

FARMERS & MERCHANTS BANCORP INC
Form 10-Q
July 25, 2018

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10 Q

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

For the quarterly period June 30, 2018

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

FARMERS & MERCHANTS BANCORP, INC.

(Exact name of registrant as specified in its charter)

OHIO 34-1469491
(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification No.)

307 North Defiance Street, Archbold, Ohio 43502
(Address of principal executive offices) (Zip Code)

(419) 446-2501

Registrant's telephone number, including area code

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

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

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

Indicate by check mark 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. (Check one):

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

Indicated 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	9,263,910
Class	Outstanding as of July 20, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.

INDEX

Form 10-Q Items	Page
PART I. <u>FINANCIAL INFORMATION</u>	
Item 1. <u>Financial Statements (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets- June 30, 2018 and December 31, 2017</u>	3
<u>Condensed Consolidated Statements of Income & Comprehensive Income - Three and Six Months Ended June 30, 2018 and June 30, 2017</u>	4-5
<u>Condensed Consolidated Statements of Cash Flows- Six Months Ended June 30, 2018 and June 30, 2017</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7-36
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	37-52
Item 3. <u>Qualitative and Quantitative Disclosures About Market Risk</u>	53
Item 4. <u>Controls and Procedures</u>	54
PART II. <u>OTHER INFORMATION</u>	54
Item 1. <u>Legal Proceedings</u>	54
Item 1A. <u>Risk Factors</u>	54
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	54
Item 3. <u>Defaults Upon Senior Securities</u>	54
Item 4. <u>Mine Safety Disclosures</u>	54

Item 5.	<u>Other Information</u>	54
Item 6.	<u>Exhibits</u>	55
	<u>Signatures</u>	56
101.INS	XBRL Instance Document (1)	
101.SCH	XBRL Taxonomy Extension Scheme Document (1)	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document (1)	
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document (1)	
101.LAB	XBRL Taxonomy Extension Label Linkbase Document (1)	
101.PRE	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.

ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

	(in thousands of dollars)	
	June 30, 2018	December 31, 2017
	(Unaudited)	
Assets		
Cash and due from banks	\$31,838	\$ 33,480
Federal funds sold	726	987
Total cash and cash equivalents	32,564	34,467
Interest-bearing time deposits	4,019	4,018
Securities - available-for-sale	187,036	196,398
Other securities, at cost	3,717	3,717
Loans held for sale	913	1,221
Loans, net	824,226	816,156
Premises and equipment	21,957	21,726
Goodwill	4,074	4,074
Mortgage servicing rights	2,356	2,299
Other real estate owned	649	674
Bank owned life insurance	14,692	14,523
Other assets	9,129	7,736
Total Assets	\$1,105,332	\$ 1,107,009
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$200,067	\$ 199,114
Interest-bearing		
NOW accounts	311,185	298,711
Savings	238,167	233,949
Time	181,347	187,566
Total deposits	930,766	919,340
Federal funds purchased and securities sold under agreements to repurchase	23,898	39,495
Federal Home Loan Bank (FHLB) advances	5,000	5,000
Dividend payable	1,284	1,193
Accrued expenses and other liabilities	6,808	7,844
Total liabilities	967,756	972,872
Commitments and Contingencies		
Stockholders' Equity		
Common stock - No par value 20,000,000 shares authorized; issued and outstanding 10,400,000 shares 6/30/18 and 12/31/17 ⁽¹⁾	11,842	11,546

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Treasury stock - 1,134,620 shares 6/30/18, 1,134,120 shares 12/31/17 ⁽¹⁾	(12,186)	(12,160)
Retained earnings	142,330	136,577
Accumulated other comprehensive loss	(4,410)	(1,826)
Total stockholders' equity	137,576	134,137
Total Liabilities and Stockholders' Equity	\$1,105,332	\$ 1,107,009

(1) Share data has been adjusted to reflect a 2-for-1 stock split on September 20, 2017

