | $ 228 | $ - | $ 246 | $ 474 | $ 395,331 | $ 395,805 | $ - |
| Agricultural Real Estate | 436 | - | - | 436 | 197,597 | 198,033 | - |
| Agricultural | - | - | - | - | 118,504 | 118,504 | - |
| Commercial Real Estate | - | - | 180 | 180 | 846,930 | 847,110 | - |
| Commercial and Industrial | 21 | 131 | 149 | 301 | 239,837 | 240,138 | - |
| Consumer | 64 | - | - | 64 | 57,765 | 57,829 | - |
| Total | $ 749 | $ 131 | $ 575 | $ 1,455 | $ 1,855,964 | $ 1,857,419 | $ - |

The following table presents the recorded investment in nonaccrual loans by class of loans as of September 30, 2022 and December 31, 2021:

| | (In Thousands) September 30, 2022 | (In Thousands) December 31, 2021 |
|---|---|---|
| Consumer Real Estate | $ 636 | $ 824 |
| Agricultural Real Estate | 2,214 | 6,477 |
| Agricultural | 1,334 | 20 |
| Commercial Real Estate | 1,178 | 600 |
| Commercial & Industrial | 57 | 149 |
| Consumer | 51 | 6 |
| Total | $ 5,470 | $ 8,076 |

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

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 others.

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 repayment source and is therefore subject to the financial success of the farm operation.

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 the use of various pricing mechanisms. The risk related to weather is often mitigated by crop insurance.

Commercial Real Estate: Construction, purchase, and refinance of business purpose real estate. Risks include potential 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.

Commercial and Industrial: Loans to proprietorships, partnerships, limited liability companies 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 projections, financial leverage, economic trends, management ability and estimated capital expenditures during the fiscal year. 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. Included in commercial loans for September 2022 and December 2021 were Paycheck Protection Program (PPP) loans, administered by the Small Business Administration (SBA), in the amounts of $7 thousand and $2.9 million, respectively. The PPP provided loans to eligible businesses through financial institutions like the Bank, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Bank if the borrower's loan is not forgiven and is then not repaid by the customer. Therefore, there is no allowance for loan losses related to these loans.

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.

Other: Primarily funds public improvements in the Bank's service area. Repayment ability is based on the continuance of the taxation revenue as the source of repayment.

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 rate is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.
3. Two (2) Good. Desirable loans of somewhat less stature than rate 1, but with strong financial statements. Loan supported by financial statements containing strong balance sheets 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. There may be some weakness but with offsetting features of other support readily available. Loans that are meeting the terms of repayment.

   Loans may be rated 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-to-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 these credit weaknesses is observed, a lower risk rating is warranted.
5. Four (4) Satisfactory / Monitored. A "4" (Satisfactory/Monitored) risk rating 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 deserve 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.
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.

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The following table represents the risk category of loans by portfolio class, net of deferred fees and costs, based on the most recent analysis performed as of September 30, 2022 and December 31, 2021:

(In Thousands)

| | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Other |
|---|---|---|---|---|---|
| September 30, 2022 | | | | | |
| 1-2 | $ 9,608 | $ 5,358 | $ 14,227 | $ 1,195 | $ - |
| 3 | 50,781 | 33,381 | 303,291 | 66,129 | 11,110 |
| 4 | 127,806 | 88,476 | 705,358 | 155,223 | 19,552 |
| 5 | 5,024 | 240 | 15,322 | 3,214 | - |
| 6 | 11,568 | 1,363 | 23,706 | 3,577 | - |
| 7 | - | - | - | - | - |
| 8 | - | - | - | - | - |
| Total | $ 204,787 | $ 128,818 | $ 1,061,904 | $ 229,338 | $ 30,662 |

| | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Other |
|---|---|---|---|---|---|
| December 31, 2021 | | | | | |
| 1-2 | $ 8,720 | $ 4,178 | $ 10,894 | $ 4,604 | $ - |
| 3 | 42,180 | 38,623 | 238,132 | 46,547 | 11,408 |
| 4 | 129,301 | 75,164 | 568,038 | 152,736 | 20,681 |
| 5 | 4,599 | 227 | 14,509 | 986 | - |
| 6 | 13,233 | 312 | 15,537 | 3,176 | - |
| 7 | - | - | - | - | - |
| 8 | - | - | - | - | - |
| Total | $ 198,033 | $ 118,504 | $ 847,110 | $ 208,049 | $ 32,089 |

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, as was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned risk grading as of September 30, 2022 and December 31, 2021.

(In Thousands)

| | Consumer Real Estate | Consumer Real Estate |
|---|---|---|
| | September 30, 2022 | December 31, 2021 |
| Grade | | |
| Pass | $ 414,490 | $ 392,940 |
| Special Mention (5) | 555 | 1,673 |
| Substandard (6) | 999 | 1,192 |
| Doubtful (7) | - | - |
| Total | $ 416,044 | $ 395,805 |

(In Thousands)

| | Consumer - Credit | | Consumer - Other | |
|---|---|---|---|---|
| | September 30, 2022 | December 31, 2021 | September 30, 2022 | December 31, 2021 |
| Performing | $ 1 | $ 3,906 | $ 71,003 | $ 53,820 |
| Nonperforming | - | 13 | 59 | 90 |
| Total | $ 1 | $ 3,919 | $ 71,062 | $ 53,910 |

Information about impaired loans as of September 30, 2022, December 31, 2021 and September 30, 2021 are as follows:

| | (In Thousands) | | |
|---|---|---|---|
| | September 30, 2022 | December 31, 2021 | September 30, 2021 |
| Impaired loans without a valuation allowance | $ 5,835 | $ 1,228 | $ 2,461 |
| Impaired loans with a valuation allowance | 4,918 | 10,711 | 9,388 |
| Total impaired loans | $ 10,753 | $ 11,939 | $ 11,849 |
| Valuation allowance related to impaired loans | $ 2,436 | $ 2,184 | $ 2,400 |
| Total non-accrual loans | $ 5,470 | $ 8,076 | $ 6,248 |
| Total loans past-due ninety days or more and still accruing | $ - | $ - | $ - |
| Quarter ended average investment in impaired loans | $ 10,662 | $ 11,676 | $ 11,639 |
| Year to date average investment in impaired loans | $ 11,059 | $ 12,247 | $ 12,360 |

There were no additional funds available to be advanced in connection with impaired loans as of September 30, 2022.

The Bank had approximately $4.0 million of its impaired loans classified as troubled debt restructured (TDR) as of September 30, 2022, $7.6 million as of December 31, 2021 and $6.0 million as of September 30, 2021.

Modification programs focus on payment pattern changes and/or modified maturity dates with most receiving a combination of the two concessions. The modifications did not result in the contractual forgiveness of principal. During the third quarter of 2022, three new loans were considered TDR as a result of the continuance of interest only payment modifications. These three loans stem from a single relationship with a borrower. This relationship has a Small Business Administration (SBA) guaranty and consequently the request for the continuance of the interest only period was also approved by the SBA as were previous requests. During the third quarter of 2021, one new loan was considered TDR as a result of being in a deficiency balance upon the sale of property. The loan is set for a 3 year term and 10 year amortization. The ALLL included $1.0 million for the specific allocation on the principal balance of this loan. Year to date 2021, there were two new loans considered TDR with two previously reported TDR loans paid off in June 2021.

| Three Months September 30, 2022 (in thousands) Troubled Debt Restructurings | Number of Contracts Modified in the Last Three Months | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Commercial Real Estate | 1 | $ 74 | $ 74 |
| Commercial and Industrial | 2 | 1,232 | 1,232 |

| Nine Months September 30, 2022 (in thousands) Troubled Debt Restructurings | Number of Contracts Modified in the Last Nine Months | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Commercial Real Estate | 1 | $ 74 | $ 74 |
| Commercial and Industrial | 2 | 1,232 | 1,232 |

| Three Months September 30, 2021 (in thousands) Troubled Debt Restructurings | Number of Contracts Modified in the Last Three Months | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Commercial Real Estate | - | $ - | $ - |
| Commercial and Industrial | 1 | 1,000 | 1,000 |

| Nine Months September 30, 2021 (in thousands) Troubled Debt Restructurings | Number of Contracts Modified in the Last Nine Months | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
|---|---|---|---|
| Commercial Real Estate | 1 | $ 382 | $ 382 |
| Commercial and Industrial | 1 | 1,000 | 1,000 |

For the three months ended September 30, 2022 and 2021, there were no TDRs that subsequently defaulted after modification.

For the nine month period ended September 30, 2022, there were two impaired agriculture real estate loans of $4.5 million that were classified as TDR and paid off. For the nine month period ended September 30, 2021, there was one impaired commercial real estate loan of $86 thousand and one impaired commercial loan of $480 thousand that were classified as TDR paid off as well as three impaired commercial loans of $809 thousand that were classified as TDR charged off.

For the majority of the Bank's impaired loans, the Bank will apply the fair value of collateral or use a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine fair value of collateral, 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. 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-off in whole or in part is realized when unsecured consumer loans, credit card credits and overdraft lines of credit reach 90 days delinquency. At 90 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. A broker's price opinion or appraisal will be completed on all home loans in litigation and any deficiency will be charged off before reaching 150 days delinquent. Commercial and agricultural credits are charged down/allocated 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.

The following tables present loans individually evaluated for impairment by class of loans for the three and nine months ended September 30, 2022 and September 30, 2021 and for the year ended December 31, 2021.

| | (In Thousands) | | | | | |
|---|---|---|---|---|---|---|
| Three Months Ended September 30, 2022 | Recorded Investment | Unpaid Principal Balance | Related Allowance | QTD Average Recorded Investment | QTD Interest Income Recognized | QTD Interest Income Recognized Cash Basis |
| With no related allowance recorded: | | | | | | |
| Consumer Real Estate | $ 624 | $ 624 | $ - | $ 352 | $ 1 | $ 5 |
| Agricultural Real Estate | 2,588 | 2,693 | - | 2,467 | 6 | 1 |
| Agricultural | 1,334 | 1,334 | - | 1,309 | - | - |
| Commercial Real Estate | 1,251 | 1,251 | - | 1,505 | 9 | 14 |
| Commercial and Industrial | 21 | 21 | - | 63 | - | - |
| Consumer | 17 | 17 | - | 17 | - | - |
| With a specific allowance recorded: | | | | | | |
| Consumer Real Estate | - | - | - | - | - | - |
| Agricultural Real Estate | - | - | - | - | - | - |
| Agricultural | - | - | - | - | - | - |
| Commercial Real Estate | 2,936 | 2,936 | 500 | 2,960 | 39 | - |
| Commercial and Industrial | 1,982 | 1,982 | 1,936 | 1,989 | 72 | - |
| Consumer | - | - | - | - | - | - |
| Totals: | | | | | | |
| Consumer Real Estate | $ 624 | $ 624 | $ - | $ 352 | $ 1 | $ 5 |
| Agricultural Real Estate | $ 2,588 | $ 2,693 | $ - | $ 2,467 | $ 6 | $ 1 |
| Agricultural | $ 1,334 | $ 1,334 | $ - | $ 1,309 | $ - | $ - |
| Commercial Real Estate | $ 4,187 | $ 4,187 | $ 500 | $ 4,465 | $ 48 | $ 14 |
| Commercial and Industrial | $ 2,003 | $ 2,003 | $ 1,936 | $ 2,052 | $ 72 | $ - |
| Consumer | $ 17 | $ 17 | $ - | $ 17 | $ - | $ - |

| Year Ended December 31, 2021 | (In Thousands) Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Interest Income Recognized Cash Basis |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Consumer Real Estate | $ 604 | $ 604 | $ - | $ 456 | $ 5 | $ 15 |
| Agricultural Real Estate | 423 | 423 | - | 1,000 | 33 | - |
| Agricultural | - | - | - | 143 | 18 | 3 |
| Commercial Real Estate | 180 | 180 | - | 1,445 | 70 | 9 |
| Commercial and Industrial | 21 | 21 | - | 920 | 24 | 158 |
| Consumer | - | - | - | 17 | - | - |
| With a specific allowance recorded: | | | | | | |
| Consumer Real Estate | - | - | - | 59 | - | - |
| Agricultural Real Estate | 6,302 | 6,406 | 691 | 5,414 | 54 | - |
| Agricultural | 20 | 20 | 1 | 94 | - | - |
| Commercial Real Estate | 3,381 | 3,381 | 664 | 2,199 | 70 | 3 |
| Commercial and Industrial | 982 | 982 | 825 | 498 | 17 | - |
| Consumer | 26 | 26 | 3 | 2 | 1 | - |
| Totals: | | | | | | |
| Consumer Real Estate | $ 604 | $ 604 | $ - | $ 515 | $ 5 | $ 15 |
| Agricultural Real Estate | $ 6,725 | $ 6,829 | $ 691 | $ 6,414 | $ 87 | $ - |
| Agricultural | $ 20 | $ 20 | $ 1 | $ 237 | $ 18 | $ 3 |
| Commercial Real Estate | $ 3,561 | $ 3,561 | $ 664 | $ 3,644 | $ 140 | $ 12 |
| Commercial and Industrial | $ 1,003 | $ 1,003 | $ 825 | $ 1,418 | $ 41 | $ 158 |
| Consumer | $ 26 | $ 26 | $ 3 | $ 19 | $ 1 | $ - |

(In Thousands)

| Three Months Ended September 30, 2021 | Recorded Investment | Unpaid Principal Balance | Related Allowance | QTD Average Recorded Investment | QTD Interest Income Recognized | QTD Interest Income Recognized Cash Basis |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Consumer Real Estate | $ 714 | $ 714 | $ - | $ 453 | $ 1 | $ 3 |
| Agricultural Real Estate | 1,207 | 1,207 | - | 1,047 | 19 | - |
| Agricultural | 130 | 130 | - | 130 | 4 | - |
| Commercial Real Estate | 180 | 180 | - | 2,519 | 4 | 1 |
| Commercial and Industrial | 215 | 215 | - | 525 | - | 1 |
| Consumer | 15 | 15 | - | 16 | - | - |
| With a specific allowance recorded: | | | | | | |
| Consumer Real Estate | - | - | - | - | - | - |
| Agricultural Real Estate | 4,844 | 4,844 | 636 | 5,104 | 4 | - |
| Agricultural | 117 | 117 | 54 | 117 | - | - |
| Commercial Real Estate | 3,427 | 3,427 | 710 | 1,395 | 31 | - |
| Commercial and Industrial | 1,000 | 1,000 | 1,000 | 333 | 2 | - |
| Consumer | - | - | - | - | - | - |
| Totals: | | | | | | |
| Consumer Real Estate | $ 714 | $ 714 | $ - | $ 453 | $ 1 | $ 3 |
| Agricultural Real Estate | $ 6,051 | $ 6,051 | $ 636 | $ 6,151 | $ 23 | $ - |
| Agricultural | $ 247 | $ 247 | $ 54 | $ 247 | $ 4 | $ - |
| Commercial Real Estate | $ 3,607 | $ 3,607 | $ 710 | $ 3,914 | $ 35 | $ 1 |
| Commercial and Industrial | $ 1,215 | $ 1,215 | $ 1,000 | $ 858 | $ 2 | $ 1 |
| Consumer | $ 15 | $ 15 | $ - | $ 16 | $ - | $ - |

| Nine Months Ended September 30, 2022 | (In Thousands) Recorded Investment | Unpaid Principal Balance | Related Allowance | YTD Average Recorded Investment | YTD Interest Income Recognized | YTD Interest Income Recognized Cash Basis |
|---|---|---|---|---|---|---|
| With no related allowance recorded: | | | | | | |
| Consumer Real Estate | $ 624 | $ 624 | $ - | $ 372 | $ 3 | $ 10 |
| Agricultural Real Estate | 2,588 | 2,693 | - | 1,953 | 19 | 6 |
| Agricultural | 1,334 | 1,334 | - | 591 | - | 2 |
| Commercial Real Estate | 1,251 | 1,251 | - | 1,162 | 20 | 33 |
| Commercial and Industrial | 21 | 21 | - | 175 | 2 | 10 |
| Consumer | 17 | 17 | - | 18 | 1 | - |
| With a specific allowance recorded: | | | | | | |
| Consumer Real Estate | - | - | - | - | - | - |
| Agricultural Real Estate | - | - | - | 1,850 | - | - |
| Agricultural | - | - | - | - | - | - |
| Commercial Real Estate | 2,936 | 2,936 | 500 | 3,270 | 113 | - |
| Commercial and Industrial | 1,982 | 1,982 | 1,936 | 1,665 | 138 | - |
| Consumer | - | - | - | 3 | - | - |
| Totals: | | | | | | |
| Consumer Real Estate | $ 624 | $ 624 | $ - | $ 372 | $ 3 | $ 10 |
| Agricultural Real Estate | $ 2,588 | $ 2,693 | $ - | $ 3,803 | $ 19 | $ 6 |
| Agricultural | $ 1,334 | $ 1,334 | $ - | $ 591 | $ - | $ 2 |
| Commercial Real Estate | $ 4,187 | $ 4,187 | $ 500 | $ 4,432 | $ 133 | $ 33 |
| Commercial and Industrial | $ 2,003 | $ 2,003 | $ 1,936 | $ 1,840 | $ 140 | $ 10 |
| Consumer | $ 17 | $ 17 | $ - | $ 21 | $ 1 | $ - |

| Nine Months Ended September 30, 2021 | Recorded Investment | Unpaid Principal Balance | Related Allowance | YTD Average Recorded Investment | YTD Interest Income Recognized | YTD Interest Income Recognized Cash Basis |
|---|---|---|---|---|---|---|
| | (In Thousands) | | | | | |
| With no related allowance recorded: | | | | | | |
| Consumer Real Estate | $ 714 | $ 714 | $ - | $ 485 | $ 4 | $ 10 |
| Agricultural Real Estate | 1,207 | 1,207 | - | 1,191 | 53 | - |
| Agricultural | 130 | 130 | - | 161 | 8 | - |
| Commercial Real Estate | 180 | 180 | - | 1,768 | 38 | 7 |
| Commercial and Industrial | 215 | 215 | - | 1,206 | 24 | 4 |
| Consumer | 15 | 15 | - | 19 | 1 | - |
| With a specific allowance recorded: | | | | | | |
| Consumer Real Estate | - | - | - | - | - | - |
| Agricultural Real Estate | 4,844 | 4,844 | 636 | 5,273 | 15 | - |
| Agricultural | 117 | 117 | 54 | 123 | 4 | - |
| Commercial Real Estate | 3,427 | 3,427 | 710 | 1,800 | 58 | 3 |
| Commercial and Industrial | 1,000 | 1,000 | 1,000 | 334 | 2 | - |
| Consumer | - | - | - | - | - | - |
| Totals: | | | | | | |
| Consumer Real Estate | $ 714 | $ 714 | $ - | $ 485 | $ 4 | $ 10 |
| Agricultural Real Estate | $ 6,051 | $ 6,051 | $ 636 | $ 6,464 | $ 68 | $ - |
| Agricultural | $ 247 | $ 247 | $ 54 | $ 284 | $ 12 | $ - |
| Commercial Real Estate | $ 3,607 | $ 3,607 | $ 710 | $ 3,568 | $ 96 | $ 10 |
| Commercial and Industrial | $ 1,215 | $ 1,215 | $ 1,000 | $ 1,540 | $ 26 | $ 4 |
| Consumer | $ 15 | $ 15 | $ - | $ 19 | $ 1 | $ - |

As of September 30, 2022, the Company had no foreclosed residential real estate property obtained by physical possession and $211 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions. This compares to the Company having $159 thousand of foreclosed residential real estate property obtained by physical possession and $255 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceeding were in process according to local jurisdictions as of December 31, 2021. As of September 30, 2021, the Company had $167 thousand of foreclosed residential real estate property obtained by physical possession and $129 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process according to local jurisdictions.

