Companhia Vale do Rio Doce
Form 6-K
February 29, 2008

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United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 6-K
Report of Foreign Private Issuer
Pursuant to Rule 13a-16 or 15d-16
of the
Securities Exchange Act of 1934
For the month of
February 2008
Companhia Vale do Rio Doce

Avenida Graça Aranha, No. 26
20030-900 Rio de Janeiro, RJ, Brazil
(Address of principal executive office)

(Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.)

(Check One) Form 20-F þ Form 40-F o

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1))

(Check One) Yes o No þ

(Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7))

(Check One) Yes o No þ

(Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.)

(Check One) Yes o No þ

(If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b). 82- .)

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A VINTAGE TIME

Performance of Vale in 2007

Rio de Janeiro, February 28, 2008 Companhia Vale do Rio Doce (Vale) completed in 2007 the fifth consecutive year of extraordinary growth in its activities. This process was sustained by continuous improvement in operational and financial performance, greater diversification of its asset portfolio and globalization of its operations. The adoption, in November 2007, in all the countries where we operate of the name Vale and the new logo symbolize this evolution. This transformation reflects the execution of a long-term strategic plan, anchored in rigorous discipline in capital allocation, continuous search for opportunities for value creation, a constant concern with costs, focus on human capital and a strong commitment to corporate social responsibility.

In the last five years Vale has invested US$ 40.7 billion, of which US$ 20.6 billion in acquisitions and US$ 20.1 billion in maintenance of operations, research and development (R&D) and project execution.

The completion of twenty large projects, successful acquisitions and increased productivity were responsible for an expansion of our total output at an average annual rate of 11.6% between 2003 and 2007. In parallel to this quantitative growth, nickel, copper, metallurgical and thermal coal, platinum group metals and cobalt were added to our portfolio.

In 2007 we broke nine different production records: iron ore (296 million metric tons), pellets (17.6 million metric tons), finished nickel (247,900 metric tons), copper (284,200 metric tons), bauxite (9.1 million metric tons), alumina (4.3 million metric tons), aluminum (551,000 metric tons), kaolin (1.3 million metric tons) and cobalt (2.5 thousand metric tons). Vale has reaffirmed its global leadership, as the world s largest producer of iron ore, the second largest of nickel and one of the main producers of kaolin, cobalt, ferroalloys and alumina.

For the seventh year running, Vale led the negotiations for global reference prices for iron ore. In February 2008 prices were settled for iron ore fines, the industry s main product, representing 70% of the volume traded in the seaborne market.

As a result of negotiations with Asian and European customers and reflecting continued global market tightness, new prices were fixed for fines with an increase of 65% over 2007 for the Southern and Southeastern Systems (SSF) iron ore, Fob Tubarão. At the same time, due to its recognized superior quality, it was agreed that the price for Carajás iron ore fines (SFCJ) will have a premium of US$ 0.0619 per dry metric ton Fe unit over the 2008 price for SSF.

Our gross revenue increased by nearly six times between 2003 and 2007, going to US$ 33.1 billion from US$ 5.5 billion. Simultaneously, cash flow, as measured by

Except where otherwise indicated the

operational and financial information in this release is based on the consolidated figures in accordance with US GAAP and, with the exception of information on investments and behavior of markets, quarterly financial statements are reviewed by the company s independent auditors. The main subsidiaries that are consolidated are the following: Vale Inco, MBR, Cadam, PPSA, Alunorte, Albras, Valesul, RDM, RDME, RDMN, Urucum Mineração, Ferrovia Centro-Atlântica (FCA), Vale Australia, Vale International and Vale Overseas.

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adjusted EBITDA[(a)] (earnings before interests, taxes, depreciation, and amortization), grew even faster, to US$ 15.8 billion in 2007 from US$ 2.1 billion in 2003. Our net earnings went up to US$ 11.8 billion in 2007 from US$ 1.5 billion in 2003

Over this five year period we have returned capital to shareholders through dividend distribution to the tune of US$ 5.3 billion. Total shareholder return was 73.7% per year, the highest rate amongst large diversified mining companies. Vale is currently one of the 40 largest companies in the world by market capitalization.

SELECTED FINANCIAL INDICATORS US$ million

	2003	2004	2005	Pro forma 2006	2007
Gross revenue	5,545	8,479	13,405	25,714	33,115
Adjusted EBIT	1,644	3,123	5,432	9,361	13,194
Adjusted EBIT margin (%)	30.7	38.7	42.5	37.4	40.9
Adjusted EBITDA	2,130	3,722	6,540	11,451	15,774
Net earnings	1,548	2,573	4,841	7,260	11,825
Earnings per share on a fully diluted basis (US$)	0.34	0.56	1.05	1.35	2.42
Dividends	675	787	1,300	1,300	1,875
Capex[2]	1,988	2,092	4,998	20,628	11,004
Capex (excluding acquisitions)[2]	1,486	1,949	4,198	4,824	7,625

The main highlights of Vale s performance in 2007 were:

Record sales of iron ore and pellets (296 million metric tons), copper (300 thousand metric tons), alumina (3.253 million metric tons) and aluminum (562 thousand metric tons).

Gross revenue of US$ 33.1 billion, the highest in the history of the Company, 28.8% more than that recorded in 2006.

Operational profit, as measured by adjusted EBIT[(b)] (earnings before interest and taxes), was a record US$ 13.2 billion, that is, 40.9% over 2006.

Adjusted EBIT margin of 40.9% against 37.4% in 2006.

Record adjusted EBITDA of US$ 15.8 billion compared with US$ 11.4 billion in 2006. If we exclude the extraordinary inventory adjustment, adjusted EBITDA reached US$ 16.8 billion in 2007 as opposed to US$ 12.4 billion in 2006.

Record net earnings of US$ 11.8 billion, corresponding to earnings per share, on a fully diluted basis, of US$ 2.42, a 62.9% increase on the US$ 7.3 billion for 2006.

Dividend distribution in 2007 was US$ 1.875 billion, with 44.2% growth relative to 2006. Dividend per share in 2007 reached an all-time high of US$ 0.39. Total shareholder return in 2007 was 123.0%.

Investment, excluding acquisitions, totaled US$ 7.6 billion, a historical record and the highest in the global mining and metals industry in 2007.

Investment in corporate social responsibility was US$ 652 million, of which US$ 401 million was spent on environmental protection and preservation and

1 In order to facilitate comparisons with the past and better evaluate Vale s performance, we shall, in this document, be using pro forma data for 2006, as if Inco Ltd, now Vale Inco Ltd, had been acquired from January 1st 2006 with the exception of information concerning debt and investments. See Annex 1 entitled Consolidation of Inco Ltd., now Vale Inco.

2 Capex figures, including and excluding acquisitions, are based on realized cash disbursements. Therefore, these figures do not include the acquisition of Caemi minority shareholders shares.

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US$ 251 million on social projects.

Rapid deleveraging as total debt/adjusted EBITDA ratio decreased to 1.1x at the end of 2007, from 2.0x as of December 31, 2006.

SELECTED FINANCIAL INDICATORS US$ million

	Pro forma 4Q06	**3Q07**	**4Q07**
Gross revenue	7,494	8,124	8,412
Adjusted EBIT	2,087	3,430	2,683
Adjusted EBIT margin (%)	28.5	43.4	32.9
Adjusted EBITDA	2,623	4,001	3,532
Net earnings	1,615	2,940	2,573
Earnings per share (US$)		0.61	0.53
Earnings per share on a fully diluted basis(US$) [3]		0.60	0.52
ROE (%)		32.3	35.5
Total debt/ adjusted LTM EBITDA (x)	2.0	1.2	1.1
Capex (ex-acquisitions)	1,867	1,624	3,202

BUSINESS OUTLOOK

Global growth prospects for 2008 worsened amidst financial markets turbulence and increased uncertainty.

Banks came under increasing pressure to take the assets of the off-balance sheet vehicles onto their own balance sheets. At the same time, they were forced to expand further their balance sheets by holding assets which well-functioning secondary markets no longer existed. Simultaneously to the expansion of the balance sheets, financial institutions have been reporting large losses, reflecting significant declines in the market prices of mortgages and other assets caused by risk repricing.

These developments implied a tightening of liquidity conditions in the interbank markets. In addition to that, banks have also become more restrictive in their lending to firms and households.

The main central banks of the developed countries, led by the US Federal Reserve Bank, acted proactively to address the strains in short-term money markets. In response to the large losses, several banks managed to raise new capital in order to be in a position to rebuild their balance sheets.

The Federal Reserve Bank has taken an aggressive stance towards monetary policy, cutting short-term interest rates by 225 basis points since September 2007. Monetary easing is intended to forestall the contractionary effect of financial shocks and to create incentives for a recovery of the US economy in the upcoming quarters. Additional interest rates cuts are expected.

Various contemporaneous and leading indicators of labor market conditions and industrial production have been suggesting that global growth is slowing down as credit was tightened in the US and other markets.

Despite some slowing of export growth, emerging market economies have thus far continued to expand strongly. These economies have benefited from the strong

[3] Earnings per share on a fully diluted basis consider in addition to the number of shares in circulation the shares held in

treasury underlying notes mandatorily convertible into ADR s. In 2007, the Company made a provision of US$ 67 million for the payment of interest and additional interest to the noteholders of the mandatorily convertible notes.

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momentum of domestic demand growth and improved macroeconomic policies. Against this background, we do not expect the current growth deceleration to become a global recession.

Although growth decoupling is not consistent with a globalized world economy, it is expected that the dynamics of the largest emerging market economies, such as China and India, will partially offset the negative impact of the slowdown in developed economies. In addition, healthy corporate sectors in the developed world are expected to cushion the overall demand downshift by making only modest adjustments to hiring and spending plans.

Therefore, we estimate global economic growth in 2008 to stay slightly above its historical path although showing a deceleration relative to last year s pace. An enlarged gap in GDP growth between emerging and developed economies is also expected.

Globalization has contributed through various channels to increasing the potential growth capacity of the world economy. For the next few years we expect real interest rates to remain low, and productivity to expand at an increased rate, in particular in emerging markets economies, which are important ingredients in fostering sustainable economic growth. Therefore, we believe that this combination will enable global expansion to continue at a fairly high rate for the next five years.

The confirmation of this scenario will be very positive for minerals and metals markets, as the economies undergoing structural change which are the drivers for the significant increase in demand for these products, should continue to grow fast and increase their influence on global GDP and industrial production.

At present the market for mining products is tight, and this has been reflected in the better relative performance of mining equities since the beginning of the financial turbulence.

Global steel production continues to grow well above the expansion of the manufacturing industry, with broad-based support by prices in all regions and different steel types, flats and longs. As a result, steelmaking raw materials prices are under massive pressure.

In the face of a combination of high demand and supply shocks (floods in Australia, power shortages in South Africa, snowstorms in China and logistics bottlenecks in Australia and Russia) prices of metallurgical coal on the spot market took off, and are well above the price for shipments covered by contracts, easily topping the US$ 300 per metric ton level. Similarly, the prices of medium and high carbon manganese alloys are much higher than peaks in previous cycles.

The iron ore market is clearly signaling excess demand, with spot market prices in an upward trend since the fourth quarter of 2006, hovering around US$ 200 per metric ton. Spot market prices continued to increase even after the benchmark price settlement. As a result of the disequilibrium between demand and supply, 2008 reference iron ore fines prices increased by 65% relative to 2007. Prices for Carajás iron ore fines will have a premium of US$ 0.0619 per dry metric ton Fe unit over the 2008 price for Southern and Southeastern Systems fines.

The price for base metals nickel, copper and aluminum which are usually quite sensitive to expectations of macroeconomic changes, have been resilient to the prospects of a recession in the largest world economy.

Nickel prices have been range bound, around US$ 12 to US$ 13 per pound, reflecting a good demand for plating, superalloys influenced by aerospace and oil and gas industries and batteries. Apart from this, in spite of the increase in production of nickel pig iron, a high cost product with serious technological

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limitations, demand for nickel from the Chinese stainless steel industry continues to increase strongly.

Copper prices returned to the US$ 8,000 mark, due to the tight supply of concentrates, low inventories and production problems in smelters in China. The price of aluminum went up by about US$ 400, to more than US$ 2,800, influenced by expectations of rising power costs, exacerbated by the problems in South Africa and China. Alongside with other factors, these problems also have a direct influence, in the significant increase in platinum and thermal coal prices.

The price of cobalt, of which Vale is one of the major world producers, also reached record highs, influenced by strong demand from aerospace and batteries industries and restricted supply. Potash price trends ultimately reflect some of the factors underlying the food price shock which is causing temporary increases in inflation indices: strong demand growth from emerging market economies and large investment in ethanol and bio fuels to diversify sources of energy.

Besides a continued increasing demand, there are various restrictions to a proper response to price incentives by the supply of metals. Among these are a greater relative scarcity of world class assets in less complex regions of the world, and shortages of power, skilled labor, equipment and spare parts such as tires for off-the-road trucks and railroad tracks.

Given this scenario, Vale is very well positioned to continue creating significant shareholder value stemming from the development over 2008-2012 of an attractive world-class portfolio of more than 30 projects in various segments of the mining industry iron ore, pellets, nickel, copper, bauxite, alumina and coal on a diversified geographic base, Brazil, Chile, Peru, Canada, Australia, China, Indonesia, New Caledonia, Mozambique and Oman. In order to support the expansion of its operations, Vale will continue to invest in infrastructure, focusing on logistics which is fundamental for the iron ore projects and power generation.

RECORD REVENUE: US$ 33.1 billion

Gross revenue in 2007 totaled US$ 33.115 billion, 28.8% more than in 2006. In 4Q07 Vale s revenue reached US$ 8.412 billion, a 12.2% increase on the US$ 7.494 billion of 4Q06.