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2017, 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) Six Months Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest Income				
Loans, including fees	\$10,521	\$9,120	\$20,623	\$17,820
Debt securities:				
U.S. Treasury and government agencies	612	623	1,235	1,265
Municipalities	289	300	570	615
Dividends	53	44	108	86
Federal funds sold and other	62	37	137	59
Total interest income	11,537	10,124	22,673	19,845
Interest Expense				
Deposits	1,389	1,098	2,708	2,128
Federal funds purchased and securities sold under agreements to repurchase	118	118	242	231
Borrowed funds	20	37	40	73
Total interest expense	1,527	1,253	2,990	2,432
Net Interest Income - Before Provision for Loan Losses	10,010	8,871	19,683	17,413
Provision for Loan Losses	132	25	172	98
Net Interest Income After Provision				
For Loan Losses	9,878	8,846	19,511	17,315
Noninterest Income				
Customer service fees	1,465	1,330	2,931	2,811
Other service charges and fees	1,040	1,209	2,052	2,080
Net gain on sale of loans	301	218	433	419
Net gain on sale of available-for-sale securities	-	16	-	47
Total noninterest income	2,806	2,773	5,416	5,357
Noninterest Expense				
Salaries and wages	3,225	3,137	6,535	6,138
Employee benefits	848	783	1,984	1,705
Net occupancy expense	441	374	828	787
Furniture and equipment	565	491	1,072	963
Data processing	305	308	636	619
Franchise taxes	228	225	467	450
ATM expense	333	292	645	597
Advertising	247	192	433	367
Net (gain) loss on sale of other assets owned	(1)	14	16	14
FDIC assessment	81	82	168	165

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Mortgage servicing rights amortization	95	97	180	181
Other general and administrative	1,271	1,103	2,314	2,183
Total noninterest expense	7,638	7,098	15,278	14,169
Income Before Income Taxes	5,046	4,521	9,649	8,503
Income Taxes	932	1,298	1,768	2,441
Net Income	\$4,114	\$3,223	\$7,881	\$6,062
Net Income Per Share ⁽¹⁾	\$0.44	\$0.35	\$0.85	\$0.66
Dividends Declared ⁽¹⁾	\$0.14	\$0.12	\$0.27	\$0.24

(1) Share data has been adjusted to reflect a 2-for-1 stock split on September 20, 2017
See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	(in thousands of dollars) Three Months Ended June 30, June 30, 2018 2017		(in thousands of dollars) Six Months Ended June 30, June 30, 2018 2017	
Net Income	\$4,114	\$ 3,223	\$7,881	\$ 6,062
Other Comprehensive Income (Loss) (Net of Tax):				
Net unrealized gain (loss) on available-for-sale				
securities	(344)	2,044	(2,815)	2,456
Reclassification adjustment for gain on sale of				
available-for-sale securities	-	(16)	-	(47)
Net unrealized gain (loss) on available-for-sale				
securities	(344)	2,028	(2,815)	2,409
Tax expense (benefit)	(72)	690	(591)	819
Other comprehensive income (loss)	(272)	1,338	(2,224)	1,590
Comprehensive Income	\$3,842	\$ 4,561	\$5,657	\$ 7,652

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)	
	Six Months Ended	
	June 30, 2018	June 30, 2017
Cash Flows from Operating Activities		
Net income	\$7,881	\$6,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	922	970
Amortization on available-for-sale securities, net	500	578
Amortization of servicing rights	180	181
Amortization of core deposit intangible	84	161
Compensation expense related to stock awards	314	224
Deferred income taxes	(592)	1,278
Provision for loan loss	172	98
Gain on sale of loans held for sale	(433)	(419)
Originations of loans held for sale	(27,216)	(30,242)
Proceeds from sale of loans held for sale	27,618	31,658
Loss on sale of other assets owned	16	14
Gain on sales of securities available-for-sale	-	(47)
Change in other assets and other liabilities, net	(914)	(2,189)
Net cash provided by (used in) operating activities	8,532	8,327
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Maturities, prepayments and calls	8,712	14,647
Sales	-	13,562
Purchases	(2,695)	(3,387)
Change in interest-bearing time deposits	1	(626)
Proceeds from sale of other assets owned	9	130
Additions to premises and equipment	(1,262)	(469)
Loan originations and principal collections, net	(8,644)	(34,184)
Net cash used in investing activities	(3,879)	(10,327)
Cash Flows from Financing Activities		
Net change in deposits	11,426	35,272
Net change in federal funds purchased and securities sold under agreements		
to repurchase	(15,597)	(30,229)
Cash dividends paid on common stock	(2,385)	(2,106)
Net cash provided by (used in) financing activities	(6,556)	2,937
Net Increase (Decrease) in Cash and Cash Equivalents	(1,903)	937
Cash and cash equivalents - Beginning of year	34,467	28,322