The Allowance for Loan and Lease Losses (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.

| | (In Thousands) | |
|---|---|---|
| | Nine Months Ended September 30, 2022 | Twelve Months Ended December 31, 2021 |
| Allowance for Loan & Lease Losses | | |
| Balance at beginning of year | $ 16,242 | $ 13,672 |
| Provision for loan loss | 3,845 | 3,444 |
| Loans charged off | (334) | (1,332) |
| Recoveries | 237 | 458 |
| Allowance for Loan & Lease Losses | $ 19,990 | $ 16,242 |
| Allowance for Unfunded Loan Commitments & Letters of Credit | $ 1,118 | $ 1,041 |
| Total Allowance for Credit Losses | $ 21,108 | $ 17,283 |

The Company segregates its 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 ALLL does not include an accretable yield of $5.8 and $7.1 million as of September 30, 2022 and December 31, 2021, respectively, nor a nonaccretable yield of $151 and $510 thousand as of September 30, 2022 and December 31, 2021, respectively, related to the acquisitions of Bank of Geneva in 2019 and Ossian State Bank and Perpetual Federal Savings Bank in 2021 as previously discussed in Note 2.

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

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The following table breaks down the activity within ACL for each loan portfolio classification and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs.

Additional analysis, presented in thousands, related to the allowance for credit losses for the three and nine months ended September 30, 2022 and September 30, 2021 in addition to the ending balances as of December 31, 2021 is as follows:

| | Consumer Real Estate | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Consumer | Unfunded Loan Commitment & Letters of Credit | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Three Months Ended September 30, 2022** | | | | | | | | | |
| **ALLOWANCE FOR CREDIT LOSSES:** | | | | | | | | | |
| Beginning balance | $ 939 | $ 346 | $ 754 | $ 10,427 | $ 5,365 | $ 567 | $ 1,167 | $ 26 | $ 19,591 |
| Charge Offs | - | - | - | - | - | (123) | - | - | (123) |
| Recoveries | 6 | - | 1 | 2 | 8 | 35 | - | - | 52 |
| Provision (Credit) | (19) | 10 | 1 | 1,122 | 297 | 246 | - | (20) | 1,637 |
| Other Non-interest expense related to unfunded | - | - | - | - | - | - | (49) | - | (49) |
| Ending Balance | $ 926 | $ 356 | $ 756 | $ 11,551 | $ 5,670 | $ 725 | $ 1,118 | $ 6 | $ 21,108 |
| Ending balance: individually evaluated for impairment | $ - | $ - | $ - | $ 500 | $ 1,936 | $ - | $ - | $ - | $ 2,436 |
| Ending balance: collectively evaluated for impairment | $ 926 | $ 356 | $ 756 | $ 11,051 | $ 3,734 | $ 725 | $ 1,118 | $ 6 | $ 18,672 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **FINANCING RECEIVABLES:** | | | | | | | | | |
| Ending balance | $ 416,044 | $ 204,787 | $ 128,818 | $ 1,061,904 | $ 260,000 | $ 71,063 | $ - | $ - | $ 2,142,616 |
| Ending balance: individually evaluated for impairment | $ 624 | $ 2,588 | $ 1,334 | $ 4,187 | $ 2,003 | $ 17 | $ - | $ - | $ 10,753 |
| Ending balance: collectively evaluated for impairment | $ 414,951 | $ 202,003 | $ 127,484 | $ 1,057,699 | $ 257,948 | $ 71,046 | $ - | $ - | $ 2,131,131 |
| Ending balance: loans acquired with deteriorated credit quality | $ 469 | $ 196 | $ - | $ 18 | $ 49 | $ - | $ - | $ - | $ 732 |

| **December 31, 2021** | Consumer Real Estate | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Consumer | Unfunded Loan Commitment & Letters of Credit | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **ALLOWANCE FOR CREDIT LOSSES:** | | | | | | | | | |
| Ending Balance | $ 857 | $ 1,040 | $ 709 | $ 9,130 | $ 3,847 | $ 625 | $ 1,041 | $ 34 | $ 17,283 |
| Ending balance: individually evaluated for impairment | $ - | $ 691 | $ 1 | $ 664 | $ 825 | $ 3 | $ - | $ - | $ 2,184 |
| Ending balance: collectively evaluated for impairment | $ 857 | $ 349 | $ 708 | $ 8,466 | $ 3,022 | $ 622 | $ 1,041 | $ 34 | $ 15,099 |
| Ending balance: loans acquired with deteriorated credit quality | $ 37 | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 37 |
| **FINANCING RECEIVABLES:** | | | | | | | | | |
| Ending balance | $ 395,805 | $ 198,033 | $ 118,504 | $ 847,110 | $ 240,138 | $ 57,829 | $ - | $ - | $ 1,857,419 |
| Ending balance: individually evaluated for impairment | $ 604 | $ 6,725 | $ 20 | $ 3,561 | $ 1,003 | $ 26 | $ - | $ - | $ 11,939 |
| Ending balance: collectively evaluated for impairment | $ 394,489 | $ 191,107 | $ 118,484 | $ 843,299 | $ 238,849 | $ 57,803 | $ - | $ - | $ 1,844,031 |
| Ending balance: loans acquired with deteriorated credit quality | $ 712 | $ 201 | $ - | $ 250 | $ 286 | $ - | $ - | $ - | $ 1,449 |

| | Consumer Real Estate | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Consumer | Unfunded Loan Commitment & Letters of Credit | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Three Months Ended September 30, 2021** | | | | | | | | | |
| **ALLOWANCE FOR CREDIT LOSSES:** | | | | | | | | | |
| Beginning balance | $ 649 | $ 1,217 | $ 720 | $ 8,831 | $ 2,837 | $ 613 | $ 1,145 | $ 220 | $ 16,232 |
| Charge Offs | (2) | - | (1) | - | (5) | (95) | - | - | (103) |
| Recoveries | 3 | - | 1 | 3 | 9 | 39 | - | - | 55 |
| Provision (Credit) | 146 | (291) | (33) | (469) | 973 | 49 | - | 284 | 659 |
| Other Non-interest expense related to unfunded | - | - | - | - | - | - | (106) | - | (106) |
| Ending Balance | $ 796 | $ 926 | $ 687 | $ 8,365 | $ 3,814 | $ 606 | $ 1,039 | $ 504 | $ 16,737 |
| Ending balance: individually evaluated for impairment | $ - | $ 636 | $ 54 | $ 710 | $ 1,000 | $ - | $ - | $ - | $ 2,400 |
| Ending balance: collectively evaluated for impairment | $ 796 | $ 290 | $ 633 | $ 7,655 | $ 2,814 | $ 606 | $ 1,039 | $ 504 | $ 14,337 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **FINANCING RECEIVABLES:** | | | | | | | | | |
| Ending balance | $ 202,370 | $ 179,051 | $ 105,722 | $ 727,418 | $ 225,382 | $ 55,619 | $ - | $ - | $ 1,495,562 |
| Ending balance: individually evaluated for impairment | $ 714 | $ 6,051 | $ 247 | $ 3,607 | $ 1,215 | $ 15 | $ - | $ - | $ 11,849 |
| Ending balance: collectively evaluated for impairment | $ 201,595 | $ 173,000 | $ 105,475 | $ 723,577 | $ 223,803 | $ 55,604 | $ - | $ - | $ 1,483,054 |
| Ending balance: loans acquired with deteriorated credit quality | $ 61 | $ - | $ - | $ 234 | $ 364 | $ - | $ - | $ - | $ 659 |

| | Consumer Real Estate | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Consumer | Unfunded Loan Commitment & Letters of Credit | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2022** | | | | | | | | | |
| **ALLOWANCE FOR CREDIT LOSSES:** | | | | | | | | | |
| Beginning balance | $ 857 | $ 1,040 | $ 709 | $ 9,130 | $ 3,847 | $ 625 | $ 1,041 | $ 34 | $ 17,283 |
| Charge Offs | - | - | - | - | (6) | (328) | - | - | (334) |
| Recoveries | 15 | - | 1 | 7 | 82 | 132 | - | - | 237 |
| Provision (Credit) | 54 | (684) | 46 | 2,414 | 1,747 | 296 | - | (28) | 3,845 |
| Other Non-interest expense related to unfunded | - | - | - | - | - | - | 77 | - | 77 |
| Ending Balance | $ 926 | $ 356 | $ 756 | $ 11,551 | $ 5,670 | $ 725 | $ 1,118 | $ 6 | $ 21,108 |
| Ending balance: individually evaluated for impairment | $ - | $ - | $ - | $ 500 | $ 1,936 | $ - | $ - | $ - | $ 2,436 |
| Ending balance: collectively evaluated for impairment | $ 926 | $ 356 | $ 756 | $ 11,051 | $ 3,734 | $ 725 | $ 1,118 | $ 6 | $ 18,672 |
| Ending balance: loans acquired with deteriorated credit quality | | | | | | | | | $ - |
| **FINANCING RECEIVABLES:** | | | | | | | | | |
| Ending balance | $ 416,044 | $ 204,787 | $ 128,818 | $ 1,061,904 | $ 260,000 | $ 71,063 | $ - | $ - | $ 2,142,616 |
| Ending balance: individually evaluated for impairment | $ 624 | $ 2,588 | $ 1,334 | $ 4,187 | $ 2,003 | $ 17 | $ - | $ - | $ 10,753 |
| Ending balance: collectively evaluated for impairment | $ 414,951 | $ 202,003 | $ 127,484 | $ 1,057,699 | $ 257,948 | $ 71,046 | $ - | $ - | $ 2,131,131 |
| Ending balance: loans acquired with deteriorated credit quality | $ 469 | $ 196 | $ - | $ 18 | $ 49 | $ - | $ - | $ - | $ 732 |

| | Consumer Real Estate | Agricultural Real Estate | Agricultural | Commercial Real Estate | Commercial and Industrial | Consumer | Unfunded Loan Commitment & Letters of Credit | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|---|
| **Nine Months Ended September 30, 2021** | | | | | | | | | |
| **ALLOWANCE FOR CREDIT LOSSES:** | | | | | | | | | |
| Beginning balance | $ 633 | $ 958 | $ 701 | $ 7,415 | $ 3,346 | $ 606 | $ 641 | $ 13 | $ 14,313 |
| Charge Offs | (2) | - | (143) | - | (814) | (195) | - | - | (1,154) |
| Recoveries | 9 | - | 7 | 8 | 19 | 137 | - | - | 180 |
| Provision (Credit) | 156 | (32) | 122 | 942 | 1,263 | 58 | - | 491 | 3,000 |
| Other Non-interest expense related to unfunded | - | - | - | - | - | - | 398 | - | 398 |
| Ending Balance | $ 796 | $ 926 | $ 687 | $ 8,365 | $ 3,814 | $ 606 | $ 1,039 | $ 504 | $ 16,737 |
| Ending balance: individually evaluated for impairment | $ - | $ 636 | $ 54 | $ 710 | $ 1,000 | $ - | $ - | $ - | $ 2,400 |
| Ending balance: collectively evaluated for impairment | $ 796 | $ 290 | $ 633 | $ 7,655 | $ 2,814 | $ 606 | $ 1,039 | $ 504 | $ 14,337 |
| Ending balance: loans acquired with deteriorated credit quality | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **FINANCING RECEIVABLES:** | | | | | | | | | |
| Ending balance | $ 202,370 | $ 179,051 | $ 105,722 | $ 727,418 | $ 225,382 | $ 55,619 | $ - | $ - | $ 1,495,562 |
| Ending balance: individually evaluated for impairment | $ 714 | $ 6,051 | $ 247 | $ 3,607 | $ 1,215 | $ 15 | $ - | $ - | $ 11,849 |
| Ending balance: collectively evaluated for impairment | $ 201,595 | $ 173,000 | $ 105,475 | $ 723,577 | $ 223,803 | $ 55,604 | $ - | $ - | $ 1,483,054 |
| Ending balance: loans acquired with deteriorated credit quality | $ 61 | $ - | $ - | $ 234 | $ 364 | $ - | $ - | $ - | $ 659 |

## NOTE 5 EARNINGS PER SHARE

Basic earnings per share are calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Application of the two-class method for participating securities results in a more dilutive basic earnings per share as the participating securities are allocated the same amount of income as if they are outstanding for purposes of basic earnings per share. There is no additional potential dilution in calculating diluted earnings per share, therefore basic and diluted earnings per share are the same amounts. Other than the restricted stock plan, the Company has no other employee stock based compensation plans.

The Compensation Committee of the Company has determined that it is appropriate to award shares of the common stock of the Company to Outside Directors and Employees that are officers of the Company or the Bank who also serve as Directors of the Company and the Bank as a portion of their retainer for services rendered as Directors of the Company and the Bank. The Committee believes that it is appropriate to award the Directors shares equal to a specific dollar amount, rounded to the nearest whole share on an annual basis commencing on June 5, 2020 and thereafter on the first Friday of June in each year. Directors receive a prorated dollar value of shares for a partial year of service. The value for the shares is to be based upon the closing price for shares on June 4, 2020 and thereafter on the first Thursday in June in each year. On June 4, 2021, ten Directors received approximately $6,000 worth of shares which equated to 272 shares while four Directors received a prorated dollar value of shares. On October 1, 2021, a new Director was added as a result of the Perpetual Federal Savings Bank acquisition and received 68 prorated shares worth approximately $1,523. On June 3, 2022, twelve Directors each received $10,013 which equated to 240 shares. The use of stock for Directors' retainer, does not have an effect on diluted earnings per share as it is immediately vested.

| | (in thousands of dollars) Three Months Ended | | (in thousands of dollars) Nine Months Ended | |
|---|---|---|---|---|
| | September 30, 2022 | September 30, 2021 | September 30, 2022 | September 30, 2021 |
| **Earnings per share** | | | | |
| Net income | $ 8,954 | $ 5,920 | $ 25,327 | $ 15,812 |
| Less: distributed earnings allocated to participating securities | (26) | (20) | (67) | (49) |
| Less: undistributed earnings allocated to participating securities | (42) | (31) | (148) | (77) |
| Net earnings available to common shareholders | $ 8,886 | $ 5,869 | $ 25,112 | $ 15,686 |
| | | | | |
| Weighted average common shares outstanding including participating securities | 13,083,145 | 11,209,732 | 13,071,859 | 11,199,309 |
| Less: average unvested restricted shares | (99,838) | (96,197) | (111,209) | (89,075) |
| Weighted average common shares outstanding | 12,983,307 | 11,113,535 | 12,960,650 | 11,110,234 |
| Basic and diluted earnings per share | $ 0.68 | $ 0.53 | $ 1.94 | $ 1.41 |

## NOTE 6 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.

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The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of September 30, 2022 and December 31, 2021 are reflected below.

