

FARMERS & MERCHANTS BANCORP
Form PRE 14A
April 12, 2018

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

SCHEDULE 14A
Proxy Statement Pursuant to Section 14(a) of the Securities
Exchange Act of 1934
(Amendment No.)

Filed by the Registrant
Filed by a Party other than the Registrant

Check the appropriate box:
Preliminary Proxy Statement

Confidential, for use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

Farmers & Merchants Bancorp

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

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- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

FARMERS & MERCHANTS BANCORP
111 West Pine Street, Lodi, CA 95240

April 23, 2018

Dear Stockholder:

The annual meeting of stockholders of Farmers & Merchants Bancorp (the "Company") will be held this year in the Ole Mettler Grape Pavilion at the Lodi Grape Festival, 413 E. Lockeford Street, Lodi, CA, on Thursday, May 24, 2018, at 4:00 p.m. We look forward to your attendance.

The enclosed proxy statement describes the business to be conducted at the annual meeting.

A copy of the Company's 2017 Annual Report to Stockholders is also enclosed.

We hope you will be able to attend the annual meeting in person. We would also like to invite you to be our guest for dinner immediately following the meeting. Please note that the annual meeting is only open to stockholders. Space will be limited and we are not able to accommodate other guests, only stockholders. We thank you in advance for your understanding on this issue.

The Directors and senior management greatly appreciate the interest expressed by our stockholders. Whether or not you plan to attend the annual meeting, it is important that you are represented and that your shares are voted. Accordingly, after reviewing the enclosed proxy statement, we ask you to complete, sign and date the enclosed proxy and return it as soon as possible in the postage-paid envelope that has been provided for your convenience.

Sincerely,

/s/ Kent A. Steinwert
Kent A. Steinwert
Chairman

Enclosures

FARMERS & MERCHANTS BANCORP
111 West Pine Street, Lodi, CA 95240

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 24, 2018

To Our Stockholders:

NOTICE IS HEREBY GIVEN that the 2018 annual meeting of stockholders of Farmers & Merchants Bancorp (the "Company") will be held this year in the Ole Mettler Grape Pavilion at the Lodi Grape Festival, 413 E. Lockeford Street, Lodi, CA, on Thursday, May 24, 2018, at 4:00 p.m. to vote to:

1. Elect the following seven (7) Directors:

Edward Corum, Jr.	Kevin Sanguinetti	Terrence A. Young
Steven K. Green	Kent A. Steinwert	
Gary J. Long	Calvin (Kelly) Suess	

2. Amend the Company's Amended Certificate of Incorporation to increase the number of authorized shares of common stock, par value \$0.01, of the Company from 7,500,000 shares to 40,000,000 shares.

The Board of Directors has fixed the close of business on March 29, 2018 as the record date for determining the holders of the common stock of the Company entitled to notice of, and to vote at, the annual meeting and any adjournments thereof.

You are encouraged to attend the annual meeting. If you are a beneficial owner of common stock held by a broker, bank or other nominee, you will need proof of ownership to be admitted to the meeting. A recent brokerage statement or a letter from a bank or broker are examples of proof of ownership.

Please complete, sign and date, as promptly as possible, the enclosed proxy and immediately return it in the envelope provided for your use. This is important whether or not you plan to attend the annual meeting in person. The giving of such proxy will not affect your right to revoke such proxy or to vote in person, should you attend the annual meeting.

BY ORDER OF THE BOARD OF DIRECTORS,

/s/ Stephen W. Haley

Stephen W. Haley
Secretary

Dated: April 23, 2018

YOUR VOTE IS IMPORTANT.
TO INSURE YOUR VOTE IS REPRESENTED, YOU ARE
URGED TO COMPLETE, SIGN, DATE AND PROMPTLY
RETURN YOUR PROXY.

PROXY STATEMENT
FARMERS & MERCHANTS BANCORP
111 West Pine Street, Lodi, CA 95240

I - INTRODUCTION

This proxy statement is furnished to the stockholders of Farmers & Merchants Bancorp (the “Company”) in connection with the solicitation of proxies by the Board of Directors of the Company to be used in voting at the annual meeting of stockholders to be held on May 24, 2018 in the Ole Mettler Grape Pavilion at the Lodi Grape Festival, 413 E. Lockeford Street, Lodi, CA at 4:00 p.m., and at any adjournment or postponement thereof. All expenses incidental to the preparation and mailing, or otherwise making available to all stockholders of the notice, proxy statement and form of proxy will be paid by the Company. This proxy statement and the enclosed proxy are being mailed to the Company’s stockholders on or about April 23, 2018.

