



March 12, 2025

Dear Stockholders, Customers, and Friends:

On behalf of Farmers and Merchants Bancshares, Inc. (the "Company"), the parent of Farmers and Merchants Bank (the "Bank"), we are pleased to report that net income for the year ended December 31, 2024 was \$4.3 million, or \$1.37 per common share, compared to \$6.4 million, or \$2.08 per common share, for the year ended December 31, 2023. Higher interest expense as a result of the Federal Reserve's rate increases over the last few years was the primary reason for the decline in net income year over year. Additionally, the Bank completed a core operating system conversion in 2024 which added to its operating expenses for 2024. The table below provides a comparison of the Company's results for the years ended December 31, 2024 and 2023.

(Dollars in thousands)	Year Ended December 31,	
	2024	2023
Income before taxes	\$ 5,509	\$ 8,435
Income taxes	1,231	2,017
Net income	<u>\$ 4,278</u>	<u>\$ 6,418</u>
Earnings per share	\$1.37	\$2.08
Return on average assets	0.53%	0.86%
Return on average equity	7.83%	13.08%

Cash dividends paid to stockholders increased to \$0.67 per common share in 2024 from \$0.66 per common share in 2023. The book value of the common stock of Farmers and Merchants Bancshares, Inc. was \$17.77 per share at December 31, 2024, compared to \$16.74 per share at December 31, 2023.

Total assets increased to \$844.6 million at December 31, 2024 from \$747.8 million at December 31, 2023. Loans increased to \$583.0 million at December 31, 2024 from \$523.3 million at December 31, 2023. Deposits increased to \$758.8 million at December 31, 2024 from \$681.0 million at December 31, 2023.

Please visit the Company's investor relations section of our website - www.fmb1919.bank. The investor relations section includes press releases, financial information, stock information, peer analysis, and information about the Company's officers and directors.

We sincerely appreciate all of your confidence in and your support of Farmers and Merchants Bancshares, Inc.

Sincerely yours,

Bruce L. Schindler
Chairman

Gary A. Harris
President & CEO

Farmers and Merchants Bancshares, Inc.

About The Company

General

Farmers and Merchants Bancshares, Inc. (the “Company”) was incorporated on August 8, 2016. The Company has two wholly-owned subsidiaries, Farmers and Merchants Bank (the “Bank”) and Series Protected Cell FCB-4 (the “Insurance Subsidiary”). The Bank was incorporated October 24, 1919 under the laws of Maryland. The Bank is a Federal Deposit Insurance Corporation (“FDIC”) insured independent community bank headquartered in Upperco, Maryland. The Bank currently has nine branch locations in Carroll and Baltimore Counties. The Bank’s general market area runs along the Route 30, Route 795, Route 140, and Route 26 corridors with branches in Owings Mills, Reisterstown, Upperco, Hampstead, Manchester, Westminster, Eldersburg, and Towson. The Insurance Subsidiary is a captive insurance entity that can provide insurance coverage for Farmers and Merchants Bank.

Services of the Bank

The Bank provides comprehensive commercial and retail banking services to small and medium-sized businesses and to individuals. The following types of services are offered by the Bank:

Commercial Services

- Loans, including commercial mortgages, lines of credit, a wide range of demand, term, and time loans, for purposes such as fixed asset purchases, as well as loans guaranteed by the Small Business Administration (“SBA”) and U.S. Department of Agriculture (“USDA”)
- Commercial checking accounts and Remote Deposit Banking services
- Certificates of Deposit and other interest-bearing accounts
- Direct deposit of payroll
- Merchant credit card services
- Letters of Credit

Consumer Services

- | | |
|---|--|
| • Transaction accounts, including checking and NOW accounts | • Mortgages (Permanent and Construction) |
| • Savings accounts | • Home Equity loans |
| • Certificates of Deposit | • Installment and Line of Credit loans |
| • Money Market Accounts | • Land loans |
| • Individual Retirement Accounts | • Car and truck loans |
| • VISA Debit cards | • Agricultural loans |
| | • Educational loans |

Farmers and Merchants Bancshares, Inc.

The Bank offers 24 hour ATMs, including access to the Allpoint Network, safe deposit boxes, savings bonds, official checks, night depository, internet banking, mobile banking, remote deposit, and wire transfers. The Bank does not offer general trust services.

MISSION STATEMENT

The mission of Farmers and Merchants Bancshares, Inc. through our wholly-owned subsidiary, Farmers and Merchants Bank, is to improve the quality of life in our community by being a people-focused, independent, profitable Community Bank dedicated to providing products and services that fulfill the evolving financial needs of individuals and businesses within the communities we serve.

LOCATIONS

Corporate Office
4510 Lower Beckleysville Road
Suite H
Hampstead, MD 21074
410-374-1510

Hampstead Office
735 Hanover Pike
Hampstead, MD 21074
410-239-4448

Westminster Office
275 Clifton Boulevard
Westminster, Md 21157
410-857-1100

Commercial Loan Center
Westminster Office
275 Clifton Boulevard
Westminster, Md 21157
410-857-1700

Mortgage Division
Hampstead Office
735 Hanover Pike
Hampstead, MD 21074
410-239-9650

Main Office
15226 Hanover Pike
Upperco, MD 21155
410-833-6600

Reisterstown Office
P.O. Box 249
25 Westminster Pike
Reisterstown, MD 21136
410-517-3060

Carroll Lutheran Village
205 Saint Mark Way, Suite 100
Westminster, MD 21158
410-848-1110

Operations Center
P.O. Box 249
25 Westminster Pike
Reisterstown, MD 21136
410-517-3065

Towson Commercial Banking Office
22 W. Pennsylvania Avenue
Towson, MD 21204
410-769-3191

Greenmount Office
2320 Hanover Pike
Hampstead, MD 21074
410-374-3436

Eldersburg Office
1321 Liberty Road
Eldersburg, MD 21784
410-795-1900

Commercial Loan Center
Eldersburg Office
1321 Liberty Road
Eldersburg, MD 21784
410-795-1900

Owings Mills Office
9320 Lakeside Boulevard
Owings Mills, MD 21117
410-356-8200

Commercial Loan Center
Owings Mills Office
9320 Lakeside Boulevard
Owings Mills, MD 21117
410-356-9303

Farmers and Merchants Bancshares, Inc.
Farmers and Merchants Bank
Directors

Bruce L. Schindler, Chairman
President
Bob Davidson Ford Lincoln

J. Lawrence Mekulski
Director Emeritus
Retired Principal KLNb, LLC

Ronald W. Hux, Vice-Chairman
President
Douron, Inc.

Emily Bollinger Miller
Owner/Partner
Barnes-Bollinger Insurance Services, Inc.

James R. Bosley, Jr.
Retired President and CEO
Farmers and Merchants Bancshares, Inc.
Farmers and Merchants Bank

Robert G. Pollokoff
President and CEO
The Fedder Company

Roger D. Cassell
Regional Vice President
Mobile Communications America, Inc.

Teresa L. Smack
Retired President of
Terry's Tag & Title

Steven W. Eline
President
Eline Funeral Home

Paul F. Wooden, Jr.
Managing Executive
The PFW Foundation & Taylor Properties, LLC

Edward A. Halle, Jr.
Attorney
Fowley & Beckley, P.A.

Louna S. Primm
Director Emeritus
Retired Bank Executive

Gary A. Harris
President and CEO
Farmers and Merchants Bancshares, Inc.
Farmers and Merchants Bank

Farmers and Merchants Bancshares, Inc.

Officers

Gary A. Harris, President & CEO
Mark C. Krebs, Treasurer & CFO
Cherie R. Barrett, Corporate Secretary

Farmers and Merchants Bank

Officers

Gary A. Harris
President & CEO

Mark C. Krebs
EVP/Chief Financial Officer

Senior Vice Presidents

Cheryl Y. Lewis.....Chief Credit Officer
Paul B. Susie.....Chief Accounting Officer
Kevin P. Bankert.....Commercial Banking
Bart D. Boland.....Commercial Banking
George W. Peck.....Commercial Banking
Joseph J. Silhavy.....Commercial Banking
John C. WasowiczCommercial Banking
Barry Luciani.....Retail Banking
Paige E. Boughan.....Human Resources
Greg L. Carroots.....Information Technology

Vice Presidents

Jennifer R. Caines.....Computer Operations
Michelle L. Miller.....Controller
David L. Hogue.....Commercial Banking
Thomas E. Long.....Commercial Banking
Joshua W. Allen.....Commercial Banking
J. Thomas Turner.....Mortgage Officer
Amy L. Strayer.....Branch Administration
Susan K. Jaeger.....Business Development
Tracey R. Diggs.....BSA

Other Bank Officers

Suzette L. Covalt, Treasury Management Officer

Assistant Vice Presidents

Debora A. Smith.....Loan Officer
Betty J. Higgs-Swartz.....Loan Officer
Callie L. Jennings.....Loan Officer
Cherie R. Barrett.....Corporate Secretary
Kimberle L. Heffner.....Mortgage Officer
Danielle L. Rhodes...Senior Loan Administrator

Assistant Vice Presidents

Branch Managers

Kelly P. Johnson.....Eldersburg
Stephanie L. GreenwellWestminster &
Carroll Lutheran Village
Shannon M. Panek-Close.....Main Office &
Hampstead
Catherine E. Davis.....Owings Mills
Megan T. Rudolph.....Reisterstown
Stephanie M. Morris.....Towson

Farmers and Merchants Bancshares, Inc.

MARKET FOR THE COMPANY'S COMMON EQUITY AND OTHER RELATED SHAREHOLDER MATTERS

The Company's Articles of Incorporation authorize the Company to issue up to 5,000,000 shares of common stock, par value \$.01 per share (the "Common Stock"). As of February 28, 2025 there were 3,175,347 shares of Common Stock issued and outstanding held by approximately 469 stockholders of record.

Although many trades occur through privately-negotiated transactions, the shares of the Company's common stock are traded in the over-the-counter market by certain broker-dealers and price quotations are available through the OTC Markets Group's OTC Pink Market (the "Pink Market") under the symbol "FMFG". The following table sets forth, for the periods indicated, high and low bid information for the common stock as reported through the Pink Market. These prices do not include retail mark-ups, markdowns or commissions, and may not necessarily represent actual transactions. The table also shows the per share cash dividends declared during these periods.

	<u>High</u>	<u>Low</u>	<u>Dividend Per Share</u>
<u>2024</u>			
Quarter ended December 31	\$ 20.51	\$ 14.15	\$ 0.34
Quarter ended September 30	16.54	13.01	-
Quarter ended June 30	17.48	13.75	0.33
Quarter ended March 31	17.96	15.71	-
<u>2023</u>			
Quarter ended December 31	\$ 18.70	\$ 15.00	\$ 0.33
Quarter ended September 30	24.50	18.30	-
Quarter ended June 30	27.00	19.31	0.33
Quarter ended March 31	22.00	20.80	-

The Company's ability to declare and pay dividends is limited by federal banking laws and Maryland corporation laws. Subject to these laws, the payment of dividends is at the discretion of the Company's board of directors, who considers such factors as operating results, financial condition, capital adequacy, regulatory requirements, and stockholder return. The Company's ability to pay dividends will be largely dependent on its receipt of dividends from the Bank and/or the Insurance Subsidiary. Like the Company, the Bank's ability to declare and pay dividends is subject to limitations imposed by federal and Maryland banking and Maryland corporation laws, and the Insurance Subsidiary's ability to declare and pay dividends is subject to limitations imposed by Tennessee insurance laws. Accordingly, there can be no assurance that dividends will be declared on the shares of the common stock in any future fiscal quarter.

Farmers and Merchants Bancshares, Inc.

Stockholder Information

Corporate Headquarters

4510 Lower Beckleysville Road, Suite H
Hampstead, MD 21074
410-374-1510

Securities Markets

Shares of common stock of Farmers and Merchants Bancshares, Inc. are publicly traded on the NASDAQ Stock Market's Over-the-Counter Bulletin Board under the trading symbol "FMFG."

Janney Montgomery Scott, LLC. makes a market in Farmers and Merchants Bancshares Inc. common stock.

For information, please contact Douglas Velnoskey at 443-201-2088

Transfer Agent

Equiniti Trust Company, LLC
48 Wall Street, Floor 23
New York, NY 10005

General Counsel

Robert S. Glushakow, Esq.
Hofmeister, Robinson & DiPietro
11350 McCormick Road, Suite 01
Hunt Valley, Maryland 21031

Securities Counsel

Andrew D. Bulgin, Esq.
Gordon, Feinblatt, Rothman
Hoffberger & Hollander, LLC
Fleet Street, Suite 700
Baltimore, Maryland 21202

Independent Accountants

Yount, Hyde & Barbour, PC
9954 Mayland Drive, Suite 2300
Richmond, Virginia 23233 1001

Website

www.fmb1919.bank

Farmers and Merchants Bancshares, Inc.

Stockholder Information

A copy of the Farmers and Merchants Bancshares, Inc. annual report, including financial statements, may be obtained without charge upon written request to:

Mark C. Krebs, Executive Vice President, Chief Financial Officer
Farmers and Merchants Bank
P. O. Box 249
25 Westminster Pike
Reisterstown, Maryland 21136

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission file number 000-55756

Farmers and Merchants Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of incorporation or organization)

4510 Lower Becklevysville Road, Suite H, Hampstead, Maryland
(Address of principal executive offices)

81-3605835
(I.R.S. Employer Identification No.)

21074
(Zip Code)

Registrant's telephone number, including area code: **410-374-1510**

Securities registered pursuant to Section 12(b) of the Act: **None**

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

Common stock, par value \$.01 per share

Common Stock Purchase Rights

Title of Class

Title of Class

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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

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

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

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☒

Smaller reporting company ☒

Emerging growth company ☐

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

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the registrant's voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: **\$39,132,287.**

The number of shares of the registrant's common stock outstanding as of February 28, 2025: **3,175,347**

Documents Incorporated by Reference

Portions of the registrant's definitive proxy statement for the 2025 Annual Meeting of Stockholders to be filed with the SEC pursuant to Regulation 14A are incorporated by reference into Part III of this Annual Report on Form 10-K.

Farmers and Merchants Bancshares, Inc.
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Forward-Looking Statements

As used in this Annual Report on Form 10-K, the terms the “Company”, “we”, “us”, and “our” refer to Farmers and Merchants Bancshares, Inc. and, unless the context clearly requires otherwise, its consolidated subsidiaries.

Some of the statements contained in this annual report may include projections, predictions, expectations or statements as to beliefs or future events or results or refer to other matters that are not historical facts. Such statements constitute forward-looking statements and are subject to known and unknown risks, uncertainties and other factors that could cause the actual results to differ materially from those contemplated by the statements. The forward-looking statements are based on various factors and were derived using numerous assumptions. In some cases, you can identify forward-looking statements by words like “may”, “will”, “should”, “expect”, “plan”, “anticipate”, “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words. You should be aware that those statements reflect only our predictions. If known or unknown risks or uncertainties should materialize, or if underlying assumptions should prove inaccurate, actual results could differ materially from past results and those anticipated, estimated or projected. You should bear this in mind when reading this annual report and not place undue reliance on these forward-looking statements. Factors or events that could cause our actual results to differ from our forward-looking statements may emerge from time to time, and it is not possible for us to predict all of them.

The following factors are among those that may cause actual results to differ materially from our forward-looking statements in this annual report:

- unexpected changes in the housing market, business markets, and/or general economic conditions in our market area, or a slower-than-anticipated economic recovery, which might lead to increased or decreased demand for loans, deposits and other products and services and/or increase loan delinquencies or defaults;
- changes in market rates and prices may adversely impact the value of securities, loans, deposits and other financial instruments and the interest rate sensitivity of our balance sheet;
- our liquidity requirements could be adversely affected by changes in our assets and liabilities;
- the effects of legislative or regulatory developments, including changes in laws concerning taxes, banking, securities, insurance and other aspects of the financial services industry;
- competitive factors among financial services organizations, including product and pricing pressures and our ability to attract, develop and retain qualified banking professionals;
- the effects of changes in accounting policies and practices, as may be adopted by the Financial Accounting Standards Board, (“FASB”), the Securities and Exchange Commission (the “SEC”), the Public Company Accounting Oversight Board and other regulatory agencies;
- the impact of acquisitions and other strategic transactions;
- the effects of fiscal and governmental policies of the United States federal government; and
- the impact of any current or future pandemic on economic, market and/or business conditions.

You should also consider carefully the risk factors discussed in Item 1A of Part I of this annual report, which address additional factors that could cause our actual results to differ from those set forth in the forward-looking statements and could materially and adversely affect our business, operating results and financial condition. The risks discussed in this annual report are factors that, individually or in the aggregate, management believes could cause our actual results to differ materially from expected and historical results. You should understand that it is not possible to predict or identify all such factors. Consequently, you should not consider such disclosures to be a complete discussion of all potential risks or uncertainties.