Price increases were responsible for 80% of the growth in revenue (US$ 5.911 billion) while increased sales generated US$ 1.490 billion.

In 2007, sales of ferrous minerals represented 46.6% of gross revenue, non-ferrous minerals 39.3%, aluminum products bauxite, alumina and primary aluminum contributed with 8.2% and logistics 4.6%.

Individually, products which were most important in terms of revenue generating were: iron ore (US$ 11.907 billion), nickel (US$ 10.043 billion), pellets (US$ 2.264 billion), copper (US$ 1.985 billion), aluminum (US$ 1.571 billion) , railroad transportation of general cargo for customers (US$ 1.220 billion), and alumina (US$ 1.102 billion).

In terms of geographic distribution of destination for sales, 40.3% of gross revenue came from sales to Asia, 33.5% from the Americas, 22.1% from Europe and 4.0% from the rest of the world. China continued to be the main destination for our sales, growing to 17.7% of the total, followed by Brazil with 16.0%, Japan 11.6%, United States 9.0%, Germany 5.6% and Canada 5.3%.

Geographic distribution of revenue according to origin was: Brazil 61.7%, North America 27.7%, Australasia 8.7% and Europe 1.9%.

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GROSS REVENUE BY PRODUCT US$ million

	4Q06	3Q07	4Q07	Pro forma 2006	%	2007	%
Ferrous minerals	**3,353**	**4,106**	**4,387**	**12,569**	**48.9**	**15,434**	**46.6**
Iron ore	2,647	3,211	3,349	10,027	39.0	11,907	36.0
Pellet plant operation services	18	23	31	72	0.3	91	0.3
Pellets	526	693	695	1,907	7.4	2,648	8.0
Manganese ore	15	13	36	55	0.2	77	0.2
Ferro-alloys	132	151	243	463	1.8	639	1.9
Others	15	15	33	45	0.2	72	0.2
Non ferrous minerals	**3,080**	**2,821**	**2,826**	**9,164**	**35.6**	**13,006**	**39.3**
Nickel	2,360	1,970	2,018	6,576	25.6	10,043	30.3
Copper	483	581	537	1,823	7.1	1,986	6.0
Kaolin	70	59	74	218	0.8	237	0.7
Potash	43	49	58	143	0.6	178	0.5
PGMs	87	103	81	270	1.1	342	1.0
Precious metals	18	24	20	70	0.3	85	0.3
Cobalt	19	35	39	63	0.2	135	0.4
Aluminum products	**674**	**677**	**672**	**2,381**	**9.3**	**2,722**	**8.2**
Aluminum	328	382	350	1,244	4.8	1,571	4.7
Alumina	338	284	309	1,108	4.3	1,102	3.3
Bauxite	8	11	13	29	0.1	49	0.1
Coal[4]		**71**	**47**			**160**	**0.5**
Logistics services	**342**	**391**	**389**	**1,376**	**5.4**	**1,526**	**4.6**
Railroads	247	324	321	1,011	3.9	1,220	3.7
Ports	63	58	58	237	0.9	237	0.7
Shipping	32	9	10	128	0.5	69	0.2
Others	**45**	**58**	**91**	**224**	**0.9**	**267**	**0.8**
Total	**7,494**	**8,124**	**8,412**	**25,714**	**100.0**	**33,115**	**100.0**

GROSS REVENUE BY DESTINATION US$ million

	4Q06	3Q07	4Q07	Pro forma 2006	%	2007	%
Americas	**2,436**	**2,734**	**2,908**	**8,628**	**33.6**	**11,103**	**33.5**
Brazil	1,149	1,348	1,452	4,238	16.5	5,288	16.0
USA	558	691	673	1,887	7.3	2,966	9.0
Canada	533	426	502	1,656	6.4	1,761	5.3
Others	196	269	281	847	3.3	1,088	3.3
Asia	**3,058**	**3,082**	**3,068**	**10,071**	**39.2**	**13,346**	**40.3**
China	1,275	1,488	1,542	4,305	16.7	5,865	17.7
Japan	932	979	851	2,952	11.5	3,827	11.6
South Korea	252	196	402	919	3.6	1,473	4.4
Taiwan	522	273	99	1,552	6.0	1,665	5.0

Others	77	146	174	343	1.3	516	1.6
Europe	**1,694**	**1,975**	**1,931**	**5,940**	**23.1**	**7,325**	**22.1**
Germany	405	516	495	1,521	5.9	1,856	5.6
Belgium	126	179	155	572	2.2	683	2.1
France	163	146	199	579	2.3	722	2.2
UK	197	275	235	735	2.9	1,066	3.2
Italy	98	166	206	436	1.7	632	1.9
Others	705	692	641	2,097	8.1	2,365	7.1
Rest of the World	**306**	**332**	**505**	**1,075**	**4.2**	**1,340**	**4.0**
Total	**7,494**	**8,124**	**8,412**	**25,714**	**100.0**	**33,115**	**100.0**

[4] 4Q07 coal revenues includes the adjustment due to the new consolidation of Vale Australia. See coal session to obtain all the pro forma data and further information regarding the new consolidation method.

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COSTS AND OPERATING EXPENSES

Cost of goods sold (COGS) totaled US$ 16.463 billion in 2007, 22.7% more than in 2006. COGS in 4Q07 was US$ 4.504 billion, in line with 4Q06, at US$ 4.480 billion.

The main factors which contributed to the US$ 3.049 billion increase in COGS were exchange rate variations (28.4%) and the growth in sales volumes (17.5%). Apart from these factors, the widening of our asset base meant increased depreciation of US$ 432 million, adding 14.2% to COGS.

COGS currency exposure in 2007 was made up as follows: 56.6% in Brazilian reais, 23.3% in Canadian dollars, 16.5% in US dollars, 1.8% in Indonesian rupiah and 1.8% in other currencies.

The main COGS item, the purchase of final and intermediate products, amounted to US$ 2.872 billion 18.6% of COGS, 10.8% more than in 2006. This was mainly due to the increased expenditure of US$ 225 million for pellets purchases from the Tubarão joint ventures (Nibrasco, Kobrasco, Itabrasco and Hispanobras) and US$ 121 million for nickel products.

Due to our output increase, iron ore purchases decreased to 8.320 million metric tons from 10.189 million in 2006. Given the substantial increase in pellet demand, we expanded our purchases from the Tubarão JVs to 11.689 million metric tons from 8.971 million in 2006.

In addition to the purchases of nickel concentrates for processing under tolling contracts, 12,100 metric tons of intermediary products and 8,800 metric tons of finished nickel were bought in 2007 to replenish our inventories. Despite smaller purchases of nickel feed, higher nickel prices contributed to a cost increase, from U$ 1.401 billion last year to US$ 1.522 billion in 2007.

Costs for outsourced services, making up 17.1% of COGS, added up to US$ 2.628 billion in 2007, compared with US$ 2.368 billion in 2006. This cost increase was caused mainly by the appreciation of the currencies in which the services are contracted against the US dollar (US$ 214 million) and by greater sales volumes (US$ 97 million). Lower prices for services meant a reduction in costs of US$ 24 million. The increase of US$ 296 million in transportation costs of our products and of US$ 85 million in maintenance costs was partially offset by the cut in costs of US$ 274 million for ore and waste removal.

Cost of materials 15.0% of COGS amounted to US$ 2.313 billion, an increase of US$ 446 million over 2006; of this amount, US$ 169 million was due to higher prices of materials acquired, US$ 166 million due to exchange rate variations, and US$ 84 million due to increased sales volumes. The main items of materials expenses were components for railroad equipment and mining equipment which amounted to US$ 164 million and US$ 75 million, respectively.

Energy expenses totaled US$ 2.284 billion (14.8% of COGS) made up of US$ 878 million in electrical energy and US$ 1.406 billion in fuel and gases.

Power costs increased US$ 254 million, tariff hikes being responsible for US$ 129 million, the appreciation of the Brazilian real against the US dollar for US$ 68 million and increased consumption for US$ 57 million.

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In 2007, our electricity consumption reached 23,284 GWh, 37% of which was taken up by aluminum production and 7% by ferroalloy operations. We produced 5,714 GWh of our needs, providing 24.5% of total consumption.

In the electricity intensive operations of ferroalloys and aluminum, average prices went up by 8%. On the other hand, productivity gains, as measured by the specific consumption of electrical energy, in terms of MWh per metric ton, partially counteracted this with a 2% decrease in consumption.

Vale has been investing in the construction of various power plants aiming to minimize the risks of price and supply volatility, as well as reducing costs.

In Brazil, we are partners in consortia which have concessions to operate eight hydroelectric plants (Igarapava, Porto Estrela, Candonga, Funil, Aimorés, Capim Branco I, Capim Branco II and Machadinho). In Indonesia, we own and operate two hydropower plants, Larona and Balambano, on the Larona River, in Sulawesi. Apart from these plants Vale has small hydropower plants in Brazil and in Canada and in-site power generation facilities.

Currently, we are investing in three power generation plants to meet our consumption needs: (1) a 30% share in the consortium which is building the Estreito hydroelectric plant, state of Tocantins, Brazil, with a capacity of 1,087 MW; (2) the construction of Karebbe, the third hydroelectric plant on the Larona River, in Indonesia, which will add 90 MW to our current 275 MW capacity and; (3) the building of the Barcarena coal-fired thermal power plant, with 600MW capacity, state of Pará, Brazil.

The increased cost of US$ 214 million for fuels and gases was due to the depreciation of the US dollar (accounting for US$ 94 million), price hikes (US$ 65 million) and consumption increase (US$ 55 million).

Depreciation and amortization 13.3% of COGS amounted to US$ 2.049 billion, US$ 636 million above the amount recorded in 2006, impacted by the increase in asset base (US$ 432 million) and depreciation of the US dollar (US$ 204 million).

Personnel expenses at US$ 1.873 billion represent 12.2% of COGS. The increase of US$ 365 million as compared with 2006 reflects the extra personnel needed because of the growth of our operations and the return to in-house solutions for some services such as ore and waste removal at our iron ore mines.

In November 2007, a two-year agreement was signed with our Brazilian employees, which represent 75% of our labor force. An immediate wage increase of 7% was agreed, with an additional 7% increase in November 2008.

Other operational expenses came to US$ 1.382 billion in 2007. The US$ 478 million increase vis-à-vis 2006 is due to the increase in mining royalty payments (US$ 185 million), reclassification of expenses from other COGS items to other operational costs as required by the structuring of the shared services center (US$ 100 million), payments for profit sharing (US$ 90 million) and demurrage costs (US$ 88 million).

Additionally, other operational expenses also included the cost of US$ 117 million incurred with the consolidation of Taiwan Nickel Refining Company (TNRC), which operates a nickel refinery located in Taiwan, in which Vale has a 49.9% stake. Vale is the only supplier of nickel feed to TNRC. The consolidation of TNRC in our 4Q07 US GAAP Financial Statements is in line with the Interpretation 46, Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51 (FIN 46), issued in January 2003 by the Financial Accounting Standard Board (FASB) in the US, and revised in December 2003 (FIN 46-R).

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In 4Q07, demurrage costs fines paid for delays in loading ships at the Company s maritime terminals amounted to US$ 0.76 per metric ton of iron ore shipped, compared with an average cost of US$ 0.25 for the same period in the previous year. This reflects the strong demand for iron ore and some problems in our logistics infra-structure during 2007. Over the year our average demurrage cost was US$ 0.61 per metric ton shipped against US$ 0.26 in 2006.

The inventory adjustment resulting from the Vale Inco consolidation totaled US$ 1.062 billion in 2007, compared with US$ 946 million in 2006.

In 2007, sales, general and administrative expenses (SG&A) came to US$ 1.245 billion, US$ 304 million more than in 2006. The US$ 74 million increase in advertising was largely due to the rebranding project, US$ 53 million in expenses related to the global integration of our IT infrastructure and US$ 48 million in sales expenses.

Expenses with research and development (R&D)[5] reached US$ 733 million in 2007, rising 40.2% relative to 2006, due to the growth of investment in mineral exploration and feasibility studies.

COST OF GOODS SOLD US$ million

	Pro forma 4Q06	**3Q07**	**4Q07**	**Pro forma 2006**	**%**	**2007**	**%**
Outsourced services	**645**	**664**	**842**	**2,368**	**19.0**	**2,628**	**17.1**
Material	**572**	**596**	**621**	**1,867**	**15.0**	**2,313**	**15.0**
Energy	**503**	**575**	**650**	**1,817**	**14.6**	**2,284**	**14.8**
Fuels	312	364	415	1,107	8.9	1,406	9.1
Electric energy	191	211	235	710	5.7	878	5.7
Acquisition of products	**762**	**689**	**583**	**2,591**	**20.8**	**2,872**	**18.6**
Iron ore and pellets	188	258	227	758	6.1	976	6.3
Aluminum products	60	70	65	326	2.6	288	1.9
Nickel products	482	344	245	1,401	11.2	1,522	9.9
Other products	32	17	46	106	0.9	86	0.6
Personnel	**407**	**451**	**541**	**1,508**	**12.1**	**1,873**	**12.2**
Depreciation and exhaustion	**443**	**476**	**697**	**1,413**	**11.3**	**2,049**	**13.3**
Others	**202**	**334**	**570**	**904**	**7.3**	**1,382**	**9.0**
Total before inventory adjustment	**3,534**	**3,785**	**4,504**	**12,468**	**100.0**	**15,401**	**100.0**
Inventory adjustment FAS 141/142	**946**			**946**		**1,062**	
Total	**4,480**	**3,785**	**4,504**	**13,414**		**16,463**	

RECORD OPERATIONAL PERFORMANCE

In spite of the adverse conditions, with cost pressures caused by the depreciation of the US dollar against the Brazilian real and the Canadian dollar 17.2% and 14.4% respectively, in 2007 and price increases of equipment, labor services, spare parts and various important inputs, operational profit, as measured by adjusted EBIT, reached the record amount of US$ 13.194 billion in 2007. This signifies an increase of 40.9% in relation to the previous year s number of US$ 9.361 billion.