| | (In Thousands) September 30, 2022 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 70,670 | $ 70,670 | $ 70,670 | $ - | $ - |
| Interest-bearing time deposits | 5,187 | 5,187 | - | 5,187 | - |
| Securities - available-for-sale | 395,485 | 395,485 | 95,162 | 296,957 | 3,366 |
| Other securities | 8,227 | 8,227 | - | - | 8,227 |
| Loans held for sale | 2,182 | 2,219 | - | - | 2,219 |
| Loans, net | 2,122,626 | 2,080,950 | - | - | 2,080,950 |
| Interest receivable | 9,856 | 9,856 | - | - | 9,856 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Interest bearing deposits | $ 1,313,263 | $ 1,313,263 | $ - | $ - | $ 1,313,263 |
| Non-interest bearing deposits | 506,928 | 506,928 | - | 506,928 | - |
| Time deposits | 462,845 | 449,985 | - | - | 449,985 |
| Total Deposits | 2,283,036 | 2,270,176 | - | 506,928 | 1,763,248 |
| | | | | | |
| Federal funds purchased and securities sold under agreement to repurchase | 55,802 | 55,802 | - | - | 55,802 |
| Federal Home Loan Bank advances | 102,147 | 103,588 | - | - | 103,588 |
| Other borrowings | 10,000 | 10,000 | - | 10,000 | - |
| Subordinated notes, net of unamortized issuance costs | 34,557 | 35,003 | - | 35,003 | - |
| Interest payable | 787 | 787 | - | - | 787 |

| | (In Thousands) December 31, 2021 | | | | |
|---|---|---|---|---|---|
| | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 |
| Financial Assets: | | | | | |
| Cash and cash equivalents | $ 180,823 | $ 180,823 | $ 180,823 | $ - | $ - |
| Interest-bearing time deposits | 10,913 | 10,933 | - | 10,933 | - |
| Securities - available-for-sale | 429,931 | 429,931 | 89,177 | 335,981 | 4,773 |
| Other securities | 8,162 | 8,162 | - | - | 8,162 |
| Loans held for sale | 7,714 | 7,844 | - | - | 7,844 |
| Loans, net | 1,841,177 | 1,864,386 | - | - | 1,864,386 |
| Interest receivable | 7,209 | 7,209 | - | - | 7,209 |
| | | | | | |
| Financial Liabilities: | | | | | |
| Interest bearing deposits | $ 1,248,294 | $ 1,248,044 | $ - | $ - | $ 1,248,044 |
| Non-interest bearing deposits | 473,689 | 473,689 | - | 473,689 | - |
| Time deposits | 471,479 | 475,810 | - | - | 475,810 |
| Total Deposits | 2,193,462 | 2,197,543 | - | 473,689 | 1,723,854 |
| | | | | | |
| Federal funds purchased and securities sold under agreement to repurchase | 29,268 | 29,268 | - | - | 29,268 |
| Federal Home Loan Bank advances | 24,065 | 24,305 | - | - | 24,305 |
| Other borrowings | 40,000 | 40,000 | - | 40,000 | - |
| Subordinated notes, net of unamortized issuance costs | 34,471 | 35,000 | - | 35,000 | - |
| Interest payable | 1,125 | 1,125 | - | - | 1,125 |

Fair Value Measurements:

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.

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.

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. The Bank holds some local municipals that the Bank evaluates based on the credit strength of the underlying project. 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 September 30, 2022 and December 31, 2021, segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis (In Thousands)

| September 30, 2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|
| Assets - (Securities Available-for-Sale) | | | |
| U.S. Treasury | $ 95,162 | $ - | $ - |
| U.S. Government agencies | - | 138,020 | - |
| Mortgage-backed securities | - | 90,264 | - |
| State and local governments | - | 68,673 | 3,366 |
| Total Securities Available-for-Sale | $ 95,162 | $ 296,957 | $ 3,366 |

| December 31, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|
| Assets - (Securities Available-for-Sale) | | | |
| U.S. Treasury | $ 89,177 | $ - | $ - |
| U.S. Government agencies | - | 156,886 | - |
| Mortgage-backed securities | - | 117,927 | - |
| State and local governments | - | 61,168 | 4,773 |
| Total Securities Available-for-Sale | $ 89,177 | $ 335,981 | $ 4,773 |

The following tables represent the changes in the Level 3 fair-value category of which unobservable inputs are relied upon as of the three and nine month periods ended September 30, 2022 and September 30, 2021. During the three month period ended March 31, 2022, there was one security transferred from Level 3 to Level 2.

| | (In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | State and Local Governments Tax-Exempt | State and Local Governments Taxable | State and Local Governments Total |
| Balance at July 1, 2022 | $ 2,089 | $ 1,325 | $ 3,414 |
| Change in Market Value | (19) | (29) | (48) |
| Purchases | - | - | - |
| Payments & Maturities | - | - | - |
| Reclassification & Adjustments | - | - | - |
| Balance at September 30, 2022 | $ 2,070 | $ 1,296 | $ 3,366 |

| | (In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | State and Local Governments Tax-Exempt | State and Local Governments Taxable | State and Local Governments Total |
| Balance at July 1, 2021 | $ 2,410 | $ 1,538 | $ 3,948 |
| Change in Market Value | (9) | (17) | (26) |
| Purchases | - | - | - |
| Payments & Maturities | (155) | - | (155) |
| Reclassification & Adjustments | - | - | - |
| Balance at September 30, 2021 | $ 2,246 | $ 1,521 | $ 3,767 |

| | (In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | State and Local Governments Tax-Exempt | State and Local Governments Taxable | State and Local Governments Total |
| Balance at January 1, 2022 | $ 2,307 | $ 2,466 | $ 4,773 |
| Change in Market Value | (77) | (181) | (258) |
| Purchases | - | - | - |
| Payments & Maturities | (160) | - | (160) |
| Reclassification & Adjustments | - | (989) | (989) |
| Balance at September 30, 2022 | $ 2,070 | $ 1,296 | $ 3,366 |

| | (In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | |
|---|---|---|---|
| | State and Local Governments Tax-Exempt | State and Local Governments Taxable | State and Local Governments Total |
| Balance at January 1, 2021 | $ - | $ 1,562 | $ 1,562 |
| Change in Market Value | (17) | (41) | (58) |
| Purchases | 2,418 | - | 2,418 |
| Payments & Maturities | (155) | - | (155) |
| Reclassification & Adjustments | - | - | - |
| Balance at September 30, 2021 | $ 2,246 | $ 1,521 | $ 3,767 |

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 September 30, 2022 and December 31, 2021, such assets consist primarily of collateral dependent impaired loans. Collateral dependent 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 September 30, 2022 and December 31, 2021, fair value of collateral dependent impaired loans categorized as Level 3 was $2.5 million and $8.5 million, respectively. The specific allocation for impaired loans was $2.4 million and $2.2 million as of September 30, 2022 and December 31, 2021, respectively, which are accounted for in the allowance for loan losses (see Note 4).

During 2021, impairment was recognized on mortgage servicing rights based upon the independent third party’s quarterly valuations. A valuation allowance was established by strata to quantify the likely impairment of the value of the mortgage servicing rights to the Company. If the carrying amount of an individual strata exceeds the fair value, impairment was recorded on that strata so the servicing asset was carried at fair value. Impairment was $1 thousand at September 30, 2022 and $414 thousand at December 31, 2021.

Other real estate is reported at either the lower of the fair value of the real estate minus the estimated costs to sell the asset or the cost of the asset. The determination of 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 quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements:

| | (In Thousands) Fair Value at September 30, 2022 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| State and local government | $ 3,366 | Discounted Cash Flow | Credit strength of underlying project or entity / Discount rate | 2.13-4.59% (3.96%) |
| Collateral dependent impaired loans | 2,482 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 20.00-23.87% (23.80%) |
| Mortgage servicing rights | 52 | Discounted Cash Flow | Constant prepayment rate and probability of default / Discount rate | 0.09-1.85% (1.81%) |
| Other real estate owned - residential | - | Appraisals | Discount to reflect current market | — % ( — %) |

| | (In Thousands) Fair Value at December 31, 2021 | Valuation Technique | Unobservable Inputs | Range (Weighted Average) |
|---|---|---|---|---|
| State and local government | $ 4,773 | Discounted Cash Flow | Credit strength of underlying project or entity / Discount rate | 0.21-1.77% (1.33%) |
| Collateral dependent impaired loans | 8,527 | Collateral based measurements | Discount to reflect current market conditions and ultimate collectability | 20.00-53.95% (34.78%) |
| Mortgage servicing rights | 3,157 | Discounted Cash Flow | Constant prepayment rate and probability of default / Discount rate | 1.94-27.70% (18.44%) |
| Other real estate owned - residential | 99 | Appraisals | Discount to reflect current market | 32.72% (32.72%) |

The following table presents assets measured at fair value on a nonrecurring basis at September 30, 2022 and December 31, 2021:

| | Assets Measured at Fair Value on a Nonrecurring Basis at September 30, 2022 (In Thousands) | | | |
|---|---|---|---|---|
| | Balance at September 30, 2022 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Collateral dependent impaired loans | $ 2,482 | $ - | $ - | $ 2,482 |
| Mortgage servicing rights | 52 | - | - | 52 |
| Other real estate owned - residential | - | - | - | - |

| | Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2021 (In Thousands) | | | |
|---|---|---|---|---|
| | Balance at December 31, 2021 | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Collateral dependent impaired loans | $ 8,527 | $ - | $ - | $ 8,527 |
| Mortgage servicing rights | 3,157 | - | - | 3,157 |
| Other real estate owned - residential | 99 | - | - | 99 |

[ Remainder of this page intentionally left blank ]

## NOTE 7 FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company had $20.4 million in federal funds purchased as of September 30, 2022 and no federal funds purchased as of December 31, 2021. During the same time periods, the Company had $35.4 million and $29.3 million in securities sold under agreement to repurchase.

| | September 30, 2022 Remaining Contractual Maturity of the Agreements (In Thousands) | | | | |
|---|---|---|---|---|---|
| | Overnight & Continuous | Up to 30 days | 30-90 days | Greater Than 90 days | Total |
| Federal funds purchased | $ 20,356 | $ - | $ - | $ - | $ 20,356 |
| Repurchase agreements | | | | | |
| US Treasury & agency securities | $ 1,359 | $ - | $ 5,069 | $ 29,018 | $ 35,446 |
| Total | $ 21,715 | $ - | $ 5,069 | $ 29,018 | $ 55,802 |

| | December 31, 2021 Remaining Contractual Maturity of the Agreements (In Thousands) | | | | |
|---|---|---|---|---|---|
| | Overnight & Continuous | Up to 30 days | 30-90 days | Greater Than 90 days | Total |
| Federal funds purchased | $ - | $ - | $ - | $ - | $ - |
| Repurchase agreements | | | | | |
| US Treasury & agency securities | $ 1,062 | $ - | $ 3,900 | $ 24,306 | $ 29,268 |
| Total | $ 1,062 | $ - | $ 3,900 | $ 24,306 | $ 29,268 |

## NOTE 8 SUBORDINATED NOTES

On July 30, 2021, the Company announced the completion of a private placement of $35 million aggregate principal amount of its 3.25% fixed-to-floating rate subordinated notes due July 30, 2031 (the “Notes”) to various accredited investors (the “Offering”). The price for the Notes was 100% of the principal amount of the Notes. The Notes qualify as Tier 2 capital for regulatory purposes in proportionate amounts until July 30, 2026. The Company intended to use the net proceeds from the Offering for general corporate purposes, including financing acquisitions and organic growth.

Interest on the Notes will accrue at a rate equal to (i) 3.25% per annum from the original issue date to, but excluding, the five-year anniversary, payable semi-annually in arrears, and (ii) a floating rate per annum equal to a benchmark rate, which is expected to be the Three-Month Term SOFR (as defined in the Notes), plus a spread of 263 basis points from and including the five-year anniversary until maturity, payable quarterly in arrears. Beginning on or after the fifth anniversary of the issue date through maturity, the Notes may be redeemed, at the Company’s option, on any scheduled interest payment date. Any redemption will be at a redemption price equal to 100% of the principal amount of Notes being redeemed, plus accrued and unpaid interest.

| | September 30, 2022 | | December 31, 2021 | |
|---|---|---|---|---|
| (In Thousands) | Principal | Unamortized Note Issuance Costs | Principal | Unamortized Note Issuance Costs |
| Subordinated Notes | $ 35,000 | $ (443) | $ 35,000 | $ (529) |

## NOTE 9 SUBSEQUENT EVENT

On June 14, 2022, Farmers & Merchants Bancorp, Inc., an Ohio corporation (“F&M”) entered into an Agreement and Plan of Merger (the “Merger Agreement”) with Peoples-Sidney Financial Corporation, a Delaware corporation (“PPSF”), which provides for the merger of PPSF with and into F&M (the “Merger”) and the merger of PPSF’s wholly-owned banking subsidiary, Peoples Federal Savings and Loan Association (“Peoples Bank”), with and into F&M’s wholly-owned banking subsidiary, The Farmers & Merchants State Bank (“F&M Bank”). All of the outstanding shares of PPSF’s common stock will be converted into the right to receive the cash or stock consideration as described in, and subject to, the terms and conditions of the Merger Agreement.

Based on the closing price of F&M’s common stock on June 14, 2022, of $34.28 per share, the transaction value for the shares of common stock and cash to be paid is approximately $27 million.

The transaction is expected to be a tax-free stock exchange for PPSF’s shareholders who will be receiving F&M’s common stock pursuant to the Merger. Subject to PPSF’s shareholders’ approval of the Merger, regulatory approvals and other customary closing conditions, the parties anticipate completing the Merger in the third or fourth quarter of 2022. A copy of the Merger Agreement is filed as Exhibit 2.1 and incorporated herein by reference.

The Boards of Directors of each of F&M and PPSF have approved the Merger Agreement. The members of the Board of Directors of PPSF have entered into a Voting Agreement pursuant to which each of them has agreed to vote their shares of PPSF common stock in favor of the Merger. A copy of the form of Voting Agreement is attached to the Merger Agreement as Exhibit B.

Subject to the terms and conditions of the Merger Agreement, upon the completion of the Merger, PPSF shareholders will have the opportunity to elect to receive either 0.6597 shares of FMAO stock or $24.00 per share in cash for each PPSF share owned, subject to a requirement under the Merger Agreement that the minimum number of PPSF Shares exchanged for F&M Shares in the Merger shall be no less than 758,566. Fractional shares of F&M common stock will not be issued in respect of fractional interests arising from the Merger but will be paid in cash pursuant to the Merger Agreement.

During the year, the Company incurred third party acquisition related costs of $357.1 thousand which are included in the Company's consolidated statement of income for the three and nine months ended September 30, 2022. These expenses are comprised primarily of professional fees and to a lesser extent, SEC filing fees and other costs.

The closing of the merger was October 1, 2022, with system conversion slated for December 3-5th.

## NOTE 10 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13 “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.” This ASU requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. Organizations will continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU requires enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization’s portfolio. These disclosures include qualitative and quantitative requirements that provide additional information about the amounts recorded in the financial statements. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The ASU is effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). FASB subsequently approved a delay in adoption for Smaller Reporting Companies. The Company has completed an analysis to determine that it qualifies as a Smaller Reporting Company. As such, adoption can be postponed until periods beginning after December 15, 2022 (i.e., January 1, 2023, for calendar year entities). Early application will be permitted for all organizations for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018.

The Company began working with a third-party service provider to review methodology options starting in June 2019. At the end of first quarter 2022, the Company evaluated and refined its methodology and produced a parallel report for the calculation of the ALLL under the ASU guidance. Management continues to refine the methodology as necessary as the Company works towards ASU implementation and adoption. The Company will adopt ASU 2016-13 on January 1, 2023.

In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." This ASU eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and requires entities to evaluate all receivable modifications under ASC 310-20 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The amended guidance adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amended guidance also requires disclosure of current period gross charge-offs by year of origination within the vintage disclosures required by ASC 326. The amended guidance is effective for the Company on January 1, 2023, with early adoption permitted. The Company will adopt ASU 2022-02 on January 1, 2023.

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**OVERVIEW**

The Company continues to increase its loan production at an extremely strong pace, surpassing the previous quarters' growth. Year over year, the growth has been 44.1% (excluding PPP balances) of which organic growth accounted for 21.3% (excluding PPP and acquisitions). In terms of dollars, the largest increase was in commercial real estate, $334.8 million year over year. In terms of percentages, 105.5% or $202.5 million, was the largest increase and was in consumer real estate. The increase in consumer real estate has been driven by acquisition balances of $193.0 million. With the organic loan growth has also come the need to fund the Allowance for Loan Losses. This expense has also increased and is $800 thousand higher than the same period last year and totaling nearly $3.8 million so far year-to-date in 2022.

F&M Commercial Banking Division entered 2022 Q3 with a strong loan pipeline and demand was still active throughout F&M's footprint. Client results from 2021 and YTD performance were good, however in Q3 client concerns remained about availability of workforce, interruptions and delays in the supply chain and energy prices. Rising interest rates have not slowed commercial activity dramatically in Q3. Credit quality of the portfolio remains good. Past dues and delinquencies remained low at the end of Q3. Q3 fee income remained solid and kept pace with Q1 and Q2 of 2022.

F&M Agricultural Banking Division also experienced double digit growth as comparing September 30, 2022, to September 30, 2021. The growing conditions throughout our market area have been favorable with average to above average yields anticipated. Commodity prices have remained high and at profitable levels. The overall outlook for grain, livestock and Agri-businesses is optimistic for 2022 as our Ag base appears positioned to make positive financial strides. Land values have continued to remain strong. Focus will begin to shift to 2023 and the direction of commodity prices and input cost. The agriculture portfolio remains healthy and concerns are manageable. Harvesting is well under way for fall 2022.