The forward-looking statements speak only as of the date on which they are made, and, except to the extent required by federal securities laws, we undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

ITEM 1. BUSINESS

General

Farmers and Merchants Bancshares, Inc. is a Maryland corporation chartered on August 8, 2016 that is registered with the Board of Governors of the Federal Reserve System (the “Federal Reserve”) as a bank holding company under the Bank Holding Company Act of 1956, as amended (the “BHC Act”). At the time it registered as a bank holding company, the Company also elected to become a financial holding company, which allows it to engage in certain activities, and own shares or control of certain entities, that are in addition to those permissible for an entity that is a bank holding company only. Effective November 1, 2016, the Company consummated a bank holding company reorganization involving Farmers and Merchants Bank (the “Bank”) pursuant to which the Bank became a wholly-owned subsidiary of the Company and all of the Bank’s stockholders became stockholders of the Company.

Effective on October 1, 2020, the Company consummated its acquisition of Carroll Bancorp, Inc. (“Carroll”) and its wholly-owned subsidiary, Carroll Community Bank through a series of mergers (collectively, the “Merger”). Each share of common stock of Carroll (“Carroll Common Stock”) that was outstanding immediately prior to the effective time of the Merger (the “Effective Time”) was converted into the right to receive cash in the amount \$21.63 (the “Per Share Consideration”). Immediately prior to the Effective Time, there were 1,146,913 outstanding shares of Carroll Common Stock, all of which were converted into the Per Share Consideration. The Company funded the payment of the merger consideration with \$7.8 million in cash and the proceeds of a \$17.0 million term loan obtained from a third-party.

The Company’s primary business activities are serving as the parent company of the Bank and holding a series investment in First Community Bankers Insurance Co., LLC, a Tennessee “series” limited liability company and licensed protected cell captive insurance company (“FCBI”). The Company owns 100% of one series of membership interests issued by FCBI, which series is deemed a “protected cell” under Tennessee law and has been designated “Series Protected Cell FCB-4” (such series investment is hereinafter referred to as the “Insurance Subsidiary”).

The Bank is a Maryland commercial bank chartered on October 24, 1919 that is engaged in a general commercial and retail banking business. The Bank has had one inactive subsidiary, Reliable Community Financial Services, Inc., a Maryland corporation that was incorporated in April 1992 to facilitate the sale of fixed rate annuity products and later positioned to sell a full array of investment and insurance products.

The Insurance Subsidiary represents one protected cell of a protected cell captive insurance company (FCBI) that was formed on November 9, 2016 to better manage our risk programs, provide insurance efficiencies, and add operating income by both keeping our insurance premiums within our affiliated group of entities and realizing certain tax benefits that are unique to captive insurance companies. The Company’s investment in the Insurance Subsidiary represents one series of membership interests in FCBI. As a “series” limited liability company, FCBI is authorized by state law and its governing instruments to issue one or more series of membership interests, each of which, for all purposes under state law, is deemed to be a legal entity separate and apart from FCBI and its other series.

At December 31, 2024, our consolidated assets totaled approximately \$844.6 million and stockholders’ equity was approximately \$56.3 million.

Banking Activities

The Bank has been doing business in Maryland since 1919 and is engaged in both the commercial and consumer banking business. At December 31, 2024, the Bank had approximately 19,400 deposit accounts, representing \$758.8 million in deposits and \$582.9 million in loans, representing 69% of its total assets of \$844.6 million.

The Bank's general market area runs along the Route 30, Route 795, Route 140, and Route 26 corridors south from Owings Mills and north to the Pennsylvania line including the areas of Reisterstown, Upperco, Hampstead, Manchester, Eldersburg, and Westminster. The Bank's western area includes the communities of Woodbine and New Windsor, while the eastern side includes Sparks, Hereford and Parkton. All of these communities are located in Carroll County or Baltimore County, Maryland.

This market area serves as a bedroom community to large employment areas such as Owings Mills, Hunt Valley, Towson, White Marsh, Columbia and Baltimore City. The market area is primarily residential with retail, commercial and light-manufacturing activity. The opening of Interstate 795 in the 1980's made it convenient to enjoy a rural lifestyle while still being able to commute to work in a reasonable time.

The Bank's main office is located in Upperco, Maryland, and it has six additional full service branches located in the Maryland communities of Hampstead, Greenmount, Reisterstown, Owings Mills, Eldersburg, and Westminster. In addition, the Bank has a satellite branch located at the senior living community of Carroll Lutheran Village in Westminster, Maryland and a loan production office in Towson, Maryland.

As a convenience to its customers, the Bank offers drive through automated teller machines ("ATMs") at the Upperco, Owings Mills, Hampstead, Reisterstown, and Westminster locations and walk-up ATMs at the Greenmount and Eldersburg offices. The Greenmount In-Store location is open seven days a week while the other six full service offices offer convenient banking hours which include Saturday mornings. The satellite branch is opened five days a week with limited business hours. Drive-thru windows are available at the Upperco, Owings Mills, Hampstead, Reisterstown, Eldersburg, and Westminster branches. The Bank offers 24-hour on-line, internet banking for account balance inquiries, bill paying, or transferring funds between accounts. The Bank provides mobile banking functionality to its internet services. In addition, the 24-hour Dial-A-Bank automated telephone service is available. Debit cards are another service the Bank provides to its customers. The Bank joined Allpoint, America's largest surcharge-free ATM network, to enable Bank customers to have access to over 55,000 ATMs, surcharge-free.

The Bank provides a wide range of personal banking services designed to meet the needs of local consumers. Among the deposit services provided are checking accounts, savings accounts, money market accounts, certificates of deposit and individual retirement accounts. The Bank also offers repurchase agreements and remote check deposits.

The Bank grants available credit for residential mortgages (including Federal Housing Administration and Veterans Affairs loans), construction loans, home equity lines, personal installment loans and other consumer financing.

The Bank also is engaged in financing commerce and industry by providing credit and deposit services for small to medium size businesses and the agricultural community in the Bank's market area. The Bank offers many forms of commercial lending, including commercial mortgages, land acquisition and development loans, lines of credit, accounts receivable financing, term loans for fixed asset purchases, as well as loans guaranteed by the Small Business Administration (the "SBA") and the United States Department of Agriculture.

In addition, commercial depositors may take advantage of many different services including checking accounts, remote deposit banking services, sweep accounts, money market accounts, savings accounts and certificates of deposit.

The Bank also has strategic alliances that allow for the issuance of credit cards to retail customers and to provide merchant services so commercial customers can accept credit cards and debit cards as payment for their goods and services.

The Bank has adopted policies and procedures designed to mitigate credit risk and maintain the quality of the loan portfolio. These policies include underwriting standards for new credits as well as the continuous monitoring and reporting of asset quality and the adequacy of the allowance for loan losses. These policies, coupled with continuous training efforts, have provided effective checks and balances for the risk associated with the lending process. Lending authority is based on the level of risk, size of the loan, and the experience of the lending officer. The Bank's policy is to make the majority of its loan commitments in the market area it serves. This tends to reduce risk because Management is familiar with the credit histories of loan applicants and has in-depth knowledge of the risk to

which a given credit is subject. No material portion of the Bank's loans is concentrated within a single industry or group of related industries. Most of the Bank's loans are, however, made to Maryland customers and many are secured by real estate located in or around Maryland. Although Management believes that the loan portfolio is diversified, its performance will be influenced by the economy of the region.

Investment Activities

The Bank maintains a portfolio of investment securities to provide liquidity and income. The current portfolio of \$146.2 million represented approximately 17% of the total assets at December 31, 2024 and is invested primarily in mortgage-backed securities and municipal bonds.

A key objective of the investment portfolio is to provide a balance in the Bank's asset mix of investments and loans consistent with its liability structure, and to assist in management of interest rate risk. The investments augment the Bank's capital position, providing the necessary liquidity to meet fluctuations in credit demand of the community and fluctuations in deposit levels. In addition, the portfolio provides collateral for pledging against public funds and repurchase agreements and an opportunity to minimize income tax liability. Finally, the investment portfolio is designed to provide income for the Bank. In view of the above objectives, only securities that meet conservative investment criteria are purchased.

Insurance Activities

As noted above, the Insurance Subsidiary is one protected cell of a protected cell captive insurance company. From its formation through November 7, 2022, the Insurance Subsidiary reinsured certain risks of the Bank as well as other groups of related entities that were not affiliated with the Bank for which it received premiums. The related insurance policies were issued each year. Under the reinsurance arrangement, the premium earned by the Insurance Subsidiary for a particular year could be retained as earnings (subject to any regulatory capital and surplus requirements imposed by applicable law) once the claim deadline for that year's policy had passed. As the sole owner of the Insurance Subsidiary, the Company may terminate the Insurance Subsidiary's participation in this reinsurance arrangement with respect to a future year at any time. The Company chose to not renew the most recent policy when it expired on November 6, 2022. As of December 31, 2024, the Insurance Subsidiary's only activity was paying claims for events that occurred prior to November 7, 2022.

Competition

The banking business, in all of its phases, is highly competitive. Within our market areas, we compete with commercial banks, (including local banks and branches or affiliates of other larger banks), savings and loan associations and credit unions for loans and deposits, with consumer finance companies for loans, and with other financial institutions for various types of products and services. There is also competition for commercial and retail banking business from banks and financial institutions located outside our market areas and on the Internet.

The primary factors in competing for deposits are interest rates, personalized services, the quality and range of financial services, convenience of office locations and office hours. The primary factors in competing for loans are interest rates, loan origination fees, the quality and range of lending services and personalized services.

To compete with other financial services providers, we rely principally upon local promotional activities, personal relationships established by officers, directors and employees with customers, and specialized services tailored to meet customers' needs. In those instances in which we are unable to accommodate a customer's needs, we attempt to arrange for those services to be provided by other financial services providers with which we have a relationship.

Supervision and Regulation

The following is a summary of the material regulations and policies applicable to the Company and its subsidiaries and is not intended to be a comprehensive discussion. Changes in applicable laws and regulations may have a material effect on our business.

General

The Company is subject to the supervision, examination and reporting requirements of the BHC Act and the regulations of the Federal Reserve that apply to financial holding companies. As a holding company of a Maryland-chartered bank, the Company is also subject to supervision by the Office of the Maryland Commissioner of Financial Regulation (the “Maryland Commissioner”). Because the Company’s common stock is registered under Section 12(g) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), the Company is also subject to regulation and supervision by the SEC.

The Bank is a Maryland commercial bank subject to the banking laws of Maryland and to regulation by the Maryland Commissioner, who is required by statute to make at least one examination in each calendar year (or at 18-month intervals if the Maryland Commissioner determines that an examination is unnecessary in a particular calendar year). As a member of the Federal Deposit Insurance Corporation (the “FDIC”), the Bank is also subject to certain provisions of federal laws and regulations regarding deposit insurance and activities of insured state-chartered banks, including those that require examination by the FDIC. In addition to the foregoing, there are a myriad of other federal and state laws and regulations that affect or govern the business of banking, including consumer lending and deposit-taking.

All non-bank subsidiaries of the Company are subject to examination by the Federal Reserve, and, as affiliates of the Bank, are subject to examination by the FDIC and the Maryland Commissioner. In addition, the Insurance Subsidiary is subject to licensing and regulation by the Tennessee Insurance Department, and, as a captive insurance company, is subject to certain restrictions and requirements imposed under the Internal Revenue Code of 1986, as amended (the “IRC”).

Regulatory Reforms

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was enacted in July 2010, significantly restructured the financial regulatory regime in the United States. The Dodd-Frank Act established the Consumer Financial Protection Bureau (the “CFPB”), and contains a wide variety of provisions affecting the regulation of depository institutions, including fair lending, fair debt collection practices, mortgage loan origination and servicing obligations, bankruptcy, military service member protections, use of credit reports, privacy matters, and disclosure of credit terms and correction of billing errors. In addition, the Dodd-Frank Act permits states to adopt stricter consumer protection laws and each state attorney general may enforce consumer protection rules issued by the CFPB. Since the enactment of the Dodd-Frank Act, the CFPB, and to some extent, some state attorney generals, have used provisions of the Dodd-Frank Act to bring enforcement actions seeking to curb “unfair, deceptive or abusive acts or practices” in the financial services sector. Enforcement and regulatory priorities could change as a result of a change in leadership at the CFPB and/or continued enforcement and regulatory actions at the state level, resulting in increased regulatory compliance burdens and costs and restrictions on the financial products and services that we offer to our customers in the future.

Regulation of Bank Holding Companies and Financial Holding Companies

The Company and its affiliates are subject to the provisions of Section 23A and Section 23B of the Federal Reserve Act. Section 23A limits the amount of loans or extensions of credit to, and investments in, the Company and its non-bank affiliates by the Bank. Section 23B requires that transactions between the Bank and the Company and its non-bank affiliates be on terms and under circumstances that are substantially the same as with non-affiliates.

Under Federal Reserve policy, the Company is expected to act as a source of strength to the Bank, and the Federal Reserve may charge the Company with engaging in unsafe and unsound practices for failure to commit resources to a subsidiary bank when required. This support may be required at times when the bank holding company may not have the resources to provide the support. Under the prompt corrective action provisions, if a controlled bank is undercapitalized, then the regulators could require the bank holding company to guarantee the bank’s capital restoration plan. In addition, if the Federal Reserve believes that a bank holding company’s activities, assets or affiliates represent a significant risk to the financial safety, soundness or stability of a controlled bank, then the Federal Reserve could require the bank holding company to terminate the activities, liquidate the assets or divest the affiliates. The regulators may require these and other actions in support of controlled banks even if such actions are not in the best interests of the bank

holding company or its stockholders. Because the Company is a bank holding company, it is viewed as a source of financial and managerial strength for any controlled depository institutions, like the Bank.

In addition, under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“FIRREA”), depository institutions insured by the FDIC can be held liable for any losses incurred by, or reasonably anticipated to be incurred by, the FDIC in connection with (i) the default of a commonly controlled FDIC-insured depository institution or (ii) any assistance provided by the FDIC to a commonly controlled FDIC-insured depository institution in danger of default. Accordingly, in the event that any insured subsidiary of the Company causes a loss to the FDIC, other insured subsidiaries of the Company could be required to compensate the FDIC by reimbursing it for the estimated amount of such loss. Such cross guaranty liabilities generally are superior in priority to obligations of a financial institution to its shareholders and obligations to other affiliates. The Bank is the Company’s only FDIC-insured depository institution.

The provisions of the BHC Act relating to financial holding companies and the regulations promulgated thereunder require the Bank to remain “well capitalized” and “well managed”. The capital requirement is discussed below under the heading, “**Prompt Corrective Action**”. The Bank will be considered to be well managed so long as it achieves a CAMEL composite rating of at least “2” as a result of its most recent examination and at least a “satisfactory” management rating (if such rating is given). If the Bank were to fail to meet either of these requirements, then the Company would be required to enter into an agreement with the Federal Reserve that would address the remediation of the condition that led to the failure. During the term of that agreement, which is typically 180 days but which can be extended at the discretion of the Federal Reserve, the Company would be prohibited from commencing any additional activity or acquiring control or shares of any company that would otherwise be permissible for a financial holding company under Section 4(k) of the BHC Act. If the Company were to fail to correct that condition by the expiration of the agreement’s term, then the Federal Reserve could order the Company to divest its ownership of the Bank or, alternatively, terminate all financial holding company activities. For so long as the Company remains a financial holding company, the Bank must also maintain a Satisfactory or better rating under the Community Reinvestment Act (the “CRA”). During any period that the Bank fails to satisfy this requirement, the Company is prohibited from commencing any additional activity or acquiring control or shares of any company that would otherwise be permissible for a financial holding company under Section 4(k) of the BHC Act. The Bank currently satisfies all of the foregoing conditions.

Federal Banking Regulation

Federal banking regulators, such as the Federal Reserve and the FDIC, may prohibit the institutions over which they have supervisory authority from engaging in activities or investments that the agencies believe are unsafe or unsound banking practices. Federal banking regulators have extensive enforcement authority over the institutions they regulate to prohibit or correct activities that violate law, regulation or a regulatory agreement or which are deemed to be unsafe or unsound practices. Enforcement actions may include the appointment of a conservator or receiver, the issuance of a cease and desist order, the termination of deposit insurance, the imposition of civil money penalties on the institution, its directors, officers, employees and institution-affiliated parties, the issuance of directives to increase capital, the issuance of formal and informal agreements, the removal of or restrictions on directors, officers, employees and institution-affiliated parties, and the enforcement of any such mechanisms through restraining orders or other court actions.

The Bank is subject to certain restrictions on extensions of credit to executive officers, directors, and principal stockholders or any related interest of such persons, which generally require that such credit extensions be made on substantially the same terms as those available to persons who are not related to the Bank and not involve more than the normal risk of repayment. Other laws tie the maximum amount that may be loaned to any one customer and its related interests to capital levels.