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Cash and cash equivalents - End of period	\$32,564	\$29,259
Supplemental Information		
Cash paid during the year for:		
Interest	\$2,993	\$2,436
Income taxes	\$1,307	\$2,302
Noncash investing activities:		
Transfer of loans to other real estate owned	\$-	\$-

See Notes to Condensed Consolidated Unaudited Financial Statements.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Share data has been adjusted to reflect a 2-for-1 stock split on September 20, 2017. Operating results for the six months ended June 30, 2018 are not necessarily indicative of the results that are expected for the year ended December 31, 2018. The condensed consolidated balance sheet of the Company as of December 31, 2017, 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, 2017.

NOTE 2 ASSET PURCHASES

The Company purchased an office on December 13, 2013 in Custar, Ohio. Core deposit intangible assets of \$1.17 million were recognized and are being amortized over its remaining economic useful life of the deposits of 7 years on a straight line basis.

The amortization expense for the year ended December 31, 2017 was \$245 thousand, which included the remaining \$78 thousand from the purchase of the Hicksville office on July 9, 2010. Of the \$167 thousand to be expensed in 2018, \$84 thousand has been expensed for the six months ended June 30, 2018.

	(In Thousands)
	Custar
2018	\$ 167
2019	167
2020	161
	\$ 495

NOTE 3 SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses at June 30, 2018 and December 31, 2017, follows:

	(In Thousands)			
	June 30, 2018			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Available-for-Sale:				
U.S. Treasury	\$21,168	\$ -	\$ (377)	\$20,791
U.S. Government agencies	79,169	-	(2,859)	76,310
Mortgage-backed securities	36,416	21	(1,601)	34,836
State and local governments	55,865	313	(1,079)	55,099
Total available-for-sale securities	\$192,618	\$ 334	\$ (5,916)	\$187,036

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 3 SECURITIES (Continued)

	(In Thousands)			
	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury	\$21,219	\$ -	\$ (241)	\$20,978
U.S. Government agencies	82,198	-	(1,732)	80,466
Mortgage-backed securities	40,236	64	(790)	39,510
State and local governments	55,512	437	(505)	55,444
Total available-for-sale securities	\$199,165	\$ 501	\$ (3,268)	\$196,398

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 June 30, 2018 and December 31, 2017, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

(In Thousands)	
June 30, 2018	
Less Than Twelve Months	Twelve Months & Over
Gross Unrealized	Gross Unrealized
Fair	Fair

	Losses	Value	Losses	Value
U.S. Treasury	\$(104)	\$6,864	\$(273)	\$13,927
U.S. Government agencies	(469)	14,664	(2,390)	61,646
Mortgage-backed securities	(94)	5,640	(1,507)	27,975
State and local governments	(472)	30,386	(607)	12,002
Total available-for-sale securities	\$(1,139)	\$57,554	\$(4,777)	\$115,550

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 3 SECURITIES (Continued)

	(In Thousands)			
	December 31, 2017			
	Less Than Twelve Months		Twelve Months & Over	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$(36)	\$6,924	\$(205)	\$14,054
U.S. Government agencies	(314)	27,328	(1,418)	53,139
Mortgage-backed securities	(70)	7,149	(720)	28,080
State and local governments	(205)	24,999	(300)	11,567
Total available-for-sale securities	\$(625)	\$66,400	\$(2,643)	\$106,840

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 rate changes, and the Company has the intent and ability to hold the securities for the foreseeable future. Additionally, the decline in value is primarily due to changes in interest rates since the securities were purchased. 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 six months ended June 30, 2018 and June 30, 2017.

	Three Months		Six Months	
	(In Thousands)		(In Thousands)	
	2018	2017	2018	2017
Gross realized gains	\$ -	\$ 27	\$ -	\$ 58
Gross realized losses	-	(11)	-	(11)
Net realized gains	\$ -	\$ 16	\$ -	\$ 47
Tax expense related to net realized gains	\$ -	\$ 5	\$ -	\$ 16

The net realized gains on sales and related tax expense is a reclassification out of accumulated other comprehensive income (loss). The net realized gain is included in net gain 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.