For information on how to vote your shares, see the instructions included on the enclosed proxy card and under “Information About Voting and the Annual Meeting.”

II - INFORMATION ABOUT VOTING AND THE ANNUAL MEETING

Voting Rights and Vote Required

Only stockholders of record at the close of business on March 29, 2018 (the “record date”), will be entitled to vote in person at the meeting or by proxy. On the record date, there were 812,304 shares of common stock outstanding and entitled to vote. Holders of common stock of the Company are entitled to one vote for each share held. However, with respect to the election of Directors, each stockholder may be eligible to exercise cumulative voting rights.

In the election of Directors, the 7 nominees receiving the highest number of votes will be elected. Abstentions will not count as votes in favor of the election of Directors. Approval of the amendment to the Amended Certificate of Incorporation to increase the number of authorized shares of common stock will require the affirmative vote of a majority of the outstanding shares as of the record date. Abstentions and broker non-votes will have the effect of a negative vote on the proposal to amend the Amended Certificate of Incorporation.

Voting of Proxies

The shares represented by all properly executed proxies received in time for the meeting will be voted in accordance with the stockholders’ choices specified therein; provided, however, that where no choices have been specified, the shares will be voted (1) “FOR” the election of the 7 nominees for Director recommended by the Board of Directors; (2) “FOR” the amendment to the Amended Certificate of Incorporation to increase the number of authorized shares of common stock from 7,500,000 to 40,000,000; and (3) at the discretion of the proxy holders on such other matters, if any, which may properly come before the meeting (including any proposal to adjourn the meeting).

A stockholder using the enclosed proxy may revoke the authority conferred by the proxy at any time before it is exercised (i.e., before the vote pursuant to that proxy) by delivering written notice of revocation or a duly executed proxy bearing a later date to the Secretary of the Company, or by appearing and voting by ballot in person at the meeting.

A majority of the shares entitled to vote represented either in person or by properly executed proxies, will constitute a quorum at the meeting. Abstentions and broker “non-votes” are each included in the determination of the number of shares present and voting for purposes of determining the presence of a quorum. A broker “non-vote” occurs when a beneficial owner of shares held in "street name" does not give instructions to the broker or nominee holding the shares as to how to vote on matters deemed "non-routine." Generally, if shares are held in street name, the beneficial owner of the shares is entitled to give voting instructions to the broker or nominee holding the shares. If the beneficial owner does not provide voting instructions, the broker or nominee can still vote the shares with respect to matters that are considered to be "routine," but not with respect to "non-routine" matters.

We anticipate that the proposed amendment to our Amended Certificate of Incorporation described in Proposal #2, to increase the number of authorized shares of our common stock, will be considered a "routine" matter, and that brokers or nominees will accordingly be able to vote shares even in the absence of instructions. However, beneficial owners are nonetheless encouraged to provide instructions to their broker or nominee. A broker non-vote or an abstention will have the same effect as a vote against this proposal.

Security Ownership of Certain Beneficial Owners and Management

To the knowledge of the Company, as of the record date, no person or entity was the beneficial owner of more than five percent (5%) of the outstanding shares of the Company’s common stock except as set forth in the following tables. For the purpose of this disclosure and the disclosure of ownership shares by management, shares are considered to be “beneficially” owned if the person has or shares the power to vote or direct the voting of the shares, the power to dispose of or direct the disposition of the shares, or the right to acquire beneficial ownership (as so defined) within 60 days of the record date.

<u>Title of Class</u>	<u>Name and Address of Beneficial Owner</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percent of Class</u>
Common Stock	Joan Rider (1) (2) 111 West Pine Street Lodi, CA, 95240	44,700	5.50%
Common Stock	Bruce A. Mettler Inter vivos Revocable Trust (3) 111 West Pine Street Lodi, CA, 95240	45,272	5.57%
Common Stock	Cortopassi Family Trust and Cortopassi Partners 11292 N. Alpine Road Stockton, CA 95212	50,271	6.19%
Common Stock	Sheila M. Wishek (1) 111 West Pine Street Lodi, CA, 95240	40,760	5.02%

(1) Mail should be sent to these individuals at the Company’s address marked “c/o Stockholder Relations.”