Where F&M has seen a slow-down in production is in the 1-4 Family Consumer Real Estate Division. Refinances have slowed significantly with the increase in rates. Growth remains in new purchase and in home equity origination. This impact correlates to the lower gain on sale of assets, nearly $1.0 million lower than last year as of the same time period year-to-date September 30th.

The increased loan growth has positively impacted the net interest earnings. Net interest income was $719 thousand higher than last quarter and $14.8 million higher year over year. Funding of the loan growth has also resulted in increased borrowings. Increased rates have driven both deposit rates and borrowing rates significantly higher. Net Interest Margin decreased 5 basis points in comparing the quarters ended September 30, 2022, to September 30, 2021, while the year-to-date margin reported a 1 basis point improvement when comparing 2022 to 2021. The largest areas impacted by the increased rates is in the public fund offerings, higher net worth individuals and borrowing opportunities. The increases are beginning to show in the consumer deposits as the Bank offers special promotions in both celebration of the 125th Anniversary and to raise additional deposits to fund loan growth. The Company remains comfortable with its ability to raise funds as the Bank's loan to deposit ratio remains within target at approximately 93%. Further discussion of the balance sheet composition movements and the impact on the earnings can be viewed in the Material Results of Operations section that follows.

Overall, net income increased 60.2% for the first three quarters of 2022 as compared to the same time period 2021. Return on Assets improved to 1.25% as compared to 1.01% and Return on Equity improved to 11.72% compared to 8.40% for the same time periods. As might be expected with the previous improvements, year to date earnings per share are $1.94 compared to $1.41. The Company did incur acquisition expenses in the third quarter 2022 though the amount was lower than that of the total acquisition expenses incurred as of September 30, 2021.

The Company plans to follow its strategic growth plans, so on June 14th, Farmers & Merchants Bancorp, Inc., entered into an Agreement and Plan of Merger with Peoples-Sidney Financial Corporation, a Delaware corporation ("PPSF"), which provides for the merger of PPSF with and into F&M and the merger of PPSF's wholly-owned banking subsidiary, Peoples Federal Savings and Loan Association ("Peoples Bank"), with and into F&M's wholly-owned banking subsidiary, The Farmers & Merchants State Bank ("F&M Bank"). All the outstanding shares of PPSF's common stock will be converted into the right to receive the cash or stock consideration as described in, and subject to, the terms and conditions of the Merger Agreement. The closing of the merger was October 1, 2022, with system conversion slated for December 3-5th. Refer to Note 9 Subsequent Event for additional detail on the merger.

As mentioned previously in our comments regarding our commercial customers, F&M too is experiencing pressure for staffing – both in the cost of recruiting new talent and in retaining existing. Salary expenses were $113 thousand higher in third quarter 2022 than in second quarter 2022 and year over year in total year-to-date September 30th were $2.0 million higher for 2022 as compared with 2021. Even with that, the operating efficiency ratio remains in the low 50%'s as it has for all of 2022.

2022 remains a year of celebration both in terms of record earnings, strong performance and in our 125th year of strengthening relationships with our customers, employees, shareholders and our communities in support of our mission to “help people live their best lives.” The Company celebrated the latter by ringing the NASDAQ closing bell which commemorated those 125 years and 5 years since F&M had rung the bell and listed on NASDAQ.

The Company remains well capitalized as it operates in a volatile rate environment and the size and footprint of its operations continues to grow. We continue to work towards our long-term objectives while we report and recognize many of the one-time costs incurred along the way. Asset quality remains strong with past due loans over 30 days below 40 basis points. Our historical prudent approach to lending remains the foundation of our operations. We continue to embrace the opportunities presented and remain diligent to accomplishing our mission. We look forward to sharing the basis of our strategic plan for the coming years in the next quarter.

**NATURE OF ACTIVITIES**

Farmers & Merchants Bancorp, Inc. (the “Company”) is a financial holding company incorporated under the laws of Ohio in 1985. Our subsidiaries are The Farmers & Merchants State Bank (the “Bank”), a local independent community bank that has been primarily serving Northwest Ohio and Northeast Indiana since 1897, and Farmers & Merchants Risk Management, Inc., a captive insurance company formed in December 2014 and located in Nevada. We report our financial condition and net income on a consolidated basis and we have only one segment.

Our executive offices are located at 307 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501. The Bank operates thirty full-service banking offices throughout Northwest Ohio and Northeast Indiana and a drive-up facility in Archbold. The Bank also operates four Loan Production Offices (LPOs), two in Ohio and one in Indiana and Michigan.

The Farmers & Merchants State Bank engages in general commercial banking and savings business including commercial, agricultural and residential mortgage, consumer and credit card lending activities. The largest segment of the lending business relates to commercial, both real estate and non-real estate. The type of commercial business ranges from small business to multi-million dollar companies. The loans are a reflection of business located within the Banks’ market area. Because the Bank's offices are primarily 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 items as farm land, farm equipment and operating loans for seed, fertilizer, and feed. Other types of lending activities include loans for home improvements, and loans for the purchase of autos, trucks, recreational vehicles, motorcycles, and other consumer goods.

The Bank also provides checking account services, as well as savings and time deposit services such as certificates of deposits. In addition, Automated Teller Machines (ATMs) or Interactive Teller Machines (ITMs) are provided at most branch locations along with other independent locations in the market area. ITMs operate as an ATM with the addition of remote teller access to assist the user. The Bank has custodial services for Individual Retirement Accounts (IRAs) and Health Savings Accounts (HSAs). The Bank provides on-line banking access for consumer and business customers. For consumers, this includes bill-pay, on-line statement opportunities and mobile banking. For business customers, it provides the option of electronic transaction origination such as wire and Automated Clearing House (ACH) file transmittal. In addition, the Bank offers remote deposit capture or electronic deposit processing and merchant credit card services. Mobile banking was added in 2012 and has been widely accepted and used by consumers. Upgrades to our digital products and services continue to occur in both retail and business lines. The Bank continues to offer new suites of products as customer preferences change and the Bank adapts and adopts new technologies. The Bank continues to offer products that also meet the needs of our more traditional customers.

The Bank has established underwriting policies and procedures which 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 to not 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 mortgage loan. Hybrid loans are loans that start out 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, a five year and a seven year fixed rate mortgage after which the interest rate will adjust annually. 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 normally retains the servicing rights on these partially or 100% sold loans. In order for the customer to participate in these programs they must meet the requirements established by those agencies. In addition, the Bank does sell some of its longer term fixed rate agricultural mortgages into the secondary market with the aid of brokers. With the acquisition of Perpetual Federal Savings Bank in the 4$^{th}$ quarter of 2021, the Bank saw an increase in fixed rate, long-term mortgage loans to our portfolio from that banking service area.

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

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 those seeking consumer credit are reviewed and if they do not meet the Bank's Loan Policy guidelines an additional officer approval is required.

Consumer Loans:

- Maximum loan to value (LTV) for cars, SUVs, and trucks is 110% depending on whether direct or indirect.
- Loans above 100% are generally the result of sales tax.
- 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 maximum range from 80-85%.
- Raw land LTV maximum ranges from 65%-75% depending on whether or not the property has been improved.

Commercial/Agriculture:

Accounts Receivable:

- Up to 80% LTV less retainages and greater than 90 days.

Inventory:

- Agriculture:
  - o Livestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%.
- Commercial:
  - o Maximum LTV of 50% on raw and finished goods.
- Floor plan:
  - o New/used vehicles to 100% of wholesale.
  - o New/Used recreational vehicles and manufactured homes to 80% of wholesale.

Equipment:

- New, not to exceed (NTE) 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 NTE 75% LTV and aircraft up to 75% of appraised value.

Real Estate:

- Maximum LTVs range from 70%-80% depending on type.
- Maximum LTV on non-traditional loan up to 85%.

FM Investment Services, the brokerage department of the Bank, opened for business in April 1999. Securities are offered through Raymond James Financial Services, Inc. In November of 2020, FM Investment Services purchased the assets and clients of Adams County Financial Resources (ACFR) which is discussed in further detail in Note 2 to the Company’s financial statements. Securities are offered through Raymond James Financial Services, Inc.

In December of 2014, the Company became a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended (the “Act”), in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. 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 Company also formed a captive insurance company (the “captive”) in December 2014 which is located in Nevada and regulated by the State of Nevada Division of Insurance.

The Bank’s primary market includes communities located in the Ohio counties of Champaign, Defiance, Fulton, Hancock, Henry, Lucas, Williams, Wood and in the Indiana counties of Adams, Allen, DeKalb, Jay, Steuben and Wells. 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.

At September 30, 2022, we had 392 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 is contributory. We consider our employee relations to be good.

**RECENT REGULATORY DEVELOPMENTS**

The Bank remains attentive to the current regulatory environment in light of the regulatory agencies’ risk-based approach to examinations. Regulatory changes and the complexity of new and amended rules have resulted in challenges and uncertainties which could pose an increased risk of noncompliance. Various significant mortgage rules require monitoring by means of testing, validation of results, additional training, and further research or consultation to assist with ongoing compliance.

The global spread of the Coronavirus (COVID-19) and resulting declaration of a world-wide pandemic have impacted the financial services industry and banking operations in the United States (US) and world-wide. The financial services sector is identified as a Critical Infrastructure Sector by the Department of Homeland Security during the COVID-19 response efforts. How basic business operations can be conducted has undergone a rapid and dramatic change. At the same time continuity of business operations involves promoting safety and security of customers and employees, providing a quality customer experience, and maintaining effective delivery systems and channels of communication. Regulatory guidance has been issued to manage and mitigate the unprecedented impact of the COVID-19 pandemic on business operations. Regulatory agencies promote prudent and practical efforts to assist customers and communities during this national emergency. Such assistance to alleviate the financial impact on affected customers involved modification of loan terms for existing borrowers, waiver of certain fees and charges, providing small dollar loans, and offering forbearance and payment deferrals on mortgage loan obligations due to financial hardship. Legislation enacted in March 2020 has provided the CARES Act. The CARES Act, among other matters, resulted in expansion of SBA Lending Programs; provided for a financial election to suspend GAAP principles and regulatory determinations for COVID-19 related loan modifications that would otherwise be deemed Troubled Debt Restructuring; gave the FDIC authority to establish a temporary Debt Guarantee Program for bank liabilities; delayed Current Expected Credit Losses (CECL) compliance; reduced the Community Bank Leverage Ratio to 8% to eliminate risk-based capital compliance for banks under $10 billion; required credit furnishers that agree to deferred loan payments, forbearance on a delinquent account, or any other relief during the national emergency to report accounts as current to Credit Reporting Agencies; and defined forbearance requirements and terms for single family and multi-family loans backed by federal government agencies or government sponsored entities due to COVID-19 financial hardship. Of immediate and significant importance was the rollout of the SBA Paycheck Protection Program (PPP). The PPP authorized lending of up to $350 billion in 100% guaranteed 7(a) loans to cover payroll costs, interest on mortgage payments, rent obligations, and utilities. The PPP provided a guaranteed loan for which a portion of the loan up to or equal to 8 weeks of covered payroll and specific operating expenses can be forgiven. The maximum loan size was capped at the lessor of 250% of the average monthly payroll costs or $10 million.

In April 2020, legislation known as the Paycheck Protection Program and Health Care Enhancement Act provided additional funding to replenish and supplement key programs under the CARES Act. Included in this legislation was the extension of the PPP with an additional $320 billion in funding. At least $60 billion of this funding was to be set aside for small and midsize banks and community lenders. Since April, the SBA has issued various Interim Final Rules to supplement and clarify matters involving the PPP. The Paycheck Protection Program Flexibility Act of 2020 (PPPFA) was enacted in early June 2020. This provided more flexibility to Borrowers regarding use of PPP loan funds. Certain provisions were retroactive to the date of the CARES Act and all PPP loans. Among these provisions were the extension of the covered period of the loan, extension of the forgiveness period, deferral of payments based on the loan forgiveness period, reduction in the minimum that must be spent for payroll costs, extended date by which employees must be rehired, and removal of restrictions on payroll tax deferral. The term for subsequent PPO loans made after enactment of the PPPFA was extended to five years from two. A primary focus is now directed to aiding PPP borrowers in navigating the loan forgiveness process.

FFCRA requirements to provide paid leave to employees ended on December 31, 2020. Due to the extended duration of the COVID-19 pandemic, employers subject to FFCRA could voluntarily extend the paid leave option until March 31, 2021. If the employer has elected to voluntarily apply the FFCRA extension, employees eligible for leave in 2020 and did not use the leave may take the leave in 2021. Under the American Rescue Plan of 2021 enacted in March 2021, for those employers who voluntarily extend the paid leave option, paid leave was reset starting April 1, 2021. If employees previously exhausted their paid leave under FFCRA, they may be entitled to an additional 10 days/80 hours for use. Additionally, the PPP was reauthorized with passage of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act. It was originally intended to run through March 31, 2021 and was subsequently extended to May 31, 2021. Under the new legislation, $284 billion in funding for first and second-time PPP loan borrowers was provided to the SBA. Three categories of businesses are eligible to apply for PPP: 1) qualified business that did not receive a PPP loan during the first funding round; 2) previous PPP loan recipients who need a second loan and meet certain criteria; previous PPP loan recipients who returned all or a portion of their original loans and want to apply to additional funding. To be eligible, any business applying for PPP must have been in operation since at least February 15, 2020. Specific eligibility criteria apply to first-time PPP borrowers and previous PPP loan recipients. For 2021, PPP provides expanded coverage for expenditures in addition to covered payroll and specific operating expenses. For second-time loan recipients, the maximum loan amount was reduced from $10 million to $2 million. A loan recipient is eligible for full loan forgiveness if at least 60% of the loan amount is spent on payroll costs. Funds must be spent over a covered period of the loan recipients' choosing between eight and 24 weeks after loan origination to be eligible for forgiveness. Depending on the continued duration of COVID-19 spread, further legislation and regulatory guidance may continue due to the economic impact on customers, businesses, communities, and industry sectors.

The Coronavirus Response and Relief Supplemental Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act and affected the Company into 2021. Key banking provisions under this legislation include the following:

- Provided an additional $284.6 billion in Paycheck Protection Program (PPP) funding for loans to small businesses, including for borrowers who have previously received a PPP loan.
- A one-page simplified forgiveness process for PPP loans under $150,000.
- Clarification to various CARES Act provisions, the tax treatment of PPP expenses, lender responsibilities for agent fees, and lender "hold harmless" protections under the PPP and other laws.
- A further delay in Troubled Debt Restructuring (TDR) accounting until 60 days after the termination of the national emergency, or January 1, 2022. During third quarter 2021, there was one loan modification for $3.1 million that would have been previously treated as TDR under the guidance in ASC 310-40.
- A further optional delay in Current Expected Credit Loss (CECL) accounting until January 1, 2022 which was further delayed until January 1, 2023.
- A new round of Economic Impact Payments (EIPs) for consumers, with aggressive distribution timelines and new exemptions from garnishments.
- Significant added support for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs).
- Funding for agricultural support programs and for renter assistance programs.
- Termination of existing Federal Reserve emergency lending authority under the CARES Act, while preserving the Fed's general 13(3) emergency authority existing prior to that Act.

In December 2020, new Qualified Mortgage (QM) Definition rules were issued by the Consumer Financial Protection Bureau. One set of rules revised the General QM definition and another set added the definition of a Seasoned QM Loan. Both QM Loan rules had an effective date of March 1, 2021. The revised General QM rule replaced the General QM loans definition of a 43% debt-to-income (DTI) limit with a focus on the loan pricing and whether the Annual Percentage Rate exceeds the average prime offer rate by less than 2.25 percentage points. Compliance with the revised General QM Loan rule had a mandatory compliance date of July 1, 2021. The existing Temporary Government Sponsored Entity (GSE) QM option was set to expire as of the mandatory compliance date for the revised General QM Rule. Subsequently, the CFPB issued a final rule published in the Federal Register on April 30, 2021 which delayed and extended the mandatory compliance date for the revised General QM rule to October 1, 2022. The Company now complies with the revised price-based new General QM Loan definition and its requirements. Since the Company sells fixed rate consumer mortgage loans to the Federal Home Loan Mortgage Corporation, it must remain attentive to their current loan underwriting requirements.

With regard to all regulatory matters, the Bank remains committed in making good faith efforts to comply with technical requirements of the laws, rules, regulations, and guidance from both federal and state agencies which govern its activities.

**CRITICAL ACCOUNTING POLICIES 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. These policies, along with the disclosures presented in the notes to the condensed consolidated financial statements and in the management's discussion and analysis of the 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 ALLL, the valuation of its Mortgage Servicing Rights and the valuation of real estate acquired through or in lieu of loan foreclosures ("OREO Property") as the accounting areas that require the most subjective or complex judgments, and as such could be the most subject to revision as new information becomes available.

OREO Property held for sale is initially recorded at fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell.

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 a write-down is recorded by a charge to non-interest expense if the carrying value exceeds the fair value minus estimated costs to sell.

The net income from operations of foreclosed real estate held for sale is reported either in noninterest income or noninterest expense depending upon whether the property is in a gain or loss position overall. At September 30, 2022 there were no OREO property holdings. OREO totaled $159 thousand and $167 thousand as of December 31, 2021 and September 30, 2021 respectively.

The ALLL and ACL represents management's estimate of probable credit losses inherent in the Bank's loan portfolio, unfunded loan commitments, and letters of credit at the report date. The ALLL methodology is regularly reviewed for its appropriateness and is approved annually by the Board of Directors. This written methodology is consistent with Generally Accepted Accounting Principles which provides for a consistently applied analysis.