The amortized cost and fair value of debt securities at June 30, 2018, 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	\$22,734	\$22,674
After one year through five years	79,589	78,096
After five years through ten years	50,835	48,566
After ten years	3,044	2,864
Total	\$156,202	\$152,200
Mortgage-backed securities	36,416	34,836
Total	\$192,618	\$187,036

Investments with a carrying value of \$83.2 million and \$82.9 million at June 30, 2018 and December 31, 2017, respectively, were pledged to secure public deposits and securities sold under repurchase agreements.

Other securities include Federal Home Loan Bank of Cincinnati and Farmer Mac stock as of June 30, 2018 and December 31, 2017.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS

Loan balances as of June 30, 2018 and December 31, 2017:

Loans:	(In Thousands)	
	June 30, 2018	December 31, 2017
Consumer Real Estate	\$82,853	\$ 83,620
Agricultural Real Estate	69,701	64,073
Agricultural	104,830	95,111
Commercial Real Estate	411,509	410,520
Commercial and Industrial	116,351	126,275
Consumer	40,513	37,757
Industrial Development Bonds	6,071	6,415
	831,828	823,771
Less: Net deferred loan fees and costs	(813)	(747)
	831,015	823,024
Less: Allowance for loan losses	(6,789)	(6,868)
Loans - Net	\$824,226	\$ 816,156

The following is a contractual maturity schedule by major category of loans as of June 30, 2018:

	(In Thousands)		
	Within One Year	After One Year Within Five Years	After Five Years
Consumer Real Estate	\$4,338	\$14,305	\$64,210
Agricultural Real Estate	867	5,642	63,192
Agricultural	63,873	29,129	11,828
Commercial Real Estate	12,918	140,932	257,659
Commercial and Industrial	60,579	45,926	9,846
Consumer	5,218	26,031	9,264
Industrial Development Bonds	600	65	5,406

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of June 30, 2018:

	(In Thousands)	
	Fixed	Variable
	Rate	Rate
Consumer Real Estate	\$39,784	\$43,069
Agricultural Real Estate	50,538	19,163
Agricultural	37,971	66,859
Commercial Real Estate	249,029	162,480
Commercial and Industrial	41,256	75,095
Consumer	35,945	4,568
Industrial Development Bonds	6,071	-

As of June 30, 2018 and December 31, 2017 one to four family residential mortgage loans amounting to \$15.8 and \$17.3 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, Industrial Development Bonds are included in the Commercial and Industrial category for the remainder of the tables in this Note 4.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

The following table represents the contractual aging of the recorded investment (in thousands) in past due loans by portfolio classification of loans as of June 30, 2018 and December 31, 2017, net of deferred loan fees and costs:

	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
June 30, 2018							
Consumer Real Estate	\$ 325	\$ 143	\$ 250	\$ 718	\$ 81,650	\$ 82,368	\$ -
Agricultural Real Estate	16	-	-	16	69,660	69,676	-
Agricultural	-	-	-	-	104,980	104,980	-
Commercial Real Estate	-	-	-	-	410,886	410,886	-
Commercial and Industrial	44	-	-	44	122,466	122,510	-
Consumer	25	28	-	53	40,542	40,595	-
Total	\$ 410	\$ 171	\$ 250	\$ 831	\$ 830,184	\$ 831,015	\$ -
	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
December 31, 2017							
Consumer Real Estate	\$ 565	\$ 212	\$ 113	\$ 890	\$ 82,310	\$ 83,200	\$ -
Agricultural Real Estate	-	-	101	101	63,943	64,044	-
Agricultural	-	-	-	-	95,238	95,238	-
Commercial Real Estate	-	-	38	38	409,915	409,953	-
Commercial and Industrial	-	42	-	42	132,745	132,787	-
Consumer	34	2	7	43	37,759	37,802	-
Total	\$ 599	\$ 256	\$ 259	\$ 1,114	\$ 821,910	\$ 823,024	\$ -

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

The following table presents the recorded investment in nonaccrual loans by class of loans as of June 30, 2018 and December 31, 2017:

	(In Thousands)	
	June 30,	December 31,
	2018	2017
Consumer Real Estate	\$796	\$ 708
Agricultural Real Estate	-	101
Agricultural	-	-
Commercial Real Estate	-	38
Commercial & Industrial	107	149
Consumer	-	7
Total	\$903	\$ 1,003

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 the future contracts. The risk related to weather is often mitigated by requiring 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, 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.