As part of the Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), each federal banking regulator adopted non-capital safety and soundness standards for institutions under its authority. These standards include internal controls, information systems and internal audit systems, loan documentation, credit underwriting, interest rate exposure, asset growth, and compensation, fees and benefits. An institution that fails to meet those standards may be required by the agency to develop a plan acceptable to meet the standards. Failure to submit or implement such a plan may subject the institution to regulatory sanctions. We believe that the Bank meets substantially all standards that have been adopted. FDICIA also imposes capital standards on insured depository institutions.

The CRA requires the FDIC, in connection with its examination of financial institutions within its jurisdiction, to evaluate the record of those financial institutions in meeting the credit needs of their communities, including low and moderate income neighborhoods, consistent with principles of safe and sound banking practices. These factors are also considered by all regulatory agencies in evaluating mergers, acquisitions and applications to open a branch or facility. As of the date of its most recent examination report, the Bank had a CRA rating of “Satisfactory”.

The Bank is also subject to a variety of other laws and regulations with respect to the operation of its business, including, but not limited to, the Truth in Lending Act, the Truth in Savings Act, the Equal Credit Opportunity Act, the Electronic Funds Transfer Act, the Fair Housing Act, the Home Mortgage Disclosure Act, the Fair Debt Collection Practices Act, the Fair Credit Reporting Act (the “FCRA”), Expedited Funds Availability (Regulation CC), Reserve Requirements (Regulation D), Privacy of Consumer Information (Regulation P), Margin Stock Loans (Regulation U), the Right To Financial Privacy Act, the Flood Disaster Protection Act, the Homeowners Protection Act, the Servicemembers Civil Relief Act, the Real Estate Settlement Procedures Act, the Telephone Consumer Protection Act, the CAN-SPAM Act, the Children’s Online Privacy Protection Act, and the John Warner National Defense Authorization Act.

Capital Requirements

In addition to operational requirements, the Bank and the Company are subject to risk-based capital regulations, which were adopted and are monitored by federal banking regulators. These regulations are used to evaluate capital adequacy and require an analysis of an institution’s asset risk profile and off-balance sheet exposures, such as unused loan commitments and stand-by letters of credit.

On July 2, 2013, the Federal Reserve approved final rules that substantially amended the regulatory risk-based capital rules applicable to the Company. The FDIC subsequently approved the same rules, which are applicable to the Bank. The final rules implement the “Basel III” regulatory capital reforms and changes required by the Dodd-Frank Act and were implemented as of March 31, 2015.

The Basel III capital rules include new risk-based capital and leverage ratios, which were phased in from 2015 to 2019, and which refine the definition of what constitutes “capital” for purposes of calculating those ratios. The minimum capital level requirements applicable to the Company under the final rules are: (i) a common equity Tier 1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6% (increased from 4%); (iii) a total capital ratio of 8% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 4% for all institutions. The final rules also establish a “capital conservation buffer” of 2.5% above the new regulatory minimum capital requirements, which must consist entirely of common equity Tier 1 capital. The following minimum ratios were in effect at the beginning of 2019: (a) a common equity Tier 1 capital ratio of 7.0%, (b) a Tier 1 capital ratio of 8.5% and (c) a total capital ratio of 10.5%. Under the final rules, institutions are subject to limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses if its capital level falls below the buffer amount. These limitations establish a maximum percentage of eligible retained income that could be utilized for such actions.

The Basel III capital final rules also implement revisions and clarifications consistent with Basel III regarding the various components of Tier 1 capital, including common equity, unrealized gains and losses, as well as certain instruments that no longer qualify as Tier 1 capital, some of which will be phased out over time. Under the final rules, the effects of certain accumulated other comprehensive items are not excluded; however, banking organizations like the Company and the Bank that are not considered “advanced approaches” banking organizations may make a one-time permanent election to continue to exclude these items. The Company and the Bank made this election in their first quarter 2015 regulatory filings in order to avoid significant variations in the level of capital depending upon the impact of interest rate fluctuations on the fair value of the Company’s available-for-sale securities portfolio.

The Basel III capital rules also contain revisions to the prompt corrective action framework, which is designed to place restrictions on insured depository institutions if their capital levels begin to show signs of weakness. These revisions were effective January 1, 2015. Under the prompt corrective action requirements, which are designed to complement the capital conservation buffer, insured depository institutions are required to meet the following capital level requirements in order to qualify as “well capitalized”: (i) a new common equity Tier 1 capital ratio of 6.5%; (ii) a Tier 1 capital ratio of 8% (increased from 6%); (iii) a total capital ratio of 10% (unchanged from current rules); and (iv) a Tier 1 leverage ratio of 5% (increased from 4%).

The Basel III capital rules set forth certain changes for the calculation of risk-weighted assets. These changes include (i) an increased number of credit risk exposure categories and risk weights; (ii) an alternative standard of creditworthiness consistent with Section 939A of the Dodd-Frank Act; (iii) revisions to recognition of credit risk mitigation; (iv) rules for risk weighting of equity exposures and past due loans, and (v) revised capital treatment for derivatives and repo-style transactions.

Regulators may require higher capital ratios when warranted by the particular circumstances or risk profile of a given banking organization. In the current regulatory environment, banking organizations must stay well-capitalized in order to receive favorable regulatory treatment on acquisition and other expansion activities and favorable risk-based deposit insurance assessments. Our capital policy establishes guidelines meeting these regulatory requirements and takes into consideration current or anticipated risks as well as potential future growth opportunities.

As of December 31, 2024, we were in compliance with the applicable requirements of the Basel III rules.

On September 17, 2019, the FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio (“CBLR”) framework), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

On April 6, 2020, in a joint statement, the FDIC, Federal Reserve and the Office of Comptroller of the Currency issued two interim final rules regarding temporary changes to the CBLR framework to implement provisions of the CARES Act. Under the interim final rules, the community bank leverage ratio was reduced to 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 8%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Company has not opted-in to the CBLR framework.

Additional information about our capital ratios and requirements is contained in Item 7 of this Annual Report under the heading, “Capital Resources and Adequacy”.

Prompt Corrective Action

The Federal Deposit Insurance Act (the “FDI Act”) requires, among other things, the federal banking agencies to take “prompt corrective action” in respect of depository institutions that do not meet minimum capital requirements. The FDI Act includes the following five capital tiers: “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” and “critically undercapitalized.” A depository institution’s capital tier will depend upon how its capital levels compare with various relevant capital measures and certain other factors, as established by regulation. The relevant capital measures are the total capital ratio, the Tier 1 capital ratio and the leverage ratio.

A bank will be (i) “well capitalized” if the institution has a total risk-based capital ratio of 10.0% or greater, a Tier 1 risk-based capital ratio of 8.0% or greater, and a leverage ratio of 5.0% or greater, and is not subject to any order or written directive by any such regulatory authority to meet and maintain a specific capital level for any capital measure, (ii) “adequately capitalized” if the institution has a total risk-based capital ratio of 8.0% or greater, a Tier 1 risk-based capital ratio of 4.0% or greater, and a leverage ratio of 4.0% or greater and is not “well capitalized”, (iii) “undercapitalized” if the institution has a total risk-based capital ratio that is less than 8.0%, a Tier 1 risk-based capital ratio of less than 4.0% or a leverage ratio of less than 4.0%, (iv) “significantly undercapitalized” if the institution has a total risk-based capital ratio of less than 6.0%, a Tier 1 risk-based capital ratio of less than 3.0% or a leverage ratio of less than 3.0%, and (v) “critically undercapitalized” if the institution’s tangible equity is equal to or less than 2.0% of average quarterly tangible assets. An institution may be downgraded to, or deemed to be in, a capital category that is lower than indicated by its capital ratios if it is determined to be in an unsafe or unsound condition or if it receives an unsatisfactory examination rating with respect to certain matters. A bank’s capital category is determined solely for the

purpose of applying prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

Effective January 1, 2015, the Basel III capital rules revised the prompt corrective action requirements by (i) introducing the CET1 ratio requirement at each level (other than critically undercapitalized), with the required CET1 ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category (other than critically undercapitalized), with the minimum Tier 1 capital ratio for well-capitalized status being 8%; and (iii) eliminating the provision that permitted a bank with a composite supervisory rating of 1 but a leverage ratio of at least 3% to be deemed adequately capitalized. The Basel III Capital Rules did not change the total risk-based capital requirement for any prompt corrective action category.

The FDI Act generally prohibits a depository institution from making any capital distributions (including payment of a dividend) or paying any management fee to its parent holding company if the depository institution would thereafter be "undercapitalized." "Undercapitalized" institutions are subject to growth limitations and are required to submit a capital restoration plan. The agencies may not accept such a plan without determining, among other things, that the plan is based on realistic assumptions and is likely to succeed in restoring the depository institution's capital. In addition, for a capital restoration plan to be acceptable, the depository institution's parent holding company must guarantee that the institution will comply with such capital restoration plan. The bank holding company must also provide appropriate assurances of performance. The aggregate liability of the parent holding company is limited to the lesser of (i) an amount equal to 5.0% of the depository institution's total assets at the time it became undercapitalized and (ii) the amount which is necessary (or would have been necessary) to bring the institution into compliance with all capital standards applicable with respect to such institution as of the time it fails to comply with the plan. If a depository institution fails to submit an acceptable plan, it is treated as if it is "significantly undercapitalized." Significantly undercapitalized" depository institutions may be subject to a number of requirements and restrictions, including orders to sell sufficient voting stock to become "adequately capitalized," requirements to reduce total assets, and cessation of receipt of deposits from correspondent banks. "Critically undercapitalized" institutions are subject to the appointment of a receiver or conservator.

The appropriate federal banking agency may, under certain circumstances, reclassify a well-capitalized insured depository institution as adequately capitalized. The FDI Act provides that an institution may be reclassified if the appropriate federal banking agency determines (after notice and opportunity for hearing) that the institution is in an unsafe or unsound condition or deems the institution to be engaging in an unsafe or unsound practice.

The appropriate agency is also permitted to require an adequately capitalized or undercapitalized institution to comply with the supervisory provisions as if the institution were in the next lower category (but not treat a significantly undercapitalized institution as critically undercapitalized) based on supervisory information other than the capital levels of the institution.

As of December 31, 2024, the Bank was "well capitalized" based on the aforementioned ratios.

Liquidity Requirements

We require cash to fund loans, satisfy our obligations under the Bank's letters of credit, meet the deposit withdrawal demands of the Bank's customers, and satisfy our other monetary obligations. To the extent that deposits are not adequate to fund these requirements, we can rely on the funding sources identified in Item 2 of this Annual Report under the heading, "Liquidity Management". As of December 31, 2024, the Bank had \$23.5 million available through unsecured and secured lines of credit with correspondent banks, \$32.5 million available through a secured line of credit with the Fed Discount Window and approximately \$70.4 million available through the Federal Home Loan Bank ("FHLB"). Management is not aware of any demands, commitments, events or uncertainties that are likely to materially affect our ability to meet our future liquidity requirements.

Deposit Insurance

The Bank is a member of the FDIC and pays an insurance premium to the FDIC based upon its assessable deposits on a quarterly basis. Deposits are insured up to applicable limits by the FDIC and such insurance is backed by the full faith and credit of the United States Government. Deposits are insured by the FDIC through the Deposit Insurance Fund (the “DIF”) and such insurance is backed by the full faith and credit of the United States Government. Under the Dodd-Frank Act, a permanent increase in deposit insurance to \$250.0 thousand was authorized. The coverage limit is per depositor, per insured depository institution for each account ownership category.

The Federal Deposit Insurance Reform Act of 2005, which created the DIF, gave the FDIC greater latitude in setting the assessment rates for insured depository institutions which could be used to impose minimum assessments. The FDIC has the flexibility to adopt actual rates that are higher or lower than the total base assessment rates adopted without notice and comment, if certain conditions are met.

The Dodd-Frank Act also set a new minimum DIF reserve ratio at 1.35% of estimated insured deposits and required the FDIC to redefine the deposit insurance assessment base for an insured depository institution. As redefined pursuant to the Dodd-Frank Act, an institution’s assessment base is now an amount equal to the institution’s average consolidated total assets during the assessment period minus average tangible equity. Institutions with less than \$1.0 billion in assets at the end of a fiscal quarter, like the Bank, are permitted to report their average consolidated total assets on a weekly basis (rather than on a daily basis) and to report their average tangible equity on an end-of-quarter balance (rather than on an end-of-month balance).

The Bank expensed \$391.2 thousand and \$339.0 thousand in FDIC insurance premiums, including FICO assessments, in 2024 and 2023, respectively. The increase from 2023 to 2024 was due primarily to the increase in the FDIC’s minimum assessment and an increase in the Bank’s regulatory liquidity ratio.

The FDIC is authorized to conduct examinations of and require reporting by FDIC-insured institutions. It is also authorized to terminate a depository bank’s deposit insurance upon a finding by the FDIC that the bank’s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank’s regulatory agency. The termination of deposit insurance would have a material adverse effect on our earnings, operations and financial condition.

Bank Secrecy Act/Anti-Money Laundering

The Bank Secrecy Act (“BSA”), which is intended to require financial institutions to develop policies, procedures, and practices to prevent and deter money laundering, mandates that every insured depository institution have a written, board-approved program that is reasonably designed to assure and monitor compliance with the BSA.

The program must, at a minimum: (i) provide for a system of internal controls to assure ongoing compliance; (ii) provide for independent testing for compliance; (iii) designate an individual responsible for coordinating and monitoring day-to-day compliance; and (iv) provide training for appropriate personnel. In addition, state-chartered banks are required to adopt a customer identification program as part of its BSA compliance program. State-chartered banks are also required to file Suspicious Activity Reports when they detect certain known or suspected violations of federal law or suspicious transactions related to a money laundering activity or a violation of the BSA.

In addition to complying with the BSA, the Bank is subject to the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (the “USA Patriot Act”). The USA Patriot Act is designed to deny terrorists and criminals the ability to obtain access to the United States’ financial system and has significant implications for depository institutions, brokers, dealers, and other businesses involved in the transfer of money. The USA Patriot Act mandates that financial service companies implement additional policies and procedures and take heightened measures designed to address any or all of the following matters: customer identification programs, money laundering, terrorist financing, identifying and reporting suspicious activities and currency transactions, currency crimes, and cooperation between financial institutions and law enforcement authorities.

Mortgage Lending and Servicing

The Bank's mortgage lending and servicing activities are subject to various laws and regulations that are enforced by the federal banking regulators and the CFPB, such as the Truth in Lending Act, the Real Estate Settlement Procedures Act, and various rules adopted thereunder, including those relating to consumer disclosures, appraisal requirements, mortgage originator compensation, prohibitions on mandatory arbitration provisions under certain circumstances, and the obligation to credit payments and provide payoff statements within certain time periods and provide certain notices prior to interest rate and payment adjustments.

The Bank is required to make a reasonable and good faith determination based on verified and documented information that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Qualified mortgages that are not "higher-priced" are afforded a safe harbor presumption of compliance with the ability to repay rules, while qualified mortgages that are "higher-priced" garner a rebuttable presumption of compliance with the ability to repay rules. In general, a "qualified mortgage" is a mortgage loan without negative amortization, interest-only payments, balloon payments, or a term exceeding 30 years, where the lender determines that the borrower has the ability to repay, and where the borrower's points and fees do not exceed 3% of the total loan amount. "Higher-priced" mortgages must have escrow accounts for taxes and insurance and similar recurring expenses.

Consumer Lending – Military Lending Act

The Military Lending Act (the "MLA"), which was initially implemented in 2007, was amended and its coverage significantly expanded in 2015. The Department of Defense (the "DOD") issued a final rule under the MLA that took effect on October 15, 2015, but financial institutions were not required to take action until October 3, 2016. The types of credit covered under the MLA were expanded to include virtually all consumer loan and credit card products (except for loans secured by residential real property and certain purchase-money motor vehicle/personal property secured transactions). Lenders must now provide specific written and oral disclosures concerning the protections of the MLA to active duty members of the military and dependents of active duty members of the military ("covered borrowers"). The rule imposes a 36% "Military Annual Percentage Rate" cap that includes costs associated with credit insurance premiums, fees for ancillary products, finance charges associated with the transactions, and application and participation charges. In addition, loan terms cannot include (i) a mandatory arbitration provision, (ii) a waiver of consumer protection laws, (iii) mandatory allotments from military benefits, or (iv) a prepayment penalty. The revised rule also prohibits "roll-over" or refinances of the same loan unless the new loan provides more favorable terms for the covered borrower. Lenders may verify covered borrower status using a DOD database or information provided by credit bureaus. We believe that we are in compliance with the revised rule.

Cybersecurity

We rely on electronic communications and information systems to conduct our operations and store sensitive data. We employ an in-depth approach that leverages people, processes, and technology to manage and maintain cybersecurity controls. In addition, we employ a variety of preventative and detective tools to monitor, block, and provide alerts regarding suspicious activity, as well as to report on any suspected advanced persistent threats. Notwithstanding the strength of our defensive measures, the threat from cyber-attacks is severe, attacks are sophisticated and increasing in volume, and attackers respond rapidly to changes in defensive measures.