In 4Q07, adjusted EBIT was US$ 2.683 billion, 28.6% higher than 4Q06 at US$ 2.087 billion.

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Expenses with R&D are accounting figures. We present in the section Investments the total of US$ 741 million of R&D, in accordance to the effective cash disbursement in the year.

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The US$ 3.833 billion increment in adjusted EBIT in relation to 2006 is due to the US$ 7.240 billion increase in net revenue, offset by the US$ 3.049 billion increase in COGS, US$ 304 million with SG&A and US$ 210 million expenses with R&D.

The adjusted EBIT margin was 40.9%, 350 basis points more than the previous year.

Higher average prices were a determining factor in growing the margin.

RECORD NET EARNINGS US$ 11.8 BILLION

The net earnings of US$ 11.825 billion in 2007, equivalent to US$ 2.42 per share, on fully diluted basis, is another record. This is the fifth consecutive year of growth in net earnings, and 62.9% more than the US$ 7.260 billion of 2006.

In 4Q07, net earnings were US$ 2.573 billion, equivalent to US$ 0.52 per share, compared with US$ 1.615 billion in 4Q06.

Among the factors which had a direct impact on the US$ 4.565 billion earnings increase we can single out: (a) the US$ 3.833 billion rise in operating profit; and (b) positive variation of US$ 2.516 billion in net financial result. On the downside, income taxes jumped to US$ 3.201 billion in 2007 from US$ 1.861 billion in 2006, with a negative impact of US$ 1.340 billion on net earnings.

Income from sales of assets was US$ 777 million in 2007, as opposed to US$ 674 million in 2006. The assets sold during the year were: Usiminas, generating income of US$ 459 million, Log-In Logística, US$ 238 million, and Lion Ore, US$ 80 million.

Net financial result was positive to the amount of US$ 1.262 billion, as against the negative results of US$ 1.254 billion in 2006. This variation is due mainly to the increase of US$ 2.030 billion in income from monetary variation and US$ 1.067 billion from derivatives transactions.

Accounting income produced by the monetary variations was equal to US$ 2.559 billion in 2007, as compared with US$ 446 million in 2006. This increase is explained by the effect of the 20.7% appreciation of the Brazilian real against the US dollar on net liabilities denominated in US currency. The debt in US dollars is converted to reais using the exchange rate as of the beginning of the accounting period, December 31st, 2006, and subsequently reverted to dollars using the BRL/USD exchange rate as of the end of the accounting period, December 31st, 2007.

Operations with derivatives produced gains of US$ 925 million in 2007, against losses of US$ 142 million in 2006, a swing of US$ 1.067 billion.

The swap into US dollar of Brazilian real-linked interest rates of the non-convertible debentures issued in Brazil in December 2006 generated a positive effect of US$ 791 million in 2007, due to the appreciation of the real against the dollar.

In order to minimize the effects of the appreciation of the real on the Company s costs, we took out swap exchange contracts involving amounts equivalent to our expenses with personnel, bringing us gains of US$ 127 million in 2007. Currently, we use derivatives instruments linked to aluminum, copper, gold, platinum and gas prices, to manage cash flow volatility.

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The Board of Directors has approved hedging operations for a fraction of our aluminum and copper production for 2007 and 2008, so as to reduce the cash flow risk associated with the change in our capital structure and the increased debt after the Inco acquisition.

Hedge operations for copper generated losses of US$ 129 million in 2007, against gains of US$ 67 million in 2006, while aluminum hedge operations produced gains of US$ 146 million in 2007 against losses of US$ 209 million in 2006.

We can potentially buy nickel futures contracts to neutralize the effects of fixed price nickel sale contracts with our clients, thus maintaining our exposure to the price volatility of this metal.

Marking to market prices of shareholders debentures had a negative effect of US$ 387 million in financial income in 2007.

Expenses with gross interest totaled US$ 1.348 billion, 3.9% greater than the amount recorded in 2006, US$ 1.297 billion.

Equity income contributed with US$ 595 million, a reduction of US$ 115 million compared to the previous year, influenced by sales of assets.

Non-consolidated affiliates companies in the ferrous minerals business were responsible for 50.6% of this income, logistics 21.0%, aluminum 14.1%, coal 7.7%, steel companies 5.0% and nickel 1.5%. In individual terms, Samarco contributed most with US$ 242 million, followed by MRS Logística (US$ 117 million), MRN (US$ 84 million) and Usiminas (US$ 31 million).

CASH FLOW RECORD US$ 15.8 BILLION

In 2007, cash flow generation, as measured by adjusted EBITDA, reached a new record at US$ 15.774 billion, 37.8% more than the US$ 11.451 billion in 2006. In 4Q07 adjusted EBITDA was US$ 3.532 billion.

The main reasons for the US$ 4.323 billion adjusted EBITDA growth over 2006 are the increase in adjusted EBIT to the amount of US$ 3.833 billion and US$ 612 million increase in depreciation.

Dividends paid to Vale by non-consolidated companies affiliated companies and joint ventures were US$ 394 million, against US$ 516 million in 2006. Samarco distributed US$ 150 million to Vale, MRN, US$ 64 million, MRS, US$ 51 million, Tubarão pelletizing joint ventures, US$ 45 million, Henan Longyu, US$ 42 million, Usiminas, US$ 31 million, and CSI, US$ 11 million.

In 2007, the distribution of cash flow generation by business area was: ferrous minerals 49.3%, non-ferrous minerals 45.1%, aluminum 6.0% and logistics 3.9%, excluding expenses with R&D, which represented 4.3% of adjusted EBITDA.

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QUARTERLY ADJUSTED EBITDA US$ million

3Q07

am Hornish Family Youth Lounge at the Defiance YMCA, Sam Hornish Family Fitness Room at Tinora High School, Sam Hornish Fa

Born and raised in the Milwaukee, Wisconsin area, Ms. Hornish relocated to Northwest Ohio over 35 years ago. She currently resides near Defiance, Ohio. Her memberships include the American Trucking Association, Ohio Trucking Association, and the Northern Ohio Minority Supplier Development Council.

Jack C. Johnson

Mr. Johnson has 40 years experience in running an independent retail clothing business. His background and experience encompasses the various aspects of running a small retail business including accounting principles and practices, purchasing, retail sales, marketing, human resource management, and taxes. He brings valuable insight regarding small retail business operations; retail marketing and sales of products and services to consumers; and consumer buying habits and trends during various economic cycles. Prior to joining the Farmers & Merchants Bancorp, Inc. Board of Directors, Mr. Johnson served on the Bank s Bryan Advisory Board. Mr. Johnson is Chairman of the Board of Directors and the Executive Committee and is a member of the Corporate Governance & Nominating Committee, the Compensation Committee, and the Enterprise Risk Management Committee.

Mr. Johnson graduated from Ohio State University with a Bachelor of Science degree in Business Administration specializing in marketing. A life-time resident of Williams County, Ohio, he is a member of the Bryan Chamber of Commerce and former board member representing the retail division. In addition, he is a member and former president of the Bryan Retail Merchants Association, a graduate of the Hagger Business School, a member of the Men s Apparel Guild of California, and a member of the Action Sports Retailing Group. Annually, Mr. Johnson attends a trade show called Surf Expo which provides educational seminars offering guidance and advice on current retailing and marketing ideas. Recent seminars addressed secrets of successful retailers; tips, trends and techniques for the new era of merchandising; and effective email strategies for retailers. Mr. Johnson is a former member of The Doneger Group, a fashion merchandising and consulting group providing apparel retailers with merchandising information and trend analysis for the apparel market segments.

Marcia S. Latta

Dr. Marcia Latta serves as Vice President for Advancement at The University of Findlay where she oversees fundraising, alumni and parent relations, community outreach, and the nationally-known Mazza Museum. Prior executive experience includes serving as Vice President for Advancement at DePauw

University where she organized and launched a $250 million campaign and more than doubled funds raised, and as the Bowling Green State University Foundation Vice President and Campaign Director for BGSU s Building Dreams Centennial Campaign which resulted in nearly $150 million raised the largest fundraising effort in Northwest Ohio history. Dr. Latta is a frequent presenter across the nation and internationally on development and board governance issues. She began her career as a congressional aide on Capitol Hill and then did volunteer work in Costa Rica before beginning her work in advancement. In addition to higher education, Dr. Latta has worked in hospital philanthropy, marketing, and served as the founding president of the Bowling Green Community Foundation.

Dr. Latta is a former president of the Northwest Ohio chapter of Association of Fundraising Professionals, which named her its Outstanding Fundraising Executive. She holds a doctor of education degree in leadership and policy studies from BGSU and has completed Harvard University s School of Education s Management and Leadership in Education program. Through her experience and education, she provides a strong understanding and commitment to leadership, board governance, corporate management, and public policy. Dr. Latta chairs the Corporate Governance and Nominating Committee. She is active in many civic and professional organizations including the Toledo Zoo Board of Directors, Rotary International and the Ohio Citizens for the Arts Board, among others. A former resident of Williams County, Ohio, she now resides in Wood County.

Steven J. Planson

Mr. Planson has successfully managed a large family farm corporation for over 25 years with a primary focus on grain production and processing tomatoes. In addition, he is involved with a family trucking operation. Mr. Planson and his wife were previously named the Ohio Farm Bureau Federation s Outstanding Young Couple in recognition of their farming operation accomplishments and leadership in the agricultural community. He is a past recipient of Red Gold Master Grower Awards for his tomato growing operation. His extensive farming background and practical experience provide significant insight regarding farm business management; agriculture finance; commodity sales and marketing; as well as the local farm economy and challenges to the farming industry. He also offers a valuable perspective on local and state government matters from his service as a Township Trustee. Mr. Planson is a member of the Audit Committee, was a member of the Director Loan Committee, and in 2016 joined the Enterprise Risk Management Committee.

Prior to joining the Farmers & Merchants Bancorp, Inc. Board of Directors, Mr. Planson served on the Bank s Stryker Advisory Board. A life-time resident of Williams County, Ohio and graduate of Stryker High School, Stryker, Ohio, Mr. Planson has served as a Springfield Township Trustee in Williams County, Ohio for the past 20 years. As a Township Trustee, he also served on the Springfield Township Zoning Board. He was a member of the Stryker Farmers Exchange Board for 22 years, serving as president six of those years. A former board member of the Williams County Farm Bureau and former trustee of the Campbell Soup Tomato Growers Association, Mr. Planson is an active member of the Williams County Farm Bureau, Stryker Chamber of Commerce, Stryker Heritage Council, Stryker Rotary Club, and Friends of Stryker Library. In 2011, Mr. Planson was the recipient of the Paul Harris Award by the Rotary Foundation. The Paul Harris Award recognizes individuals who have made contributions in promoting human philanthropic projects throughout the local community and around the world.

Anthony J. Rupp

Mr. Rupp has served as President of a family-owned retail furniture business located in Archbold and Bryan, Ohio for over 40 years. He is responsible for the management and day-to-day operations of the business. His background and experience encompasses the various aspects of running a small business including accounting and finance; purchasing; retail sales and marketing; and human resource management. He offers a valuable perspective regarding small retail business operations; business finance; retail marketing and sales of products and services to consumers; economic trends; and consumer buying habits. Mr. Rupp is a member of the Corporate Governance & Nominating Committee, Executive Committee and was a member of the Director Loan Committee. In 2016, he joined the Audit Committee and the Compensation Committee.

Prior to joining the Farmers & Merchants Bancorp, Inc. Board of Directors, Mr. Rupp served on the Bank s Archbold Advisory Board. He has Bachelor of Science degree in Business Administration. A long-term resident of Fulton County, Ohio, Mr. Rupp is a former elected member of the Archbold Village Council, a current member of the Archbold Area Chamber of Commerce, and a former board member and retail division vice president of the Archbold Area Chamber of Commerce. He is a member and past president of the Archbold Rotary Club.

Kevin J. Sauder

Mr. Sauder has served as President/Chief Executive Officer since 2001 of Sauder Woodworking Company, a large privately-held, family-run corporation. The corporation, which is North America s largest manufacturer of ready-to-assemble furniture, employs over 2,600 employees. Through its subsidiaries, Sauder Manufacturing and Progressive, Inc., serves the worship, education, health care, and assembled bedroom furniture markets. His extensive experience in executive management and corporate leadership enables him to provide knowledge and expertise to the board regarding corporate management, corporate finance, product sales and marketing, and human resource management. His knowledge and expertise further enable him to assist the board on matters involving business acquisition, financial turnarounds, strategic planning, executive officer compensation and incentives, and shareholder relations. Mr. Sauder is Chairman of the Compensation Committee, a member of Executive Committee and was a member of the Director Loan Committee.

Mr. Sauder has a Master s of Business Administration degree from Duke University, and an undergraduate degree from Miami University. A long-term resident of Fulton County, Ohio, he is a member of the Archbold Rotary Club. Mr. Sauder is the immediate past Chairman of the American Home Furnishings Alliance, a Trustee of the ProMedica Health System, and the Great Lakes Collaborative for Autism.