The Bank's methodology provides an estimate of the probable credit losses either by calculating a specific loss per credit or by applying a composite of historical factors over a relevant period of time with current internal and external factors which may affect credit collectability. Such factors which may influence estimated losses are the conditions of the local and national economy, local unemployment trends, and abilities of lending staff, valuation trends of fixed assets, and trends in credit delinquency, classified credits, and credit losses.

Inherent in most estimates is imprecision. The Bank's ALLL may include a margin for imprecision with an unallocated portion. Bank regulatory agencies and external auditors periodically review the Bank's methodology and adequacy of the ALLL. Any required changes in the ALLL or loan charge-offs by these agencies or auditors may have a material effect on the ALLL. For more information regarding the estimates and calculations used to establish the ALLL please see Note 4 to the consolidated financial statements provided herewith.

The Bank is also required to estimate the value of its mortgage servicing rights. The Bank's mortgage servicing rights relating to fixed rate single-family mortgage loans that it has sold without recourse but services for others for a fee represent an asset on the Bank's balance sheet. 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 Bank's mortgage servicing rights relating to loans serviced for others represent an asset. This asset is initially capitalized and included on the Company's consolidated balance sheet. The mortgage servicing rights are then amortized as noninterest expense 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 Bank. 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, meaning that the present value of the mortgage servicing rights is less than the carrying value of those rights on the Bank's balance sheet. Therefore, in an attempt to reflect an accurate expected value to the Bank of the mortgage servicing rights, the Bank 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 Bank'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. 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. Management, with the advice from its third-party valuation firm, reviews 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 Bank's mortgage servicing rights, management then establishes a valuation allowance by each stratum, if necessary, to quantify the likely impairment of the value of the mortgage servicing rights to the Bank. The estimates of prepayment speeds and discount rates are inherently uncertain, and different estimates could have a material impact on the

Bank'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 valuation specialist can be directly tied back to the fact that management has only been required to record minor valuation allowances through its income statement over time based upon the valuation of each stratum of servicing rights.

**MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES**

The Company plans to continue in its growth mode in 2022 led by loan growth from within our newer markets. The Bank is focused on funding the loan growth with the least expensive source of deposits, sale of securities or borrowings. While securities are generally considered as a source of cash, in the current environment, it is unlikely that they would be sold for such funding needs. Growing deposits will also be a focus especially in our newer markets. The Bank offers the Insured Cash Sweep ("ICS") product accessed through the Promontory network of financial institutions which helps to reduce the amount of pledged securities. This has provided more availability for runoff of securities by the Bank if warranted to fund loan growth.

Liquidity in terms of cash and cash equivalents ended $110.2 million lower as of September 30, 2022 than it was at yearend December 31, 2021. Prior year's excess liquidity along with an increase in deposits of $89.6 million and an increase of Federal Home Loan Bank advances of $78.1 million helped to fund the $281.4 million increase in net loans since year end 2021. All loan portfolios with the exception of the other portfolio increased compared to December 31, 2021 with the largest increase in the commercial real estate portfolio.

In comparing to the same prior year period, the September 30, 2022 (net of deferred fees and cost) loan balances of $2.1 billion accounted for $647.1 million or 43.3% increase when compared to 2021's $1.5 billion. The year over year improvement was made up of a combined increase in commercial and industrial related loans of 40.1%. Individual growth was comprised of 46.0% in commercial real estate loans and 18.0% in non-real estate commercial loans. PPP loans of approximately $7.4 thousand and $9.8 million are included in the non-real estate commercial portfolio as of September 30, 2022 and September 30, 2021, respectively. Consumer real estate loans increased by 105.6% and consumer loans by 27.8%. Agricultural related loans increased 17.1% year over year. Individual growth was comprised of 14.4% in agricultural real estate and 21.8% in non-real estate agricultural loans. Other loans decreased by 1.4%. The Company credits the growth not only to the OFSI and PFSB acquisitions but also to the strong team of lenders focused on providing customers valuable localized services and thereby increasing our market share.

The chart below shows the breakdown of the loan portfolio category as of September 30, for the last three years, net of deferred fees and costs.

| | (In Thousands) | | |
|---|---|---|---|
| | September 30, 2022 Amount | September 30, 2021 Amount | September 30, 2020 Amount |
| Consumer Real Estate | $ 416,044 | $ 202,370 | $ 175,595 |
| Agricultural Real Estate | 204,787 | 179,051 | 192,577 |
| Agricultural | 128,818 | 105,722 | 103,476 |
| Commercial Real Estate | 1,061,904 | 727,418 | 593,936 |
| Commercial and Industrial | 229,338 | 194,286 | 235,793 |
| Consumer | 71,063 | 55,619 | 53,455 |
| Other | 30,662 | 31,096 | 9,030 |
| Total Loans, net of deferred fees and costs | $ 2,142,616 | $ 1,495,562 | $ 1,363,862 |

The following is a contractual maturity schedule by major category of loans excluding fair value adjustments as of September 30, 2022.

| | (In Thousands) | | |
|---|---|---|---|
| | Within One Year | After One Year Within Five Years | After Five Years |
| Consumer Real Estate | $ 8,071 | $ 30,228 | $ 381,388 |
| Agricultural Real Estate | 1,173 | 6,501 | 197,709 |
| Agricultural | 67,112 | 36,458 | 25,071 |
| Commercial Real Estate | 24,457 | 308,746 | 730,563 |
| Commercial and Industrial | 82,172 | 100,392 | 47,344 |
| Consumer | 4,962 | 39,005 | 26,737 |
| Other | 200 | 1,346 | 29,124 |

While the security portfolio has been utilized to fund loan growth in previous periods, additional sources have been cultivated during 2020, 2021, and 2022. The security portfolio decreased $34.4 million in the first nine months of 2022 from year end 2021 due to an increase of gross unrealized losses of $40.8 million. The security portfolio decreased $31.2 million from September 2021 due to an increase of gross unrealized losses of $44.4 million. The amount of pledged investment securities increased by $22.0 million as compared to year end and $55.9 million as compared to September 30, 2021. Liquidity is improved with the additional option of selling unpledged investment securities if needed to fund loan growth or other initiatives. As of September 30, 2022, pledged investment securities totaled $133.0 million. However, in the current environment, it is unlikely that they would be sold for fundings needs. The current portfolio is in a net unrealized loss position of $47.8 million.

For the Bank, an additional $29.0 million is also available from the Federal Home Loan Bank based on current amounts of pledged collateral. At the present time, only 1-4 family and home equity portfolios are pledged. Additional borrowings would be available if additional portfolios (i.e. commercial real estate) were pledged.

On July 30, 2021, the Company announced the completion of a private placement of $35 million aggregate principal amount of its 3.25% fixed-to-floating rate subordinated notes due July 30, 2031 (the “Notes”) to various accredited investors (the “Offering”). The price for the Notes was 100% of the principal amount of the Notes. The Notes qualify as Tier 2 capital for regulatory purposes in proportionate amounts until July 30, 2026. The Company used the net proceeds from the Offering for general corporate purposes, including financing acquisitions and organic growth.

Due to the funding requirement for the acquisition of PFSB to be provided from the holding company, the Company secured borrowings from a correspondent bank. Two loans were secured, the first a $30 million 12-month term note and the second a 12-month line of credit for $10 million. Both loans were advanced on October 1, 2021. Interest on both loans was due quarterly and accrued at a rate 2.50% per annum with reporting and capital covenants included. The structure of the acquisition required all accounting of the transaction to be recorded at the Bank level as Perpetual did not have a holding company. Therefore, the Company advanced funds from the Bank to the Company to facilitate payoff of the term note. The term note and the line of credit balance were paid off in the second quarter of 2022. The line of credit remains open for future liquidity needs.

With the exception of FHLB stocks, carried at cost, which is shown as other securities, all of the Company’s security portfolio is categorized as “available-for-sale” and as such is recorded at fair value.

Management feels confident that liquidity needs for future growth can be met through additional maturities from the security portfolio, increased deposits and additional borrowings. For short term needs, the Bank has $73 million and $69 million of unsecured borrowing capacity through its correspondent banks as of September 30, 2022 and September 30, 2021 respectively. The Bank also had access to $130.4 million and $94.2 million through a Cash Management Advance with the Federal Home Loan Bank as of September 30, 2022 and September 30, 2021, respectively.

Overall total assets increased 5.5% since year end 2021 and grew 25.5% since September 30, 2021. The largest growth in both periods was in the loan portfolios. Goodwill also increased significantly compared to September 30, 2021. Refer to Note 2 for information on assets acquired from OFSI and PFSB.

Federal Home Loan Bank advances accounted for the largest growth within liabilities, up 324.5% or $78.1 million since year end and 471.7% or $84.3 million over September 30, 2021 balances. Deposits also experienced growth, up 4.1% or $89.6 million since year end 2021 and 22.3% or $416.8 million over September 30, 2021. Refer to Note 2 for information on liabilities acquired from OFSI and PFSB. The growth of deposits correlated to a "flight to safety" scenario as the stock market continues to experience some volatility. Core deposits continue to drive the increase which provide the opportunity to generate additional noninterest income. This growth aided the Company's liquidity position and helped to fund the loan growth for the periods along with usage of Federal Home Loan Bank advances and federal funds purchased.

Shareholders' equity decreased by $16.6 million as of the third quarter of 2022 compared to year end 2021. Earnings exceeded dividend declarations during the nine months ended September 30, 2022. Accumulated other comprehensive loss increased in unrealized loss position by $34.6 million from December 2021 to an unrealized loss of $37.7 million on September 30, 2022. The increase in unrealized loss position has no impact on regulatory tangible book price. The available-for-sale security portfolio is used as a protection to falling rates. If there is an unrealized loss in our security portfolio due to rising interest rates, it bodes well for our adjustable rate loan portfolio and new loan production to price up. Dividends declared increased over the previous quarter by $0.0075 per share to $0.21 per share from $0.2025 per share. Compared to September 30, 2021, shareholders' equity increased 10.1% or $25.8 million mostly attributable to the issuance of stock in the Perpetual acquisition as discussed in Note 2. Profits were higher year to date September 2022 than year to date September 2021 by $9.5 million.

Basel III regulatory capital requirements include a capital conservation buffer of 2.5%. As of September 30, 2022, the Company and the Bank are both positioned well above the current requirement.

The Holding Company has sufficient liquidity to maintain its dividend policy without relying on the upstreaming of dividends from the Bank.

The Bank continues to be well-capitalized at September 30, 2022 in accordance with Federal regulatory capital requirements as the capital ratios below show:

| | |
|---|---|
| Tier I Leverage Ratio | 9.16% |
| Risk Based Capital Tier I | 11.25% |
| Total Risk Based Capital | 12.24% |
| Stockholders' Equity/Total Assets | 10.44% |
| Capital Conservation Buffer | 4.24% |

**MATERIAL CHANGES IN RESULTS OF OPERATIONS**

**Comparison of Results of Interest Earnings and Expenses for three month periods ended September 30, 2022 and 2021**

**Interest Income**

When comparing third quarter 2022 to third quarter 2021, average loan balances with the acquisitions of OFSI and PFSB grew $591.5 million with average quarterly PPP loans decreasing $22.6 million. This represented a 39.7% increase in a one-year time period. Interest income on loan balances experienced an increase of $5.7 million as compared to the quarter ended September 30, 2021. This increase was primarily the result of the significant growth in the average quarterly loan balances, 22.0% of which was directly attributable to the Company's recent acquisitions and 21.3% of which was due to organic loan growth within the Bank's broader markets. Net fee income for the PPP loans was recognized on a straight line basis over 24 months for the first draw and 60 months for the second draw and was accelerated upon payoff. PPP loan balances at the end of September 2022 were $7 thousand compared to $9.8 million at the end of September 2021. PPP loan income for the quarter included no interest income nor net fee income compared to $56.7 thousand of loan interest income and $2.5 million of net fee income for 2021.

The available-for-sale securities portfolio increased in average balances by $32.1 million when comparing to the same quarter in 2021 while the income increased $263 thousand over third quarter. Federal funds sold and interest-bearing deposits decreased in average balances by $129.1 million as compared to the same quarter in 2021 with increased income of $109 thousand for the current quarter. The decreased balances have been used to fund loan growth. Refer to Note 2 Business Combination and Asset Purchase for information on assets acquired from OFSI and PFSB.

The overall total average balance of the Bank's earning assets increased by $494.4 million and interest income for the quarter comparisons was higher for third quarter 2022 by 28.5% or $5.7 million as compared to third quarter 2021. Increases in the prime lending rate between periods has contributed to an increase in rate yield.

Annualized yield, for the quarter ended September 30, 2022, was 4.00% as compared to 3.85% for the quarter ended September 30, 2021. The following charts demonstrate the value of increased loan balances in the balance sheet mix, as well as the impact on the changes in interest rates. The yields on tax-exempt securities and the portion of the tax-exempt IDB loans included in loans have been tax adjusted based on a 21% tax rate in the charts to follow.

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Quarter to Date Ended September 30, 2022 | | Annualized Yield/Rate | |
| Interest Earning Assets: | Average Balance | Interest/Dividends | September 30, 2022 | September 30, 2021 |
| Loans | $ 2,082,486 | $ 24,119 | 4.63 % | 5.04 % |
| Taxable investment securities | 422,250 | 1,426 | 1.35 % | 1.18 % |
| Tax-exempt investment securities | 25,169 | 89 | 1.79 % | 2.20 % |
| Fed funds sold & other | 58,266 | 213 | 1.46 % | 0.22 % |
| Total Interest Earning Assets | $ 2,588,171 | $ 25,847 | 4.00 % | 3.85 % |

Change in Interest Income Quarter to Date September 30, 2022 Compared to September 30, 2021

| | (In Thousands) | | |
|---|---|---|---|
| Interest Earning Assets: | Total Change | Change Due to Volume | Change Due to Rate |
| Loans | $ 5,353 | $ 7,446 | $ (2,093 ) |
| Taxable investment securities | 249 | 72 | 177 |
| Tax-exempt investment securities | 14 | 43 | (29 ) |
| Fed funds sold & other | 109 | (72 ) | 181 |
| Total Interest Earning Assets | $ 5,725 | $ 7,489 | $ (1,764 ) |

**Interest Expense**

Offsetting the higher interest income for the quarter was an increase in interest expense in 2022 of $1.6 million or 95.2% compared to third quarter 2021. Since 2021, average interest-bearing deposit balances have increased $317.9 million or 22.2% and the Company recognized $945 thousand more in interest expense for the most recent quarter. March 2022 saw the first rate change since 2020 with an increase of 25 basis points which was followed by an increase of 50 basis points and three increases of 75 basis points in June, July and September. Deposit rates have been adjusted with Interest expense on FHLB borrowings and other borrowings increased $311 thousand in the third quarter 2022 over the same time frame in 2021 due to borrowings taken on from the Perpetual acquisition and new FHLB borrowings of $80 million in 2022 used to fund loan growth. Interest expense on fed funds purchased and securities sold under agreement to repurchase increased $251 thousand compared to third quarter 2021. Interest expense on subordinated notes was $85 thousand higher for the most recent quarter. Refer to Note 8 for additional information on subordinated notes. Liabilities assumed from OFSI and PFSB can be seen in Note 2.

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Quarter to Date Ended September 30, 2022 | | Annualized Yield/Rate | |
| Interest Bearing Liabilities: | Average Balance | Interest | September 30, 2022 | September 30, 2021 |
| Savings deposits | $ 1,328,344 | $ 1,586 | 0.48 % | 0.19 % |
| Other time deposits | 423,668 | 580 | 0.55 % | 1.05 % |
| Other borrowed money | 60,455 | 398 | 2.63 % | 1.95 % |
| Fed funds purchased & securities sold under agreement to repurchase | 63,388 | 416 | 2.63 % | 2.22 % |
| Subordinated notes | 34,538 | 284 | 3.29 % | 3.34 % |
| Total Interest Bearing Liabilities | $ 1,910,393 | $ 3,264 | 0.68 % | 0.45 % |

Change in Interest Expense Quarter to Date September 30, 2022 Compared to September 30, 2021

| | (In Thousands) | | |
|---|---|---|---|
| Interest Bearing Liabilities: | Total Change | Change Due to Volume | Change Due to Rate |
| Savings deposits | $ 1,026 | $ 70 | $ 956 |
| Other time deposits | (81 ) | 446 | (527 ) |
| Other borrowed money | 311 | 207 | 104 |
| Fed funds purchased & securities sold under agreement to repurchase | 251 | 187 | 64 |
| Subordinated notes | 85 | 90 | (5 ) |
| Total Interest Bearing Liabilities | $ 1,592 | $ 1,000 | $ 592 |

Overall, net interest spread for the third quarter 2022 was 8 basis points lower than last year. As the following chart indicates, the improvement in yields on interest earning assets did not offset the increased cost of funds when comparing to the same period a year ago. Competition for deposits is intense with most competitors offering special rates for specific terms.

| | September 30, 2022 | September 30, 2021 | September 30, 2020 |
|---|---|---|---|
| Interest/Dividend income/yield | 4.00 % | 3.85 % | 4.04 % |
| Interest Expense/cost | 0.68 % | 0.45 % | 0.74 % |
| Net Interest Spread | 3.32 % | 3.40 % | 3.30 % |
| Net Interest Margin | 3.49 % | 3.53 % | 3.51 % |

**Net Interest Income**

Net interest income increased $4.1 million for the third quarter 2022 over the same time frame in 2021 with the increase in interest income of $5.7 million offset by the higher interest expense of $1.6 million as previously mentioned. As the new loans added in 2021 and 2022 generate more income, management expects the benefits of the Company's strategy of repositioning the balance sheet to continue to increase net interest income. In terms of net interest margin, the Bank recognizes competition for deposits is increasing and higher interest rates are putting pressure on the margin which may lead to a tightening.