The federal banking regulators have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking regulators expect financial institutions to establish lines of defense and to ensure that their risk management processes address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyberattack. If we fail to meet the expectations set forth in this regulatory guidance, then we could be subject to various regulatory actions and we may be required to devote significant resources to any required remediation efforts.

Laws Related to the Insurance Subsidiary

The Insurance Subsidiary is treated as a separate legal entity for state law purposes and is licensed and supervised by the Tennessee Department of Commerce and Insurance as a series protected cell of a protected cell captive insurance company. Tennessee insurance law requires a protected cell to possess and maintain unimpaired paid-in capital and surplus of at least \$25,000, and the Tennessee Department of Commerce and Insurance has the authority to prescribe additional requirements based on the type, volume and nature of insurance business to be conducted. No captive insurance company may pay a dividend out of, or other distribution with respect to, capital or surplus without the prior approval of the Tennessee Department of Commerce and Insurance.

The Insurance Subsidiary was formed with the intention that it be treated as a “captive insurance company” by the Internal Revenue Service (the “IRS”) so that, among other things, some or all of the premiums that we pay to the Insurance Subsidiary will be deductible as trade or business expenses. Because of the significant tax benefits that can be realized through the operation of a captive insurance company, the IRS has recently focused significant attention on these arrangements to ensure that they are not simply a disguise for self-insurance. Amounts paid to the Insurance Subsidiary are deductible only if they constitute “insurance premiums” under the IRC. The federal courts and the IRS have concluded that amounts paid to an insurance company will be deemed insurance premiums only if the arrangement under which those amounts were paid evidences an appropriate level of both “risk shifting” and “risk distribution.”

Moreover, our tax planning assumes that the Insurance Company will have made an effective election under Section 831(b) of the IRC for each taxable year in which it receives a premium so that it will be taxed only on its investment income (and not also on its premium income) generated in that year. A Section 831(b) election for a taxable year is available only if (i) the insurance company’s net written premiums (or, if greater, direct written premiums) for the year do not exceed \$2.65 million and (ii) either (a) no more than 20% of the written premiums (net or direct, as applicable) for the year is attributable to any single insured or (b) the insurance company satisfies certain ownership diversification requirements specified in Section 831(b)(2)(B)(i)(II) of the IRC.

The laws governing these arrangements are complicated and the positions taken by the IRS with respect to these laws and arrangements evolve and are subject to change. For additional information, see the risk factors entitled ***“We may not achieve the expected benefits from the Insurance Subsidiary”*** and ***“Certain of our U.S. consolidated federal income tax returns are currently being audited”*** in Item 1A of this annual report under the heading ***“Risks Relating to the Company and its Affiliates”***.

SEC Regulation

The shares of the Company’s common stock are registered with the SEC under Section 12(g) of the Exchange Act and the Company is subject to the information reporting requirements, proxy solicitation requirements, insider trading restrictions and other requirements of the Exchange Act, including the requirements imposed under the federal Sarbanes-Oxley Act of 2002. Among other things, loans to and other transactions with insiders are subject to restrictions and heightened disclosure.

Governmental Monetary and Credit Policies and Economic Controls

The earnings and growth of the banking industry and ultimately of the Bank are affected by the monetary and credit policies of governmental authorities, including the Federal Reserve. An important function of the Federal Reserve is to regulate the national supply of bank credit in order to control recessionary and inflationary pressures. Among the instruments of monetary policy used by the Federal Reserve to implement these objectives are open market operations in U.S. Government securities, changes in the federal funds rate, changes in the discount rate of member bank borrowings, and changes in reserve requirements against member bank deposits. These means are used in varying combinations to influence overall growth of bank loans, investments and deposits and may also affect interest rates charged on loans or paid on deposits. The monetary policies of the Federal Reserve authorities have had a significant effect on the operating results of commercial banks in the past and are expected to continue to have such an effect in the future. In view of changing conditions in the national economy and in the money markets, as well as the effect of actions by monetary and fiscal authorities, including the Federal Reserve, no prediction can be made as to possible future changes in interest rates, deposit levels, loan demand or their effect on our businesses and earnings.

Employees

As of December 31, 2024, we employed 100 individuals, of whom 94 were full-time employees.

Available Information

The Company maintains an Internet site at www.fmb1919.bank on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC. Our SEC filings are also available to the public from the SEC's Internet site at <http://www.sec.gov>. The information on, or accessible through, these websites is not part of, or incorporated by reference into, this Annual Report on Form 10-K or any other document we that file with or furnish to the SEC.

ITEM 1A. RISK FACTORS.

The significant risks and uncertainties related to us, our business and our securities of which we are aware are discussed below. You should carefully consider these risks and uncertainties before making investment decisions in respect of our securities. Any of these factors could materially and adversely affect our business, financial condition, operating results and prospects and could negatively impact the market price of our securities. If any of these risks materialize, you could lose all or part of your investment in the Company. Additional risks and uncertainties that we do not yet know of, or that we currently think are immaterial, may also impair our business operations. You should also consider the other information contained in this annual report, including our financial statements and the related notes, before making investment decisions in respect of our securities.

Risks Relating to the Operations of the Company and its Affiliates

The Company's future success depends on the successful growth of its subsidiaries.

The Company's primary business activity for the foreseeable future will be to act as the holding company of the Bank. Therefore, the Company's future profitability will depend on the success and growth of the Bank and any other subsidiary that it operates.

We could be adversely affected by risks associated with future acquisitions and expansions.

Although our core growth strategy has historically focused around organic growth, we may from time to time consider acquisition and expansion opportunities involving a bank or other entity operating in the financial services industry. We cannot predict if or when we will engage in strategic transactions, or the nature or terms of any such transactions. To the extent that we grow through an acquisition, we cannot assure investors that we will be able to adequately and profitably manage that growth or that an acquired business will be integrated into our existing businesses as efficiently or as timely as we may anticipate. Acquiring another business would generally involve risks commonly associated with acquisitions, including:

- increased capital needs;
- increased and new regulatory and compliance requirements;
- implementation or remediation of controls, procedures and policies with respect to the acquired business;
- diversion of management time and focus from operation of our then-existing business to acquisition-integration challenges;
- coordination of product, sales, marketing and program and systems management functions;
- transition of the acquired business's users and customers onto our systems;
- retention of employees from the acquired business;
- integration of employees from the acquired business into our organization;
- integration of the acquired business's accounting, information management, human resources and other administrative systems and operations with ours;
- potential liability for activities of the acquired business prior to the acquisition, including violations of law, commercial disputes and tax and other known and unknown liabilities;

- potential increased litigation or other claims in connection with the acquired business, including claims brought by regulators, terminated employees, customers, former stockholders, vendors, or other third parties; and
- potential goodwill impairment.

If we were to pursue or consummate an acquisition, then our failure to execute on our acquisition strategy could adversely affect our business, results of operations, financial condition and future prospects risks of unknown or contingent liabilities.

The majority of our business is concentrated in Maryland, much of which involves real estate lending, so a decline in the real estate and credit markets could materially and adversely impact our financial condition and results of operations.

Most of the Bank's loans are made to borrowers located in Maryland, and many of these loans, including construction and land development loans, are secured by real estate. Accordingly, a decline in local economic conditions would likely have an adverse impact on our financial condition and results of operations, and the impact on us would likely be greater than the impact felt by larger financial institutions whose loan portfolios are geographically diverse. We cannot guarantee that any risk management practices we implement to address our geographic and loan concentrations will be effective to prevent losses relating to our loan portfolio.

The Bank's concentrations of commercial real estate loans could subject it to increased regulatory scrutiny and directives, which could force us to preserve or raise capital and/or limit future commercial lending activities.

The federal banking regulators believe that institutions with particularly high concentrations of commercial real estate ("CRE") loans in their lending portfolios face a heightened risk of financial difficulties in the event of adverse changes in the economy and CRE markets. Accordingly, through published guidance, these regulators have directed institutions whose concentrations exceed certain percentages of capital to implement heightened risk management practices appropriate to their concentration risk. The guidance provides that banking regulators may require such institutions to reduce their concentrations and/or maintain higher capital ratios than institutions with lower concentrations in CRE. At December 31, 2024, our CRE concentrations were above the heightened risk management thresholds set forth in this guidance. No assurance can be given that the Company's enhanced risk management practices and monitoring controls will be effective.

The Bank may experience loan losses in excess of its allowance, which would reduce our earnings.

The risk of credit losses on loans varies with, among other things, general economic conditions, the type of loans being made, the creditworthiness of the borrowers over the term of the loans and, in the case of collateralized loans, the value and marketability of the collateral for the loans. Management of the Bank maintains an allowance for loan losses based upon, among other things, historical experience, an evaluation of economic conditions and regular reviews of delinquencies and loan portfolio quality. Based upon such factors, management makes various assumptions and judgments about the ultimate collectability of the loan portfolio and provides an allowance for credit losses based upon a percentage of the outstanding balances and for specific loans when their ultimate collectability is considered questionable. If management's assumptions and judgments prove to be incorrect and the allowance for credit losses is inadequate to absorb future losses, or if the bank regulatory authorities require us to increase the allowance for credit losses as a part of its examination process, our earnings and capital could be significantly and adversely affected. Although management continually monitors our loan portfolio and makes determinations with respect to the allowance for credit losses, future adjustments may be necessary if economic conditions differ substantially from the assumptions used or adverse developments arise with respect to our non-performing or performing loans. Material additions to the allowance for credit losses could result in a material decrease in our net income and capital, and could have a material adverse effect on our financial condition.

We depend on the accuracy and completeness of information about customers and counterparties, and inaccurate, incomplete or misleading information provided to us by these persons could cause us to suffer losses.

In deciding whether to extend credit or enter into other transactions, we rely on information furnished by or on behalf of customers and counterparties, including financial statements, credit reports and other financial information. We also rely on representations of those customers, counterparties or other third parties, such as independent auditors, as to the accuracy and completeness of that information. Reliance on inaccurate or misleading financial statements, credit reports or other financial information could have a material adverse impact on our business, financial condition and results of operations.

Our accounting estimates and risk management processes rely on analytical and forecasting models, the inadequacy of which could have a material adverse effect on our financial condition and/or results of operations.

The processes we use to estimate our expected credit losses and to measure the fair value of financial instruments, as well as the processes used to estimate the effects of changing interest rates and other market measures on our financial condition and results of operations, depends upon the use of analytical and forecasting models. These models reflect assumptions that may not be accurate, particularly in times of market stress or other unforeseen circumstances. Even if these assumptions are adequate, the models may prove to be inadequate or inaccurate because of other flaws in their design or their implementation, including flaws caused by failures in controls, data management, human error or from the reliance on technology. If the models we use for interest rate risk and asset-liability management are inadequate, we may incur increased or unexpected losses upon changes in market interest rates or other market measures. If the models we use for estimating our expected credit losses are inadequate, the allowance for credit losses may not be sufficient to support future charge-offs. If the models we use to measure the fair value of financial instruments are inadequate, the fair value of such financial instruments may fluctuate unexpectedly or may not accurately reflect what we could realize upon sale or settlement of such financial instruments. Any such failure in our analytical or forecasting models could have a material adverse effect on our business, financial condition and results of operations.

Interest rates and other economic conditions will impact our results of operations.

Our net income depends primarily upon our net interest income. Net interest income is the difference between interest income earned on loans, investments and other interest-earning assets and the interest expense incurred on deposits and borrowed funds. The level of net interest income is primarily a function of the average balance of our interest-earning assets, the average balance of our interest-bearing liabilities, and the spread between the yield on such assets and the cost of such liabilities. These factors are influenced by both the pricing and mix of our interest-earning assets and our interest-bearing liabilities which, in turn, are impacted by such external factors as the local economy, competition for loans and deposits, the monetary policy of the Federal Open Market Committee of the Federal Reserve Board of Governors, and market interest rates.

Different types of assets and liabilities may react differently, and at different times, to changes in market interest rates. We expect that we will periodically experience gaps in the interest rate sensitivities of our assets and liabilities. That means either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. When interest-bearing liabilities mature or re-price more quickly than interest-earning assets, an increase in market rates of interest could reduce our net interest income. Likewise, when interest-earning assets mature or re-price more quickly than interest-bearing liabilities, falling interest rates could reduce our net interest income. We are unable to predict changes in market interest rates, which are affected by many factors beyond our control, including inflation, deflation, recession, unemployment, money supply, domestic and international events and changes in the United States and other financial markets.

We also attempt to manage risk from changes in market interest rates, in part, by controlling the mix of interest rate sensitive assets and interest rate sensitive liabilities. However, interest rate risk management techniques are not exact. A rapid increase or decrease in interest rates could adversely affect our results of operations and financial performance.

The market value of our investments could decline.

As of December 31, 2024, investment securities in our investment portfolio having a cost basis of \$149.0 million and a market value of \$125.7 million were classified as available-for-sale pursuant to FASB Accounting Standards Codification (“ASC”) Topic 320, Investments – Debt and Equity Securities, relating to accounting for investments. Topic 320 requires that unrealized gains and losses in the estimated value of the available-for-sale portfolio be “marked to market” and reflected as a separate item in stockholders’ equity (net of tax) as accumulated other comprehensive gain or loss. There can be no assurance that future market performance of our investment portfolio will enable us to realize income from sales of securities. Stockholders’ equity will continue to reflect the unrealized gains and losses (net of tax) of these investments. Moreover, there can be no assurance that the market value of our investment portfolio will not decline, causing a corresponding decline in stockholders’ equity.

Management believes that several factors could affect the market value of our investment portfolio. These include, but are not limited to, changes in interest rates or expectations of changes, the degree of volatility in the securities markets, inflation rates or expectations of inflation and the slope of the interest rate yield curve (the yield curve refers to the differences between shorter-term and longer-term interest rates; a positively sloped yield curve means shorter-term rates are lower than longer-term rates). Also, the passage of time will affect the market values of our investment securities, in that the closer they are to maturing, the closer the market price should be to par value. These and other factors may impact specific categories of the portfolio differently, and management cannot predict the effect these factors may have on any specific category.

Impairment of deferred tax assets could require charges to earnings, which could result in a negative impact on our results of operations.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. Assessing the need for, or the sufficiency of, a valuation allowance requires management to evaluate all available evidence, both negative and positive, including the recent trend of quarterly earnings. Positive evidence necessary to overcome the negative evidence includes whether future taxable income in sufficient amounts and character within the carryback and carry forward periods is available under the tax law, including the use of tax planning strategies. When negative evidence (e.g., cumulative losses in recent years, history of operating loss or tax credit carry forwards expiring unused) exists, more positive evidence than negative evidence will be necessary. At December 31, 2024, our net deferred tax assets were valued at \$7.6 million.

The impact of each of these impairment matters could have a material adverse effect on our business, results of operations, and financial condition.

We operate in a competitive environment, and our inability to effectively compete could adversely and materially impact our financial condition and results of operations.

We operate in a competitive environment, competing for loans, deposits, and customers with commercial banks, savings associations and other financial entities. Competition for deposits comes primarily from other commercial banks, savings associations, credit unions, money market and mutual funds and other investment alternatives. Competition for loans comes primarily from other commercial banks, savings associations, mortgage banking firms, credit unions and other financial intermediaries. Competition for other products, such as securities products, comes from other banks, securities and brokerage companies, and other non-bank financial service providers in our market area. Many of these competitors are much larger in terms of total assets and capitalization, have greater access to capital markets, and/or offer a broader range of financial services than those that we offer. In addition, banks with a larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the needs of larger customers.

In addition, changes to the banking laws over the last several years have facilitated interstate branching, merger and expanded activities by banks and holding companies. For example, the federal Gramm-Leach-Bliley Act revised the BHC Act and repealed the affiliation provisions of the Glass-Steagall Act of 1933, which, taken together, limited the securities and other non-banking activities of any company that controls an FDIC insured financial institution. As a result, the ability of financial institutions to branch across state lines and the ability of these institutions to engage in previously-prohibited activities are now accepted elements of competition in the banking

industry. These changes may bring us into competition with more and a wider array of institutions, which may reduce our ability to attract or retain customers. Management cannot predict the extent to which we will face such additional competition or the degree to which such competition will impact our financial conditions or results of operations.

The banking industry is heavily regulated; significant regulatory changes could adversely affect our operations.