Paul S. Siebenmorgen

Mr. Siebenmorgen has over 30 years of senior management experience in community banks based in Indiana and Ohio. He is a past recipient of the American Bankers Association Presidential Citation and has experience in managing bank mergers and acquisitions. With a Bachelor of Science and Master s Degree from Indiana State University, he has graduated from numerous state and national banking schools. Mr. Siebenmorgen has served as the Chairman of the Ohio Bankers League Board of Directors. He currently serves on the American Bankers Association Government Relations Council and is a member of the Federal Reserve Bank of Cleveland Community Depository Institutions Advisory Council. He is member of the Risk Management Association, a professional association that helps members identify and manage the impacts of credit risk, operational risk, and market risk on their businesses and customers. His extensive knowledge and long-term experience in banking provide a deep understanding of finance and financial reporting; regulatory and risk management; consumer banking; commercial and small business banking; business development; and government relations. Having a strong lending background enables Mr. Siebenmorgen to provide extensive analytical expertise in evaluating loans and loan relationships. His numerous years in corporate leadership and management result in significant insight on matters involving corporate governance, strategic planning, mergers and acquisitions, executive officer compensation and incentives, human resource management, and shareholder relations. Mr. Siebenmorgen serves as the President and Chief Executive Officer of the Board of Directors as well as the Company s subsidiary, The Farmers & Merchants State Bank. He is a member of the Executive Committee and the Bank Building Committee and was Chairman of the Director Loan Committee.

A former elected City Council member and former County Agricultural Extension Agent in Indiana, Mr. Siebenmorgen also served on the Indiana Statewide Certified Development Corporation Loan Committee and was a Community Development Corporation and County Economic Development Commission member in Indiana. He is an active member of the Archbold Rotary Club and a former board member and past president of the Archbold Area Chamber of Commerce, Archbold, Ohio. In 2011, Mr. Siebenmorgen was appointed to the Northwest State Community College Board of Trustees by Ohio Governor John Kasich.

Steven J. Wyse

Mr. Wyse is a private investor with management experience and an extensive background in manufacturing. He has owned and managed numerous small manufacturing businesses in several industries in the bank s current market area, as well as outside the immediate area. In addition, he also owns and manages commercial real estate and farm real estate. His small business ownership and management experience enable him to provide valuable insight and assistance in understanding and evaluating manufacturing operations and business relationships; business development; real estate development; finance; and employee relations. As a private investor, he provides additional perspective regarding shareholder relations. Mr. Wyse serves as the Vice Chairman of the Board of Directors and is a member of the Executive Committee, the Enterprise Risk Management Committee, the Corporate Governance & Nominating Committee, the Compensation Committee, and the Bank Building Committee.

A life-time resident of Fulton County, Ohio, Mr. Wyse holds an undergraduate degree in business management. He is a former elected member of the Archbold Area Schools Board of Education and a former board member and past president of the Archbold Area Chamber of Commerce, Archbold, Ohio. Mr. Wyse also serves on the Executive Board of Bay Colony Community Association in Naples, Florida.

The Corporate Governance and Nominating Committee also has been designated by the Company s Corporate Governance Guidelines to receive, review and respond, as appropriate, to communications concerning the Company from employees, officers, shareholders and other interested parties that such parties want to address to non-management members of the Board of Directors. Shareholders who want to direct such questions to the non-management members of the Board of Directors should address them to the Chairman of the Corporate Governance and Nominating Committee, Farmers & Merchants Bancorp, Inc., 307 North Defiance Street, Archbold, Ohio 43502.

The Company s Corporate Governance Guidelines also contain a provision stating that it is expected that all members of the Board of Directors will attend the Annual Meeting of Shareholders. All of the members of the Board of Directors attended the 2015 Annual Meeting of Shareholders, with the exception of Jo Ellen Hornish and Kevin Sauder who were unable to attend.

Risk Oversight

The Board of Directors is responsible for ensuring that an adequate risk management framework is in place and functioning as intended. A clear understanding and working knowledge of the types of risks inherent to the Company s activities is an absolute necessity. The Board has appointed a Risk Committee comprised of the following ten members: the President and Chief Executive Officer, Chief Operating Officer, Chief Financial Officer, Chief Lending Officer, Sr. Commercial Loan Officer, Operations & Information Technology Officer, EVP of Retail Banking, Marketing Director, Deposit Administrator and the Risk Management Officer. The Risk Committee is responsible for loss control and day-to-day oversight of the risk management function.

The risk management program focuses risk assessment on ten risk categories. The Risk Committee meets monthly and reviews several risk categories each month ensuring all risk categories are reviewed quarterly. Each risk category is assigned a risk rating (High, Moderate, Low) based on the significance of the risk and a risk trend (Increasing, Decreasing, or Stable) is defined. Additional internal bank experts may attend meetings during each quarter to report on a risk category under review and offer recommendations regarding the risk assessment and trend for a particular risk category. Results of the monthly review of risk categories are reported to the Board of Directors Enterprise Risk Management Committee (ERM) each quarter. In addition, the Company s risk position is reported to the Board of Directors quarterly. Risk management reports include the following:

Discussion of the bank s current overall risk position;

Identification of each of the ten categories of risk and the current position of each of these risk categories;

Analysis of current position of each risk category;

Comparison of actual performance versus expected performance, where appropriate;

Identification of results outside of guidance targets and action plans established for issues to be resolved; and

Recommendations for changes to risk parameters or measurement tools.

The Board ERM Committee defines risk exposure limits for each risk category taking into consideration the bank s strategic goals and objectives and current market conditions. The Board ERM Committee reviews and approves any necessary changes to risk exposure limits after careful consideration of any changes in market conditions or corporate strategy and adopts guidelines, through the input of the Risk Committee s analysis and discussion, regarding the maximum loss exposure the Bank is able and willing to assume. At least annually, the Board of Directors reviews and approves the risk management program and policies based on information presented throughout the year from the Risk Committee.

Credit Risk

Credit risk is addressed in formal loan proposals presented to the Officer Loan Committee, Directors Loan Committee, the Loan Review Committee, and the Board of Directors. Loans and potential loan relationships greater than $250,000 are analyzed by the Credit Analyst Department and require a formal loan proposal and approval by the appropriate loan committee. Regardless of whether a new loan request, a formal loan proposal, or an annual loan relationship review, each proposed loan, existing loan, or loan relationship has an assigned Loan Risk Rating based on credit factors, collateral adequacy, and financial strength of the loan relationship. Decisions are made based on the most complete up-to-date information available. The defined Loan Risk Ratings are designed to cover a broad range of customers, so dominant risk characteristics determine the rating assigned. In some instances, additional pricing, collateral, covenants, or risk mitigants may be necessary to reduce risk or credit exposure or to improve relationship profitability.

Interest Rate Risk

Interest rate risk is a large component of asset/liability management and is managed within the overall asset/liability framework. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net interest income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. The Board of Directors seeks to address interest rate and non-interest income risk tolerances and, thereby, control risks. Goals are (1) to increase the dollar amount of net interest income at a growth rate consistent with the growth rate of total assets and, given fluctuations in the external interest-rate environment, (2) to minimize fluctuations in net interest margin as a percentage of earning assets.

This type of risk focuses on the economic scenarios relative to the value of the Bank in the current interest rate environment, and the sensitivity to that value from changes in interest rates. Re-pricing risk, basis risk, yield curve risk, and options risk are types of interest risk to be considered. Interest rate risk occurs due to differences between the timing of rate changes and the timing of cash flows (re-pricing risk); from changing rate relationships among different yield curves affecting bank activities (basis risk); and from changing rate relationships across the range of maturities (yield curve risk); and from interest-related options embedded in bank products (options risk). Interest risk considerations typically include the effect of a change in interest rates on both the bank s accrual earnings and the market value of portfolio equity.

Interest rate sensitivity refers to the Bank s capability and/or need to react to actual and forecast interest rates and yields in the money and capital markets as well as in the local competitive environment. The magnitude of these gains or losses depends on the severity and timing of the market changes and on the ability to adjust. The ability to adjust is controlled by the remaining time to maturity of fixed-rate contracts, customer actions, and the existence of contracts that provide for rate adjustments prior to maturity. Analysis of interest rate sensitivity in the form of a net interest rate shock is employed. In performing interest rate shock analysis, financial forecasting and simulation are used to anticipate the impact of forecast interest rates and evaluate the potential risk of alternative interest rates. This policy is implemented by first producing a current forecast of balance sheet volumes and net earnings for the twelve-month forecast horizon. The second step is for eight alternative simulations to be prepared to test the forecast s sensitivity to interest-rate shocks and changes in the shape of the treasury yield curve. The four alternative simulations are +/- 100, +/- 200, +/- 300 and +/-400 basis point shift. After each alternative simulation, the forecast net interest income for the twelve-month period and the present value of equity at the end of the historical period are compared to the net interest income and present value of equity produced by the alternative simulation. The percent

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changes in net interest income and present value of equity is then compared to management s guideline targets. The Bank also looks at varying scenarios such as nonparallel shifts in the yield curve. The model used for the simulations continues to be analyzed for possible refinements to assumptions. However, neither of financial forecasting or simulation adequately forecasts the impact of potential changes in interest rates on net interest income. A yearly forecast of balance sheet volumes and net earnings is relied upon as a basis for asset liability decisions. Each forecast is subject to testing for alternative interest rate possibilities to evaluate the risk inherent in management s plans. The alternative interest rate possibilities are (1) an immediate 200 basis point change in average interest rates, or (2) a more gradual change in average interest rates. Management believes the first method (instant change) would portray the worst case scenario as an impact on net interest earnings. Therefore, method 1 is used in the interest rate shock analysis.

Compliance Risk

Compliance risk is monitored within the structure of the compliance risk management program. Operating in compliance with laws, rules, regulations, and related accepted industry standards enhances the reputation, strategic goals and objectives, and operations of the Company. Compliance risk attempts to evaluate and identify the overall level of compliance risk by measuring and defining the areas of risk for a designated law, rule, or regulation. Defined risk factors within three risk categories (legal and regulatory, operational, and reputation risk) assist in determining the overall compliance risk rating assigned to each law, rule, or regulation. Various factors within each risk category can increase or decrease the risk of non-compliance. Each risk category is assigned a risk rating of High, Moderate, or Low. The overall compliance risk rating for each law or regulation is the average of the risk ratings for the three risk categories. The compliance risk assessment is conducted with the Compliance Committee and key business lines, departments, and functional areas. Compliance risk assessment results are reviewed by the Compliance Committee and reported to the Risk Committee and the Audit Committee of the Board of Directors.

In addition to an overall compliance risk assessment, specific regulations require risk assessments based on defined risk factors. Identity Theft Red Flags regulations require an annual Identity Theft risk assessment. The purpose of this risk assessment is to periodically review and update the Identity Theft Red Flag Program based on methods used to open accounts, methods available to access accounts, ongoing account monitoring, and the Company s experiences with identity theft. Regulators expect a risk assessment process for Fair Lending risk. A fair lending risk assessment serves to verify how lending activities are identified, monitored, measured, and controlled, to make sure discriminatory, unfair, deceptive, abusive, and predatory acts and practices do not take place. A fair lending risk assessment is conducted to evaluate the present risk management process and risk mitigation strategies. Risk indicators defined by interagency Fair Lending Examination Procedures were used to assess fair lending risk. In evaluating the risk in lending activities, the following factors are considered: changes in leadership and staffing, new products, product pricing, product and service offerings, policies and procedures, processes, and changes or updates to systems. Other factors considered included the present economy of the region, the market area served, and market area demographics. These risk assessments are conducted with key business lines, departments, and functional areas as applicable. Fair Lending Risk assessment results are reviewed by the Compliance Committee and reported to the Risk Committee and Board Audit Committee.

An overall compliance risk assessment is conducted for the Bank Secrecy Act (BSA), however, more in depth risk assessments for BSA, Anti-Money Laundering (AML), Customer Identification Program (CIP), and Office of Foreign Asset Control (OFAC) are conducted on an as needed basis by a select group of BSA trained individuals with the results reported as necessary to the Audit Committee of the Board of Directors for approval. At least annually, the quantified results are reported to the Board of Directors. These Risk assessments focus on risk factors due to the Bank s size, market presence, types of customers, types of products, geographic location, method of account opening, transaction type and are incorporated into Bank Secrecy/Anti-Money Laundering software to aid in the monitoring and reporting requirements.

Financial Reporting Internal Controls

The Sarbanes-Oxley Act of 2002 (SOX) introduced broad and challenging financial management and disclosure regulations. Non-compliance with SOX regulations has serious consequences. As an accelerated SEC filer, the requirements of section 404 of the Sarbanes-Oxley Act are applicable to the Company. Section 404 requires companies to maintain internal controls and procedures for financial reporting. Management conducts an on-going review of key financial controls over financial reporting that ensures the accuracy of financial statements and entity-level controls that ensure compliance with the Committee of Sponsoring Organizations (COSO) internal control framework requirements. The COSO framework consists of five components that actively impact one another: control environment; risk assessment; control activities; information and communication; and monitoring. These components often overlap and consistently evolve due to changes in the Company s internal and external environment.

The review includes discussions with employees, process demonstrations, and detailed transaction testing to determine that controls are designed properly and operating effectively. The Company s external auditor conducts its own SOX review independent of management s review. Both management and the external auditor issue an opinion regarding both the design and operating effectiveness of the key controls over financial reporting. Results of both SOX reviews are reported to the Board of Directors.

Information Security

In conformance with Gramm-Leach-Bliley Act requirements regarding safeguarding and protecting customer information, an Information Security Risk Assessment is conducted at least annually by the Risk Committee. A risk analysis is performed to evaluate current processes, identify information assets, and determine the adequacy of the safeguarding and protection of confidential customer information collected and maintained. For each information asset identified, the criticality of the asset, the threats to the defined asset, the likelihood of compromise of the asset, the business impact if an asset is compromised, and an overall risk rating for each asset are defined. The results of this assessment are reviewed with the Information Systems (IS) Steering Committee and the Risk Committee and reported at least annually to the Board of Directors.