(2) Shares are beneficially owned, directly and indirectly, together with spouses, and unless otherwise indicated, holders share voting power with their spouses. None of the shares are pledged.

(3) Joan Rider is the trustee, but not the beneficiary of the Trust.

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A complete list of stockholders entitled to vote will be available for inspection by stockholders of record at the office of the Secretary of the Company at 111 West Pine Street, Lodi, CA for the ten days prior to the meeting.

The following table shows, as of the record date, the number of common shares and the percentage of the total shares of common stock of the Company beneficially owned by each of the current Directors, by each of the nominees for election to the office of Director, by the Named Executive Officers and by all Directors and Named Executive Officers of the Company and of the Bank as a group.

<u>Name and Address of Beneficial Owner (1)</u>	<u>Amount of Common Stock Owned and Nature of Beneficial Ownership (2)</u>	<u>Percent of Class</u>
Stewart C. Adams, Jr.	1,926	*
Edward Corum, Jr.	1,529	*
Stephen W. Haley	2,938	*
Deborah E. Skinner	2,436	*
Steven K. Green	48	*
Terrence A. Young	64	*
Kevin Sanguinetti (3)	6,465	*
Kenneth W. Smith	2,316	*
Kent A. Steinwert	17,813	2.19%
David M. Zitterow	76	*
Jay J. Colombini	2,718	*
Calvin (Kelly) Suess	3,039	*
Gary J. Long	1,014	*
Ryan J. Misasi	<u>536</u>	<u>-</u>
All Directors, Nominees and Named Executive Officers as a group (14 persons)	42,918	5.28%

* Indicates less than 1%.

(1) Mail should be sent to these individuals at the Company's address marked "c/o Stockholder Relations."

(2) Shares are beneficially owned, directly and indirectly, together with spouses, and, unless otherwise indicated, holders share voting power with their spouses. None of the shares are pledged.

(3) Includes 2,393 shares held by the Elmer J. Sanguinetti Separate Property Trust, of which Kevin Sanguinetti is a co-trustee.

Notice Regarding Electronic Access of Stockholder Meeting Documents

Farmers & Merchants Bancorp is now offering electronic access in lieu of mail delivery of our annual report and proxy statement. Should you want to discontinue receiving a paper copy of our Annual Report and Proxy Statement, please mark the box on the Proxy Card that states "Mark here to enroll in our Electronic Access Program." You may rescind electronic access at any time by contacting the Company at the number below.

If you make this election on the enclosed proxy card, shortly before each annual meeting you will receive a proxy card, along with voting instructions and the web address where you can access that year's annual report and proxy statement. For the 2018 annual meeting of stockholders only, all stockholders have been sent a paper copy of our proxy materials (regardless of whether any such stockholders had previously enrolled in our Electronic Access Program).

If you have any questions regarding electronic access, please call Sue Clark, AVP – Stockholder Relations, at (209) 367-2348.

3

III - ITEMS TO BE VOTED ON

Proposal #1 – Election of Directors

The Board of Directors recommends a vote for each of the nominees listed below.

At this year's annual meeting, it will be proposed to elect seven (7) Directors of the Company, each to hold office until the next annual meeting and until their successors shall be elected and qualified. It is the intention of the proxy holders named in the enclosed proxy to vote such proxies (except those containing contrary instructions) for the seven (7) nominees named below.

The following table sets forth the names of each of the nominees for election as a Director, their age, their principal occupation for the past five years and the period during which they have served as a Director of the Company (or the Bank).

<u>Name</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>
Edward Corum, Jr.	66	Managing General Partner, Corum Real Estate	2003
Steven K. Green	72	Business Consultant and Retired Banker	2018
Gary J. Long	65	Owner, Gary J. Long Jewelers	2014
Kevin Sanguinetti	60	Retired President, 1st American Title Company - Stockton	2001
Kent A. Steinwert	65	Chairman, President & C.E.O. of the Company and Bank	1998
Calvin (Kelly) Suess	82	President of ShellPro	1990
Terrence A. Young	65	Retired Banker, Auditor and Human Resources Executive	2018

THE BOARD OF DIRECTORS RECOMMENDS A

VOTE FOR THE NOMINEES

LISTED ABOVE

Directors are nominated based upon their business experience, knowledge of the Company's key markets and business segments, community involvement and commitment to serving the interests of all stockholders:

Mr. Young has served as a director since March 2018 when he was elected to fill the position that became available when Mr. Adams announced his retirement from the Board. Prior to his retirement in 2016, Mr. Young served for 45 years in various human resources, operations and audit roles within the commercial banking industry. He lives and is actively involved in the Sacramento market area, and provides financial controls and human resources expertise to the Board.