Our operations will be impacted by current and future legislation and by the policies established from time to time by various federal and state regulatory authorities. The Company is subject to supervision by the Federal Reserve. The Bank is subject to supervision and periodic examination by the Maryland Commissioner and the FDIC. The Insurance Subsidiary is subject to supervision and periodic examination by the Tennessee Insurance Department. Banking regulations, designed primarily for the safety of depositors, and insurance regulations, designed primarily for the safety of insureds, may limit a financial institution's growth and the return to its investors by restricting such activities as the payment of dividends, mergers with or acquisitions by other institutions, investments, loans and interest rates, interest rates paid on deposits, expansion of branch offices, and the offering of securities or trust services. The Company and the Bank are also subject to capitalization guidelines established by federal law and the Insurance Subsidiary is subject to capitalization guidelines established by Tennessee law, and could be subject to enforcement actions to the extent that they are found by regulatory examiners to be undercapitalized. It is not possible to predict what changes, if any, will be made to existing federal and state legislation and regulations or the effect that such changes may have on our future business and earnings prospects. Management also cannot predict the nature or the extent of the effect on our business and earnings of future fiscal or monetary policies, economic controls, or new federal or state legislation. Further, the cost of compliance with regulatory requirements may adversely affect our ability to operate profitably.

The Consumer Financial Protection Bureau may continue to reshape the consumer financial laws through rulemaking and enforcement of the prohibitions against unfair, deceptive and abusive business practices. Compliance with any such change may impact our business operations.

The CFPB has broad rulemaking authority to administer and carry out the provisions of the Dodd-Frank Act with respect to financial institutions that offer covered financial products and services to consumers. The CFPB has also been directed to adopt rules identifying practices or acts that are unfair, deceptive or abusive in connection with any transaction with a consumer for a consumer financial product or service, or the offering of a consumer financial product or service. The concept of what may be considered to be an "abusive" practice is fluid and can change based on politically-appointed leadership at the CFPB. The full scope of the impact of this authority has not yet been determined as the CFPB has not yet released significant supervisory guidance. Any new rules adopted by the CFPB could require the Bank to dedicate significant personnel resources and could have a material adverse effect on our operations.

Bank regulators and other regulations, including the Basel III Capital Rules, may require higher capital levels, impacting our ability to pay dividends or repurchase our stock.

The capital standards to which we are subject, including the standards created by the Basel III Capital Rules, may materially limit our ability to use our capital resources and/or could require us to raise additional capital by issuing common stock. The issuance of additional shares of common stock could dilute existing stockholders.

A material weakness or significant deficiency in our disclosure or internal controls could have an adverse effect on us.

The Company is required by the Sarbanes-Oxley Act of 2002 to establish and maintain disclosure controls and procedures and internal control over financial reporting. These control systems are intended to provide reasonable assurance that material information relating to the Company is made known to our management and reported as required by the Exchange Act, to provide reasonable assurance regarding the reliability and preparation of our financial statements, and to provide reasonable assurance that fraud and other unauthorized uses of our assets are detected and prevented. We may not be able to maintain controls and procedures that are effective at the reasonable assurance level. If that were to happen, our ability to provide timely and accurate information about the Company, including financial information, to investors could be compromised and our results of operations could be harmed. Moreover, if the Company or its independent registered public accounting firm were to identify a material weakness or significant

deficiency in any of those control systems, our reputation could be harmed and investors could lose confidence in us, which could cause the market price of the Company's stock to decline and/or limit the trading market for the common stock.

Customer concern about deposit insurance may cause a decrease in deposits held at the Bank.

Due to the large number of bank failures that have occurred since the 2008 recession, banking customers across the country have become increasingly concerned about the extent to which their deposits are insured by the FDIC. This concern could cause the Bank's customers to withdraw deposits from the Bank in an effort to ensure that the amount they have on deposit with us is fully-insured. Because the Bank relies heavily on deposits to fund loans and purchase other interest-earning assets, a decrease in deposits could have a materially adverse effect on our funding costs and net income.

The Bank's funding sources may prove insufficient to replace deposits and support our future growth.

The Bank relies on customer deposits, advances from the FHLB, lines of credit at other financial institutions and brokered funds to fund our operations. Although the Bank has historically been able to replace maturing deposits and advances if desired, no assurance can be given that the Bank would be able to replace such funds in the future if our financial condition or the financial condition of the FHLB or market conditions were to change. Our financial flexibility will be severely constrained and/or our cost of funds will increase if we are unable to maintain our access to funding or if financing necessary to accommodate future growth is not available at favorable interest rates. Finally, if we are required to rely more heavily on more expensive funding sources to support future growth, our revenues may not increase proportionately to cover our costs. In that case, our profitability would be adversely affected.

We may need to raise additional capital in the future, and such capital may not be available when needed or at all.

The Company may need to raise additional capital in the future to provide it with sufficient capital resources and liquidity to meet our commitments and business needs including complying with new regulatory capital rules, particularly if its asset quality or earnings were to deteriorate significantly. Our ability to raise additional capital, if needed, will depend on, among other things, conditions in the capital markets at that time, which are outside of its control, and its financial condition. Economic conditions and the loss of confidence in financial institutions may limit access to certain customary sources of capital, and increase the Bank's cost of raising capital. No assurance can be given that such capital will be available on acceptable terms or at all. Any occurrence that may limit our access to the capital markets, such as a decline in the confidence of depositors, investors or counterparties participating in the capital markets may adversely affect our capital costs and our ability to raise capital and, in turn, our liquidity. Moreover, if we need to raise capital in the future, we may have to do so when many other financial institutions are also seeking to raise capital and would have to compete with those institutions for investors. An inability to raise additional capital on acceptable terms as and when needed could have a materially adverse effect on our business, financial condition and results of operations.

The Bank's lending activities subject the Bank to the risk of environmental liabilities.

A significant portion of the Bank's loan portfolio is secured by real property. During the ordinary course of business, the Bank may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Bank may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Bank to incur substantial expenses and may materially reduce the affected property's value or limit the Bank's ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase the Bank's exposure to environmental liability. Although the Bank has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on our financial condition and results of operations.

We may be subject to claims and the costs of defensive actions, and such claims and costs could materially and adversely impact our financial condition and results of operations.

Our customers may sue us for losses due to alleged breaches of fiduciary duties, errors and omissions of employees, officers and agents, incomplete documentation, our failure to comply with applicable laws and regulations, or many other reasons. Also, our employees may knowingly or unknowingly violate laws and regulations. Management may not be aware of any violations until after their occurrence. This lack of knowledge may not insulate us from liability. Claims and legal actions will result in legal expenses and could subject us to liabilities that may reduce our profitability and hurt our financial condition.

We may not be able to keep pace with developments in technology.

We use various technologies in conducting our businesses, including telecommunication, data processing, computers, automation, internet-based banking, and debit cards. The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. Our future success depends, in part, on our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology driven products and services or be successful in marketing these products and services to our customers. In addition, our implementation of certain new technologies, such as those related to artificial intelligence, automation and algorithms, in our business processes may have unintended consequences due to their limitations or our failure to use them effectively. In addition, cloud technologies are also critical to the operation of our systems, and our reliance on cloud technologies is growing. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse effect on our business, financial condition and results of operations.

Our information systems may experience an interruption or a breach in security, including due to cyber-attacks.

Our business depends heavily on the use of computer systems, the Internet and other means of electronic communication and recordkeeping. In the ordinary course of business, we collect and store sensitive data, including proprietary business information and personally identifiable information of our customers and employees in systems and on networks. Moreover, we use third party vendors to provide products and services necessary to conduct our day-to-day operations, which exposes us to the risk that these vendors will not perform in accordance with the service arrangements, including by failing to protect the confidential information we entrust to them. The secure processing, maintenance, and use of our and our customers' information is critical to our operations and business strategy. Any failure, interruption, or breach in security or operational integrity of our communications or operations systems could result in failures or disruptions in our customer relationship management, general ledger, deposit, loan, and other systems. Although we have invested in various technologies and continually review processes and practices that are designed to protect our networks, computers, and data from damage or unauthorized access, our computer systems and infrastructure, and those of our third-party vendors, may nevertheless be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. Further, cyber-attacks can originate from a variety of sources and the techniques used are increasingly sophisticated. A breach of any kind could compromise our systems and those of our vendors, and the information stored there could be accessed, damaged, or disclosed. A breach in security or other failure could result in legal claims, regulatory penalties, disruptions in operations, increased expenses, loss of customers and business partners, and damage to our reputation, which could in turn adversely affect our business, financial condition and/or results of operations. Furthermore, as cyber threats continue to evolve and increase, we may be required to expend significant additional financial and operational resources to modify or enhance our protective measures, or to investigate and remediate any identified information security vulnerabilities.

We may not achieve the expected benefits from the Insurance Subsidiary.

We formed the Insurance Subsidiary as a captive insurance company in late 2016 to insure or reinsure certain risks faced by the Bank as part of our enterprise-wide, multi-year insurance strategy to better position our risk programs and provide us with increased flexibility in the management of our insurance programs as well as contribute to efficiencies relating to our insurance programs over time. As indicated by our decision to not renew our most recent policy, we may deviate from or change our insurance strategy from time to time, such as by choosing to not purchase

insurance coverage through the Insurance Subsidiary for a particular year. If we do purchase insurance coverage through the Insurance Subsidiary, we may experience unanticipated events that could reduce or eliminate the benefits, both operational and financial, that we hope to realize through this entity, including, without limitation, significant insurance claims and/or changes in tax laws. In particular, we may not realize the tax benefits of owning a captive insurance company, which are discussed in the section of Item 1 of this annual report entitled “**Supervision and Regulation**” under the heading “**Laws Related to the Insurance Subsidiary**”. Although we believe that we have structured the Insurance Subsidiary’s operations to achieve these benefits, no assurance can be given that our efforts were or will be successful. If we are unable to achieve these benefits, then we will likely suspend the operations of the Insurance Subsidiary.

It should be noted that the operation by financial holding companies of captive insurance companies having a structure similar to the Insurance Subsidiary and FCBI is a relatively new development. If we are not able to successfully manage the Insurance Subsidiary, then our financial condition and/or results of operations could be materially and adversely impacted.

Certain of our U.S. consolidated federal income tax returns are currently being audited.

In April 2018, we were notified by the IRS that our 2016 U.S. consolidated federal tax return was selected for audit. In April 2020, we were notified by the IRS that our 2017 and 2018 U.S. consolidated federal tax returns had also been selected for audit. As part of its audits, the IRS reviewed the deductions related to, and the income generated by, the Insurance Subsidiary. Following the completion of its audits, the IRS determined that it disagreed with our tax treatment of the Insurance Subsidiary in 2016, 2017 and 2018, and we have appealed such determination. Management cannot predict whether our appeal and defense of our tax positions will be successful. If our appeal is not successful, then we could be required to pay taxes, interest, and penalties totaling approximately \$2.0 million as of December 31, 2024 for the tax years under audit and our taxable earnings and/or the effective tax rate on our future earnings could increase substantially, any of which could have a material adverse effect on our business, financial condition and results of operations. See Note 11 to the consolidated financial statements presented elsewhere in this report for further information about this risk.

In August 2023, the IRS notified us that our 2019 and 2020 U.S. consolidated federal tax returns had been selected for audit. In January 2023, the IRS notified us that our 2021 U.S. consolidated federal tax return had also been selected for audit. Management believes that the Insurance Subsidiary is the focus of these audits, but that might not be the case. Management cannot predict whether any of the tax positions taken in our 2019, 2020 or 2021 returns will be challenged by the IRS or, if challenged, whether we will be successful in defending those tax positions. If we are not successful in defending a challenge to our tax positions, then we could be required to amend the applicable tax return and pay additional taxes, interest, fines and/or penalties. More specifically, if the Insurance Subsidiary is the focus of these audits and we are not successful in defending a challenge to our tax positions related thereto, then we estimate that we could be required to pay additional taxes, interest, fines and/or penalties of approximately \$1.6 million.

Compliance with ever-evolving federal and state laws relating to the handling of information about individuals involves significant expenditure and resources, and any failure by us or our vendors to comply may result in significant liability, negative publicity, and/or an erosion of trust, which could materially adversely affect our business, results of operations, and financial condition.

We are subject to a number of U.S. federal, state, local and foreign laws and regulations relating to consumer privacy and data protection. Under privacy protection provisions of the GLBA and its implementing regulations and guidance, we are limited in our ability to disclose certain non-public information about consumers to nonaffiliated third parties. The GLBA regulates, among other things, the use of certain information about individuals (“non-public personal information”) in the context of the provision of financial services, including by banks and other financial institutions. The GLBA includes both a “Privacy Rule,” which imposes obligations on financial institutions relating to the use or disclosure of non-public personal information, and a “Safeguards Rule,” which imposes obligations on financial institutions and, indirectly, their service providers to implement and maintain physical, administrative and technological measures to protect the security of non-public personal financial information. Any failure to comply with the GLBA could result in substantial financial penalties and significant reputational harm. Multiple states have recently enacted, or are expected to enact, stringent privacy laws, not all of which exempt financial institutions

categorically. Many other states are currently reviewing or proposing the need for greater regulation of the collection, sharing, use and other processing of information related to individuals for marketing purposes or otherwise, and there remains increased interest at the federal level as well. Further, to comply with the varying state laws around data breaches, we must maintain adequate security measures, which require significant investments in resources and ongoing attention.

Additionally, laws, regulations, and standards covering marketing, advertising, and other activities conducted by telephone, email, mobile devices, and the internet are or may become applicable to our business, such as the Telephone Consumer Protection Act, the CAN-SPAM Act, and similar state consumer protection and communication privacy laws. We occasionally make telephone calls and/or send SMS text messages to customers. The actual or perceived improper calling of customer phones and/or sending of text messages may subject us to potential risks, including liabilities or claims relating to consumer protection laws such as the Telephone Consumer Protection Act. Numerous class-action suits under federal and state laws have been filed in recent years against companies who conduct telemarketing and/or SMS texting programs, with many resulting in multi-million-dollar settlements to the plaintiffs. Any future such litigation against us could be costly and time-consuming to defend. In particular, the Telephone Consumer Protection Act imposes significant restrictions on the ability to make telephone calls or send text messages to mobile telephone numbers without the prior consent of the person being contacted. Federal or state regulatory authorities or private litigants may claim that the notices and disclosures we provide, form of consents we obtain or our outreach practices are not adequate or violate applicable law. This may in the future result in civil claims against us. Claims that we have violated the Telephone Consumer Protection Act could be costly to litigate, whether or not they have merit, and could expose us to substantial statutory damages or costly settlements.

We also send marketing messages via email and are subject to the CAN-SPAM Act. The CAN-SPAM Act imposes certain obligations regarding the content of emails and providing opt-outs (with the corresponding requirement to honor such opt-outs promptly). While we strive to ensure that all of our marketing communications comply with the requirements set forth in the CAN-SPAM Act, any violations could result in the FTC seeking civil penalties against us.

Moreover, we are considered a “user” of consumer reports provided by consumer reporting agencies under the FCRA, as amended by the Fair and Accurate Credit Transactions Act. FCRA regulates and protects consumer information collected by consumer reporting agencies and imposes specific obligations on “users” of consumer reports. Such obligations may include restricting the sharing of information contained in a consumer report, notifying consumers when such reports are used to make an adverse decision, and, in the context of completing employee background checks, providing a notice containing certain disclosures to the consumer and obtaining their consent.

Consumers may decide not to use banks to complete their financial transactions.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that historically have involved banks. For example, consumers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds or general-purpose reloadable prepaid cards. Consumers can also complete transactions, such as paying bills and/or transferring funds directly without the assistance of banks. Although the digital asset marketplace has in recent months experienced substantial instability, transactions utilizing digital assets, including cryptocurrencies, stablecoins and other similar assets, have increased substantially over the course of the last several years. Certain characteristics of digital asset transactions, such as the speed with which such transactions can be conducted, the ability to transact without the involvement of regulated intermediaries, the ability to engage in transactions across multiple jurisdictions, and the anonymous nature of the transactions, are appealing to certain consumers notwithstanding the various risks posed by such transactions as illustrated by the current and ongoing market volatility. Accordingly, digital asset service providers, which at present are not subject to the extensive regulation of banking organizations and other financial institutions, have become active competitors for our customers’ banking business. The process of eliminating banks as intermediaries, known as “disintermediation”, could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. Further, an initiative by the CFPB, as prompted by the current Presidential Administration, to promote “open and decentralized banking” through the proposal of a Personal Financial Data Rights rule designed to facilitate the transfer of customer information at the direction of the customer to other financial institutions could lead to greater competition for products and services among banks and nonbanks alike if a final rule is adopted. The timing of and prospects for any such action are uncertain at this time. The loss of these revenue streams

and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

The loss of key personnel could disrupt our operations and result in reduced earnings.

Our growth and profitability will depend upon our ability to attract and retain skilled managerial, marketing and technical personnel. Competition for qualified personnel in the financial services industry is intense, and there can be no assurance that we will be successful in attracting and retaining such personnel. Our current executive officers provide valuable services based on their many years of experience and in-depth knowledge of the banking industry and the market areas we serve. Due to the intense competition for financial professionals, it might be difficult to find qualified replacements in the event that a key employee's employment were to terminate, which could disrupt the continuity of operations and/or result in a reduction in earnings.