Information Technology Risk

Information Technology (IT) governance is the responsibility of the Board of Directors. The core elements of IT governance encompass value, risk, and controls. Management has appointed the Operations and IT Officer the responsibility for overall management of Information Technology risk. IT risk focuses on information and information systems, especially the most critical and vital information assets. Without reliable and properly secured information systems, business operations could be severely disrupted. Likewise, the preservation and enhancement of the Company s reputation is directly linked to the way in which both information and information systems are managed. Maintaining an adequate level of security is one of several important aspects of managing IT risk.

The Information Systems (IS) Steering Committee serves as an advisory group providing assistance and guidance to management regarding customer information security, information systems planning, systems management organization, systems performance, business continuity, information security, system related expenditures, vendor management, and related policies and procedures. The IS Steering Committee is chaired by the Operations and IT Officer and meets on a monthly basis. Committee members are Executive Management representatives, the Operations and IT Officer, the Information Security Officer, the IT Director, the Compliance Manager, the Chief Lending Officer and the Risk Manager. Formal meeting minutes serve to document decisions and recommendations by the IS Steering Committee. Meeting minutes are reported to the Management Committee and the Board ERM Committee.

An annual Information Technology Audit, which is overseen by the Internal Audit Department, is conducted via a co-sourcing agreement with a third party external auditor. The objective of the IT audit is to evaluate the effectiveness and efficiency of operations, test the reliability of data and IT controls, and ensure compliance with applicable laws, regulations, guidance, and industry best practices. The methodology for the audit process is Control Objectives for Information Technology (COBIT) which is published by the Information Systems Audit and Control Association. COBIT s audit framework and maturity model are used to determine appropriate tests for evaluating the respective control areas and to comply with the Federal Financial Institutions Examination Council (FFIEC) IT Audit guidelines. The audit is control objective oriented and is based on a comprehensive risk analysis. The audit scope addresses IT Governance, IT Management, IT Operations, and IT Security. The following systems and applications were evaluated based on operational criticality and security risks: Network Resources, Core Data Processing, Internet Banking (Business and Retail), ATM and Debit Cards, Credit Cards, Wire Transfer, ACH Processing, Item Capture and Imaging, Report and Document Storage, Platform/New Accounts Processing, Teller Processing, Commercial and Consumer Lending, Mortgage Lending, Custom Report Writing, Accounting, Payroll, and Merchant Card Services.

Testing of the internal network environment and external network perimeter were included in the IT Audit Results of the IT Audit and are reviewed with the IS Steering Committee and Management. For any exceptions identified, a responsible party is assigned and action plans are developed to address corrective measures. The final results of the IT Audit are reviewed with the Board Audit Committee. The status of unresolved audit issues along with their priority ratings is reported to both Management and the Board Audit Committee each month.

Vendor Management

The Board of Directors bears ultimate responsibility to ensure an effective vendor management program has been implemented for proper oversight of outsourced relationships. Management is charged with the responsibility to determine the necessary course of action to develop and maintain a comprehensive vendor management program. Management has appointed the Operations and Information Technology Officer/ISO to oversee management of the vendor management program. This individual reports directly to the Information Systems (IS) Steering Committee and management. The Senior Operations Officer is the focal point for vendor management standards established by the IS Steering Committee and is responsible for implementation of procedures relating to vendor management. A vendor relationship subcommittee has been established to provide assistance and promote appropriate oversight of third party vendors and service providers, especially technology service providers, who provide products, services, and support for other such activities. Current subcommittee members consist of the Risk Management Officer, the Operations and Information Technology Officer/ISO, the Senior Operations Officer, and the Assistant Compliance Manager.

The vendor management program is used to identify, measure, monitor, and control the risks associated with outsourcing arrangements. Outsourced relationships are addressed from an end to end perspective. The vendor management process reviews and evaluates the internal controls, maintenance and upkeep of an outsourced product or system, and the financial condition of third party vendors or service providers prior to selection for a new product or service, or as a condition for continued support of products and services. Third party vendors and service provider relationships are ranked by risk (High, Moderate, Low) annually as part of subcommittee s ongoing efforts. Rankings are based on the residual risk of the relationship after analyzing the quantity of risk relative to the controls over those risks. Relationship with high risk ratings receive more frequent and stringent monitoring for due diligence, performance (financial and/or operational), and independent control validation reviews.

Management and the Board of Directors use oversight and monitoring documentation when renegotiating contracts, as well as in developing contingency planning requirements. Third party vendors and service providers may be required to sign a formal confidentiality and non-disclosure agreement. Such an agreement binds these parties to the same standards and level of data confidentiality and controls as those adhered to by the Company. High risk third party vendors and service providers may be required to provide proof of bonding or insurance. The Senior Operations Officer reports annually to the Board of Directors providing an update on the status of the vendor management program along with any significant changes or recommendations to the program.

Audit Committee Report

The Audit Committee of the Board of Directors submits the following report on the performance of its responsibilities for the year 2015. The purposes and responsibilities of the committee are elaborated in the committee charter. The Board of Directors has determined that Steven A. Everhart, Chairman of the Audit Committee, is a financial expert as defined under the regulations promulgated under the Sarbanes-Oxley Act discussed above. Mr. Everhart and all of the other members of the Audit Committee have been determined by the Board of Directors to be independent under the listing standards adopted by the NASDAQ Stock Market.

Management of the Company has primary responsibility for the financial statements and the overall reporting process, including the Company s system of internal controls. The independent auditors are responsible for performing an independent audit of the Company s consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (PCAOB/United States). This audit serves as a basis for the auditors opinion in the annual report to shareholders addressing whether the financial statements fairly present the Company s financial position, results of operations and cash flows. The Audit Committee s responsibility is to monitor and oversee these processes.

In reviewing the independence of the Company s external auditors, the committee received from BKD, LLP (BKD) the written disclosures and a letter regarding relationships between BKD and its related entities and the Company and its related entities and discussed with BKD its independence from the Company as required by the applicable requirements of the PCAOB.

In fulfilling its responsibilities relating to the Company s internal controls, accounting and financial reporting policies and auditing practices, the committee has reviewed and discussed with management and BKD the Company s audited financial statements for 2015. In this connection, the committee has discussed with BKD its judgments about the quality, in addition to the acceptability, of the Company s accounting principles as applied in its financial reporting, as required by Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1. AU section 380), as adopted by the Public Company Accounting Oversight Board in 3200T. Based on these reviews and discussions, the committee recommended to the Board of Directors that the audited financial statements be included in the Company s Annual Report on SEC Form 10-K for the year ended December 31, 2015 for filing with the Securities and Exchange Commission.

Respectfully submitted by the members of the Audit Committee:

Steven A. Everhart, Chairman

Darryl L. Faye

Jo Ellen Hornish

Steven J. Planson

Selection of Auditors/Principal Accounting Firm Fees

The firm of BKD, independent registered public accountants, was retained by the Audit Committee on behalf of the Company as auditors of the Company and its subsidiary for the 2015 fiscal year. BKD was engaged to provide independent audit services for the Company and its subsidiary and to provide certain non-audit services including advice on accounting, tax and reporting matters. The Board of Directors expects that a representative of BKD will be present at the Annual Meeting, will have the opportunity to make a statement if they desire to do so, and will be available to respond to appropriate questions. The Company has been advised by BKD that no member of that firm has any financial interest, either direct or indirect, in the Company or its subsidiary, other than as a depositor, and it has no connections with the Company or its subsidiary in any capacity other than that of public accountants.

On February 21, 2014, the Board of Directors of the Company and the Board Audit Committee selected BKD, LLP to be appointed as the Company s independent registered public accounting firm commencing with the quarter ended March 31, 2014. The decision to change auditors was the result of a request for proposal process in which the Company evaluated the credentials of several firms. In connection with the selection of BKD, LLP, on February 21, 2014, the Board of Directors and its Audit Committee also dismissed Plante & Moran, PLLC as the Company s independent registered public accounting firm.

During the Company s fiscal years ended December 31, 2013 through February 21, 2014, neither the Company nor anyone on its behalf has consulted BKD, LLP with respect to either (1) the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on the Company s consolidated financial statements, and neither a written report nor oral advice was provided to the Company that BKD, LLP concluded was an important factor considered by the Company in reaching a decision as to any accounting, auditing or financial reporting issue; or (ii) any matter that was either the subject of a disagreement (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) or a reportable event (as defined in Item 304(a)(1)(v) of Regulation S-K).

The audit reports of Plante & Moran, PLLC on the Company s consolidated financial statements as of and for the year ended December 31, 2013 did not contain an adverse opinion or a disclaimer of an opinion, and were not qualified or modified as to uncertainty, audit scope or accounting principles. The audit report of Plante & Moran, PLLC on the effectiveness of internal control over financial reporting as of December 31, 2013 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

During the fiscal year ended December 31, 2013 and from January 1, 2014 through February 21, 2014, there were no disagreements (as defined in Item 304(a)(1)(iv) of Regulation S-K and the related instructions to Item 304 of Regulation S-K) with Plante & Moran, PLLC on any matter of accounting principles or practices, financial statement disclosure or audit scope or procedures, which disagreements, if not resolved to the satisfaction of Plante & Moran, PLLC, would have caused Plante & Moran, PLLC to make reference to the subject matter of the disagreements in its audit reports on the Company s consolidated financial statements for such years.

During the year ended December 31, 2013 and the subsequent interim periods through February 21, 2014, there were no reportable events (as defined in Item 304(a)(1)(v) of Regulation S-K).

BKD billed the aggregate fees shown below for audit, audit related matters, tax and other services rendered to the Company and its subsidiary for the years 2015 and 2014. Audit fees include fees billed in connection with the audit of the Company s annual financial statements, fees billed for the review of the unaudited financial statements contained in the Company s periodic reports on Form 10-Q, as filed with the Securities and Exchange Commission and assistance in compliance with the internal control requirements mandated by Section 404 of Sarbanes-Oxley. Audit related fees may include consulting on other accounting matters. Tax consulting services included assistance regarding franchise tax and federal and state income tax planning.

BKD and its affiliates billed the following amounts to the Company and its subsidiary during 2015 and 2014, respectively for audit, audit related fees, tax fees and all other fees:

	BKD - 2015	**BKD - 2014**
Audit fees	$ 154,000	$ 155,200
Audit Related fees	$ 0	$ 0
Tax fees	$ 18,600	$ 18,000
All other fees	$ 0	$ 0
TOTAL	$ 172,600	$ 173,200

All the services noted above were approved by the Audit Committee.

PROPOSAL TWO

Proposal to Amend the Articles of Incorporation to Increase the Number of

Authorized Common Shares

The Board of Directors has adopted resolutions (1) declaring that an amendment to our Articles of Incorporation to increase the number of authorized shares of our common stock from 6,500,000 to 10,000,000 (the Amendment) was advisable, and (2) directing that a proposal to approve the Amendment be submitted to the holders of our common stock for their approval at the Annual Meeting. It is proposed that Article Fourth of the Company s Articles be amended to read in its entirety as follows:

FOURTH: The number of shares which the Corporation is authorized to have outstanding is 10,000,000 shares all of which shall be common shares, without par value (the Shares). The holders of the Shares are entitled at all times, except in the election of directors where the Shares may be voted cumulatively, to one (1) vote for each Share and to such dividends as the Board of Directors (herein called the Board) may in its discretion periodically declare. In the event of any liquidation, dissolution or winding up of the Corporation, the remaining assets of the Corporation after the payment of all debts and necessary expenses shall be distributed among the holders of the Shares pro rata in accordance with their respective Share holdings .

Background and Reasons for the Amendment

As of February 24, 2016 the Company had 6,500,000 shares authorized, 4,605,534 of which were outstanding, with 594,466 shares held by the Company as treasury stock. As a result, we had 1,894,466 shares of common stock unreserved and available for future issuance as of the February 24, 2016 Record Date. In the event Proposal Two is approved by shareholders, the Company would continue to have 4,605,534 shares outstanding and 5,394,466 shares available for future issuance as of the Record Date. The Board is proposing to increase the number of authorized common shares of the Company from 6,500,000 to 10,000,000. Each share will continue to be without par value.

Our Board of Directors and management team are routinely engaged in the identifying and evaluating potential strategic alternatives to further strengthen our capital base and enhance shareholder value. Among these alternatives include additional offerings of common stock. While we currently have no plans or agreements for issuing additional shares of common stock, the Board of Directors believes that it is advisable to increase the number of authorized shares of common stock to ensure that we will have a sufficient number of available shares to undertake a potential common stock offering and to assure flexibility in the future. This increase would avoid the possible delay and expense of holding a special meeting of shareholders at a later date. In addition to providing the shares necessary for a common stock offering, we may also use the additional shares in connection with certain merger and acquisition opportunities, the issuance of shares under current or future equity incentive plans for our directors, officers and employees, the issuance of stock dividends or stock splits, and other corporate purposes.

Although an increase in the authorized shares of our common stock could, under certain circumstances, also be construed as having an anti-takeover effect (for example, by permitting easier dilution of the stock ownership of a person seeking to effect a change in the composition of the Board of Directors or contemplating a tender offer or other transaction resulting in our acquisition by another company), the proposed increase in authorized shares and in authorized shares of common stock is not in response to any effort by any person or group to accumulate our common stock or to obtain control of us by any means. In addition, the proposal is not part of any plan by our Board of Directors to recommend or implement a series of anti-takeover measures.

Procedure for Implementing the Amendment

The Amendment, if approved by our shareholders, would become effective upon the filing of a certificate of amendment to our Articles of Incorporation with the Secretary of State of the State of Ohio. If the Amendment is approved by our shareholders, we expect to file the certificate of amendment effecting the Amendment promptly upon such approval.