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

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.

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 Risk Management Association ratios). Financial statements indicate a sound earnings and financial ratio trend for several years with satisfactory profit margins and excellent liquidity exhibited. Prime credits may also be borrowers with loans fully secured by highly liquid collateral such as traded stocks, bonds, certificates of deposit, savings account, etc. No credit or collateral exceptions exist and the loan adheres to the Bank's loan policy in every respect. Financing alternatives would be readily available and would qualify for unsecured credit. This grade is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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

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

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

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

- a. At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss;
 - b. The loan exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance;
 - c. During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the business is in an industry which is known to be experiencing problems. If any of the credit weaknesses is observed, a lower risk grade is warranted.
5. Four (4) Satisfactory / Monitored. A “4” (Satisfactory/Monitored) risk grade may be established for a loan considered satisfactory but which is of average credit risk due to financial weakness or uncertainty. The loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in Satisfactory/Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given management supervision.
6. Five (5) Special Mention. Loans that possess some credit deficiency or potential weakness which deserves close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a 5 (Special Mention) classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered “potential”, versus “defined”, impairments to the primary source of loan repayment and collateral.
7. Six (6) Substandard. One or more of the following characteristics may be exhibited in loans classified substandard:
- a. Loans, which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source, are uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.
 - b. Loans are inadequately protected by the current net worth and paying capacity of the borrower.
 - c. The primary source of repayment is weakened, and the Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.
 - d. Loans are characterized by the distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
 - e. Unusual courses of action are needed to maintain a high probability of repayment.
 - f. The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.
 - g. The lender is forced into a subordinate position or unsecured collateral position due to flaws in documentation.

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

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

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

13

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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 June 30, 2018 and December 31, 2017:

(In Thousands)					
	Agricultural Real Estate		Commercial Real Estate	Commercial and Industrial	Industrial Development Bonds
June 30, 2018					
1-2	\$ 3,919	\$ 4,493	\$ 5,604	\$ 2,151	\$ -
3	14,414	34,305	30,774	18,285	3,217
4	50,899	65,061	363,946	93,664	2,854
5	431	1,121	7,601	1,151	-
6	13	-	2,961	1,081	-
7	-	-	-	107	-
8	-	-	-	-	-
Total	\$ 69,676	\$ 104,980	\$ 410,886	\$ 116,439	\$ 6,071
December 31, 2017					
1-2	\$ 4,143	\$ 6,558	\$ 1,244	\$ 9,205	\$ -
3	15,244	37,267	32,498	15,277	3,489
4	43,416	51,312	359,600	99,581	2,926
5	1,125	101	7,758	1,381	-
6	116	-	8,853	817	-
7	-	-	-	111	-
8	-	-	-	-	-
Total	\$ 64,044	\$ 95,238	\$ 409,953	\$ 126,372	\$ 6,415

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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 June 30, 2018 and December 31, 2017.

	(In Thousands)	
	Consumer Real Estate June 30, 2018	Consumer Real Estate December 31, 2017
Grade		
Pass	\$81,834	\$ 82,632
Special Mention (5)	-	-
Substandard (6)	454	488
Doubtful (7)	80	80
Total	\$82,368	\$ 83,200

	(In Thousands)			
	Consumer - Credit June 30, 2018, 2017		Consumer - Other June 30, 2018, 2017	
	2018	2017	2018	2017
Performing	\$3,998	\$ 4,108	\$36,579	\$ 33,666
Nonperforming	-	-	18	28
Total	\$3,998	\$ 4,108	\$36,597	\$ 33,694

Information about impaired loans as of June 30, 2018, December 31, 2017 and June 30, 2017 are as follows:

	(In Thousands)		
	June 30, 2018	December 31, 2017	June 30, 2017
Impaired loans without a valuation allowance	804	1,131	1,024
Impaired loans with a valuation allowance	648	614	691
Total impaired loans	\$ 1,452	\$ 1,745	\$ 1,715
Valuation allowance related to impaired loans	\$ 132	\$ 106	\$ 115
Total non-accrual loans	\$ 903	\$ 1,003	\$ 1,365

Total loans past-due ninety days or more and

still accruing	\$ -	\$ -	\$ -
Quarter ended average investment in impaired			
loans	\$ 1,452	\$ 2,160	\$ 1,744
Year to date average investment in impaired			
loans	\$ 1,570	\$ 1,885	\$ 1,789

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

The Bank had approximately \$107 thousand of its impaired loans classified as troubled debt restructured (TDR) as of June 30, 2018, \$534 thousand as of December 31, 2017 and \$546 thousand as of June 30, 2017. During the year to date 2018 and 2017, there were no new loans considered TDR.

For the three and six month period ended June 30, 2018 and 2017, there were no TDRs that subsequently defaulted after modification.

For the six month period ended June 30, 2018, \$418 thousand of impaired loans classified as TDR involving one relationship was paid off.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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 120 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. Commercial and agricultural credits are charged down at 120 days delinquency, unless an established and approved work-out plan is in place or litigation of the credit will likely result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt is charged off. Additional charge-off may be realized as further unsecured positions are recognized.

The following tables present loans individually evaluated for impairment by class of loans for three months ended June 30, 2018 and June 30, 2017 .

Three Months Ended June 30, 2018	(In Thousands)			QTD	QTD	QTD
	Unpaid Recorded Investment	Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
With no related allowance recorded:						
Consumer Real Estate	\$606	\$ 606	\$ -	\$ 526	\$ 6	\$ 4
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	198	198	-	199	3	-
Commercial and Industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
With a specific allowance recorded:						
Consumer Real Estate	254	254	46	152	-	-
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	-	-	-	139	-	-
Commercial and Industrial	394	394	86	436	4	-
Consumer	-	-	-	-	-	-
Totals:						
Consumer Real Estate	\$860	\$ 860	\$ 46	\$ 678	\$ 6	\$ 4
Agricultural Real Estate	\$-	\$ -	\$ -	\$ -	\$ -	\$ -

Edgar Filing: FARMERS & MERCHANTS BANCORP INC - Form 10-Q

Agricultural	\$-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate	\$ 198	\$ 198	\$ -	\$ 338	\$ 3	\$ -
Commercial and Industrial	\$ 394	\$ 394	\$ 86	\$ 436	\$ 4	\$ -
Consumer	\$-	\$ -	\$ -	\$ -	\$ -	\$ -

17

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

(In Thousands)

Three Months Ended June 30, 2017	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	\$923	\$ 923	\$ -	\$ 948	\$ 8	\$ 6
Agricultural Real Estate	101	101	-	101	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-	-
Commercial and Industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
With a specific allowance recorded:						
Consumer Real Estate	85	85	25	87	-	-
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	492	492	57	493	7	-
Commercial and Industrial	114	114	33	115	-	-
Consumer	-	-	-	-	-	-
Totals:						
Consumer Real Estate	\$1,008	\$ 1,008	\$ 25	\$ 1,035	\$ 8	\$ 6
Agricultural Real Estate	\$101	\$ 101	\$ -	\$ 101	\$ -	\$ -
Agricultural	\$-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate	\$492	\$ 492	\$ 57	\$ 493	\$ 7	\$ -
Commercial and Industrial	\$114	\$ 114	\$ 33	\$ 115	\$ -	\$ -
Consumer	\$-	\$ -	\$ -	\$ -	\$ -	\$ -

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

The following tables present loans individually evaluated for impairment by class of loans for six months ended June 30, 2018 and June 30, 2017.