We are a community bank and our ability to maintain our reputation is critical to the success of our business.

We are a community banking institution, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our current market and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.

The Company is subject to risks from a proxy contest and/or the actions of activist stockholders.

The Company could from time to time receive notices of a stockholder's intention to submit proposals for approval and/or nominate candidates for election to the Company's Board of Directors at an annual or special meeting of stockholders and, in connection therewith, solicit proxies from our stockholders. In the event that the Company's Board of Directors disagrees with such a proposal and/or believes that such candidates would not complement the rest of the Board, the Company might oppose such proposal and/or candidates in its proxy statement for that meeting. A proxy contest or related activities on the part of the proposing stockholder could adversely affect our business for a number of reasons, including, without limitation, the following:

- Responding to proxy contests and other actions by activist stockholders can be costly and time-consuming, disrupting our operations and diverting the attention of management and our employees;
- Perceived uncertainties as to our future direction may result in the loss of potential business opportunities and may make it more difficult to attract and retain qualified personnel, business partners, customers and others important to our success, any of which could negatively affect our business and our results of operations and financial condition; and
- Our ability to effectively and timely implement our strategic plans and/or to realize long-term value from our assets could be adversely affected if nominees advanced by activist stockholders are elected or appointed to the Company's Board of Directors with a specific agenda, and that could in turn have an adverse effect on our business and on our results of operations and financial condition.

Proxy contests could cause our stock price to experience periods of volatility. Further, if a proxy contest results in a change in control of the Company's Board of Directors, then such an event could subject us to risks relating to certain third parties' rights under our existing contractual obligations, which could adversely affect our business.

Risks Relating to Ownership of Our Common Stock

Our ability to pay dividends on the common stock is limited by applicable law, and the payment of dividends is at the discretion of our board of directors.

Because the Company is not engaged in any direct business activities, the Company expects to fund dividends, if and when declared by the Company's board of directors, using cash received from the Bank and the Insurance Subsidiary. No assurance can be given that the Bank or the Insurance Subsidiary will be able to pay dividends to the Company for these purposes at times and/or in amounts requested by the Company. Both federal and Maryland laws impose restrictions on the ability of the Bank to pay dividends, and Tennessee law imposes restrictions on the Insurance Subsidiary's ability to pay dividends. Further information about these limitations is contained in Item 5 of Part II of this annual report under the heading, "Market Price Analysis and Dividends".

Notwithstanding the foregoing, stockholders must understand that the declaration and payment of dividends and the amounts thereof are at the discretion of the Company's board of directors. Thus, even at times when the Company could pay cash dividends on its common stock, neither the payment of such dividends nor the amounts thereof can be guaranteed.

The shares of common stock are not insured.

The shares of our common stock are not deposits and are not insured against loss by the FDIC or any other governmental or private agency.

Our common stock is not heavily traded, and the stock price may fluctuate significantly.

Our common stock is not traded on any exchange. Certain brokers currently make a market in the common stock by trading shares in the over-the-counter market, but such transactions are infrequent and the volume of shares traded is relatively small. Management cannot predict whether these or other brokers will continue to make a market in our common stock. Prices on stock that is not heavily traded, such as our common stock, can be more volatile than stock trading in an active public market. Factors such as our financial results, the introduction of new products and services by us or our competitors, publicity regarding the banking industry, and various other factors affecting the banking industry may have a significant impact on the market price of the shares of our common stock. Likewise, events that are unrelated to the Company but that affect the equity markets generally, such as international health crises, wars, political instability and similar factors, could also have a significant impact on the market price and trading volume of the shares of common stock. Management also cannot predict the extent to which an active public market for our common stock will develop or be sustained in the future. Accordingly, stockholders may not be able to sell their shares of our common stock at the volumes, prices, or times that they desire.

The Company's Articles of Incorporation and Bylaws and Maryland law may discourage a corporate takeover.

The Company's Articles of Incorporation (the "Charter") and Bylaws contain certain provisions designed to enhance the ability of the Company's board of directors to deal with attempts to acquire control of the Company. First, the board of directors is classified into four classes. Directors of each class serve for staggered four-year periods, and no director may be removed except for cause, and then only by the affirmative vote of a majority of the outstanding voting stock. Second, the board has the authority to classify and reclassify unissued shares of stock of any class or series of stock by setting, fixing, eliminating, or altering in any one or more respects the preferences, rights, voting powers, restrictions and qualifications of, dividends on, and redemption, conversion, exchange, and other rights of, such securities. The board could use this authority, along with its authority to authorize the issuance of securities of any class or series, to issue shares having terms favorable to management to a person or persons affiliated with or otherwise friendly to management. In addition, the Bylaws require any stockholder who desires to nominate a director to abide by strict notice requirements.

Maryland laws include provisions that could discourage a sale or takeover of the Company. The Maryland Business Combination Act generally prohibits, subject to certain limited exceptions, corporations from being involved in any "business combination" (defined as a variety of transactions, including a merger, consolidation, share exchange, asset transfer or issuance or reclassification of equity securities) with any "interested stockholder" for a period of five

years following the most recent date on which the interested shareholder became an interested stockholder. An interested stockholder is defined generally as a person who is the beneficial owner of 10% or more of the voting power of the outstanding voting stock of the corporation after the date on which the corporation had 100 or more beneficial owners of its stock or who is an affiliate or associate of the corporation and was the beneficial owner, directly or indirectly, of 10% percent or more of the voting power of the then outstanding stock of the corporation at any time within the two-year period immediately prior to the date in question and after the date on which the corporation had 100 or more beneficial owners of its stock. The Maryland Control Share Acquisition Act applies to acquisitions of “control shares”, which, subject to certain exceptions, are shares the acquisition of which entitle the holder, directly or indirectly, to exercise or direct the exercise of the voting power of shares of stock of the corporation in the election of directors within any of the following ranges of voting power: one-tenth or more, but less than one-third of all voting power; one-third or more, but less than a majority of all voting power or a majority or more of all voting power. Control shares have limited voting rights. Maryland banking law provides that the Maryland Commissioner must approve certain acquisitions of the common stock of the Company or the Bank, and this law imposes a mandatory five-year voting prohibition on shares that are acquired without the required approval.

Although these provisions do not preclude a takeover, they may have the effect of discouraging, delaying or deferring a tender offer or takeover attempt that a shareholder might consider in his or her best interest, including those attempts that might result in a premium over the market price for the common stock. Such provisions will also render the removal of the Company’s board of directors and of management more difficult and, therefore, may serve to perpetuate current management. These provisions could potentially adversely affect the market prices of the Company’s securities.

The Company has adopted a stockholder rights agreement that could make it difficult for a person or group of persons to acquire more than 11% of our issued and outstanding stock.

On July 30, 2024, in an effort to protect the interests of the Company and its stockholders by, among other things, guarding against hostile takeover attempts, abusive tactics, and other tactics potentially disadvantageous to the interests of the Company and its stockholders, the Company’s Board of Directors adopted a stockholder rights agreement pursuant to which it issued to the record holders of common stock one right in respect of each share of common stock held by such holders as of the close of business on August 12, 2024 (the “Rights Agreement”). In general terms, the Rights Agreement imposes significant dilution upon any person or group (other than the Company or certain related persons) that is or becomes the beneficial owner of 11% or more of the outstanding shares of common stock without the prior approval of the Board. The Rights Agreement could make it difficult for a stockholder or group of stockholders acting together to acquire more than 11% of the outstanding shares of our common stock without causing significant dilution to that stockholder or group’s ownership interest in the Company. A more complete summary of the Rights Agreement, which is filed as Exhibit 4.1 to this Annual Report, is set forth in the Company’s Current Report on Form 8-K that was filed with the SEC on July 30, 2024.

ITEM 1B. UNRESOLVED STAFF COMMENTS

This Item 1B is not applicable because the Company is a “smaller reporting company”.

ITEM 1C. CYBERSECURITY

The Company’s cybersecurity risk program was developed and is maintained to identify, analyze, and remediate the associated risks that cyber threats pose to our organization, particularly in light of our continually increasing reliance on technology in delivering electronic banking solutions and supporting our computer network. The program is overseen and executed by a team of experienced, certified cybersecurity professionals.

The objective of our program is to avoid or minimize the impact of external threats and efforts to disrupt and/or gain unauthorized access to our computer systems and the secure customer data information stored on these systems. Our computer environment is aligned with the National Institute of Standards and Technology Cybersecurity (the “NIST”) framework, banking regulations, and other applicable security industry standards and protocols. We use industry expert vendors to provide 24/7/365 threat intelligence and network security monitoring and to provide periodic risk assessment audits, in addition to the periodic information technology audit examinations conducted by

the FDIC and Maryland Commissioner. Our President and our Information Technology Security/Compliance Officer provide periodic reports, recommendations and information about industry best practices to the Board of Directors, the Board's Audit Committee, and the Bank's Information Technology Strategic Planning Committee.

Our Information Technology Security/Compliance Officer is primarily responsible for the ongoing review and management of our cybersecurity risk program and provides quarterly reports and other information throughout the year to our President, our Board of Directors, the Board's Audit Committee and its Executive Committee, and the Bank's Information Technology Strategic Planning Committee for the purpose of providing them with an understanding of our ongoing monitoring activities and preparedness with respect to our cybersecurity risks so that they can engage in an informed review of our program and direct the implementation of our ongoing monitoring activities and preparedness with respect to our cybersecurity risks so that they can engage in an informed review of our program and direct the implementation of appropriate changes as and when needed.

IT Security/Compliance – Annual Cybersecurity Risk Assessment (Board Review/Approval)

Our Information Technology Security/Compliance Officer completed a comprehensive self-assessment of the Federal Financial Institutions Examination Council Cybersecurity Assessment Tool ("CAT"). The CAT is developed by the Financial Service Sector Coordinating Council and is aligned to the NIST Cybersecurity framework in the identification of organizational risks and determination of cybersecurity preparedness. These assessments take into account our organizational characteristics and actual and perceived external threats and evaluate, among other things, how those threats could impact and be impacted by our technologies and connection types, our delivery channels, our online and mobile banking products and other electronic banking services, our risk management oversight and controls, our dependence on outside vendors and how we manage those relationships, and our cybersecurity incident management process. The Company's third-party information technology network security consultant reviews the completed CAT reports, along with our annual information technology risk assessment audit reviews.

Cybersecurity Defense Approach

We deploy and maintain a layered cybersecurity defense approach to securely protect our network computer systems, software applications, and stored data/information resources. As a first layer of defense, we employ a multi-faceted firewall and replication of primary and backup servers in our computer network. The Company receives daily and weekly reports and cybersecurity activity alerts, which are reviewed by our network administration management team. Our President and our Information Technology Security/Compliance Officer present quarterly Customer Data & Information Systems Security Program report updates to our boards of directors and their joint Executive Committee.

Third-Party Vendor Management

In accordance with the FDIC's information technology ("IT") compliance requirement for an annual vendor risk management program, the Bank developed a vendor management policy and performs an annual risk assessment review. This comprehensive review of mission-critical bank industry and network security vendors includes annual review of vendor compliance reports performed by accounting and audit firms, reviews of annual financial reports for vendors, and risk assessment reviews encompassing vendor performance, information technology compliance, operations, quality of service and support, contractual compliance, and business resumption contingency plans. These annual vendor management risk assessments are evaluated by the bank's designated Information Technology Security/Compliance Officer for review and authorization by the bank's President and senior information technology management, with final presentation, review, and approval by the Board of Directors. Complementing the Bank's vendor risk assessment review and program, are additional risk assessment evaluations including the FDIC Risk Assessment, inclusive of network systems risk assessment, customer information systems risk assessment, and electronic banking vendor management risk assessment. Additionally, the Bank maintains a disaster recovery policy and conducts annual disaster recovery testing with respect to its mission-critical software vendor applications, as well as performs an annual business impact analysis that evaluates each mission-critical vendor in a prioritized hierarchy of hardware and software restoration relative to specified recovery time objectives and recovery time objectives in accordance with the FDIC's information technology compliance requirements.

Incident Response Program

In accordance with the FDIC's requirement for development of an annual IT incident response policy, the Bank maintains an incident response and computer forensics policy. This policy is reviewed on an annual basis and updated as necessary by the Bank's President and its Information Technology Security/Compliance Officer and then presented for review and approval by the Bank's Board of Directors. The policy is also reviewed as part of an annual network security risk assessment audit conducted by the Bank's IT security consultant and by the FDIC and the Maryland Commissioner when they conduct their IT examinations. The Bank has established incident alert levels, response and recovery timeframes, and computer forensics procedures for cybersecurity attack events, data breaches of sensitive information, systems failures and alerts, and corresponding customer and key contact notification including regulatory, vendors, local authorities, and bank directors/employees. The Bank annually contracts with a third-party industry expert vendor to provide computer forensics guidance and escalated support in the event of a cybersecurity incident when such vendor's expertise and resources are needed.

Security Awareness and Training

The Bank maintains a program led by our Information Technology Security/Compliance Officer that is intended to comply with the FDIC's requirement for annual network security training of all employees. This training program includes a comprehensive network security overview, including phishing and ransomware awareness training, a summary review of the Bank's disaster recovery and pandemic plans, and an annual renewal and authorization of an employee network acceptable use policy. In addition, the Bank's IT management and network administrators attend periodic training programs and certifications, review regulatory compliance and industry IT security briefs, and participate in vendor application quality assurance reviews. Finally, we provide our customers with information about cybersecurity awareness and electronic banking security practices, phishing and malware awareness, and fraudulent scams targeting customers on our dedicated website.

ITEM 2. PROPERTIES

The Bank owns properties at which it operates branches at the following locations:

Main Office 15226 Hanover Pike Upperco, MD 21155	Owings Mills Branch 9320 Lakeside Boulevard Owings Mills, MD 21117	Eldersburg Branch 1321 Liberty Road Eldersburg, MD 21784
Reisterstown Branch 25 Westminster Pike Reisterstown, MD 21136	Westminster Branch 275 Clifton Boulevard Westminster, MD 21157	

The Bank's book value investment in land and buildings at December 31, 2024 totaled \$6.1 million or 0.7% of total assets. Other than for banking purposes, the Bank does not invest in real estate. For future expansion purposes, the Bank owns two properties adjacent to its main office at 15216 and 15218 Hanover Pike, Upperco, Maryland 21155. The properties presently consist of two lots, each with a single family residence. One property is rented on a month-to-month lease. The other property has not been rented since 2011. The total rental income for both properties for 2024 was \$4,600.

There are no encumbrances on any of these properties. Management believes that all of its properties are adequately insured. In 2024 and 2023, the properties owned by the Bank in Baltimore County, Maryland were subject to state and county real estate taxes at a combined rate of 1.21%, and the property owned by the Bank in Carroll County, Maryland was subject to state, county and municipal real estate taxes at combined rate of 1.69%. The Bank expensed \$79.4 thousand and \$82.6 thousand, respectively, in real estate taxes on these properties in 2024 and 2023.

The Bank operates under leases at the following properties:

Location	Square Feet	Current Annual Rent	Lease Expiration
Greenmount In-Store Branch 2205 Hanover Pike Hampstead, MD 21074	709	\$ 62,205	1/31/2028
Hampstead Branch 735 Hanover Pike Hampstead, MD 21074 (Land lease)	22,000	\$ 60,564	9/30/29, with option to renew for four consecutive five-year terms
Corporate Offices 4510 Lower Beckleysville Road Suite H Hampstead, MD 21074	4,171	\$ 50,360	6/17/25, with the option to renew for three consecutive five-year terms
Carroll Lutheran Village Branch 300 St. Luke Circle Westminster, MD 21158	1,024	\$ 25,303	5/15/28, with option to renew for one five-year term
Towson Office 22 West Pennsylvania Avenue 1st Floor Towson, MD 21204	3,291	\$ 75,693	2/1/29, with option to renew for two five-year terms

Note 6 and Note 8 to the consolidated financial statements included elsewhere in this annual report contain additional information about the Bank's premises and equipment.

ITEM 3. LEGAL PROCEEDINGS

We are at times, in the ordinary course of business, subject to legal actions. Management, upon the advice of counsel, believes that losses, if any, resulting from current legal actions will not have a material adverse effect on our financial condition or results of operations.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Price Analysis and Dividends

As of February 28, 2025, the shares of the Company's common stock were held by approximately 469 stockholders of record. Although many trades occur through privately-negotiated transactions, the shares of the Company's common stock are traded in the over-the-counter market by certain broker-dealers and price quotations are available through the OTC Markets Group's OTC Pink Market (the "Pink Market") under the symbol "FMFG". Price quotations reported through the Pink Market reflect inter-dealer prices, without retail mark-up, mark-down, or commission, and may not necessarily represent actual transactions.