Authority of the Board of Directors to Issue Additional Shares of Common Stock

If this amendment is approved and we are authorized to issue additional shares of common stock, the Board of Directors will determine whether, when, and on what terms to issue the additional shares of common stock without further action by our shareholders, unless shareholder approval is required by applicable law or securities exchange listing requirements in connection with a particular transaction.

Dilution to Existing Shareholders

Our shareholders currently have the preemptive right to purchase additional securities which may be issued by the Company from time to time, as provided by Ohio Revised Code Section 1701.15. In general, preemptive rights permit stockholders of a corporation to subscribe to a sufficient number of shares so as to maintain their relative pro rata ownership upon the issuance of additional shares, except in certain circumstances. Certain issuances of shares by the Company are exempt from preemptive rights under Ohio law. Three of the important exceptions to preemptive rights include: (i) the issuance of shares for other than money; (ii) the sale of treasury shares, which are shares previously outstanding that are repurchased by the Company; and (iii) the issuance of shares as a stock dividend or distribution. The exception permitting the issuance of shares for other than money would apply to the issuance of shares to shareholders of another financial institution in an acquisition by the Company, or the issuance of shares for services. The exception permitting the Company to issue treasury shares would allow the Company to resell shares it acquires from shareholders from time to time. Except for a stock split or stock dividend, issuances of common shares will dilute the voting power and ownership of our existing shareholders and will dilute earnings or loss per share of common stock. Depending on the price at which the shares are issued, an issuance may reduce the per share book value of the Company s common shares. The Company currently has no intention of authorizing a stock dividend or stock split in connection with the increase to the number of authorized common shares.

No Appraisal Rights

Under Ohio law and our Articles of Incorporation, holders of our common stock will not be entitled to dissenter s rights or appraisal rights with respect to the Amendment.

Vote Required to Approve the Amendment and Recommendation

Under Ohio law and our Articles of Incorporation, the affirmative vote of the holders of 66 2/3% of the total number of shares voted with respect to Proposal Two is required to approve the Amendment, provided however, that the total number of shares voted in favor of the Amendment represent at least a simple majority of the Company s total voting power.

THE BOARD OF DIRECTORS UNANIMOUSLY APPROVES AND RECOMMENDS TO SHAREHOLDERS THE ADOPTION OF PROPOSAL TWO, WHICH WILL RESULT IN THE AMENDMENT OF THE CORPORATION S ARTICLES OF INCORPORATION TO INCREASE THE AUTHORIZED NUMBER OF THE COMPANY S COMMON SHARES.

PROPOSAL THREE:

Advisory Vote on the Appointment of the Independent Registered Public Accounting Firm

The Audit Committee of the Board of Directors proposes and recommends that the shareholders approve the selection by the Committee of the firm of BKD, LLP to serve as the Company s independent registered public accounting firm for the 2016 fiscal year. Action by the shareholders is not required by law in the appointment of an independent registered public accounting firm, but their appointment is submitted by the Audit Committee of the Board of Directors in order to give the shareholders a voice in the designation of auditors. If the resolution approving BKD, LLP as the Company s independent registered public accounting firm is rejected by the shareholders, the Committee will reconsider its choice of independent auditors. Even if the resolution is approved, the Audit Committee in its discretion may direct the appointment of different independent auditors at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Proxies in the form solicited hereby which are properly executed and returned to the Company will be voted in favor of this non-binding proposal unless otherwise instructed by the shareholder. The affirmative vote of a majority of the votes cast by the holders of the Company s common stock is required to approve Proposal Three. An abstention is not a vote cast . Abstentions from voting and broker non-votes, if any, on Proposal Three are not treated as votes cast and, therefore, will have no effect on outcome of the passage of the proposal.

THE COMPANY S BOARD OF DIRECTORS RECOMMENDS A VOTE

FOR THE ADOPTION OF THE NON-BINDING ADVISORY PROPOSAL

ON THE APPOINTMENT OF THE INDEPENDENT REGISTERED

PUBLIC ACCOUNTING FIRM.

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Compensation Discussion and Analysis

Introduction. The Compensation Committee administers our executive compensation program. The committee, which is composed entirely of independent directors, is responsible for reviewing and determining executive officer compensation, for evaluating the President and Chief Executive Officer, for overseeing the evaluation of all other officers and employees, for administering our incentive compensation programs (including the long-term equity incentive plan), for approving and overseeing the administration of our employee benefits programs, for providing insight and guidance to management with respect to employee compensation, and for reviewing and making recommendations to the Board with respect to director compensation. The President and Chief Executive Officer participates with respect to making recommendations concerning annual salary adjustments and long term equity incentive compensation regarding executive officers (other than himself) of the Company.

The Compensation Committee operates under a charter adopted by the Board of Directors. Annually, the Compensation Committee reviews the adequacy of its charter and recommends changes to the Board for approval. The Compensation Committee meets at scheduled times during the year and also acts upon occasion by written consent. The Chair of the Compensation Committee reports on committee activities and makes committee recommendations at meetings of the Board of Directors.

Compensation Philosophy. Our executive compensation programs seek to achieve and maintain equity with respect to balancing the interests of shareholders and executive officers, while supporting our need to attract and retain competent executive management. The Compensation Committee has developed an executive compensation policy, along with supporting executive compensation plans and programs, which are intended to attain the following objectives:

Support a pay-for-performance policy that rewards executive officers for corporate performance.

Motivate executive officers to achieve strategic business goals.

Provide competitive compensation opportunities critical to the Company s long-term success.

The committee collects and analyzes comparative executive compensation information from relevant peer groups, approves executive salary adjustments, recommends executive discretionary cash-based incentive/compensation program thresholds, and administers the Company s long term equity incentive compensation plan. Additionally, from time to time, the committee reviews other human resource issues, including benefits, management performance appraisals, and succession planning.

The committee uses comparisons of competitive executive pay practices taken from banking industry compensation surveys and, from time-to-time, consultation with independent executive compensation advisors. Peer groups and competitive compensation practices are determined using executive compensation packages at bank holding companies and subsidiaries of comparable size to the Company and its subsidiary. In evaluating Peer Group Companies, the base salary and incentive compensation paid to the chief executive officer of each of the following ten peer bank holding companies (symbol), as well as the respective ROA (Return on Assets) of each are taken into consideration. The committee reviews this information twice a year in conjunction with events in the industry and marketplace to determine if any changes or revisions are deemed necessary. For 2015 compensation considerations, the Peer Group Companies consisted of ten bank holding companies: Farmers National Banc Corp. (FMNB), First Citizens Banc Corp. (FCZA), First Defiance Financial Corp. (FDEF), Horizon Bancorp (HBNC), LCNB Corp. (LCNB), LNB Bancorp Inc. (LNBB), MBT Financial Corp. (MBTF), Mutualfirst Financial Inc. (MFSF), SB Financial

Group, Inc. (SBFG), and United Bancshares Inc. (UBOH).

The financial performance of the selected peer group bank holding companies is also evaluated relevant to the performance of peers located outside of the Midwest, which information is made available by the FDIC as part of its Uniform Bank Performance Report. The Company may periodically review and adjust the selected peer group companies in conjunction with a regular review of executive compensation pay and practices in connection with future compensation decisions.

In making its decisions regarding annual salary adjustments, the committee reviews quantitative and qualitative performance factors as part of an annual performance appraisal. These are established for each executive position and the performance of the incumbent executive is evaluated annually against these standards. This appraisal is then integrated with market-based adjustments to salary ranges to determine if a base salary increase is merited.

The committee administers the cash-based incentive compensation program and the long term equity incentive compensation plan of the Company. Cash-based incentive bonuses and equity awards are at-risk compensation. Awards under these programs are recommended by the committee to the Board of Directors when, in the judgment of committee members, such awards are deemed to provide executive officers a reasonable incentive for the achievement of the Company s mid and long-term strategic objective, and are otherwise justified by the performance of executive officers in relation to the performance of the Company.

The accounting and tax treatment of particular forms of compensation do not materially affect the committee s compensation decisions. However, the committee evaluates the effect of such accounting and tax treatment on an ongoing basis and will make appropriate modifications to its compensation policies where appropriate.

Components of Compensation. The elements of total compensation paid by the Company to its senior officers, including the President and Chief Executive Officer (the CEO) and the other executive officers identified in the Summary Compensation Table which appears following this Compensation Discussion and Analysis (the CEO and the other executive officers identified in that Table are sometimes referred to collectively as the Named Executive Officers), include the following:

Base salary;

Awards under our cash-based incentive compensation program;

Awards under our long term equity incentive compensation plan;

Benefits under our Profit Sharing Plan; and

Benefits under our health and welfare benefits plans.

Base Salary. The base salaries of the Named Executive Officers are reviewed by the committee annually as well as at the time of any promotion or significant change in job responsibilities. The committee reviews peer group data to establish a market-competitive executive base salary program, in conjunction with a formal performance appraisal system that focuses on awards that are integrated with strategic corporate objectives. Salary income for each Named Executive Office for calendar year 2015 is reported in the Salary column 1 of the Summary Compensation Table, which appears following this Compensation Discussion and Analysis.

In making its decisions regarding annual salary adjustments for 2016, the Compensation Committee reviewed quantitative and qualitative performance factors as part of an annual performance appraisal. This appraisal is then integrated with market-based adjustments to salary ranges to determine if a base salary increase is merited. Based on these factors, the committee increased Mr. Siebenmorgen s annual base salary by 2% for 2016.

Cash-Based Incentive Compensation Program. The Company has established a cash-based incentive compensation program. The cash incentive for executive officers under this plan is based on two criteria. The first is return on average assets (ROA) of the Bank.

If the ROA of the Bank equals the target ROA of 1.00% executive officers receive the full cash incentive established. The targeted goal of ROA is based on reviewing the projected budget, the five and ten year history and average of the Bank along with peer, industry, and other information requested by the Compensation Committee. The calculated ROA is inclusive of the cost of the incentive and is net of the captive insurance expense at the Bank level. The full cash incentive under this criterion is equivalent to 30% of base salary for the CEO and 20% of base salary for the remaining executive officers. If the ROA of the Bank is equal to .70%, fifty percent of the incentive is paid. If the ROA is between .70% and 1.00%, the incentive is paid on a prorated basis. Should the ROA exceed 1.00%, the incentive paid would be increased accordingly. At a ROA of .65%, a forty percent payout is made. Again, with ROA between .65% and .70%, the payout is prorated. Should the ROA be below .65%, no cash incentive is paid under the computation; incentive compensation would then be paid under the same terms to all employees of the Bank. The 2015 incentive was based on a calculated ROA base of 1.01% which is inclusive of the cost of the incentive and is net of the captive insurance expense for a ROA of 1.088% at the Bank level. A ROA of 1.088% exceeded the target ROA of 1.00% which is equivalent to a 114.67% payout of the incentive. Based on a 114.67% payout, 34.4% of base salary is to be paid to the CEO and 22.93% of base salary is to be paid to the remaining executive officers. The percentage of base salary for this 2015 incentive is to be paid in the first quarter 2016. The target percentage along with budget and base may be adjusted for 2016.

The second criterion used in determining the cash incentive to be paid to executive officers is earnings per share (EPS) of the Company. The target EPS goal is based on reviewing past performance and history and the projected EPS from the budget. The EPS target ranges for 2015 remained unchanged from 2014. Three target ranges are set for EPS, a 5% incentive would be paid for an EPS of $1.35, a 10% incentive would be paid for an EPS of $1.60, and a 15% incentive would be paid for an EPS of $1.85. If the EPS is below $1.35, an incentive would not be paid for this criterion. An EPS in between the stated targets or over the $1.85 would be adjusted accordingly. Under this criterion, an EPS of $2.24 was used for the 2015 incentive. An EPS over $1.85 resulted in a prorated payout of 152.0% of total goal which is equivalent to 22.8% of base salary paid to all executive officers. The percentage of base salary for the 2015 incentive is to be paid in the first quarter 2016. The target EPS and corresponding percentages may be adjusted for 2016.

The budget or forecast ROA and EPS used for the 2015 incentives were set equivalent to the expected performance of normal operations.

In establishing dual incentives for the executive officers of the Bank, the objective of the Company is to limit the risk exposure to compensating for short term gains while still recognizing the importance of return to its shareholders each year. Thus more emphasis is placed on rewarding for stable, long term performance through the use of ROA criterion along with a higher percentage of pay at risk. The EPS criterion recognizes a yearly target and focuses on the importance of earning performance and its impact on maintaining a healthy profitable corporation from which to pay dividends to shareholders and to maintain and improve the value of their stock. Each year, the committee sets goals for each incentive which it believes are attainable, but still require executives performance at a consistently high level to achieve target award levels. As such, the Company believes it has established a good balance in the incentives for executive management. Given that the target ROA and EPS may be adjusted each year at the Board s discretion, the Company feels it has established a plan that is beneficial to both its executives and shareholders by placing overall emphasis on corporate performance and return to shareholders.

Further discussion of the Bank s overall incentive plan may be found in the 2015 financial report and 10-K.

Incentive Stock Compensation. The Bank uses the grant of stock awards under our long-term equity incentive compensation plan as the primary vehicle for providing long-term incentive compensation opportunities to its officers, including the Named Executive Officers. The Bank has not adopted any specific policy regarding the amount or timing of any stock-based compensation under the plan. The number of shares underlying the award granted to each Named Executive Officer in 2015 is set forth in the Grants of Plan Based Awards Table and the fair value dollar amount, determined on the grant date, for calendar year 2013, 2014, and 2015 with respect to each such award is set forth in the column titled Stock Awards of the Summary Compensation Table, each of which follows. Information concerning the number of stock awards held by each Named Executive Officer as of December 31, 2015 is set forth in the Outstanding Equity Awards at Fiscal Year-end Table, which also follows.