**Comparison of Noninterest Results of Operations for three month periods ended September 30, 2022 and 2021**

**Provision Expense**

The Allowance for Loan and Lease Losses (ALLL) has a direct impact on the provision expense. The increase in the ALLL is funded through recoveries and provision expense. The following tables both deal with the allowance for credit losses. The first table breaks down the activity within ALLL for each loan portfolio class 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 the ALLL is attributed to each class of the loan portfolio, as well as the percent that each particular class of the loan portfolio represents to the entire loan portfolio in the aggregate. The consumer loan portfolio accounted for the largest component of charge-offs and recoveries for third quarter of 2022 and 2021. The commercial real estate portfolio is currently creating a large impact on the ALLL due to the loan growth.

Total provision for loan losses was $978 thousand higher for the third quarter 2022 as compared to the same quarter 2021. There is still some lingering uncertainty regarding COVID-19; therefore, it is prudent to incorporate the impact of COVID-19 in the evaluation of the adequacy of ALLL. The restaurant and hospitality sectors have been hit especially hard. Risk in the Consumer and 1-4 Family Portfolio has also increased. Management continues to monitor asset quality, making adjustments to the provision as necessary. The impact of higher interest rates and inflation are taken into consideration when reviewing qualitative factors. Loan charge-offs were $20 thousand higher in third quarter 2022 than the same quarter 2021. Recoveries were $3 thousand lower in third quarter 2022 as compared to third quarter 2021. Combined net charge-offs were $23 thousand higher in third quarter 2022 than the same time period 2021.

Past due loans, which include no deferrals related to COVID-19, increased $3.7 million at September 30, 2022 as compared to September 30, 2021. The largest changes were attributed to the increase of past due balances in the agricultural portfolio, agricultural real estate portfolio and consumer real estate portfolio.

The following table breaks down the activity within the ALLL for each loan portfolio class and shows the contribution provided by both recoveries and the provision, along with the reduction of the allowance caused by charge-offs. The time period covered is for three months ended September 30, 2022, 2021, and 2020.

| | (In Thousands) | | |
|---|---|---|---|
| | Three Months Ended September 30, 2022 | Three Months Ended September 30, 2021 | Three Months Ended September 30, 2020 |
| Loans, net of deferred fees and costs | $ 2,142,616 | $ 1,495,562 | $ 1,363,862 |
| Daily average of outstanding loans | $ 2,082,486 | $ 1,490,988 | $ 1,359,156 |
| Nonaccrual loans | $ 5,470 | $ 6,248 | $ 7,870 |
| Nonperforming loans* | $ 5,470 | $ 6,248 | $ 7,870 |
| | | | |
| Allowance for Loan Losses - July 1, | $ 18,424 | $ 15,087 | $ 9,933 |
| Loans Charged off: | | | |
| Consumer Real Estate | - | 2 | - |
| Agriculture Real Estate | - | - | - |
| Agricultural | - | 1 | - |
| Commercial Real Estate | - | - | - |
| Commercial and Industrial | - | 5 | - |
| Consumer | 123 | 95 | 79 |
| | 123 | 103 | 79 |
| Loan Recoveries: | | | |
| Consumer Real Estate | 6 | 3 | 2 |
| Agriculture Real Estate | - | - | - |
| Agricultural | 1 | 1 | - |
| Commercial Real Estate | 2 | 3 | 2 |
| Commercial and Industrial | 8 | 9 | 10 |
| Consumer | 35 | 39 | 28 |
| | 52 | 55 | 42 |
| Net Charge Offs (Recoveries): | | | |
| Consumer Real Estate | (6) | (1) | (2) |
| Agriculture Real Estate | - | - | - |
| Agricultural | (1) | - | - |
| Commercial Real Estate | (2) | (3) | (2) |
| Commercial and Industrial | (8) | (4) | (10) |
| Consumer | 88 | 56 | 51 |
| | 71 | 48 | 37 |
| Provision for loan loss | 1,637 | 659 | 1,987 |
| Acquisition provision for loan loss | - | - | - |
| Allowance for Loan & Lease Losses - September 30, | 19,990 | 15,698 | 11,883 |
| Allowance for Unfunded Loan Commitments & Letters of Credit - September 30, | 1,118 | 1,039 | 633 |
| Total Allowance for Credit Losses - September 30, | $ 21,108 | $ 16,737 | $ 12,516 |
| Ratio of Net Charge-offs to Average Outstanding Loans | 0.00% | 0.00% | 0.00% |
| Ratio of Nonaccrual Loans to Loans | 0.26% | 0.42% | 0.58% |
| Ratio of the Allowance for Loan & Lease Losses to Loans | 0.93% | 1.05% | 0.87% |
| Ratio of the Allowance for Loan & Lease Losses to Nonaccrual Loans | 365.44% | 251.26% | 151.01% |
| Ratio of the Allowance for Loan & Lease Losses to Nonperforming Loans* | 365.44% | 251.26% | 151.01% |

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

The Bank uses the following guidelines as stated in policy to determine when to realize a charge-off of a loan, whether partial loan balance or full loan balance. The Bank is also following the guidelines established under the CARES Act. 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. A broker's price opinion or appraisal will be completed on all home loans in litigation and any deficiency will be charged off before reaching 150 days delinquent. Commercial and agricultural credits are charged down/allocated 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-offs may be realized as further unsecured positions are recognized.

Loans classified as nonaccrual were lower as of September 30, 2022 at $5.5 million as compared to $6.2 million as of September 30, 2021. The agricultural real estate portfolio decreased $2.4 million and the commercial and industrial portfolio decreased $485 thousand as compared to September 30, 2021. These decreases offset the increases in the other portfolios.

In determining the allocation for impaired loans, the Bank applies the appraised market value of the collateral securing the asset, reduced by applying a discount for estimated costs of collateral liquidation. In some instances where the discounted market value is less than the loan amount, a specific impairment allocation is assigned, which may be reduced or eliminated by the write down of the credit's active principal outstanding balance.

For the majority of the Bank's impaired loans, including all collateral dependent loans, the Bank will apply the appraised market value 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 appraised market value, 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 following table presents the balances for allowance for loan losses by loan type at September 30, 2022 and September 30, 2021.

| | (In Thousands) September 30, 2022 | | (In Thousands) September 30, 2021 | |
|---|---|---|---|---|
| Balance at End of Period Applicable To: | Amount | % of Loan Category | Amount | % of Loan Category |
| Consumer Real Estate | $ 926 | 19.42% | $ 796 | 13.53% |
| Agricultural Real Estate | 356 | 9.56% | 926 | 11.97% |
| Agricultural | 756 | 6.01% | 687 | 7.07% |
| Commercial Real Estate | 11,551 | 49.56% | 8,365 | 48.64% |
| Commercial and Industrial | 5,670 | 12.13% | 3,814 | 15.07% |
| Consumer | 725 | 3.32% | 606 | 3.72% |
| Unallocated | 6 | 0.00% | 504 | 0.00% |
| Allowance for Loan & Lease Losses | 19,990 | | 15,698 | |
| Off Balance Sheet Commitments | 1,118 | | 1,039 | |
| Total Allowance for Credit Losses | $ 21,108 | | $ 16,737 | |

**Noninterest Income**

Noninterest income was down $342 thousand for the third quarter 2022 over the same time frame in 2021. The Company has seen a decrease in its mortgage production volume and the gain on the sale of these loans was $495 thousand lower for the third quarter 2022 over the same period in 2021. Loan originations on loans held for sale for the third quarter 2022 were $14.2 million with proceeds from sale at $16.6 million for 2022 compared to 2021's third quarter activity of $21.7 million in originations and $26.8 million in sales. Loan originations driven by the refinance activity associated with the reduction in interest rates has slowed. The mortgages sold were both 1-4 family and agricultural real estate loans originated for sale.

Combined service fees increased by $153 thousand as compared to third quarter 2021. Debit card income increased by $133 thousand and bank owned life insurance cash surrender value increased $17 thousand. Also contributing to the increase was overdraft and returned check charges which increased $342 thousand compared to third quarter 2021. Service fee income for 1-4 family and agricultural real estate loans decreased by $108 thousand while servicing rights income decreased $634 thousand.

The impact of mortgage servicing rights, both to income and expense, is shown in the following table which reconciles the value of mortgage servicing rights. The capitalization runs through noninterest income while the amortization thereof is included in non-interest expense. For the third quarter of 2022 and 2021, mortgage servicing rights caused a net $31 thousand in expense and $22 thousand in income, respectively. The lower capitalized additions for 2022 are attributed to a lower loan origination level of 1-4 families. For loans of 15 years and less, the market value of the mortgage servicing rights was 0.988% in the third quarter 2022 versus 1.160% in third quarter 2021. For loans over 15 years, the value was 1.299% versus a higher 1.355% for the same periods respectively. The carrying value is below the market value of $4.6 million. A valuation allowance of $414 thousand was established during 2021. During first quarter 2022, $134 thousand of the valuation allowance was reversed. An additional $91 thousand of the valuation allowance was reversed during the second quarter of 2022. The third quarter of 2022 saw an additional $188 thousand of the valuation allowance reversed.

| | Three Months (In Thousands) | | Nine Months (In Thousands) | |
|---|---|---|---|---|
| | 2022 | 2021 | 2022 | 2021 |
| Beginning Balance | $ 3,615 | $ 3,146 | $ 3,571 | $ 3,320 |
| Capitalized Additions | 107 | 236 | 461 | 1,091 |
| Amortization | (138) | (214) | (448) | (926) |
| Ending Balance, September 30, | 3,584 | 3,168 | 3,584 | 3,485 |
| Valuation Allowance | (1) | (71) | (1) | (388) |
| Mortgage Servicing Rights net, September 30, | $ 3,583 | $ 3,097 | $ 3,583 | $ 3,097 |

**Noninterest Expense**

For the third quarter 2022, noninterest expenses were $850 thousand lower than for the same quarter in 2021. Salaries, wages, and employee benefits (includes normal merit increases, restricted stock expense, incentive payout and all employee benefits) decreased $192 thousand in total. This was comprised of increased salaries of $37 thousand partially offset by decreased benefits of $229 thousand. Advertising and public relations expense increased $128 thousand due in part to the promotion of the 125th anniversary of the Bank. Data processing expenses decreased $767 thousand due to acquisition related data processing expense of $939 thousand in 2021 that was not repeated in 2022. Ohio Financial Institution Tax decreased $117 thousand over third quarter 2021.

**Income Taxes**

Income tax expense was $629 thousand higher for the third quarter 2022 compared to the same quarter in 2021. Effective tax rates were 20.10% and 21.53% for third quarter 2022 and 2021 respectively.

**Net Income**

Results overall, net income in the third quarter of 2022 was up $3.0 million as compared to the same quarter last year. Although third quarter 2022 included an increase of $978 thousand of loan loss provision as compared to third quarter 2021, net interest income after provision for loan losses increased $3.2 million during the same period of comparison. The Company has done an exceptional job of growing loans while keeping past dues low. The Company remains strong, stable, and well capitalized and has the capacity to continue to cover the increased costs of expansion.

**Comparison of Results of Interest Earnings and Expenses for nine month periods ended September 30, 2022 and 2021**

**Interest Income**

Higher loan balances of $583.5 million created an improvement in the interest income for the first nine months of 2022 as compared to the first nine months of 2021. PPP average loan balances decreased $38.7 million year over year. Interest income in total rose 31.7% or $17.2 million with interest income from loans accounting for $16.3 million of the increase. Contributing to the overall improvement was also an increase in securities income of $756 thousand and an increase from fed funds sold and interest-bearing deposits of $159 thousand over 2021. The asset yield increased by 6 basis points to 3.76% for the first nine months of 2022 compared to the first nine months of 2021's 3.70%.

PPP loan interest income recognized was $2.2 thousand for the first nine months of 2022 with net fee income of $77.2 thousand compared to $291.4 thousand of loan interest income and $3.9 million of net fee income for 2021. The growth factor contribution is shown in the charts which follow.

The average interest earning asset base was $579.4 million higher in the first nine months 2022 than the first nine months of 2021, an increase of approximately 29.5%. Refer to Note 2 Business Combination and Asset Purchase for information on assets acquired from OFSI and PFSB.

The yields on tax-exempt securities and the portion of the tax-exempt IDB loans included in loans have been tax adjusted based on a 21% tax rate in the charts to follow.

| | (In Thousands) | | Annualized Yield/Rate | |
|---|---|---|---|---|
| | Year to Date Ended September 30, 2022 | | | |
| Interest Earning Assets: | Average Balance | Interest/Dividends | September 30, 2022 | September 30, 2021 |
| Loans | $ 1,997,081 | $ 66,962 | 4.47% | 4.78% |
| Taxable investment securities | 424,882 | 4,065 | 1.28% | 1.21% |
| Tax-exempt investment securities | 21,794 | 229 | 1.77% | 2.31% |
| Fed funds sold & other | 101,922 | 401 | 0.52% | 0.19% |
| Total Interest Earning Assets | $ 2,545,679 | $ 71,657 | 3.76% | 3.70% |

Change in Interest Income Year to Date September 30, 2022 Compared to September 30, 2021

| | (In Thousands) | | |
|---|---|---|---|
| Interest Earning Assets: | Total Change | Change Due to Volume | Change Due to Rate |
| Loans | $ 16,325 | $ 20,912 | $ (4,587) |
| Taxable investment securities | 779 | 557 | 222 |
| Tax-exempt investment securities | (23) | 59 | (82) |
| Fed funds sold & other | 159 | (98) | 257 |
| Total Interest Earning Assets | $ 17,240 | $ 21,430 | $ (4,190) |

**Interest Expense**

Interest expense was higher for the first nine months of 2022 compared to the first nine months of 2021. At $7.4 million, the first nine months of 2022 was up $2.5 million as compared to the same time period 2021 or 49.9%.

The average balance of interest-bearing liabilities was higher by $475.6 million in 2022 than the first nine months of 2021. Interest bearing deposits increased $400.2 million while Fed Funds purchased and securities sold under agreement to repurchase increased by a combined $12.6 million. Other borrowed money and subordinated notes increased $36.3 million and $26.5 million, respectively as compared to a year ago. The higher balance coupled with the slight variation of the balance sheet mix, resulted in a 6 basis point increase in the cost of funds at 0.53% for the first nine months of 2022 as compared to 2021's 0.47%. Liabilities assumed from OFSI and PFSB can be seen in Note 2.

The change chart below shows the increased cost was driven more by volume than rate.

| | (In Thousands) Year to Date Ended September 30, 2022 | | Annualized Yield/Rate | |
|---|---|---|---|---|
| Interest Bearing Liabilities: | Average Balance | Interest | September 30, 2022 | September 30, 2021 |
| Savings deposits | $ 1,315,793 | $ 2,951 | 0.30 % | 0.20 % |
| Other time deposits | 439,534 | 1,954 | 0.59 % | 1.15 % |
| Other borrowed money | 54,184 | 951 | 2.34 % | 3.17 % |
| Fed funds purchased & securities sold under agreement to repurchase | 42,584 | 734 | 2.30 % | 2.20 % |
| Subordinated notes | 34,509 | 837 | 3.23 % | 3.31 % |
| Total Interest Bearing Liabilities | $ 1,886,604 | $ 7,427 | 0.53 % | 0.47 % |

Change in Interest Expense Year to Date September 30, 2022 Compared to September 30, 2021

| | | (In Thousands) | |
|---|---|---|---|
| Interest Bearing Liabilities: | Total Change | Change Due to Volume | Change Due to Rate |
| Savings deposits | $ 1,251 | $ 321 | $ 930 |
| Other time deposits | (183) | 1,644 | (1,827) |
| Other borrowed money | 527 | 862 | (335) |
| Fed funds purchased & securities sold under agreement to repurchase | 240 | 208 | 32 |
| Subordinated notes | 638 | 657 | (19) |
| Total Interest Bearing Liabilities | $ 2,473 | $ 3,692 | $ (1,219) |

Overall, net interest spread figures for the first nine months of 2022 were unchanged from 2021 and down 12 basis points from 2020. Net interest margin for the first nine months of 2022 was higher than the same period of 2021 but lower than 2020. As the chart below illustrates, a slightly higher overall yield on interest earning assets was offset by the increased cost of funds resulting in total net interest margin up 1 basis point since the first nine months of 2021 and under the first nine months of 2020 by 24 basis points.

| | September 30, 2022 | September 30, 2021 | September 30, 2020 |
|---|---|---|---|
| Interest/Dividend income/yield | 3.76% | 3.70% | 4.30% |
| Interest Expense/cost | 0.53% | 0.47% | 0.95% |
| Net Interest Spread | 3.23% | 3.23% | 3.35% |
| Net Interest Margin | 3.37% | 3.36% | 3.61% |

**Net Interest Income**

Net interest income was up $14.8 million in the first nine months of 2022 over the same time frame in 2021 due to the higher interest income offset by the increase in interest expense as previously mentioned. As the new loans added in 2021 and 2022 generate more income, management expects the benefits of the Company's strategy of repositioning the balance sheet to continue to widen this margin as measured in dollars. In terms of net interest margin rate, the Bank recognizes competition for deposits may again increase and put pressure on the margin which may lead to a tightening.