Mr. Corum has served as a director for fourteen years, lives and is actively involved in the Sacramento market area, and provides real estate and financial expertise to the Board.

Mr. Green has served as a director since March 2018 when he was elected to fill the position that became available upon Mr. Mettler's death. Prior to his retirement in 2012, Mr. Green worked for 40 years in the commercial banking industry in California. He lives and is actively involved in the Sacramento market area, and provides business banking and credit management expertise to the Board.

Mr. Sanguinetti has served as a director for sixteen years, lives and is actively involved in the Stockton market area, and provides real estate and financial expertise to the Board.

Mr. Steinwert has served as a director for nineteen years, and has forty-three years of business, agriculture, real estate and consumer banking experience.

Mr. Suess has served as a director for twenty-seven years, lives and is actively involved in the Lodi market area, and provides agricultural production and processing expertise to the Board.

Mr. Long has served as a director for four years, lives and is actively involved in the Stockton market area, and provides small business expertise to the Board.

All nominees are considered to be "independent" as such term is defined by Nasdaq's current listing rules with the exception of Mr. Steinwert who is an employee of the Company and Mr. Young who was an employee of the Bank until his retirement. Each of the nominees has been selected by the Nominating Committee.

None of the Directors were selected pursuant to arrangements or understandings other than with the Directors and stockholders of the Company acting within their capacity as such. There are no family relationships among the Directors and executive officers, and none of the Directors serves as a Director of any company which has a class of securities registered under, or subject to periodic reporting requirements of, the Securities Exchange Act of 1934, as amended, or any company registered as an investment company under the Investment Company Act of 1940.

The Nominating Committee of the Board of Directors follows the Bank's policy regarding diversity in identifying new director candidates. The Committee looks to establish diversity on the Board through a number of demographics, experiences, skills and viewpoints, all with a view to identifying candidates that can assist the Board with its decision making. The Committee believes that the current Board of Directors reflects diversity on a number of these factors.

The Board does not anticipate that any of the nominees will be unable to serve as a Director of the Company, but if that should occur before the meeting, the Board of Directors reserve the right to substitute as nominee another person of their choice in the place and stead of any nominee unable so to serve. Proxy holders would vote to approve the election of such substitute nominee. The proxy holders reserve the right to cumulate votes for the election of Directors and cast all of such votes for any one or more of the nominees, to the exclusion of the others, and in such order of preference as the proxy holders may determine in their discretion, based upon the recommendation of the Board of Directors.

Proposal #2 – Amendment of Amended Certificate of Incorporation to Increase the Number of Authorized Shares of Common Stock from 7,500,000 to 40,000,000

Article VI of the Company's Amended Certificate of Incorporation presently authorizes the Company to issue up to eight million five hundred thousand (8,500,000) shares of all classes of capital stock, of which seven million five hundred thousand (7,500,000) can be common stock and one million (1,000,000) can be preferred stock.

The Board has determined that it is advisable to increase our authorized shares of common stock from 7,500,000 to 40,000,000, and has voted to recommend that the stockholders adopt an amendment to our Amended Certificate of Incorporation, such that Paragraph 1 of Article VI of the Amended Certificate of Incorporation would read as follows:

“The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is forty-one million (41,000,000). This Corporation is authorized to issue two classes of shares to be designated respectively Common Stock (“Common Stock”) and Preferred Stock (“Preferred Stock”). The total number of shares of Common Stock this Corporation shall have authority to issue is forty million (40,000,000). The total number of shares of Preferred Stock this Corporation shall have authority to issue is one million (1,000,000). The Common Stock shall have a par value of \$0.01 per share and the Preferred Stock shall have no stated par value.”

In 2012, the stockholders were asked to vote on a decrease in the number of authorized shares of common stock from 20,000,000 to 7,500,000 shares in order to reduce operating expenses, specifically the amount of franchise tax imposed by the State of Delaware, which is calculated using a corporation's authorized shares of common stock as part of the calculation.