The Company's ability to declare and pay dividends is limited by applicable laws. Subject to these laws, the payment of dividends is at the discretion of the Company's board of directors, who considers such factors as operating results, financial condition, capital adequacy, regulatory requirements, and stockholder return. Maryland corporation laws prohibit the Company from paying dividends on our capital stock, including the common stock, unless, after giving effect to a proposed dividend, (i) we will be able to pay our debts as they come due in the normal course of business and (ii) our total assets will be greater than our total liabilities plus, unless our Charter permits otherwise, the amount that would be needed, if we were to be dissolved at the time of the dividend, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights on dissolution are superior to those receiving the dividend. Notwithstanding our inability to pay dividends pursuant to item (ii) above, we may nevertheless pay dividends out of (a) our net earnings for the fiscal year in which the distribution is made, (b) our net earnings for the preceding fiscal year, or (c) the sum of our net earnings for the preceding eight fiscal quarters.

The Company's ability to pay dividends will be largely dependent on its receipt of dividends from the Bank. Like the Company, the Bank's ability to declare and pay dividends is subject to limitations imposed by federal and Maryland banking and Maryland corporation laws.

Federal law prohibits the payment of a dividend by an insured depository institution if the depository institution is considered "undercapitalized" or if the payment of the dividend would make the institution "undercapitalized". Maryland state-chartered banks may pay dividends only out of undivided profits or, with the prior approval of the Maryland Commissioner, from surplus in excess of 100% of required capital stock. If, however, the surplus of a Maryland bank is less than 100% of its required capital stock, then cash dividends may not be paid in excess of 90% of net earnings. In addition to these specific restrictions, bank regulatory agencies have the ability to prohibit a proposed dividend by a financial institution that would otherwise be permitted under applicable law if the regulatory body determines that the payment of the dividend would constitute an unsafe or unsound banking practice. A bank that is considered to be a "troubled institution" is prohibited by federal law from paying dividends altogether.

Equity Compensation Plan Information

Pursuant to the SEC's Regulation S-K Compliance and Disclosure Interpretation 106.01, the information regarding the Corporation's equity compensation plans required by this Item pursuant to Item 201(d) of Regulation S-K is located in Item 12 of Part III of this annual report and is incorporated herein by reference.

Sales of Unregistered Securities

During the year ended December 31, 2024, Farmers and Merchants Bancshares, Inc. did not sell any equity securities that were not registered under the Securities Act of 1933, as amended.

Issuer Purchases of Equity Securities

Neither the Company nor any "affiliated purchaser" of the Company purchased any shares of the Company's common stock during the quarter ended December 31, 2024.

ITEM 6. [RESERVED]

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto for the years ended December 31, 2024 and 2023, which are presented elsewhere in this annual report.

The Company was incorporated on August 8, 2016 for the purpose of becoming the bank holding company of the Bank in a share exchange transaction that was intended to constitute a tax-free exchange for federal income tax purposes. This reorganization was consummated on November 1, 2016, at which time the Bank became a wholly-owned subsidiary of the Company and all of the Bank's stockholders became stockholders of the Company by virtue of the conversion of their shares of common stock of the Bank into an equal number of shares of common stock of the Company.

The Merger was effected on October 1, 2020 and involved the acquisition of Carroll by Farmers and Merchants Bancshares, Inc., with Farmers and Merchants Bancshares, Inc. as the surviving corporation, and the acquisition of Carroll Community Bank by the Bank, with the Bank as the surviving bank subsidiary. The Merger was intended to constitute a tax-free reorganization for federal income tax purposes.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The consolidated financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and follow general practices within the industry in which the Company operates. Application of these principles requires management to make estimates, assumptions, and judgments that affect the amounts reported in the consolidated financial statements and accompanying notes. These estimates, assumptions, and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions, and judgments. Certain policies inherently have a greater reliance on the use of estimates, assumptions, and judgments and as such have a greater possibility of producing results that could be materially different than originally reported.

The most significant accounting policies followed by the Company are presented in Note 1 to the consolidated financial statements presented elsewhere in the annual report. These policies, along with the disclosures presented in the other financial statement notes and in this financial review, provide information on how significant assets and liabilities are valued in the financial statements and how those values are determined. Based on the valuation techniques used and the sensitivity of financial statement amounts to the methods, assumptions, and estimates underlying those amounts, management has identified the determination of the allowance for credit losses as the accounting area that requires the most subjective or complex judgments, and as such could be most subject to revision as new information becomes available.

The allowance for credit losses on loans represents management's estimate of expected credit losses in the loan portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on collateral dependent loans, estimated losses on pools of homogeneous loans based on historical loss experience, and consideration of current economic trends and conditions, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheet. Note 1 to the consolidated financial statements describes the methodology used to determine the allowance for credit losses.

Management applies various valuation methodologies to assets and liabilities that often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as most investment securities. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit and other intangible assets, other assets and liabilities obtained or assumed in business combinations. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on our results of operations, financial condition or disclosures of fair value.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

information. In addition to valuation, we must assess whether there are any declines in value below the carrying value of assets that should be considered credit losses or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statements of income. Examples include investment securities, goodwill and core deposit intangible, among others.

FINANCIAL CONDITION

Total assets were \$844.6 million at December 31, 2024, an increase of \$44.7 million, or 5.6%, over the \$799.9 million recorded at December 31, 2023. The increase was due primarily to a \$59.7 million increase in loans and a \$20.0 million increase cash and cash equivalents, offset by a decrease of \$38.0 million in investments.

Total liabilities were \$788.4 million at December 31, 2024, an increase of \$40.6 million, or 5.4%, over the \$747.8 million recorded at December 31, 2023. The increase was due primarily to an increase of \$77.8 million in deposits, offset by a decrease of \$33.0 million in Federal Reserve Bank ("FRB") advances, a decrease of \$1.2 million in repurchase agreements, a \$1.9 million decrease in long term debt, and a decrease of \$1.1 million in accrued interest payable and other liabilities.

Stockholders' equity was \$56.3 million at December 31, 2024 compared to \$52.2 at December 31, 2023, an increase of \$4.1 million or 7.8%. The increase was due primarily to net income for 2024 of \$4.3 million and a decrease in after-tax unrealized loss on available for sale securities of \$1.2 million, offset by dividends paid, net of reinvestments, of \$1.4 million.

Loans

Major categories of loans at December 31, 2024 and 2023 are as follows:

(Dollars in Thousands)	2024	2023
Real estate:		
Commercial	\$ 398,126	\$ 361,942
Construction/Land development	27,357	20,446
Residential	111,898	112,790
Commercial	50,405	32,823
Consumer	176	165
	587,962	528,166
Less: Allowance for credit losses	4,260	4,284
Deferred origination fees net of costs	709	574
	<u>\$ 582,993</u>	<u>\$ 523,308</u>
ACL to loans	0.72%	0.81%
Non accrual to loans	0.41%	0.12%
ACL to non accrual	1054.46%	654.05%

The Company had no foreign loans for any of the years presented.

Loans increased by \$59.7 million, or 11.4%, to \$583.0 million at December 31, 2024 from \$523.3 million at December 31, 2023. The increase was due primarily to an increase of \$36.2 million in commercial real estate loans and an increase of \$17.6 million in commercial loans. Additionally, construction/land development loans increased by \$1.7 million and residential loans increased by \$4.4 million. The growth was due to addition of new lending staff during the year and stabilizing interest rates. Total loan production increased by \$68.5 million in 2024 when compared to 2023 and loan payoffs increased by \$19.7 million as stabilizing rising rates allowed for

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

more borrowers to refinance. The allowance for credit losses remained flat at \$4.3 million at both December 31, 2024 and December 31, 2023.

The Company has adopted policies and procedures that seek to mitigate credit risk and to maintain the quality of the loan portfolio. These policies include underwriting standards for new credits as well as the continuous monitoring including annual external loan reviews and monthly review at loan committee, and reporting of asset quality and the adequacy of the allowance for credit losses. These policies, coupled with continuous training efforts, have provided effective checks and balances for the risk associated with the lending process. Lending authority is based on the level of risk, size of the loan, and the experience of the lending officer. The Company's policy is to make the majority of its loan commitments in the market area it serves. Management believes that this tends to reduce risk because management is familiar with the credit histories of loan applicants and has in-depth knowledge of the risk to which a given credit is subject. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

The maturities and interest rate sensitivity of the loan portfolio at December 31, 2024 were as follows:

(Dollars in thousands)	Maturing within one year	Maturing after one but within five years	Maturing after five but within fifteen years	Maturing after fifteen years	Total
Real Estate:					
Commercial	\$ 43,930	\$ 236,537	\$ 68,149	\$ 49,510	\$ 398,126
Construction/Land Development	4,988	19,324	1,626	1,419	27,357
Residential	14,290	49,280	21,262	27,066	111,898
Commercial	26,099	12,991	11,315	-	50,405
Consumer	39	134	3	-	176
	<u>\$ 89,346</u>	<u>\$ 318,266</u>	<u>\$ 102,355</u>	<u>\$ 77,995</u>	<u>\$ 587,962</u>
Rate terms:					
Fixed interest rate loans	52,218	283,913	26,959	5,602	368,692
Adjustable interest rate loans	37,128	34,353	75,396	72,393	219,270
	<u>\$ 89,346</u>	<u>\$ 318,266</u>	<u>\$ 102,355</u>	<u>\$ 77,995</u>	<u>\$ 587,962</u>

It is the Company's policy to place a loan in nonaccrual status when any portion of the principal or interest is 90 days past due unless there are mitigating factors. Management closely monitors nonaccrual loans. The Company returns a nonaccrual loan to accruing status when (i) the loan is brought current with the full payment of all principal and interest arrearages, (ii) all contractual payments are thereafter made on a timely basis for at least six months, and (iii) management determines, based on a credit review, that it is reasonable to expect that future payments will be made as and when required by the contract.

Year-end non-accrual loans, segregated by class of loans, were as follows:

	2024	2023
Non-accrual loans		
Commercial real estate	\$ 2,440	\$ 503
Residential real estate	-	-
Commercial	-	152
Total non-accrual loans	<u>\$ 2,440</u>	<u>\$ 655</u>

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At December 31, 2024, the Company had three non-accrual commercial real estate loans totaling \$2,440.5 thousand. Gross interest income of \$25.0 thousand would have been recorded in 2024 if these non-accrual loans had been current and performing in accordance with the original terms. The Company allocated \$360.0 thousand of its allowance for credit losses to these three non-accrual loans.

At December 31, 2023, the Company had one non-accrual commercial real estate loan totaling \$502.9 thousand and one non-accrual commercial loan totaling \$152.4 thousand. The commercial loan was secured by business assets and a personal guaranty. Gross interest income of \$45.9 thousand would have been recorded in 2023 if these non-accrual loans had been current and performing in accordance with the original terms. The Company allocated \$450.0 thousand of its allowance for credit losses to these non-accrual loans.

At December 31, 2024 and 2023, the Company had no loans that were delinquent 90 days or greater other than the non-accrual loans listed above.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and December 31, 2023:

(Dollars in thousands)	<u>2024</u>	<u>2023</u>
Real estate:		
Commercial	\$ 2,440	\$ 2,515
Construction and land development	-	-
Residential	270	276
Commercial	-	152
Consumer	-	-
	<u>\$ 2,710</u>	<u>\$ 2,943</u>

As part of our portfolio risk management, the Company assigns a risk grade to each loan. The factors used to determine the grade are the payment history of the loan and the borrower, the value of the collateral and net worth of any guarantor, and cash flow projections of the borrower. Special mention, Substandard, and Doubtful grades are assigned to loans with a higher frequency of delinquent payments and/or the collateral and/or cash flow are insufficient to support the loan and such loans are included on the Company's watch list. The Special mention grade is intended to be a temporary grade.

Year-end loans graded special mention, substandard and doubtful are set forth in the following table:

(Dollars in thousands)	<u>2024</u>	<u>2023</u>
Special mention	\$ -	\$ -
Substandard	10,791	11,268
Doubtful	-	16
Total	<u>\$ 10,791</u>	<u>\$ 11,284</u>

The allowance for credit losses is a reserve established through a provision for credit losses and is charged to expense. The allowance for credit losses represents an amount which, in management's judgment, will be adequate to absorb expected losses on existing loans and other of credit that may become uncollectible. The Company's allowance for credit loss methodology is calculated

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in accordance with Financial Accounting Standards Board Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments". The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate.

Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Although management believes, based on currently available information, that the Company's allowance for credit losses is sufficient to cover expected losses in its loan portfolio, no assurances can be given that the Company's level of allowance for credit losses will be sufficient to cover future credit losses incurred by the Company or that future adjustments to the allowance for credit losses will not be necessary if economic or other conditions differ substantially from the economic and other conditions at the time management determined the current level of the allowance for credit losses.

The following tables detail activity in the allowance for credit losses by portfolio for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in thousands)	Beginning	Provision for	Charge	Recoveries	Ending	Allowance for credit losses ending		Outstanding loan balances	
						balance evaluated for impairment:		evaluated:	
December 31, 2024	balance	(recovery of) credit losses	offs		balance	Individually	Collectively	Individually	Collectively
Real estate:									
Commercial	\$ 2,448	\$ 33	\$ -	\$ -	\$ 2,481	\$ 360	\$ 2,122	\$ 2,440	\$ 395,686
Construction and land development	-	-	-	-	-	-	-	-	-
Residential	253	225	-	-	478	-	478	-	27,357
Commercial	1,013	(281)	(5)	24	751	-	751	270	111,628
Commercial	494	171	(152)	-	513	-	512	-	50,405
Consumer	2	7	(5)	-	4	-	4	-	176
Unallocated	74	(41)	-	-	33	-	33	-	-
	<u>\$ 4,284</u>	<u>\$ 114</u>	<u>\$ (162)</u>	<u>\$ 24</u>	<u>\$ 4,260</u>	<u>\$ 360</u>	<u>\$ 3,899</u>	<u>\$ 2,710</u>	<u>\$ 585,252</u>

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(Dollars in thousands)	Beginning	Impact of ASC	Provision for (recovery of)	Charge	Recoveries	Ending	Allowance for credit losses ending		Outstanding loan balances	
							balance evaluated for impairment:		evaluated:	
December 31, 2023	balance	326 Adoption	credit losses	offs		balance	Individually	Collectively	Individually	Collectively
Real estate:										
Commercial	\$ 2,816	\$ (448)	\$ 80	\$ -	\$ -	\$ 2,448	\$ 298	\$ 2,152	\$ 2,515	\$ 359,427
Construction and	-	-	-	-	-	-	-	-	-	-
land development	165	277	(201)	-	12	253	-	253	-	20,446
Residential	794	509	(677)	-	387	1,013	-	1,013	276	112,514
Commercial	338	134	22	-	-	494	152	341	152	32,671
Consumer	5	(5)	2	-	-	2	-	2	-	165
Unallocated	31	(31)	74	-	-	74	-	74	-	-
	<u>\$ 4,149</u>	<u>\$ 436</u>	<u>\$ (700)</u>	<u>\$ -</u>	<u>\$ 399</u>	<u>\$ 4,284</u>	<u>\$ 450</u>	<u>\$ 3,835</u>	<u>\$ 2,943</u>	<u>\$ 525,223</u>

	2024	2023
Allowance for credit losses to total loans outstanding	<u>0.72%</u>	<u>0.81%</u>
Ratio of net charge-offs to average loans outstanding during the period	<u>0.03%</u>	<u>0.00%</u>
Nonaccrual loans to total loans outstanding at period end	<u>0.41%</u>	<u>0.12%</u>
Net charge offs/(recoveries) during the period to average loans outstanding:		

	2024
Real estate:	
Commercial	0.00%
Construction and	
land development	0.00%
Residential	0.00%
Commercial	0.03%
Consumer	0.00%

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The Company recorded net loan charge offs of \$138.0 thousand during 2024. In 2023, the Company recorded a net recovery of previously charged off loans of \$398.9 thousand. The impact on the income statement was a \$114.0 thousand provision for credit losses in 2024 compared to a \$700.0 thousand recovery of credit losses in 2023.

Management believes that the \$4.3 million reserve at December 31, 2024 is appropriate to adequately cover the expected losses inherent in the loan portfolio. The reserve remained unchanged at \$4.3 million as of December 31, 2024. The Company's loan portfolio grew by \$59.7 million during the 2024. The allowance for credit losses as a percentage of gross loans was 0.72% and 0.81% as of December 31, 2024 and 2023, respectively.

Other Real Estate Owned

Other real estate owned ("OREO") at December 31, 2024 included one property with a carrying value of \$1.2 million. The property is an apartment building in Baltimore, Maryland that was acquired in the Merger. The property is being marketed for sale.

(\$000s)	2024	2023
Other Real Estate Owned	\$ 1,176	\$ 1,242

During 2023, the Company sold property located in Cecil County, Maryland with a carrying value of \$0 for a gain of \$249,217. Due to the length of time that the property had been held, Maryland banking law required a write-down of the value to \$0 in 2019.

