

FARMERS & MERCHANTS BANCORP INC

Form 10-Q

October 25, 2017

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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 September 30, 2017**

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 (State or other jurisdiction of incorporation or organization) | 34-1469491 (IRS Employer Identification No.) |
| 307 North Defiance Street, Archbold, Ohio (Address of principal executive offices) | 43502 (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, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---------------------------|
| 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 issuer's classes of common stock, as of the latest practicable date:

| | |
|----------------------------|------------------------------------|
| Common Stock, No Par Value | 9,266,676 |
| Class | Outstanding as of October 25, 2017 |

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SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.

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| 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.

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ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

| | Condensed Consolidated Balance Sheets (in thousands of dollars) | |
|--|--|---------------------|
| | September 30, 2017 (Unaudited) | December 31, 2016 |
| Assets | | |
| Cash and due from banks | \$ 48,313 | \$ 27,348 |
| Federal funds sold | 791 | 974 |
| Total cash and cash equivalents | 49,104 | 28,322 |
| Interest-bearing time deposits | 2,541 | 1,915 |
| Securities - available-for-sale | 192,811 | 218,527 |
| Other securities, at cost | 3,717 | 3,717 |
| Loans held for sale | 2,147 | 2,055 |
| Loans, net | 788,335 | 751,310 |
| Premises and equipment | 21,473 | 21,457 |
| Goodwill | 4,074 | 4,074 |
| Mortgage servicing rights | 2,264 | 2,192 |
| Other real estate owned | 615 | 774 |
| Bank owned life insurance | 14,446 | 14,376 |
| Other assets | 8,628 | 7,176 |
| Total Assets | \$ 1,090,155 | \$ 1,055,895 |
| Liabilities and Stockholders Equity | | |
| Liabilities | | |
| Deposits | | |
| Noninterest-bearing | \$ 189,963 | \$ 186,390 |
| Interest-bearing | | |
| NOW accounts | 294,911 | 230,446 |
| Savings | 224,911 | 226,537 |
| Time | 193,581 | 198,830 |
| Total deposits | 903,366 | 842,203 |
| Federal Funds purchased and securities sold under agreements to repurchase | 35,550 | 70,324 |
| Federal Home Loan Bank (FHLB) advances | 10,000 | 10,000 |
| Dividend payable | 1,193 | 1,053 |
| Accrued expenses and other liabilities | 7,157 | 6,738 |
| Total liabilities | 957,266 | 930,318 |

Commitments and Contingencies**Stockholders Equity**

| | | |
|--|---------------------|---------------------|
| Common stock - No par value 20,000,000 shares authorized; issued and outstanding 10,400,000 shares 9/30/17 and 12/31/16 ⁽¹⁾ | 11,388 | 11,947 |
| Treasury Stock - 1,133,324 shares 9/30/17, 1,158,250 shares 12/31/16 ⁽¹⁾ | (12,126) | (12,267) |
| Retained earnings | 134,320 | 127,869 |
| Accumulated other comprehensive loss | (693) | (1,972) |
| Total stockholders equity | 132,889 | 125,577 |
| Total Liabilities and Stockholders Equity | \$ 1,090,155 | \$ 1,055,895 |

⁽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, 2016, Condensed Consolidated Balance Sheet has been derived from the audited Consolidated Balance Sheet as of that date.

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FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME & COMPREHENSIVE INCOME

(Unaudited)

(in thousands of dollars, except per share data)

| | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2015 | September 30, 2014 | September 30, 2015 | September 30, 2014 |
| Interest Income | | | | |
| Loans, including fees | \$ 9,547 | \$ 8,629 | \$ 27,367 | \$ 24,997 |
| Debt securities: | | | | |
| U.S. Treasury and government agencies | 605 | 559 | 1,870 | 1,734 |
| Municipalities | 290 | 344 | 905 | 1,093 |
| Dividends | 49 | 36 | 135 | 111 |
| Federal funds sold | 7 | 7 | 10 | 9 |
| Other | 37 | 15 | 93 | 37 |
| Total interest income | 10,535 | 9,590 | 30,380 | 27,981 |
| Interest Expense | | | | |
| Deposits | 1,161 | 947 | 3,289 | 2,686 |
| Federal funds purchased and securities sold under agreements to repurchase | 135 | 115 | 366 | 346 |
| Borrowed funds | 37 | 37 | 110 | 110 |
| Total interest expense | 1,333 | 1,099 | 3,765 | 3,142 |
| Net Interest Income - Before Provision for Loan Losses | | | | |
| Provision for Loan Losses | 99 | 308 | 197 | 924 |
| Net Interest Income After Provision For Loan Losses | | | | |
| Noninterest Income | 9,103 | 8,183 | 26,418 | 23,915 |
| Customer service fees | 1,320 | 1,711 | 4,131 | 4,497 |
| Other service charges and fees | 1,134 | 941 | 3,214 | 2,850 |
| Net gain on sale of loans | 181 | 216 | 600 | 619 |
| Net gain on sale of available for sale securities | | 47 | 47 | 503 |
| Total noninterest income | 2,635 | 2,915 | 7,992 | 8,469 |
| Noninterest Expense | | | | |
| Salaries and Wages | 3,236 | 2,981 | 9,374 | 8,661 |
| Employee benefits | 943 | 849 | 2,648 | 2,426 |
| Net occupancy expense | 434 | 359 | 1,221 | 1,083 |

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| | | | | |
|---|-----------------|-----------------|------------------|-----------------|
| Furniture and equipment | 493 | 438 | 1,456 | 1,293 |
| Data processing | 300 | 360 | 919 | 1,132 |
| Franchise taxes | 226 | 219 | 676 | 658 |
| Net (gain) loss on sale of other assets owned | 13 | (6) | 27 | 39 |
| FDIC Assessment | 82 | 126 | 247 | 368 |
| Mortgage servicing rights amortization | 85 | 123 | 266 | 311 |
| Other general and administrative | 1,545 | 1,473 | 4,692 | 4,594 |
| Total other operating expenses | 7,357 | 6,922 | 21,526 | 20,565 |
| Income Before Income Taxes | 4,381 | 4,176 | 12,884 | 11,819 |
| Income Taxes | 1,159 | 1,161 | 3,600 | 3,349 |
| Net Income | 3,222 | 3,015 | 9,284 | 8,470 |
| Other Comprehensive Income (Loss) | | | | |
| (Net of Tax): | | | | |
| Net unrealized gain (loss) on available for sale securities | (472) | 58 | 1,984 | 2,652 |
| Reclassification adjustment for gain on sale of available for sale securities | | (47) | (47) | (503) |
| Net unrealized gain (loss) on available for sale securities | (472) | 11 | 1,937 | 2,149 |
| Tax expense (benefit) | (160) | 4 | 659 | 731 |
| Other comprehensive income (loss) | (312) | 7 | 1,278 | 1,418 |
| Comprehensive Income | \$ 2,910 | \$ 3,022 | \$ 10,562 | \$ 9,888 |
| Earnings Per Share - Basic and Diluted ⁽¹⁾ | \$ 0.35 | \$ 0.33 | \$ 1.00 | \$ 0.92 |
| Dividends Declared ⁽¹⁾ | \$ 0.13 | \$ 0.12 | \$ 0.37 | \$ 0.34 |

⁽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

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FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | (in thousands of dollars) | |
|---|---------------------------|--------------------|
| | Nine Months Ended | |
| | September 30, 2017 | September 30, 2016 |
| Cash Flows from Operating Activities | | |
| Net income | \$ 9,284 | \$ 8,470 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 1,426 | 1,112 |
| Amortization on available for sale securities, net | 843 | 833 |
| Amortization of servicing rights | 266 | 311 |
| Amortization of core deposit intangible | 203 | 242 |
| Compensation expense related to stock awards | 346 | 297 |
| Provision for loan loss | 197 | 924 |
| Gain on sale of loans held for sale | (600) | (619) |
| Originations of loans held for sale | &nbs | |