The authorization of additional shares of common stock will afford the Company's Board of Directors with greater flexibility if the Board determines that it is necessary or appropriate to permit future stock dividends or stock splits, to raise additional capital through the sale of equity securities, to acquire another company or its assets, to establish strategic relationships with corporate partners, to provide equity incentives to employees and officers, or for other corporate purposes. There are no plans or proposals at this time for any such action.

If this amendment is approved by the stockholders, no further action or authorization by the Company's stockholders would be necessary prior to the issuance of any additional shares of common stock, except as may be required by the Company's Amended Certificate of Incorporation or applicable law.

The increase in authorized common stock will not have any immediate effect on the rights of existing stockholders, and the additional authorized shares of common stock would have rights identical to the currently outstanding common stock. To the extent that additional authorized shares are issued in the future, they may decrease the existing stockholders' percentage equity ownership and, depending on the price at which they are issued, could be dilutive to the existing stockholders. Any issuance of additional stock could have the effect of diluting the earnings per share and book value per share of outstanding shares of common stock. Under the Company's Amended Certificate of Incorporation, stockholders do not have preemptive rights to subscribe to additional securities which may be issued. This means that current stockholders do not have a prior right to purchase any new issue of the Company's capital stock in order to maintain their proportionate ownership. The increase in the number of authorized shares of our common stock could also discourage or hinder an attempt to obtain control of our Company by means of a takeover bid that the Board determines is not in the best interests of the Company or our stockholders. While it may be deemed to have potential anti-takeover effects, the Board does not intend or view the proposed increase in the number of authorized shares of our Common Stock as an anti-takeover measure, and the Board is not currently aware of any attempt to take over or acquire the Company.

Effective Date of Amendment

If approved, the amendment to the Amended Certificate of Incorporation will become effective on the date the certificate of amendment is filed with the Secretary of State of the State of Delaware, which we expect to do promptly after the annual meeting.

Reservation of Right to Delay or Abandon Amendment

The Board reserves the right, notwithstanding stockholder approval of this proposal, and without further action by the stockholders, to delay, or elect not to proceed with, the amendment and abandon the amendment, if, at any time prior to filing the certificate of amendment to the Amended Certificate of Incorporation, the Board determines that it is no longer in the best interests of the Company and its stockholders to proceed with the amendment. By approving Proposal #2, you grant the Board discretionary authority to determine whether to delay or abandon the proposed amendment.

Vote Required

Approval of Proposal #2 will require the affirmative vote of the holders of a majority of the outstanding shares of common stock of the Company.

THE BOARD OF DIRECTORS RECOMMENDS

A VOTE FOR PROPOSAL 2

7

IV – CORPORATE GOVERNANCE

Code of Ethics

The Company has adopted a Code of Conduct which complies with the Code of Ethics requirements of the Securities and Exchange Commission. A copy of the Code of Conduct is posted on the Company's website at <http://www.fmbonline.com>. The Company intends to disclose promptly any amendment to, or waiver from any provision of, the Code of Conduct applicable to executive officers and Directors, on its website.

Director Independence

The Company uses Rule 5605(a)(2) of the Nasdaq's current listing rules to determine whether a Director is independent. With the exception of Mr. Steinwert who is an employee of the Company and Mr. Young who has not yet met the required three year period since his retirement from the Bank in 2016, all nominees are considered to be "independent."

Board of Directors Meetings

The Company's principal asset is its wholly-owned subsidiary, Farmers & Merchants Bank of Central California (the "Bank"). With the exception of Mr. Young who is new to the Board, the Directors of the Company are also Directors of the Bank. During the calendar year ending December 31, 2017, the Board of Directors of the Company met thirteen (13) times and the Board of Directors of the Bank met thirteen (13) times. Each incumbent Director attended more than 75% of the meetings of the Board of Directors and the committees to which they were named. The Company expects Directors to attend the annual meeting of stockholders and all Directors attended the annual meeting of stockholders in 2017.

Roles and Responsibilities of the Board of Directors

Leadership Structure

The Board of Directors has determined that the Chairmanship should reside with the Director who is most familiar with the banking industry, and who is the most capable of setting strategic direction and integrating that direction with the Company's day-to-day business development and risk management activities. Accordingly, since 2010 Mr. Steinwert has been unanimously elected to the position of Chairman in addition to his role since 1997 as President and Chief Executive Officer of the Company.