Profit Sharing Plan. The Bank has established a 401(k) profit sharing plan that allows eligible employees to save at a minimum one percent of eligible compensation on a pre-tax basis, subject to certain Internal Revenue Service limitations. The Bank will match 50% of employee 401(k) contributions up to four percent of total eligible compensation. In addition, the Bank may make a discretionary contribution from time to time as is deemed advisable. A participant is 100% vested in the participant s deferral contributions. A six-year vesting schedule applies to employer discretionary contributions and employee matching contributions. In order to be eligible to participate, the employee must be 21 years of age, have completed six months of service, work 1,000 hours in the plan year and be employed on the last day of the year. Entry dates have been established at January 1 and July 1 of each year. The plan calls for only lump-sum distributions upon either termination of employment, retirement, death, or disability. The Company s contribution to the plan made on behalf of the Named Executive Officers is included under the All Other Compensation column in the Summary Compensation Table.

Health and Welfare Benefits. The Company provides healthcare, life and disability insurance and other employee welfare benefits programs to its employees, including its executive officers. The committee is responsible for overseeing the administration of these programs and believes that its employee benefits programs should be comparable to those maintained by other members of the relevant peer groups so as to assure that the Company is able to maintain a competitive position in terms of attracting and retaining officers and other employees. Except for our Executive Survivor Income Agreement, our employee benefits plans are provided on a non-discriminatory basis to all employees.

The Company has entered into Executive Survivor Income Agreements with some of the Named Executive Officers that provide certain death benefits to the executive s beneficiaries upon his or her death. The agreements provide a pre- and post-retirement death benefit payable to the beneficiaries of the executive in the event of the executive s death. The Company had originally purchased life insurance policies on the lives of all participants covered by these agreements in amounts sufficient to provide the sums necessary to pay the beneficiaries. As the employees age and their pay increased, the Company is made whole on its investment before beneficiaries receive any proceeds. Therefore, over time, the death benefit payable to the beneficiary may be smaller than the previously anticipated value. One former executive and one current Named Executive Officer have been impacted. The actual gross death benefit amounts payable under this plan are disclosed under Payments and Benefits in Connection with Termination or Change-in-Control.

<u>Consideration of Advisory Vote on Executive Compensation</u>. The Company conducted the last advisory vote on executive compensation at the 2014 Annual Meeting of Shareholders. Votes cast on that advisory proposal indicated a significant level of support in favor of the Company s compensation policies and practices as disclosed in the proxy statement for the 2014 Annual Meeting. As a result of this strong shareholder support, the Board of Directors and the Committee did not believe that any significant changes to the Company s compensation policies and practices are needed to address shareholder concerns. The next shareholder advisory vote on the Company s executive compensation policies and practices will take place at the 2017 Annual Meeting of Shareholders.

<u>2015 Executive Officer Compensation Program</u>. For 2015, the Named Executive Officers in the Summary Compensation Table received salaries that were intended to maintain their compensation at a competitive level, yet acknowledged the challenging market conditions in which the Bank s business continues to be conducted.

To aid in determining chief executive officer compensation for 2015, the Company used compensation data from peer bank holding companies which are similar in size ($589.7 million to $2.180 billion in assets), and geographic locations (located in Ohio, Indiana, and Michigan), and which are also publicly held and performing similarly to the Company as one piece of information. Data is obtained from the proxy statement filed by those companies as of the previous year end. This provided a regional comparison in addition to compensation data obtained from other state or national peer comparisons.

For 2015 executive officer compensation, the President and CEO and the CFO, participated in the presentation portion of the meeting at which compensation information was presented and reviewed. The committee then met in executive session and made its own determinations regarding compensation for the President and CEO and all other executive officers. Adjustments in 2015 base salary were based upon each Named Executive Officer s annual performance review, an annual review of peer compensation, and the overall performance of the Company. These adjustments are consistent with the Company s salary budget which is approved by the Compensation Committee and becomes part of the overall budget approved annually by the Board of Directors.

As part of its compensation program the Company has entered into agreements with some of the Named Executive Officers pursuant to which they will be entitled to receive severance benefits upon the occurrence of certain enumerated events following a change in control. The events that trigger payment are generally those related to termination of employment without cause or detrimental changes in the executive s terms and conditions of employment. See Employment Contracts and Payments Upon Termination of Change in Control below for a more detailed description of these events. The Company believes that this structure will help: (i) assure the executives full attention and dedication to the Company, free from distractions caused by personal uncertainties and risks related to a pending or threatened change in control, (ii) assure the executives objectivity for shareholders interests, (iii) assure the executives of fair treatment in case of involuntary termination following a change in control, and (iv) attract and retain key talent during uncertain times.

Summary Compensation Table

Name and Principal Position	Year	Salary ($)	Non-Equity Incentive Compensation ($)(1)	Stock Awards ($)(2)	Option Awards ($)	All Other Compensation ($)(3)	Total ($)
Paul S. Siebenmorgen	2015	345,395	185,500	52,700	0	30,386	613,980
President and Chief Executive	2014	333,400	164,509	28,061	0	29,788	555,758
Officer (PEO)(4)	2013	321,880	132,971	22,000	0	25,403	502,254
Barbara J. Britenriker	2015	184,680	84,461	15,810	0	24,039	308,990
Executive Vice President (PFO)	2014	179,300	74,170	12,755	0	23,300	289,525
	2013	174,070	60,054	11,000	0	20,878	266,002
Todd A. Graham	2015	174,000	79,577	15,810	0	17,293	286,680
Executive Vice President	2014	168,000	69,496	12,755	0	16,645	266,897
	2013	163,000	56,235	11,000	0	14,327	244,562
Edward A. Leininger	2015	174,000	79,577	15,810	0	23,383	292,770
Executive Vice President	2014	170,251	70,247	12,755	0	22,858	276,111
	2013	166,860	57,567	11,000	0	21,589	257,015
Rex D. Rice	2015	161,000	73,632	15,810	0	20,655	271,097
Executive Vice President	2014	157,440	65,128	13,265	0	20,177	256,010
	2013	154,340	53,247	11,000	0	19,028	237,615

Summary Compensation Table Footnotes:

(1) Reflects payments made pursuant to the Company s cash-based incentive compensation program discussed more thoroughly under the section of this Proxy Statement captioned Compensation Discussion and Analysis .

(2) Reflects the dollar amount at the market value on the grant date of each year in which restricted stock awards were granted under the long-term equity incentive compensation plan, as discussed more thoroughly under the section of this Proxy Statement captioned Compensation Discussion and Analysis . Each award vests three years following the date of grant.

(3) Includes contributions to the Company s defined contribution profit sharing and 401K plan and certain life insurance premiums paid by the Company for the benefit of the Named Executive Officer as follows:

Name	Retirement Contributions ($)	Life Insurance Premiums ($)	Total ($)
Paul S. Siebenmorgen	29,430	956	30,386
Barbara J. Britenriker	23,485	553	24,039
Todd A. Graham	16,770	523	17,293
Edward A. Leininger	22,860	523	23,383

Rex D. Rice	20,170	485	20,655

(4) Fees paid to Mr. Siebenmorgen as a Director of the Company and the Bank (which totaled $21,100 in 2015, $18,550 in 2014, and $16,200 in 2013) are included in the amounts listed above in the salary column.

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Narrative Explanation to the Summary Compensation table

Named Executive Officers participate in an annual cash-based incentive compensation program that provides for awards tied to the profit performance of the Company during the fiscal year. The amounts set forth in the bonus the Non-Equity Incentive Compensation column represent the awards made under the terms of the Plan for 2015 which will be paid to the respective Named Executive Officer during the first quarter of 2016. The awards under the plan in 2013 and 2014 were also paid out to officers in the first quarter of the following year. Refer to the compensation discussion and analysis for a complete explanation of the Plan.

The stock awards reported in the Summary Compensation Table represent the dollar amount valued as of the grant date of restricted stock awards to Named Executive Officers. The vesting of all of the awards of restricted stock made to date under the terms of the long term equity incentive plan occurs three years following the grant.

Outstanding Equity Awards at 2015 Fiscal Year-End Table

Name and Principal Position	**Number of Shares or Units of Stock that have not Vested[1] (#)**	**Market Value of Shares or Units of Stock that have not Vested[2] ($)**
Paul S. Siebenmorgen, President and CEO (PEO)	4,100	110,290
Barbara J. Britenriker, Executive Vice President (PFO)	1,600	43,040
Todd A. Graham, Execuitve Vice President	1,600	43,040
Edward A. Leininger, Executive Vice President	1,600	43,040
Rex D. Rice, Executive Vice President	1,620	43,578

(1) Vesting dates for reported stock awards are as follows:

Name	Shares Vesting on 8/16/16	Shares Vesting on 8/15/17	Shares Vesting on 8/21/18
Paul S. Siebenmorgen	1,000	1,100	2,000
Barbara J. Britenriker	500	500	600
Edward A. Leininger	500	500	600

Todd A. Graham	500	500	600
Rex D. Rice	500	520	600

(2) Market value based on market price on December 31, 2015 of $26.90.

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2015 Vesting of Stock Awards Granted 8/17/2012

Stock Awards

Name	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Paul S. Siebenmorgen	1,000	26,380
Barbara J. Britenriker	500	13,190
Edward A. Leininger	500	13,190
Todd A. Graham	500	13,190
Rex D. Rice	500	13,190

2015 Grants of Plan-Based Awards

Name and Principal Position	**Year**	**Grant Date**	**Awards: Number of Shares of Stock or Units (#)**	**Value of Stock and Option Awards ($)**
Paul S. Siebenmorgen, President and CEO (PEO)	2015	8/21/2015	2,000	52,700
Barbara J. Britenriker, EVP (PFO)	2015	8/21/2015	600	15,810
Todd A. Graha, EVP	2015	8/21/2015	600	15,810
Edward A. Leininger, EVP	2015	8/21/2015	600	15,810
Rex D. Rice, EVP	2015	8/21/2015	600	15,810

Narrative Explanation to the Grants of Plan-Based Awards table

The above amounts represent information regarding restricted stock awards made to each of the respective Named Executive Officers during 2015 under the terms of the Company s Long Term Incentive Compensation Plan. The awards vest in full after three years of service from the date of grant to the respective officer. The vesting of the awards is accelerated in the event of the death or disability of the officer or upon a change in control.

Post-Employment Compensation/Change of Control Agreements

The Company entered into Change in Control Severance Compensation Agreements with its executive officers, Mr. Siebenmorgen, Ms. Britenriker, Mr. Leininger, and Mr. Rice. These agreements provide for payment of an amount equal to one year s compensation to the executives, or two years compensation for Mr. Siebenmorgen and Ms. Britenriker, in the event that the executive s employment is terminated in connection with a change in control as defined in the Agreements. No payments will be made in such event if the executive is terminated for cause . In 2012, the Compensation Committee evaluated the Peer Group Companies, determined that ten of the eleven Peer Group Companies used for evaluation and comparison have Change in Control Severance Compensation Agreements with their executive officers, with the average terms of their Change in Control Severance Compensation Agreements over two years. A change was approved to provide two year s compensation to Mr. Siebenmorgen and Ms. Britenriker in the event that their employment is terminated in connection with a change in control as defined in their Agreements.

If a change in control had occurred as of December 31, 2015, this would have resulted in payments to the executives as shown on the following table. In addition to the payment equal to two times their annual salary for Mr.

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Siebenmorgen and Ms. Britenriker and one times their annual salary for Mr. Leininger and Mr. Rice, the Agreements provide for the continuation of health insurance and other benefits, which amounts are also included in the table. Under the terms of the restricted stock awards, all granted shares would be accelerated to 100% vested and given to the officers. The values of these shares are shown using the market value as of December 31, 2015 at $26.90.

Also included in the table are amounts that would be payable to the executive or their estate upon the death of the executive pursuant to individual executive survivor income agreements (ESIA). See the section of the Compensation Discussion and Analysis captioned Components of Compensation - Health and Welfare Benefits for additional information regarding the ESIA. In addition, all unvested stock awards would also immediately vest upon the death of an executive officer.

Potential Payments upon Termination of Employment or Change in Control

Name of Executive	(2x Salary and Bonus)	Continuation of Perquisites	Acceleration of Stock Awards	Total	Payment on Death or Disability Under ESIAs
Paul S. Siebenmorgen	$ 1,012,777	$ 36,453	$ 110,290	$ 1,159,520	$ 269,756
Barbara J. Britenriker	$ 515,150	$ 18,797	$ 43,040	$ 576,987	$ 250,000
	(1x Salary and Bonus)				
Edward A. Leininger	$ 243,191	$ 12,523	$ 43,040	$ 298,754	$ 250,000
Rex D. Rice	$ 289,005	$ 14,790	$ 43,578	$ 347,373	$ 250,000

Compensation Committee Report on Executive Compensation

The Compensation Committee is responsible for discharging the responsibilities of the Board with respect to the compensation of executive officers. The Compensation Committee sets performance goals and objectives for the President and Chief Executive Officer and the other executive officers, evaluates their performance with respect to those goals and sets their compensation based upon the evaluation of their performance. In evaluating executive officer pay, the Compensation Committee may retain the services of a compensation consultant and consider recommendations from the President and Chief Executive Officer with respect to goals and compensation of the other executive officers. The Compensation Committee assesses the information it receives in accordance with its business judgment. The Compensation Committee also periodically reviews director compensation. All decisions with respect to executive and director compensation are approved by the Compensation Committee and recommended to the full board for ratification.

The Compensation Committee has reviewed and discussed the disclosures contained in the section of this Proxy Statement captioned Compensation Discussion and Analysis (the CD&A) with management. In reliance on the reviews and discussions referred to above, the Compensation Committee recommended to the Board, and the Board has approved, that the CD&A be included in the proxy statement for the 2016 Annual Meeting of Shareholders.