Six Months Ended June 30, 2018	(In Thousands)			YTD Average Recorded Investment	YTD Interest Income Recognized	YTD Interest Income Recognized Cash Basis
	Unpaid Recorded Investment	Principal Balance	Related Allowance			
With no related allowance recorded:						
Consumer Real Estate	\$606	\$ 606	\$ -	\$ 509	\$ 14	\$ 10
Agricultural Real Estate	-	-	-	34	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	198	198	-	200	5	-
Commercial and Industrial	-	-	-	104	-	-
Consumer	-	-	-	-	-	-
With a specific allowance recorded:						
Consumer Real Estate	254	254	46	116	-	-
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	-	-	-	279	-	-
Commercial and Industrial	394	394	86	328	8	-
Consumer	-	-	-	-	-	-
Totals:						
Consumer Real Estate	\$860	\$ 860	\$ 46	\$ 625	\$ 14	\$ 10
Agricultural Real Estate	\$-	\$ -	\$ -	\$ 34	\$ -	\$ -
Agricultural	\$-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate	\$198	\$ 198	\$ -	\$ 479	\$ 5	\$ -
Commercial and Industrial	\$394	\$ 394	\$ 86	\$ 432	\$ 8	\$ -
Consumer	\$-	\$ -	\$ -	\$ -	\$ -	\$ -

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

Six Months Ended June 30, 2017	(In Thousands)			YTD	YTD	YTD
	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	\$923	\$ 923	\$ -	\$ 976	\$ 16	\$ 12
Agricultural Real Estate	101	101	-	111	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	-	-	-	-	-	-
Commercial and Industrial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
With a specific allowance recorded:						
Consumer Real Estate	85	85	25	90	-	-
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	492	492	57	496	13	-
Commercial and Industrial	114	114	33	116	-	-
Consumer	-	-	-	-	-	-
Totals:						
Consumer Real Estate	\$1,008	\$1,008	\$ 25	\$ 1,066	\$ 16	\$ 12
Agricultural Real Estate	\$101	\$ 101	\$ -	\$ 111	\$ -	\$ -
Agricultural	\$-	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate	\$492	\$ 492	\$ 57	\$ 496	\$ 13	\$ -
Commercial and Industrial	\$114	\$ 114	\$ 33	\$ 116	\$ -	\$ -
Consumer	\$-	\$ -	\$ -	\$ -	\$ -	\$ -

As of June 30, 2018, the Company had no 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 proceedings are in process according to local jurisdictions. As of June 30, 2017, the Company had \$25 thousand of foreclosed residential real estate property obtained by physical possession and \$36 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)	
	Six Months Ended	Twelve Months Ended
	June 30, 2018	December 31, 2017
Allowance for Loan & Lease Losses		
Balance at beginning of year	\$6,868	\$ 6,784
Provision for loan loss	172	222
Loans charged off	(327)	(288)
Recoveries	76	150
Allowance for Loan & Lease Losses	\$6,789	\$ 6,868
Allowance for Unfunded Loan Commitments &		
Letters of Credit	\$315	\$ 227
Total Allowance for Credit Losses	\$7,104	\$ 7,095

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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

[Remainder of this page intentionally left blank]

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

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 three months ended June 30, 2018 and June 30, 2017 is as follows:

	Consumer	Agricultural	Commercial	Commercial	Commercial	Consumer Credit	Unallocated	Total
	Real Estate	Real Estate	Agricultural	Real Estate and Industrial	Commercial	Consumer Credit	Unallocated	Total
Three Months Ended June 30, 2018								
ALLOWANCE FOR CREDIT LOSSES:								
Beginning balance	\$ 254	\$ 263	\$ 706	\$ 3,674	\$ 1,443	\$ 431	\$ 265	\$ 7,065
Charge Offs	-	-	-	(1)	(100)	(81)	-	(182)
Recoveries	-	-	3	2	3	31	-	39
Provision (Credit)	(3)	(8)	42	(415)	74	78	-	132
Other Non-interest expense related to unfunded	-	-	-	-	-	-	50	50
Ending Balance	\$ 251	\$ 255	\$ 751	\$ 3,260	\$ 1,420	\$ 459	\$ 315	\$ 7,104
Ending balance: individually evaluated for impairment	\$ 46	\$-	\$-	\$-	\$ 86	\$-	\$-	\$ 132
	\$ 205	\$ 255	\$ 751	\$ 3,260	\$ 1,334	\$ 459	\$ 315	\$ 6,972

Ending balance:
collectively
evaluated

for impairment

Ending balance:
loans acquired
with

deteriorated
credit quality

\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$-
-----	-----	-----	-----	-----	-----	-----	-----	-----	-----