The Board believes that the combination of these positions does not compromise the important "check-and-balance" role that independent Directors play in the oversight of the Company since Mr. Steinwert is not a member of the Audit Committee or the Personnel Committee of the Board, and therefore key Board decisions and oversight regarding: (1) accounting, financial reporting, and overall risk management; and (2) executive compensation; are made only by "independent" Directors. Furthermore, Mr. Steinwert receives no additional compensation for his role as Chairman, representing a cost savings to the Company.

As of this date, the Board of Directors has not formally designated a lead independent director.

Role in Enterprise Risk Management

The Board of Directors is responsible for monitoring all aspects of the Company's enterprise risk. Their involvement in enterprise risk management centers around the following key roles and responsibilities:

1. The Board develops and approves the strategic plan and financial budget, and receives monthly reporting of financial and non-financial performance relative to plan.
2. The Asset and Liability Management Committee is a joint committee of management and the Board. As a result, "independent" Directors are actively involved in interest rate, liquidity and investment risk management processes.

The Loan Committee is a joint committee of management and the Board. The Committee meets weekly to review all new and renewed loans over \$2 million and evaluate overall portfolio performance and risk. As a result, "independent" Directors are actively involved in the credit risk management process.
3. The Audit Committee is responsible for providing oversight of all internal controls, reviewing the reports of audits and examinations of the Bank and the Company made by independent auditors, internal auditors, credit examiners, and regulatory agencies, and approving all SEC and other regulatory agency reports before they are filed.
4. The Personnel Committee is responsible for all performance evaluation and compensation decisions for the executive management team.
- 5.

More detail on all Board committees, including the composition and roles and responsibilities of each follows.

Committees of the Board

Audit Committee

The Audit Committee of the Company and the Bank is responsible for the ongoing adequacy of the internal control environment, and oversees the activities of the internal and independent auditors of the Company and the Bank with the aim of ensuring compliance with applicable laws. The Committee's charter was included as Exhibit A in the Company's 2016 proxy statement. The Audit Committee reports to the Boards of Directors of the Bank and the Company, as appropriate. The Audit Committee reviews the reports of audits and examinations of the Bank and the Company made by the independent auditors, internal auditors, credit examiners, and regulatory agencies and reports the results to the Boards of Directors of the Bank and the Company. The Committee met twelve (12) times in 2017 and is comprised of the following voting members: Messrs. Sanguinetti (Chairman), Corum and Adams. Each of the Directors serving on the Audit Committee has been determined by the Board of Directors to be "independent" as such term is defined by Rule 5605(a)(2) of the Nasdaq's current listing rules and in SEC rules relating to audit committees. Mr. Sanguinetti has been determined by the Board of Directors to be a "financial expert" for purposes of applicable regulations.

Asset and Liability Management Committee

The Asset and Liability Management Committee of the Bank is responsible for the formulation, revision and administration of the Bank's policies relating to interest rate, liquidity and investment risk management. The Asset and Liability Committee is a joint committee of management and Directors. The following Directors are voting members: Messrs. Adams, Suess, Green, Long and Steinwert. The Committee met three (3) times in 2017.

Loan Committee

The Loan Committee of the Bank is responsible for the formulation, revision and administration of the Bank's policy relating to credit and loan risk management. The Loan Committee meets weekly and is responsible for approving all new and renewed loans between \$2 million and \$15 million (over \$15 million requires full Board approval) and reviewing all loans over \$500,000. The Loan Committee is a joint committee of management and Directors. The following Directors are voting members: Messrs. Corum and Steinwert. The Committee met fifty-two (52) times in 2017.

Budget and Finance Committee

The Budget and Finance Committee of the Company and the Bank reviews and examines Bank and Company expenses on a quarterly basis comparing the results with: (1) the established annual budget, the previous quarter and prior year; and (2) selected peer banks and the community banking industry as a whole; and proposes recommendations to management regarding improving financial performance. The Budget and Finance Committee is a joint committee of management and Directors. The Committee met four (4) times in 2017 and is comprised of the following voting members: Messrs. Green, Suess, Young and Sanguinetti.

CRA Committee (Community Reinvestment Act)

The CRA Committee of the Company and the Bank monitors the Bank's efforts and responsibilities to comply with the Community Reinvestment Act. The CRA Committee makes recommendations to the Board of Directors to assure the Bank is meeting the credit, investment and service needs of the communities it serves. The Committee met eleven (11) times in 2017 and is comprised of the following voting members: Messrs. Suess (Chairman), Green, Young and Long.