By the Compensation Committee of the Board of Directors:

Kevin J. Sauder, Chairman

Steven A. Everhart

Jack C. Johnson

Steven J. Wyse

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2015 Director Compensation

Name	Fees Earned or Paid in Cash	
Eugene N. Burkholder	$	23,350
Steven A. Everhart	$	29,900
Darryl L. Faye	$	25,375
Jo Ellen Hornish	$	23,200
Jack C. Johnson	$	28,150
Marcia S. Latta	$	19,275
Steven J. Planson	$	32,300
Anthony J. Rupp	$	30,400
Kevin J. Sauder	$	26,400
Steven J. Wyse	$	23,625

Director Compensation Discussion

The Compensation Committee reviews the level of compensation of our directors on an annual basis. To determine the appropriateness of the current level of compensation for directors, the committee has historically obtained data from a number of different sources including publicly available data describing director compensation in peer companies and survey data collected by a member of the Compensation Committee.

At the committee s request, the President and Chief Executive Officer compiled an analysis of director fees and the number of directors from the ten peer bank holding companies also used for comparison of executive officer compensation. The committee reviews this information twice a year in conjunction with events in the industry and marketplace to determine if any changes or revisions are deemed necessary.

Cash compensation is paid to directors in the form of retainers and meeting fees. The director fee structure effective January 1, 2015 was as follows:

Director Retainer Fee of $12,000 per year;

Chairman of the Board Retainer Fee of $15,000 per year;

Directors Fee of $650 per meeting attended;

Audit Committee Fee of $500 per meeting attended;

Audit Committee Chairman Fee of $650 per meeting attended; and

- Meeting Fees for Other Board Committees of $450 per meeting attended.

Directors participating in a meeting by telephone/video conference call were compensated one-half the meeting fee for that particular meeting. The preceding table regarding Director Fees Earned or Paid in Cash reflects the fee structure in effect during 2015.

The committee reviewed the director fee structure in May 2015 and did not recommend any changes. The committee again reviewed the director fee structure in November 2015 and recommended adjustments. Effective January 1, 2016, the director fee structure is as follows:

- Director Retainer Fee of $16,200 per year;
- Chairman of the Board Retainer Fee of $19,200 per year;
- Directors Fee of $650 per meeting attended;
- Audit Committee Fee of $500 per meeting attended;
- Audit Committee Chairman Fee of $650 per meeting attended; and
- Meeting Fees for Other Board Committees of $500 per meeting attended.

In addition, directors participating in a meeting by telephone/video conference call will continue to be compensated one-half the meeting fee for that particular meeting. Employee directors are not paid for committee meetings.

Director compensation must retain and help attract appropriate individuals to serve. The committee feels director compensation should be fair and equitable in comparison to peers. In light of the current regulatory focus on the

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banking industry, increased shareholder and public scrutiny, and the difficult economic times, performance expectations such as wise counsel, strong leadership, and board member involvement through regular board meeting and committee meeting attendance are extremely important and should be appropriately compensated.

Director Independence and Related Party Transactions

Director Independence

The Corporate Governance and Nominating Committee of the Board of Directors of the Company undertakes a review of director independence annually and reports on its findings to the full Board in connection with its recommendation of nominees for election to the Board of Directors. Based upon this review, the Board of Directors has determined that all directors have met the independence standards of the NASDAQ Marketplace Rules, with the exception of Mr. Siebenmorgen, the current President and Chief Executive Officer. In determining the independence of the members of the Board of Directors, the Corporate Governance and Nominating Committee and the Board considered the following relationships.

Steven A. Everhart, who currently serves as the Chairman of the Audit Committee, is related by marriage to Marilyn Johnson, Vice President and Compliance Manager of the Bank.

Transactions with Related Parties

Certain directors, nominees, and executive officers or their associates were customers of and had transactions with the Company or its subsidiary during 2015. Transactions that involved loans or commitments by the Bank were made in the ordinary course of business and on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and did not involve more than the normal risk of collectability or present other unfavorable features. No director, executive officer or beneficial owner of more than five percent of the Company s outstanding voting securities (or any member of their immediate families) engaged in any transaction (other than loan transaction as described) with the Company during 2015, or proposes to engage in any transaction with the Company, in which the amount involved exceeds $120,000.

Review, Approval or Ratification of Transactions with Related Persons

The Company s Code of Ethics and Business Conduct requires that all related party transactions be pre-approved by the Company s Audit Committee. Exemptions from that pre-approval requirement are routine banking transactions, including deposit and loan transactions, between our subsidiary and any related party that are made in compliance with, and subject to the approvals required by, all federal and state banking regulations. In making a determination to approve a related party transaction the Audit Committee will take into account, among other factors it deems appropriate, whether the proposed transaction is on terms no less favorable to the Company than those generally available to an unaffiliated third-party under the same or similar circumstances and the extent of the related party s interest in the proposed transaction.

Compensation Committee Interlocks and Insider Participation

In 2015 the Compensation Committee members were Kevin J. Sauder, Chairman, Steven A. Everhart, Jack Johnson, and Steven J. Wyse. None of the members of the Board s Compensation Committee has had any relationship with the Company or the Bank requiring disclosure under Item 404 of Regulation S-K under the Securities and Exchange Act of 1934. In addition, no executive officer of the Company or the Bank serves or has served as a member of the Compensation Committee or Board of Directors of any other company (other than the Bank) which employs any member of the Company s Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s officers and directors, and persons who own more than ten percent of a registered class of the Company s equity securities, to file reports of ownership and changes in ownership with the Securities and Exchange Commission. Officers, directors and greater than ten percent shareholders are required by SEC regulations to furnish the Company with copies of all Section 16(a) forms they file.

Based solely on review of the copies of such forms furnished to the Company, the Company believes that during 2015 all Section 16(a) filing requirements applicable to its officers and directors were met, except for the inadvertent failure of Directors Steven Planson and Steven Everhart to each file one Form 4 in a timely manner in 2015. In each case, the late filing involved one purchase transaction. The Company believes that all delinquent reports on Form 4 have been filed with the SEC.

Proposals of Shareholders for Next Annual Meeting

Proposals of shareholders intended to be presented at the 2017 Annual Shareholders Meeting must be received at the Company s offices at 307 North Defiance Street, Archbold, Ohio 43502, prior to November 10, 2016 for inclusion in the proxy statement and form of proxy. Proposals from shareholders for next year s Annual Meeting received by the Company after January 24, 2017 will be considered untimely. With respect to such proposals, the Company will vote all shares for which it has received proxies in the interest of the Company as determined in the sole discretion of its Board of Directors. The Company also retains its authority to discretionarily vote proxies with respect to shareholder proposals received by the Company after November 10, 2016 but prior to January 24, 2017, unless the proposing shareholder takes the necessary steps outlined in Rule 14a-4(c)(2) under the Securities Exchange Act of 1934 to ensure the proper delivery of proxy materials related to the proposal.

Other Matters

The Board of Directors does not know of any other matters that are likely to be brought before the meeting. However, in the event that any other matters properly come before the meeting, the persons named in the enclosed proxy will vote said proxy in accordance with their judgment on such matters.

A copy of the Company s Annual Report to Shareholders for the year ended December 31, 2015 is enclosed. **A copy of the Company s Annual Report on Form 10-K for 2015, with exhibits, as filed with the Securities and Exchange Commission (2015 10-K), is available to any shareholder free of charge.** Shareholders desiring a copy of the 2015 10-K should address written requests to Ms. Barbara J. Britenriker, Chief Financial Officer of Farmers & Merchants Bancorp, Inc., 307 North Defiance Street, Archbold, Ohio 43502, and are asked to mark 2015 10-K Request on the outside of the envelope containing the request.

By Order of the Board of Directors

Lydia A. Huber, Secretary

Archbold, Ohio
March 10, 2016

Using a **<u>black ink</u>** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas.

x

Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by

3:00 a.m. Eastern Standard Time April 14, 2016.

Vote by Internet

Go to **www.investorvote.com/FMAO**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.

1. Election of Directors - To elect the following eleven (11) nominees to the Board of Directors to serve until the Annual Meeting of Shareholders in 2017:

	For	Withhold		For	Withhold		For	Withhold	+
01 - Eugene N. Burkholder	..	..	02 - Steven A. Everhart	..	..	03 - Darryl L. Faye	..	..	
04 - Jo Ellen Hornish	..	..	05 - Jack C. Johnson	..	..	06 - Marcia S. Latta	..	..	
07 - Steven J. Planson	..	..	08 - Anthony J. Rupp	..	..	09 - Kevin J. Sauder	..	..	
10 - Paul S. Siebenmorgen	..	..	11 - Steven J. Wyse	..	..				

	For	Against	Abstain		For	Against	Abstain
2. To increase the number of Authorized Common shares - To Amend the Corporation s Articles of Incorporation to increase the number of Common Shares that the Corporation is authorized to issue from 6,500,000 shares without par value	..	..	..	3. An advisory vote on the appointment of the independent registered public accounting firm, BKD, LLP.	..	..	..
				4. Other Business - To transact any other business which may properly come			

to 10,000,000 shares without par value.

before the meeting or any adjournment of it.

B **Non-Voting Items**

Change of Address Please print your new address below.

Comments Please print your comments below.

Meeting Attendance

Mark the box to the right if you plan to attend the Annual Meeting. ¨

C **Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below**

Please sign name as it appears. When shares are held by joint tenants, both should sign. (If signed in a fiduciary capacity, please give full fiduciary title. If signed by a corporation, Sign the full corporate name followed by the signature of the duly authorized officer. If signed by an agent, attach the instrument authorizing the agent to execute the proxy or a photocopy thereof.)

Date (mm/dd/yyyy) Please print date below.

/ /

Signature 1 Please keep signature within the box.

Signature 2 Please keep signature within the box.

029JXC

Annual Meeting Materials are available on-line at:

http://www.fm-bank.com/proxy(FMAO)fm2015/fm_info.cfm

q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

REVOCABLE PROXY FARMERS & MERCHANTS BANCORP, INC.

ANNUAL MEETING OF SHAREHOLDERS

April 14, 2016

7:00 p.m.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Jack C. Johnson, and, Steven J. Wyse, or either of them, with full power of substitution, for me and in my name, place and stead, to vote all the common stock of Farmers & Merchants Bancorp, Inc. registered in the name of the undersigned as of February 24, 2016, with all powers which the undersigned would possess if personally present at the Annual Meeting of Shareholders of Farmers & Merchants Bancorp, Inc. to be held in the Founders Hall at Sauder Village, 22611 State Route 2, Archbold, Ohio, on Thursday, April 14, 2016, at 7:00 P.M., (local time), and at any adjournments thereof, and to vote as noted below. By appointing the above named persons as proxy for me, I give them the right to vote cumulatively in the election of directors and to cast the number of votes among the nominees noted below in such proportion as they shall deem appropriate, in their sole discretion, unless I have withheld my vote for any nominee, in which case votes shall not be cast for that person. This proxy revokes all prior proxies given by the undersigned.

This proxy is solicited by the Board of Directors and, unless a choice is specified, confers authority to vote: FOR all nominees identified under Proposal 1; and FOR Proposal 2 and Proposal 3. If any other business is presented at the meeting, this proxy shall be voted in accordance with the recommendations of management. All shares represented by properly executed proxies will be voted as directed.

This proxy may be revoked prior to its exercise by either written notice or personally at the meeting or by a subsequently dated proxy.

PLEASE PROVIDE YOUR INSTRUCTIONS TO VOTE BY TELEPHONE OR THE INTERNET OR COMPLETE, DATE, SIGN, AND MAIL THIS PROXY CARD PROMPTLY IN THE ENCLOSED POSTAGE-PAID ENVELOPE.

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please x do not write outside the designated areas.

q **PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A **Proposals The Board of Directors recommends a vote FOR all the nominees listed and FOR Proposals 2 and 3.**

1. Election of Directors - To elect the following eleven (11) nominees to the Board of Directors to serve until the Annual Meeting of Shareholders in 2017:

	For	Withhold		For	Withhold		For	Withhold
01 - Eugene N. Burkholder	..	..	02 - Steven A. Everhart	..	..	03 - Darryl L. Faye	..	..
04 - Jo Ellen Hornish	..	..	05 - Jack C. Johnson	..	..	06 - Marcia S. Latta	..	..
07 - Steven J. Planson	..	..	08 - Anthony J. Rupp	..	..	09 - Kevin J. Sauder	..	..
10 - Paul S. Siebenmorgen	..	..	11 - Steven J. Wyse	..	..			

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	For	Against	Abstain		For	Against	Abstain
2. To increase the number of Authorized Common shares - To Amend the Corporation s Articles of Incorporation to increase the number of Common Shares that the Corporation is authorized to issue from 6,500,000 shares without par value	..	..	..	3. An advisory vote on the appointment of the independent registered public accounting firm, BKD, LLP.	..	..	..

4. Other Business - To transact any other business which may properly come

to 10,000,000 shares without par value.

before the meeting or any adjournment of it.

B Authorized Signatures This section must be completed for your vote to be counted. Date and Sign Below

Please sign name as it appears. When shares are held by joint tenants, both should sign. (If signed in a fiduciary capacity, please give full fiduciary title. If signed by a corporation, Sign the full corporate name followed by the signature of the duly authorized officer. If signed by an agent, attach the instrument authorizing the agent to execute the proxy or a photocopy thereof.)

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.
/ /		

029JYD

Annual Meeting Materials are available on-line at:

http://www.fm-bank.com/proxy(FMAO)fm2015/fm_info.cfm

q **PLEASE FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

REVOCABLE PROXY FARMERS & MERCHANTS BANCORP, INC.

ANNUAL MEETING OF SHAREHOLDERS

April 14, 2016

7:00 p.m.

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