FINANCING

RECEIVABLES:

Ending balance	\$ 82,368	\$ 69,676	\$ 104,980	\$ 410,886	\$ 122,510	\$ 40,595	\$ -	\$ -	\$ 831,015
----------------	-----------	-----------	------------	------------	------------	-----------	------	------	------------

Ending balance:
individually
evaluated

for impairment

\$ 860	\$ -	\$ -	\$ 198	\$ 394	\$ -	\$ -	\$ -	\$ -	\$ 1,452
--------	------	------	--------	--------	------	------	------	------	----------

Ending balance:
collectively
evaluated

for impairment

\$ 81,508	\$ 69,676	\$ 104,980	\$ 410,688	\$ 122,116	\$ 40,595	\$ -	\$ -	\$ -	\$ 829,563
-----------	-----------	------------	------------	------------	-----------	------	------	------	------------

Ending balance:
loans acquired
with

deteriorated
credit quality

\$ 119	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 119
--------	------	------	------	------	------	------	------	------	--------

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

	Consumer		Agricultural		Commercial		Commercial		Unfunded Loan Commitment & Letters of	Unallocated	Total
	Real Estate	Real Estate	Agricultural	Real Estate and Industrial	Commercial	Commercial	Consumer Credit	Commercial	of		
Three Months Ended June 30, 2017											
ALLOWANCE FOR CREDIT LOSSES:											
Beginning balance	\$ 277	\$ 244	\$ 634	\$ 3,008	\$ 1,299	\$ 397	\$ 219	\$ 991		\$ 7,069	
Charge Offs	-	-	-	-	-	(53)	-	-		(53)	
Recoveries	2	-	1	5	3	25	-	-		36	
Provision (Credit)	(29)	9	(39)	63	50	38	-	(67)		25	
Other Non-interest expense related to											
unfunded	-	-	-	-	-	-	-	-		-	
Ending Balance	\$ 250	\$ 253	\$ 596	\$ 3,076	\$ 1,352	\$ 407	\$ 219	\$ 924		\$ 7,077	
Ending balance: individually evaluated											
for impairment	\$ 25	\$ -	\$ -	\$ 57	\$ 33	\$ -	\$ -	\$ -		\$ 115	
Ending balance: collectively evaluated											
for impairment	\$ 225	\$ 253	\$ 596	\$ 3,019	\$ 1,319	\$ 407	\$ 219	\$ 924		\$ 6,962	
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	
FINANCING RECEIVABLES:											
Ending balance	\$ 83,903	\$ 64,003	\$ 83,771	\$ 394,051	\$ 129,675	\$ 35,435	\$ -	\$ -		\$ 790,838	
	\$ 1,008	\$ 101	\$ -	\$ 492	\$ 114	\$ -	\$ -	\$ -		\$ 1,715	

Ending balance:
individually
evaluated

for impairment
Ending balance:
collectively
evaluated

for impairment	\$82,895	\$63,902	\$83,771	\$393,559	\$129,561	\$35,435	\$-	\$-	\$789,123
----------------	----------	----------	----------	-----------	-----------	----------	-----	-----	-----------

Ending balance:
loans acquired with

deteriorated credit quality	\$196	\$-	\$-	\$-	\$-	\$-	\$-	\$-	\$196
--------------------------------	-------	-----	-----	-----	-----	-----	-----	-----	-------

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS (Continued)

Additional analysis, presented in thousands, related to the allowance for credit losses for six months ended June 30, 2018 and June 30, 2017 is as follows:

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer Credit	Unfunded Loan Commitment & Letters of Unallocated	Total	
Six Months Ended June 30, 2018									
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	\$ 343	\$ 244	\$ 667	\$ 3,149	\$ 1,546	\$ 441	\$ 227	\$ 478	\$ 7,095
Charge Offs	(34)	-	-	(16)	(100)	(177)	-	-	(327)
Recoveries	-	-	6	4	6	60	-	-	76
Provision (Credit)	(58)	11	78	123	(32)	135	-	(85)	172
Other Non-interest expense related to unfunded	-	-	-	-	-	-	88	-	88
Ending Balance	\$ 251	\$ 255	\$ 751						