Nominating Committee

The Nominating Committee of the Company and the Bank identifies candidates to serve as Directors of the Bank and the Company in the event of future Board openings. The Committee's charter was included as Exhibit C in the Company's 2016 proxy statement. The Committee is comprised of the following voting members: Messrs. Steinwert (Chairman), Adams, Corum and Suess. The Committee met one (1) time in 2017. Messrs. Corum, Adams and Suess have been determined by the Board of Directors to be "independent" as such term is defined by Rule 5605(a)(2) of the Nasdaq's current listing rules.

Personnel Committee

The Personnel Committee of the Company and the Bank: (1) reviews the Company's overall compensation strategies and practices; (2) reviews the employment contracts of all executive officers; (3) annually establishes executive compensation levels and performance evaluation measures for the Chief Executive Officer and Directors; and (4) reviews the executive compensation levels and performance evaluation measures for the other executive officers of the Company. The Committee's charter was included as Exhibit B in the Company's 2016 proxy statement.

The Company's management: (1) provides information, analysis and recommendations for the Personnel Committee; and (2) manages the ongoing operations of the compensation program.

In fulfilling their duties, the Personnel Committee periodically evaluates information obtained from independent sources regarding financial institutions that we compete against for talent.

The Personnel Committee is comprised of the following voting members: Messrs. Corum (Chairman), Adams and Sanguinetti. The Committee met four (4) times in 2017. Each of the Directors serving on the Personnel Committee has been determined by the Board of Directors to be "independent" as such term is defined by Rule 5605(a)(2) of the

Nasdaq's current listing rules.

10

Certain Relationships and Related Person Transactions

Certain Directors and Named Executive Officers of the Bank and the Company and corporations and other organizations associated with them and members of their immediate families were customers of and engaged in banking transactions, including loans, with the Bank in the ordinary course of business in 2017. Such loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with borrowers not related to the Company or Bank. These loans did not involve more than the normal risk of collection or have other unfavorable features. All Director and Named Executive Officer loans must be approved by the Board of Directors. With the exception of the previous banking transactions, the Company had no Related Person Transactions as defined by Item 407(a) of Regulation S-K with its Directors or Named Executive Officers.

Indemnification

The Company's Certificate of Incorporation and By-Laws provide for indemnification of officers, Directors, employees and agents to the fullest extent permitted by Delaware law. Delaware law generally provides for the payment of expenses, including attorneys' fees, judgments, fines and amounts paid in settlement reasonably incurred by the indemnitees provided such person acted in good faith and in a manner he or she reasonably believed not to be opposed to the best interests of the corporation and with respect to any criminal action or proceeding if he or she had no reasonable cause to believe his or her conduct was unlawful. However, in derivative suits, if the suit is lost, no indemnification is permitted in respect of any claim as to which the prospective indemnitee is adjudged to be liable for misconduct in the performance of his or her duty to the Company and then only if, and only to the extent that, a court of competent jurisdiction determines the prospective indemnitee is fairly and reasonably entitled to indemnity for such expenses as the court deems proper. Finally, no indemnification may be provided in any action or suit in which the only liability asserted against a Director is pursuant to a statutory provision proscribing the making of loans, dividends, and distribution of assets under certain circumstances.

The provisions regarding indemnification may not be applicable under certain federal banking and securities laws and regulations.

Compliance with Section 16(a) of the Exchange Act

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's Executive 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 on Forms 3, 4 and 5 with the Securities and Exchange Commission. Executive Officers, Directors and greater than ten percent stockholders are required by regulation to furnish the Company with copies of all Forms 3, 4 and 5 they file. Based solely on the Company's review of the copies of such forms it has received, the Company believes that all of its Executive Officers and Directors complied with all filing requirements applicable to them with respect to transactions during 2017. The Company has no greater than ten percent stockholders.

Stockholder Rights Plan

On August 5, 2008, the Board of Directors approved a Share Purchase Rights Plan (the "Rights Plan"), pursuant to which the Company entered into a Rights Agreement dated August 5, 2008, with Computershare (formerly Registrar and Transfer Company), as Rights Agent, and the Company declared a dividend of a right to acquire one preferred share purchase right (a "Right") for each outstanding share of the Company's common stock, \$0.01 par value per share, to stockholders of record at the close of business on August 15, 2008. Generally, the Rights are only triggered and become exercisable if a person or group (the "Acquiring Person") acquires beneficial ownership of 10 percent or more of the Company's common stock or announces a tender offer for 10 percent or more of the Company's common stock.