**Comparison of Results of Noninterest Results of Operations for nine month period ended September 30, 2022 and 2021**

**Provision Expense**

Total provision for loan losses was $845 thousand higher for the first nine months 2022 than for the first nine months 2021 attributable primarily to growth in the loan portfolio. There is still some lingering uncertainty regarding COVID-19; therefore, it is prudent to incorporate the impact of COVID-19 in the evaluation of the adequacy of Allowance for Loan and Lease Losses (ALLL). The restaurant and hospitality sectors have been hit especially hard. Risk in the Consumer and 1-4 Family Portfolio has increased but the full impact remains unknown. Increases to the Bank's ALLL for the first nine months of 2022, centered around current customers and businesses that are particularly vulnerable and qualitative factors were adjusted accordingly. Management continues to monitor asset quality, making adjustments to the provision as necessary. Loan charge-offs were $820 thousand lower in the first nine months of 2022 compared to the same period 2021. Recoveries were $57 thousand higher in the first nine months of 2022 as compared to first nine months of 2021. Combined net charge-offs were $877 thousand lower in the nine months ended September 2022 as compared to the same time period 2021. Management continues to evaluate the potential financial implications resulting from COVID-19 and adjusts ALLL qualitative factors as necessary.

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The following table breaks down the activity within the ALLL for each loan portfolio class and shows the contribution provided by both recoveries and the provision, along with the reduction of the allowance caused by charge-offs. The time period covered is for nine months ended September 30, 2022, 2021, and 2020.

| | (In Thousands) | | |
|---|---|---|---|
| | Nine Months Ended September 30, 2022 | Nine Months Ended September 30, 2021 | Nine Months Ended September 30, 2020 |
| Loans, net of deferred fees and costs | $ 2,142,616 | $ 1,495,562 | $ 1,363,862 |
| Daily average of outstanding loans | $ 1,997,081 | $ 1,413,625 | $ 1,305,998 |
| Nonaccrual loans | $ 5,470 | $ 6,248 | $ 7,870 |
| Nonperforming loans* | $ 5,470 | $ 6,248 | $ 7,870 |
| | | | |
| Allowance for Loan Losses - January 1, | $ 16,242 | $ 13,672 | $ 7,228 |
| Loans Charged off: | | | |
| Consumer Real Estate | - | 2 | 35 |
| Agriculture Real Estate | - | - | - |
| Agricultural | - | 143 | - |
| Commercial Real Estate | - | - | 8 |
| Commercial and Industrial | 6 | 814 | 165 |
| Consumer | 328 | 195 | 272 |
| | 334 | 1,154 | 480 |
| Loan Recoveries: | | | |
| Consumer Real Estate | 15 | 9 | 7 |
| Agriculture Real Estate | - | - | - |
| Agricultural | 1 | 7 | - |
| Commercial Real Estate | 7 | 8 | 7 |
| Commercial and Industrial | 82 | 19 | 19 |
| Consumer | 132 | 137 | 116 |
| | 237 | 180 | 149 |
| Net Charge Offs (Recoveries): | | | |
| Consumer Real Estate | (15) | (7) | 28 |
| Agriculture Real Estate | - | - | - |
| Agricultural | (1) | 136 | - |
| Commercial Real Estate | (7) | (8) | 1 |
| Commercial and Industrial | (76) | 795 | 146 |
| Consumer | 196 | 58 | 156 |
| | 97 | 974 | 331 |
| Provision for loan loss | 3,845 | 3,000 | 4,986 |
| Acquisition provision for loan loss | - | - | - |
| Allowance for Loan & Lease Losses - September 30, | 19,990 | 15,698 | 11,883 |
| Allowance for Unfunded Loan Commitments & Letters of Credit - September 30, | 1,118 | 1,039 | 633 |
| Total Allowance for Credit Losses - September 30, | $ 21,108 | $ 16,737 | $ 12,516 |
| Ratio of Net Charge-offs to Average Outstanding Loans | 0.00% | 0.07% | 0.03% |
| Ratio of Nonaccrual Loans to Loans | 0.26% | 0.42% | 0.58% |
| Ratio of the Allowance for Loan & Lease Losses to Loans | 0.93% | 1.05% | 0.87% |
| Ratio of the Allowance for Loan & Lease Losses to Nonaccrual Loans | 365.44% | 251.26% | 151.01% |
| Ratio of the Allowance for Loan & Lease Losses to Nonperforming Loans* | 365.44% | 251.26% | 151.01% |

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

**Noninterest Income**

Noninterest income for the first nine months of 2022 decreased over the first nine months of 2021 by $1.7 million. Gain on sale of loans showed a $1.6 million decrease over the first nine months of 2021. Combined service fees decreased by $231 thousand with increased debit card income of $133 thousand and bank owned life insurance cash surrender value increases of $17 thousand. Servicing rights income decreased by $634 thousand. Service charge income decreased by $6 thousand while overdraft and returned check income increased by $390 thousand. The Company did sell some of its available-for-sale securities in the first nine months of 2021 and recognized a gain of $293 thousand that was not repeated in 2022.

**Noninterest Expense**

Through the first nine months of 2022, noninterest expenses were $459 thousand higher than in the first nine months of 2021. Third party related acquisition costs decreased $2.1 million for the first nine months of 2022 compared to the first nine months of 2021. The nine months of 2022 included an increase of $1.9 million in salaries and wages partially offset by a decrease of $538 thousand in employee benefits.

Data processing fees were $442 thousand lower than last year. This is a result of acquisition related data processing fees of $939 thousand incurred during the first nine months of 2021 that were not repeated in 2022. Acquisition related consulting fees decreased $349 thousand during the first nine months of 2022. This contributed to overall consulting fees decreasing $208 thousand during that same period. FDIC assessment expense decreased by $153 thousand due to a decreased assessment rate that has offset an increased assessment base. Legal fees decreased $238 thousand over 2021.

Ohio Financial Institution Tax increased $317 thousand in the first nine months of 2022 due to overall growth. General and administrative expenses increased $402 thousand over the first nine months of 2021.

**Income Taxes**

Income tax expense was $2.3 million higher for the first nine months of 2022 compared to the first nine months of 2021. Effective tax rates were 19.80% and 20.20% for the first nine months of 2022 and 2021 respectively.

**Net Income**

Overall, net income through the first nine months of 2022 was up $9.5 million as compared to the first nine months of 2021. Increased interest income of $17.2 million partially offset by increased interest expense was the largest contributor to the increased net income for 2022.

FORWARD LOOKING STATEMENTS

Statements contained in this portion of the Company's 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 words such as "intend," "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Such forward-looking statements are based on current expectations, but actual results 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 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, including, but not limited to, the ongoing impact of the COVID-19 pandemic. 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 differ from those projected in the forward-looking statements.

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. The primary market risk to which the Company is subject is interest rate risk. The majority of 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 profitably 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 covering a twelve month period:

| Interest Rate Shock on Net Interest Margin | | | | Interest Rate Shock on Net Interest Income | |
|---|---|---|---|---|---|
| Net Interest Margin (Ratio) | % Change to Flat Rate | Rate Direction | Rate Changes by | Cumulative Total ($000) | % Change to Flat Rate |
| 3.51% | 4.30% | Rising | 3.00% | 91,456 | 3.21% |
| 3.51% | 4.27% | Rising | 2.00% | 91,605 | 3.38% |
| 3.49% | 3.76% | Rising | 1.00% | 91,403 | 3.15% |
| 3.36% | 0.00% | Flat | 0.00% | 88,608 | 0.00% |
| 3.13% | -7.03% | Falling | -1.00% | 83,316 | -5.97% |
| 2.96% | -11.99% | Falling | -2.00% | 79,707 | -10.05% |
| 2.78% | -17.24% | Falling | -3.00% | 75,801 | -14.45% |

The net interest margin represents the forecasted twelve month margin. The Company also reviews shocks with a 4.0% fluctuation with a delayed time frame of 10 months and over a 24 month time frame. It also shows the effect rate changes will have on both the margin and net interest income. The goal of the Company is to lengthen the term of some of the Bank’s fixed rate liabilities or sources of funds to decrease the exposure to a rising rate environment. Of course, customer desires also impact the Bank’s ability to attract longer term deposits.

The shock chart currently shows a widening in net interest margin over the next twelve months in a rising rate environment and a tightening in a falling rate environment. The rising rate scenarios are predicted to expand the net interest margin and produce higher levels of net interest income. Cost of funds are at 0.68% for the quarter and 0.53% for the year so the lowest shock of 100 basis points is where the Bank can take partial advantage and reprice some funds to match the level of shock. Once the shocks are falling over 100 basis points, the cost of funds cannot lower to match and the loss on net interest income continues to build. The average duration of the majority of the assets is outside the 12 month shock period. The majority of the newer loans added to the commercial real estate portfolio begin with an initial fixed rate period of three to five years whose variable adjustment is outside of the current shock time frame. The Bank continues to adjust its assumptions by including decay rates and key rate ties on certain deposit accounts and continues to review and modify those rates as the index rates change. All shocks are within risk exposure guidelines at all levels. 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 and actual balance sheet composition may differ from prediction.

Overall, the Company must concentrate on increasing loan spreads on variable loans and limit the increase on cost of funds where possible.

## ITEM 4 CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

# PART II OTHER INFORMATION

## ITEM 1 LEGAL PROCEEDINGS

None

## ITEM 1A RISK FACTORS

Except as otherwise noted below, there have been no material changes in the Company’s risk factors from those disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021.

**Global Economic and Geopolitical Instability and Inflationary Risks**

Instability in global economic conditions and geopolitical matters, as well as volatility in financial markets, could have a material adverse effect on the Company’s results of operations and financial condition. The macroeconomic environment in the United States is susceptible to global events and volatility in financial markets. For example, global demand for products continues to exceed supply during the economic recovery from the COVID-19 pandemic, creating significant inflationary pressures which, in turn, may adversely impact regional and global economic conditions, as well as the Company’s financial condition and results of operations.

## ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Treasury stock repurchased the quarter ended September 30, 2022.

| Period | (a) Total Number of Shares Purchased | (b) Average Price Paid per Share | (c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs (1) | (d) Maximum Number of Shares that may yet be purchased under the Plans or Programs |
|---|---|---|---|---|
| 7/1/2022 to 7/31/2022 | — | — | — | 600,000 |
| 8/1/2022 to 8/31/2022 | 8,100 (2) | 31.40 | — | 600,000 |
| 9/1/2022 to 9/30/2022 | — | — | — | 600,000 |
| Total | 8,100 | 31.40 | — | 600,000 |

(1) From time to time, the Company purchases shares in the market pursuant to a stock repurchase program publicly announced on January 25, 2022. On that date, the Board of Directors authorized the repurchase of 600,000 common shares between January 25, 2022 and December 31, 2022.

(2) Shares which are returned to account for tax payable on vested stock awards are outside of the Company’s stock repurchase program.

## ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

## ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 OTHER INFORMATION

None

ITEM 6 EXHIBITS

| | |
|---|---|
| 2.1 | Agreement and Plan of Merger dated June 14, 2022 (incorporated by reference to Exhibit 2.1 to Registrant's Current Report on Form 8-K filed with the Commission on June 15, 2022). |
| 3.1 | Amended Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on October 25, 2017). |
| 3.2 | Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on July 26, 2017). |
| 4.1 | Description of Registrant's Common Stock (incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K filed with the Commission on February 26, 2020). |
| 4.2 | Form of 3.25% Fixed to Floating Rate Subordinated Note due July 30, 2031 (included as Exhibit A to the Purchase Agreement filed as Exhibit 10.1 to the Current Report on Form 8-K filed with the Commission on August 2, 2021). |
| 10.1 | Change in Control Agreement executed by and between the Company and Benet Rupp, dated July 1, 2019. |
| 31.1 | Rule 13-a-14(a) Certification - CEO |
| 31.2 | Rule 13-a-14(a) Certification - CFO |
| 32.1 | Section 1350 Certification - CEO |
| 32.2 | Section 1350 Certification - CFO |
| 101.INS | Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. (1) |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document (1) |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document (1) |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document (1) |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document (1) |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document (1) |
| 104 | The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2022, has been formatted in Inline XBRL. |

(1) Pursuant to Rule 406T of Regulation S-T, the interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Farmers & Merchants Bancorp, Inc.,

| | | | |
|---|---|---|---|
| Date: | October 25, 2022 | By: | /s/ Lars B. Eller |
| | | | Lars B. Eller<br>President and Chief Executive Officer |
| Date: | October 25, 2022 | By: | /s/ Barbara J. Britenriker |
| | | | Barbara J. Britenriker<br>Executive Vice-President and<br>Chief Financial Officer |

**Exhibit 10.1**

**FARMERS & MERCHANTS BANCORP, INC.**
**CHANGE IN CONTROL-SEVERANCE COMPENSATION AGREEMENT**

This is a Change in Control - Severance Compensation Agreement (the "Agreement") made by and between Farmers & Merchants Bancorp, Inc. ("Company") and Benet Rupp ("Executive").

**RECITALS**

**WHEREAS,** Company is a bank holding company which is engaged in the business of banking and businesses incidental thereto.

**WHEREAS,** Executive possesses unique skills, knowledge and experience relating to the business of the Company and is presently employed by the Company or one or more of its subsidiaries.

· **WHEREAS,** Company desires to recognize the past and future services of Executive, and, in that connection, Executive desires to be assured that, in the event of a change in the control of Company, Executive will be provided with an adequate severance payment for termination without cause or as compensation for Executive's severance because of a material change in his duties and functions.

**WHEREAS,** Company desires to be assured of the objectivity of Executive in evaluating a potential change of control and advising whether or not a potential change of control is in the best interest of Company and its shareholders.

**WHEREAS,** Company desires to induce Executive to remain in the employ of the
. Company following a change of control to provide for continuity of management.

**WHEREAS,** Company and Executive have mutually agreed to amend and restate the terms of this Agreement in certain respects in order to clarify the terms on which severance pay would be due following a change of control of the Company.

**NOW, THEREFORE,** in consideration of the premises and of their mutual 'covenants expressed in this Agreement, the parties hereto agree to amend and restate the agreement in the following manner, intending to be legally bound thereby:

**Section 1 - Definitions**

A. Board- "Board" shall mean the Board of Directors of Farmers & Merchants Bancorp, Inc.

B. Cause - "Cause" shall mean and be limited to Executive's (a) criminal dishonesty, (b) failure to perform his duties on an exclusive and substantially full-time basis (unless unable to so perform by reason of disability), (c) failure to act in accordance with any specific substantive instructions given by Company with respect to Executive's performance of duties normally associated with his position prior to the Change in Control (unless unable to so perform by reason ·of disability), or (d) engaging in conduct which could be materially damaging to Company without a reasonable good faith belief that such conduct was in the best interest of Company.

C. Change in Control - A "Change in Control" shall have the meaning set forth on Exhibit A.

D. Code - "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

E. Company - "Company' shall mean Farmers & Merchants Bancorp, Inc. and, except in connection with the definition of Change in Control, any members of its Affiliated Group, as that term is defined in Section 1504 of the Code, and shall include any predecessor corporations of the Company and its Affiliated Group.

F. Disability - "Disability" shall mean disability as determined under the plans, policies or programs applicable to the Executive and if no such plan, policy or program exists, "disability" shall mean the Executive is unable to perform the material and substantial functions or duties of the Executive's position due a medical condition (including mental conditions).

G. Exchange Act "Exchange Act" means The Securities Exchange Act of 1934.

H. OneYear of Compensation "One Year of Compensation" means the annual equivalent of the highest rate of the Executive's salary in effect during the one-year period ending with the date of the Change in Control, and the average amount, paid in cash as bonus and other incentive compensation for the three year period ending with the date of the Change in Control. "One Year of Compensation" shall not include any amount, other than salary and cash bonuses or cash incentive compensation, that may be included in Executive's taxable compensation for federal income tax purposes and reported to Executive and Internal Revenue Service (11IRS11) such as the reporting of previously deferred compensation or gain realized upon exercise of any non qualified stock options.

**Section 2 - Term of Agreement.**

This Agreement shall be effective from the date hereof, until the termination of employment of the Executive for any reason, or two years following a Change in Control. Notwithstanding the forgoing, the obligations of the Company pursuant to Section 4 of this Agreement shall survive such termination insofar as provided thereunder. This Agreement shall not change, alter or amend any rights which either Company or Executive may have in respect of the termination of the employment of Executive by Company prior to a Change in Control. Nothing contained in this Agreement shall be construed to create any additional right or obligation of Executive to be employed by Company.

In addition to the forgoing this Agreement shall terminate on the date which the Company or any other member of its Affiliated Group, and over which Executive has managerial control, or which employs Executive, and which is a depository institution that is insured by an agency of any state or the United States Federal Government:

1. becomes insolvent; or

2. has appointed any conservator or receiver; or

3. is determined by an appropriate federal banking agency to be in a troubled condition, as defined in the applicable law and regulations; or

4. is assigned a composite rating of 4 or 5 by the appropriate federal banking agency or is informed in writing by the Federal Deposit Insurance Corporation that it is rated a 4 or 5 under the Uniform Financial Institution's Rating System of the Federal Financial Institutions Examination Council; or

5. has initiated against it by the Federal Deposit Insurance Corporation a proceeding to terminate or suspend deposit insurance; or

6. reasonably determines in good faith and with due care that the payments called for under this Agreement, or the obligations and promises assumed and made under this Agreement have become proscribed under applicable law or regulations. Provided, however, if such law or regulations apply prospectively only, or for some other reason do not apply to this Agreement, then this Agreement shall not be deemed by Company to be proscribed.