The Rights Plan is similar to plans adopted by many other publicly traded companies. The effect of the Rights Plan is to discourage any potential acquirer from triggering the Rights without first convincing Farmers & Merchants Bancorp's Board of Directors that the proposed acquisition is fair to, and in the best interest of, all of the stockholders of the Company. The provisions of the Plan, if triggered by the Acquiring Person, will substantially dilute the equity and voting interest of any potential acquirer unless the Board of Directors approves of the proposed acquisition (under Article XV of the Company's Certificate of Incorporation, the Board of Directors has the authority to consider any and all factors in determining whether an acquisition is in the best interests of the Company and its stockholders). Each Right, if and when exercisable, will entitle the registered holder to purchase from the Company one one-hundredth of a share of Series A Junior Participating Preferred Stock, no par value, at a purchase price of \$1,200 for each one one-hundredth of a share, subject to adjustment. Each holder of a Right (except for the Acquiring Person, whose Rights will be null and void upon such event) shall thereafter have the right to receive, upon exercise, that number of Common Shares of the Company having a market value of two times the exercise price of the Right. At any time before a person becomes an Acquiring Person, the Rights can be redeemed, in whole, but not in part, by Farmers and Merchants Bancorp's Board of Directors at a price of \$0.001 per Right.

On November 19, 2015, the Board of Directors approved a seven-year extension of the term of the Rights Plan. Pursuant to an Amendment to the Rights Agreement dated February 18, 2016, the term of the Rights Plan was extended from August 5, 2018 to August 5, 2025. The extension of the term of the Rights Plan was intended as a means to continue to guard against abusive takeover tactics and was not in response to any particular proposal. The Board also increased the purchase price under the Rights Plan to \$1,600 per one one-hundredth of a preferred share from \$1,200, to reflect the increase in the market price of the Company's common stock over the past several years."

The full text of the Amendment was filed on the Company's Form 8-K dated February 19, 2016.

Communications with Board of Directors

Any person, including any stockholder, desiring to communicate with, or make any concerns known to, the Company, directors generally, non-management Directors or an individual Director only may do so by submitting them in writing to Stephen W. Haley, Secretary of Farmers & Merchants Bancorp, 111 W. Pine Street, Lodi, CA 95240. All correspondence must include information to identify the person submitting the communication or concern, including name, address, telephone number and e-mail address (if applicable) together with information indicating the relationship of such person to the Company. The Secretary is responsible for maintaining a record of any such communications or concerns and submitting them to the appropriate addressee(s) for potential action or response. The Company may institute appropriate procedures to establish the authenticity of any communication or concern before forwarding. The Company is not obligated to investigate any anonymous submissions.

V – DIRECTOR AND EXECUTIVE COMPENSATION

Director Compensation

All outside Directors receive compensation for their services. Mr. Steinwert, who is an employee of the Company, receives no additional compensation for his role as a Director or Chairman of the Board.

A Director who is not an employee of the Company or Bank receives a \$3,000 fee for each monthly Bank Board Meeting attended (no additional fees are paid for Company Board meetings), and a \$800 fee for each Committee Meeting attended (Committee Chairmen receive \$1,000 with the exception of the Audit Committee Chairman who receives \$1,200). In addition, each Director is eligible to receive an annual bonus and participate in the Equity Component of the Executive Retirement Plan (see “Executive Compensation Discussion and Analysis – Qualified and Non-Qualified Retirement Programs”).

Directors who are not employees of the Company or Bank are compensated \$550 per month to cover a portion of the cost of outside medical insurance. Directors who are not employees of the Company or Bank do not participate in any retirement or medical plans. The summary compensation earned by each Director (other than Mr. Steinwert who is a Named Executive Officer) during 2017 is disclosed in the following “Director Compensation Table”.

2017 DIRECTOR COMPENSATION TABLE

Name	(1) Fees Earned or Paid in Cash (\$)	(2) Stock Awards (\$)	(2) Option Awards (\$)	(5) Non-Equity Incentive Plan Compensation (\$)	(3) Change in Pension Value & Nonqualified Deferred Compensation Earnings (\$)	(4) All Other Compensation (\$)	Total (\$)	&#
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