**Section 3 - Reduction in Compensation Proscribed After a Change in Control**

During the term of this Agreement from the date of a Change in Control forward, Executive shall receive as compensation, while still employed by Company, a salary at a rate no less than the highest rate in effect during the one-year period before the Change in Control, and shall, in addition, be entitled to receive a bonus equal to at least the average of the last three years of bom1 e.3- paid before the Change in Control. In addition, during such period, the Company shall provide for Executive all of the fringe benefits and other perquisites as provided to any similarly situated employee of the Company, including but not limited to retirement benefits, health, disability, dental, life insurance, club memberships, etc., all of which shall be at levels and amounts no less favorable than levels and amounts in effect as of the Change in Control and at the same cost to Executive as provided to any similarly situated employee of Company.

**Section 4 - Payments and Benefits for Termination of Employment Related to a Change in Control**

A. If during the term of this Agreement and:

1. within two (2) years after the date of a Change in Control, Executive is discharged without Cause; or

2. within two (2) years after the date of a Change in Control Executive resigns because he has: (i) been demoted or had his authority, duties or responsibilities materially reduced, (ii) had his compensation reduced or, (iii) had his principal place of employment transferred to a location greater than sixty (60) miles from the main office of the Company which is located at 307 N. Defiance Street, Archbold, Ohio; or

3. within four (4) months before the date of a Change in Control, Executive resigns because he has: (i) been demoted or had his authority, duties or responsibilities materially reduced, (ii) had his compensation reduced, or (iii) had his principal place of employment transferred to a location greater than sixty (60) miles from the main office of the Company which is located at 307 N. Defiance Street, Archbold, Ohio; or

4. within one year before the date of a Change in Control, the Executive is discharged by Company other than for Cause;

then the Company shall make the payments to Executive set forth in subsection B of this Section 4, provided that before a resignation under Section 4.A. 2 or 3, the Executive must have given notice to the Company of the existence of one or more of the conditions described in Sections 4.A. 2 or 3 within a period of ninety (90) days of the initial existence of the condition, has provided the Company a period of thirty (30) days after receiving the notice during which to the condition, and the Company has failed to do so within the thirty
(30) day period. ·

B. In the event of the termination of Executive's employment as described in Section 4.A. Executive shall be entitled to receive One Year of Compensation paid in a single lump sum payment within fourteen (14) days of the later of termination of employment of the Executive or the occurrence of the Change in Control.

C. If Executive's employment is terminated as described in Section 4.A. (1, 2, 3 or 4), then in addition to the above cash payment(s), Company shall continue at no cost to Executive for the term of the Benefit Period as defined below, Executive's coverage in Company's health, disability, dental, and life insurance at the same levels that had been provided immediately prior to his termination of employment. The Benefit Period shall commence
·. on the date of termination of the Executive's employment (or, if later, the effective date of

the Change in Control) and shall end on the last day of the 12th consecutive whole month thereafter.

D. In the event Executive dies before collecting all amounts and benefits due under this Section, any payments owed under Section 4.B. shall be paid to the person or persons as stated in the last designation of beneficiary concerning this Agreement signed by Executive and filed with Company, and if no such designation has been made, then to the surviving spouse, and if there is no surviving spouse, to his/her estate.

E. Except as otherwise provided in Section 7, the payments and benefits provided for herein are in lieu of compensation, benefits or amounts the Executive might otherwise be entitled to from the Company by reason of termination of employment (except as required or mandated by law).

F. In the·event the payments required under this Agreement, when added together with any other amounts or benefits required to be treated as parachute payments received by Executive in connection with a Change of Control under the provisions of Section 2800 of the Code, would otherwise result in an '1Excess Parachute Payment," as that term is defined in Section 2800 of the Code, then the amount of the payments provided for in this Agreement shall be limited to the maximum amount that can be paid to Executive under this Agreement without causing the total of such payments and all other amounts or benefits required to be treated as parachute payments received by Executive in connection with a Change of Control under the provisions of Section 2800 to equal or exceed 3.0 times Executive's "Base Amount" as that term is defined in Section 280G(b)(3) (or any successor thereto) of the Code.

G. Any subsequent employment by Executive shall not reduce the obligation of the Company to make the full payments and provide the full benefits specified herein and Executive shall have no obligation to seek other employment or otherwise mitigate the effect of his discharge from employment.

H. Notwithstanding the provisions of this agreement providing for a payment to be made upon a termination of the Executive's employment, if at the time the payment would otherwise be payable, Employee is a "specified employee' [as defined below and any portion of the payment must be treated as 11deferred compensation" with the meaning of the Internal Revenue Code (the 11Code'), section 409A, the distribution of that portion of the Employee's benefit which is not exempt from Section 409A of the Code may not be made until six months after the date of the Employee's "separation from service" with the Company [as that term may be defined in Section 409A(a)(2)(A)(i) of the Code and regulations promulgated there1mder], or, if earlier the date of death of the Employee. This requirement shall remain in effect only for periods in which the stock of the Company is publicly traded on an established securities market. For purposes of this subsection a 11specified employee" shall mean any Employee of the Company who is a "key employee" of the Company within the meaning of Code section 416(i) and regulations thereunder, on December 31st of the prior calendar year. The provisions of this subsection providing for a delay in payment have been adopted only in order to comply with Code section 409A. These provisions shall be interpreted and administered in a manner consistent ..with the requirements of Code section 409A, together with any regulations or other guidance which may be published by the Treasury Department or Internal Revenue Service interpreting such Code section 409A and the delay in payment provided for hereunder shall only be applicable to the extent that, and with respect to the portion of which, such payments are proscribed thereby.

I. Notwithstanding anything in this Agreement to the contrary, in the event any payment called for under the terms hereof is prohibited by law, including 12 CFR Part 359 of the Code of Federal Regulations, the Company shall have no obligation to make such payment to the extent of such prohibition.

**Section 5 - Provision for Outplacement Services**

In the event of the termination of employment of Executive as specified in Section 4.A. of this Agreement, Executive shall be entitled to six months of out-placement services following termination of employment. Such services shall include employment counseling, resume services, executive placement services and similar services generally provided to executives by professional executive out placement service providers. All costs of such out placement services shall be paid for by the Company.

**Section 6 - Arbitration**

The parties hereto agree to arbitrate any issue, misunderstanding, disagreement or dispute with respect to the terms of this Agreement before an arbitrator or an arbitration panel as hereinafter provided. The parties may agree to one mutually acceptable arbitrator. If the parties have been unable to agree upon one arbitrator, then each party may appoint one arbitrator and the two appointed arbitrators shall appoint a third neutral arbitrator. If the arbitrators selected by the parties are unable or fail to agree upon the third arbitrator, an Ohio common pleas court judge located in Fulton County Ohio chosen at random shall select the third arbitrator. Failure by a party to appoint an arbitrator, within 30 days of receipt of notice of the appointment of an
arbitrator by the other party, shall be deemed as acceptance of arbitration by such single arbitrator. The arbitration shall occur in Archbold, Ohio1 or such other place as mutually agreed upon. The prevailing party shall be entitled to recover any and all costs associated with any arbitration proceeding (and any subsequent proceeding to enforce rights thereunder) including the recovery of reasonable attorneys fees. Judgment on the award rendered by the arbitrator(s) may be entered by any court having jurisdiction thereof.

**Section 7 - Right to Other Benefits**

Nothing in this Agreement shall abridge, eliminate, or cause Executive to lose Executive's right or entitlement to any other Company benefit to which Executive may be entitled due to his status as an employee under any plan or policy of Company on such terms and conditions as are required of any employee under any plan or policy of Company. Further, nothing in this Agreement shall create in Executive any greater rights or entitlements, except as specified in this Agreement. The plans and policies referred to in this Section 7 include, but are not limited to, qualified and nonqualified retirement plans, life insurance plans, dental, disability or health insurance benefits, severance policies, and accrued vacation pay.

**Section 8 - Miscellaneous**

A Notice and Payments

All payments required or permitted to be made under the provisions of this Agreement, and all notices and other communications required or permitted to be given or delivered under this Agreement to Company or to Executive, which notices or communications must be in writing, shall be deemed to have been given if delivered by hand, or mailed by first-class mail, addressed as follows:

1. If to Company:

Farmers & Merchants State Bank
Attn: Chairman, Compensation Committee
307 N. Defiance Street
Box 216
Archbold, OH 43502

2. If to Executive:
Benet Rupp
3963 Timber Valley Dr.
Maumee, OH 43537

Company or Executive may, by notice given to the other from time to time and at any time, designate a different address for making payments required to be made, and for the giving of notices or other communications required or permitted to be given, to the party designating such new address.

B. Payroll Taxes

Any payment required or permitted to be made or given to Executive under this Agreement shall be subject to the withholding and other requirements of applicable laws, and to the deduction requirements of any benefit plan maintained by Company in which Executive is a participant, and to all reporting, filing and other requirements in respect of such payments, and Company shall use its best efforts promptly to satisfy all such requirements.

C. Governing Law

This Agreement shall be governed by and construed in accordance with the laws of the State of Ohio.

D. Duplicate Originals

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be a duplicate original, but all of which, taken together, shall constitute a single instrument.

E. Captions

The captions contained in this Agreement are included only for convenience of reference and do not define, limit, explain or modify this Agreement or its interpretations, construction or meaning and are in no way to be construed as a part of this Agreement.

F. Severability

If any provision of this Agreement or the application of any provision to any person or any circumstances shall be determined to be invalid or unenforceable, such provision or portion thereof shall nevertheless be effective and enforceable to the extent determined reasonable. Such determination shall not affect any other provision of this Agreement or the application of said provision to any other person or circumstance, all of which other provisions shall remain in full force and effect, and it is the intention of Company and Executive that if any provision of this Agreement is susceptible of two or more constructions, one of which would render the provision enforceable and the other or others of which would render the provisions unenforceable, then the provisions shall have the meaning which renders it enforceable.

G. Number and Gender

When used in this Agreement, the number and gender of each pronoun shall be construed to be such number and gender as the context, circumstances or its antecedent may require.

H. Successors and Assigns

This Agreement shall inure to the benefit of and be binding upon the successors and assigns (including successive, as well as immediate, successors and assigns) of Company; provided, however, that Company may not assign this Agreement or any of its rights or obligations hereunder to any party other than a corporation, which succeeds to substantially all of the business and assets of Company by merger, consolidation, sale of assets or otherwise. This Agreement shall inure to the benefit of and be binding upon the successor and assigns (including successive, as well as immediate, successors and assigns) of Executive; provided, however, that the right of Executive under this Agreement may be assigned only to his personal representative or trustee or by will or pursuant to applicable laws of descent and distribution.

**IN WITNESS WHEREOF,** the parties hereto have caused this Amended and Restated Agreement to be executed on and to be effective on ________________, 2019.

| In the Presence of: | Executive |
|---|---|
| ____________________ | ____________________ |
| | Benet Rupp |
| ____________________ | |
| | FARMERS & MERCHANTS BANCORP, INC. |
| | By: ____________________ |

**Exhibit A**
**Change in Control Definition**

A "Change in Control" shall mean a "Change in Ownership" as defined in (a) hereof; a "Change in Effective Control" as defined in (b), hereof; or a "Change in Ownership of a Substantial Portion of Assets" as defined in (c) hereof, each of which shall be interpreted in a manner consistent with the definitions of these terms in Treasury Regulation Section **l** .409A-3(i)(5).

**(a)** Change in Qwnership. For purposes of this Agreement, a change in the ownership of the Company occurs on the date -

**(i)** that any one person, or more than one person acting as a group (as defined in subsection (d) hereof), acquires ownership of stock of the Company that, together with stock held by such person or group, constitutes more than 50 percent of the total fair market value or total voting power of the stock of the Company. However, if any one person, or more than one person acting as a group, is considered to own more than 50 percent of the total fair market value or total voting power of the stock of the Company, the acquisition of additional stock by the same person or persons is not considered to cause a change in the ownership of the Company (or to cause a change in the effective control of the Company within the meaning of subsection (b) hereof). An increase in the percentage of stock owned by any one person, or persons acting as a group, as a result of a transaction in which the Company acquires its stock in exchange for property will be treated as an acquisition of stock for purposes of this section.

**(ii)** of the consummation of any merger, consolidation or reorganization with any other corporation pursuant to which the shareholders of the Company immediately prior to the merger, consolidation or reorganization do not immediately thereafter directly or indirectly own more than fifty percent of the combined voting power of the voting securities entitled to vote in the election of directors of the merged, consolidated or reorganized entity.

**(b)** Change in the Effective Control. For purposes of this Agreement, a change in the effective control of the Company occurs on the date that either-

**(i)** Any one person, or more than one person acting as a group (as determined under subsection (d) hereof), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) ownership of stock of the Company possessing 35 percent or more of the total voting power of the stock of the Company; or '

**(ii)** a majority of members of the Company's board of directors is replaced during any 12-month period by directors whose appointment or election is not endorsed by a majority of the members of the Company's board of directors prior to the date of the appointment or election.

In the absence of an event described in subsection (b)(i) or (ii) above, a change in the effective control of a Company will not have occurred.

(C) Change in the Ownership of a Substantial Portion of the Company's Assets. For purposes of this Agreement, a change in the ownership of a substantial portion of the Company's assets occurs on the date that any one person, or more than one person acting as a group (as determined in subsection(d) hereof), acquires (or has acquired during the 12-month period ending on the date of the most recent acquisition by such person or persons) assets from the Company that have a total gross fair market value equal to or more than 40 percent of the total gross fair market value of all of the assets of the Company immediately prior to such acquisition or acquisitions, For this purpose, gross fair market value means the value of the assets of the Company, or the value of the assets being disposed of, determined without regard to any liabilities associated with such assets.

There is no Change in Control Event under this subsection (c) when there is a transfer to an entity that is controlled by the shareholders of the Company immediately after the transfer, as provided in this paragraph. A transfer of assets by the Company is not treated as a change in the ownership of such assets if the assets are transferred to --

(i) A shareholder of the Company (immediately before the asset transfer) in exchange for or with respect to its stock;

(ii) An entity, *50* percent or more of the total value or voting power of which is owned, directly or indirectly, by the Company;

(iii) A person, or more than one person acting as a group, that owns, directly or indirectly, 50 percent or more of the total value or voting power of all the outstanding stock of the Company; or

(iv) An entity, at least 50 percent of the total value or voting power of which is owned, directly or indirectly, by a person described in section (iii) above.

For purposes of this subsection (c) and except as otherwise provided, a person's status is determined immediately after the transfer of the assets. For example, a transfer to a corporation in which the transferor corporation has no ownership interest before the transaction, but which is a majority-owned subsidiary of the transferor corporation after the transaction is not treated as a change in the ownership of the assets of the transferor corporation.

(d) Persons Acting as a Group. Persons will not be considered to be acting as a group solely because they purchase assets or purchase or own stock of the same corporation at the same time, or as a result of the same public offering, However, persons will be considered to be acting as a group if they are owners of a corporation that enters into a merger, consolidation, purchase or acquisition of stock, purchase or acquisition of assets, or similar business transaction with the Company. If a person, including an entity shareholder, owns stock in both corporations that enter into a merger, consolidation, purchase or acquisition of stock, or similar transaction, such shareholder is considered to be acting as a group with other shareholders in a corporation only to the extent of the ownership in that corporation prior to the transaction giving rise to the change and not with the ownership interest in the other corporation. Notwithstanding the foregoing, no trust Department or designated fiduciary or other trustee of such trust department of the Company or a subsidiary of the Company, or other similar fiduciary capacity of the Company with direct voting control of the stock shall be treated as a person or group within the meaning of hereof. Further, no profit sharing, employee stock ownership, employee stock purchase and savings, employee pension, or other employee benefit plan of the Company or any of its subsidiaries, and no Trustee of any such plan in its capacity as such Trustee, shall be treated as a person or group within the. meaning hereof.

**Exhibit 31.1**

**CERTIFICATIONS**

I, Lars B. Eller, President and CEO of Farmers & Merchants Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this 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 the Exchange Acts 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 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 controls 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: | October 25, 2022 | /s/ Lars B. Eller |
| | | Lars B. Eller<br>President and Chief Executive Officer |

**Exhibit 31.2**

## CERTIFICATIONS

I, Barbara J. Britenriker, Executive Vice President and CFO of Farmers & Merchants Bancorp, Inc., certify that:

1. I have reviewed this quarterly report on Form 10-Q 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 quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this 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 the Exchange Acts 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 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 controls 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: October 25, 2022

/s/ Barbara J. Britenriker
Barbara J. Britenriker
Executive Vice President and
Chief Financial Officer

**Exhibit 32.1**

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

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending September 30, 2022, as filed with the Securities and Exchange Commission ("the report"), I, Lars B. Eller, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

| | | |
|---|---|---|
| Date: | October 25, 2022 | /s/ Lars B. Eller |
| | | Lars B. Eller<br>President and 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 OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending September 30, 2022, as filed with the Securities and Exchange Commission ("the report"), I, Barbara J. Britenriker, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

| | | |
|---|---|---|
| Date: | October 25, 2022 | /s/ Barbara J. Britenriker |
| | | Barbara J. Britenriker<br>Executive Vice President and<br>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.