Investment Securities

Investment securities decreased by \$38.0 million, or 20.6%, to \$146.2 million at December 31, 2024 from \$184.2 million at December 31, 2023. The decrease was due primarily to the unwinding of an interest rate swap which included the sale of \$28 million of mortgage backed securities and maturities of \$1.5 million. At December 31, 2024 and 2023, the Company had classified 86% and 89%, respectively, of the investment portfolio as available for sale. The remaining balance of the portfolio was classified as held to maturity. Securities classified as available for sale are held for an indefinite period of time and may be sold in response to changing market and interest rate conditions as part of the Company's asset/liability management strategy. Available for sale securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity, net of income taxes. Securities classified as held to maturity, which management has both the positive intent and ability to hold to maturity, are reported at amortized cost. The Company does not currently follow a strategy of making security purchases with a view to near-term sales, and, therefore, does not own trading securities. The Company manages the investment portfolio within policies that seek to achieve desired levels of liquidity, manage interest rate sensitivity, meet earnings objectives, and provide required collateral for deposit and borrowing activities.

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The following table sets forth the carrying value of investment securities at December 31:

(Dollars in thousands)	2024	2023
<u>Available for sale</u>		
State and municipal	\$ 487	\$ 485
SBA pools	629	767
Corporate bonds	7,185	8,570
Mortgage-backed securities	117,412	154,263
	<u>\$ 125,713</u>	<u>\$ 164,085</u>
<u>Held to maturity</u>		
State and municipal	<u>\$ 20,499</u>	<u>\$ 20,164</u>

The following table sets forth the scheduled maturities of investment securities at December 31, 2024:

(Dollars in thousands)	Available for Sale			Held to Maturity		
	Amortized cost	Fair value	Yield	Amortized cost	Fair value	Yield
December 31, 2024						
Within one year	\$ 1,250	\$ 1,245	3.05%	\$ 257	\$ 255	2.32%
Over one to five years	250	240	3.10%	400	391	3.33%
Over five to ten years	7,054	6,187	3.60%	8,095	7,521	2.91%
Over ten years	-	-	-	11,747	10,764	3.04%
	<u>8,554</u>	<u>7,672</u>	<u>3.51%</u>	<u>20,499</u>	<u>18,931</u>	<u>2.90%</u>
Mortgage-backed securities and SBA pools, due in monthly installments	<u>140,487</u>	<u>118,041</u>	<u>2.47%</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 149,041</u>	<u>\$ 125,713</u>	<u>2.44%</u>	<u>\$ 20,499</u>	<u>\$ 18,931</u>	<u>2.90%</u>

Deposits

Total deposits were \$758.8 million at December 31, 2024 compared to \$681.0 million at December 31, 2023, an increase of \$77.8 million, or 11.4%. The increase was due to a \$108.6 million increase in certificates of deposit a \$3.9 million increase in reciprocal deposits, and a \$0.5 million increase in individual retirement accounts, offset by a \$13.0 million decrease in checking accounts, a \$6.9 million decrease in savings accounts, a \$4.1 million decrease in money market accounts and an \$8.1 million decrease in noninterest-bearing accounts.

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31: The following table shows the average balances and average costs of deposits for the years ended December

(Dollars in thousands)	2024		2023	
	Average Balance	Cost	Average Balance	Cost
Noninterest bearing demand deposits	\$ 110,123	0.00%	\$ 119,654	0.00%
Interest bearing demand deposits	123,279	0.79%	132,407	0.50%
Savings and money market deposits	149,356	0.70%	171,253	0.43%
Certificates of deposit	<u>289,735</u>	<u>4.32%</u>	<u>218,725</u>	<u>3.01%</u>
	<u>\$ 672,493</u>	<u>2.16%</u>	<u>\$ 642,039</u>	<u>1.24%</u>

As of December 31, 2024, certificates of deposit greater than \$250,000 mature as follows:

(Dollars in thousands)

Period	Balance
3 months or less	\$ 24,392
Over 3 months to 6 months	30,506
Over 6 months to 12 months	4,125
Over 12 months	<u>2,624</u>
Total	<u>\$ 61,647</u>

Uninsured deposits totaled \$145.9 million at December 31, 2024.

Off-Balance Sheet Arrangements

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, lines of credit, including home-equity lines and commercial lines, and letters of credit. Loan commitments generally have interest rates at current market values, fixed expiration dates, and may require a fee. Lines of credit generally have variable interest rates and do not necessarily represent future cash flow requirements because it is unlikely that all customers will draw upon their lines in full at any one time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet.

For commitments to extend credit, lines of credit, and letters of credit, the Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual notional amount of these instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

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At December 31, 2024, the Company's off-balance sheet financial instruments were as follows:

Loan commitments	\$	32,249
Unused lines of credit	\$	66,754
Letters of credit	\$	1,974

Management does not believe that any of the foregoing arrangements are reasonably likely to have a material adverse effect on the Company's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

Borrowings and Other Contractual Obligations

The Company's contractual obligations consist primarily of borrowings and operating leases for various facilities.

Securities sold under agreements to repurchase represent overnight borrowings from customers. Securities owned by the Company which are used as collateral for these borrowings are primarily U.S. government agency securities.

On September 30, 2020, Farmers and Merchants Bancshares, Inc. borrowed \$17.0 million from First Horizon Bank to be used, on October 1, 2020, to fund a portion of the merger consideration paid in the Merger. Net of issuance costs of \$28.1 thousand, the Company received \$16.9 million in loan proceeds. The loan matures on September 30, 2025 and the Company is exploring refinancing options. The interest rate on the loan is fixed at 4.10%. The Company made quarterly interest-only payments through October 1, 2021. During the remaining term of the loan, the Company is required to make quarterly interest and principal payments of approximately \$646.5 thousand, which is based on a nine-year straight-line amortization schedule. The remaining balance of approximately \$9.9 million will be due at maturity. To secure its obligations under this loan, the Company pledged all of its shares of common stock of the Bank to the lender.

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Specific information about the Company's borrowings and contractual obligations is set forth in the following table:

(Dollars in thousands)	<u>At December 31,</u>	
	<u>2024</u>	<u>2023</u>
<u>Amount outstanding at year end:</u>		
Securities sold under repurchase agreements	\$ 5,564	\$ 6,760
Federal Home Loan Bank advances mature in 2025	\$ 5,000	\$ 5,000
Federal Reserve Bank Advances mature in 2024	\$ -	\$ 33,000
Long Term Debt (net of issuance costs) matures in 2025	\$ 11,329	\$ 13,212
<u>Weighted average rate paid at December 31:</u>		
Securities sold under repurchase agreements	1.25%	1.25%
Federal Home Loan Bank advances	1.00%	1.00%
Federal Reserve Bank advances	0.00%	4.83%
Long-term debt	4.10%	4.10%

The terms of the Company's operating leases, including the future minimum payments under those leases, are disclosed in Note 8 to the consolidated financial statements.

RESULTS OF OPERATIONS

Overview

The Company reported net income of \$4.3 million for the year ended December 31, 2024 compared to \$6.4 million for the year ended December 31, 2023. The decrease of \$2.1 million from 2023 was due to a decrease in net interest income of \$0.6 million, an increase in the provision for credit losses of \$0.7 million, and an increase in noninterest expense of \$1.8 million offset by an increase in noninterest income of \$0.2 million and a decrease in income taxes of \$0.8 million.

Net Interest Income

The primary source of income for the Company is net interest income, which is the difference between interest income on interest-earning assets, such as investment securities and loans, and interest expense incurred on interest-bearing sources of funds, such as deposits and borrowings.

For the year ended December 31, 2024, the Company recorded net interest income of \$20.8 million compared to \$21.4 million for 2023, a decrease of \$0.6 million. The decrease was attributable to a 102 basis point increase in the cost of interest bearing liabilities to 2.76% in 2024 from 1.74% in 2023. Higher interest expense on deposits and borrowings due to the Federal Reserve rate increases was the driving factor in the lower net interest income.

Total interest income for the year ended December 31, 2024 increased by \$7.0 million to \$38.4 million from \$31.3 million for 2023. The increase was due primarily to an increase in average interest earning assets of \$56.6 million to \$784.6 million in 2024 from \$728.0 million in 2023 and by an increase of 59 basis points in the yield on interest earning assets to 4.92% in 2024 from 4.33% in 2023.

Interest income from loans was \$30.3 million in 2024 compared to \$25.7 in 2023, an increase of \$4.6 million. This increase was attributable to a \$29 million increase in the average balance of loans to \$557.9 million in 2024 from \$528.9 million 2023 and a 58 basis point increase in the average yield on loans to 5.44% in 2024 from 4.86% in 2023.

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For the year ended December 31, 2024, the Company recorded interest income on securities of \$6.8 million compared to \$4.9 million for the same period in 2023. The \$1.9 million increase in 2024 was attributable to a \$19.1 million increase in the average balance of securities to \$201.3 million in 2024 from \$182.2 million in 2023 and a 71 basis point increase in the average yield on securities to 3.46% in 2024 from 2.75% in 2023.

Interest income on federal funds sold and other interest-earning assets (FHLB stock and certificates of deposit) increased by \$0.5 million to \$1.2 million in 2024 compared to \$0.7 million in 2023. The increase was due to a 39 basis point increase in the average yield to 5.05% in 2024 from 4.66% in 2023 and an \$8.6 million increase in the average balance of federal funds sold and other interest-earning assets to \$25.5 million in 2024 from \$16.9 million in 2023.

Total interest expense increased by \$7.6 million to \$17.5 million in 2024 compared to \$9.9 million in 2023. The increase was due to a 102 basis point increase in the cost of interest-bearing liabilities to 2.76% in 2024 from 1.74% in 2023 and an increase of \$64.2 in the average balance of interest-bearing liabilities to \$634.6 million in 2024 from \$570.4 million in 2023. The Federal Reserve rate increases were the primary cause of the significant increase in the cost of funds.

Interest paid on NOW, savings, and money market deposit accounts increased by \$616.0 thousand to \$2.0 million in 2024 compared to \$1.4 million in 2023. The increase was due to a 28 basis point increase in the cost of funds to 0.74% in 2024 from 0.46% in 2023 offset by a \$31.0 million decrease in the average balance of these deposits to \$272.6 million in 2024 from \$303.6 million in 2023.

Interest paid on time deposits increased by \$5.9 million to \$12.5 million in 2024 compared to \$6.6 million in 2023. The increase was due to an increase of 131 basis points in the average rate paid to 4.32% in 2024 from 3.01% in 2023 and an increase of \$71.0 million in the average balance to \$289.7 million in 2024 from \$218.7 million in 2023.

Interest paid on securities sold under repurchase agreements increased by \$23.5 thousand to \$65.3 thousand in 2024 compared to \$41.8 thousand in 2023. The increase was attributable to an increase of 36 basis points in the average rate paid to 1.26% in 2024 from 0.90% in 2023 and a \$540.0 thousand increase in the average balance of securities sold under repurchase agreements to \$5.2 million in 2024 from \$4.7 million in 2023.

Interest paid on long-term debt was \$507.0 thousand in 2024 compared to \$585.0 thousand in 2023. This debt relates to the \$17 million term loan obtained on September 30, 2020 to finance a portion of the cash paid to the former stockholders of Carroll in the Merger. The average balance, net of issuance costs, decreased \$2.1 million to \$12.1 million in 2024 from \$14.3 million in 2023 due to scheduled principal payments.

The FRB's Bank Term Funding Program ("BTFP") was initiated in March 2023. The Company utilized the BTFP with an average balance of \$48.7 million and \$15.5 million during 2024 and 2023, respectively and cost of 4.75% and 5.31% in 2024 and 2023, respectively. We recorded an associated interest expense of \$2.3 million and \$823.0 thousand in 2024 and 2023, respectively.

Interest paid on FHLB advances decreased \$363.2 thousand to \$122.7 thousand in 2024 from \$485.9 thousand in 2023. The change was attributable to a decrease of 161 basis points in the average rate paid to 1.96% in 2024 from 3.57% in 2023 and a \$7.3 million decrease in the average balance of FHLB advances and other borrowings to \$6.3 million in 2024 from \$13.6 million in 2023.

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The following table sets forth certain information relating to the Company's average interest-earning assets and interest-bearing liabilities for the periods indicated. The yields and rates are calculated by dividing interest income or expense by the average daily balance of assets or liabilities, respectively. Non-accruing loans are included in the average balance.

(Dollars in thousands)

	2024			2023		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
<u>Assets:</u>						
Loans	\$ 557,862	\$ 30,338	5.44%	\$ 528,910	\$ 25,731	4.86%
Securities, taxable (1)	183,194	6,268	3.42%	163,934	4,305	2.63%
Securities, tax exempt (1)	<u>18,082</u>	<u>694</u>	3.84%	<u>18,226</u>	<u>699.33</u>	3.84%
Securities combined	201,276	6,962	3.46%	182,160	5,004	2.75%
Federal funds sold and other interest earning assets (1)	<u>25,468</u>	<u>1,286</u>	5.05%	<u>16,890</u>	<u>787</u>	4.66%
Total interest-earning assets	784,606	\$ 38,586	4.92%	727,960	\$ 31,522	4.33%
Noninterest-earning assets	25,437			17,519		
Total assets	<u>\$ 810,043</u>			<u>\$ 745,479</u>		
<u>Liabilities and Stockholders' Equity:</u>						
NOW, savings, and money market	272,635	\$ 2,014	0.74%	\$ 303,661	\$ 1,398	0.46%
Certificates of deposit	289,735	12,504	4.32%	218,724	6,573	3.01%
Securities sold under repurchase agreements	5,195	65	1.26%	4,655	42	0.90%
Term Debt	12,125	508	4.19%	14,260	585	4.10%
FRB advances and other borrowings	48,694	2,313	4.75%	15,515	823	5.31%
FHLB advances	<u>6,273</u>	<u>123</u>	1.96%	<u>13,611</u>	<u>486</u>	3.57%
Total interest-bearing liabilities	634,657	\$ 17,527	2.76%	570,426	\$ 9,907	1.74%
Noninterest-bearing deposits	110,123			119,654		
Noninterest-bearing liabilities	<u>10,653</u>			<u>6,335</u>		
Total liabilities	755,433			696,415		
Stockholders' equity	54,610			49,064		
Total liabilities and stockholders' equity	<u>\$ 810,043</u>			<u>\$ 745,479</u>		
Net interest income	<u>\$ 21,059</u>			<u>\$ 21,615</u>		
Interest rate spread			2.16%			2.59%
Net yield on interest-earning assets			2.68%			2.97%
Ratio of average interest-earning assets to Average interest-bearing liabilities			123.63%			127.62%

(1) - Interest on tax-exempt securities and other tax-exempt investments are reported on a fully taxable equivalent basis. The federal, state and combined tax rates used were 21.00%, 8.25% and 27.5175% respectively.

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The following table sets forth the dollar amount of changes in interest income and interest expense for the major categories of the Company's interest-earning assets and interest-bearing liabilities. The table distinguishes between (i) changes in net interest income attributed to volume (change in volume multiplied by the prior year's interest rate), and (ii) changes in net interest income attributed to rate (change in rate multiplied by the prior year's volume). The change in interest due to the combined rate and volume changes is allocated proportionally to the change in volume and rate.

(Dollars in thousand)	Year ended December 31, 2024 compared to 2023			Year ended December 31, 2023 compared to 2022		
	Change due to variance in			Change due to variance in		
	<u>Volume</u>	<u>Rate</u>	<u>Total</u>	<u>Volume</u>	<u>Rate</u>	<u>Total</u>
Interest income:						
Loans	\$ 1,461	\$ 3,146	\$ 4,607	\$ 1,426	\$ 1,739	\$ 3,165
Securities, taxable	549	1,414	1,963	158	1,160	1,318
Securities, tax exempt	(5)	-	(5)	(21)	(15)	(36)
Federal funds sold and other interest-earning assets	<u>428</u>	<u>71</u>	<u>499</u>	<u>49</u>	<u>575</u>	<u>624</u>
Total interest-earning assets	<u>2,433</u>	<u>4,631</u>	<u>7,064</u>	<u>1,612</u>	<u>3,459</u>	<u>5,071</u>
Interest expense:						
NOW, savings, and money market	(155)	771	616	(46)	968	922
Certificates of deposit	2,530	3,401	5,931	342	5,331	5,673
Securities sold under repurchase agreements	5	18	23	1	28	29
Long-term debt	(89)	12	(77)	(68)	(12)	(80)
FRB advances and other borrowings	1,585	(95)	1,490	823	-	823
FHLB advances	<u>(197)</u>	<u>(166)</u>	<u>(363)</u>	<u>201</u>	<u>191</u>	<u>392</u>
Total interest-bearing liabilities	<u>3,679</u>	<u>3,941</u>	<u>7,620</u>	<u>1,253</u>	<u>6,506</u>	<u>7,759</u>
Change in net interest income	<u>\$ (1,246)</u>	<u>\$ 690</u>	<u>\$ (556)</u>	<u>\$ 359</u>	<u>\$ (3,047)</u>	<u>\$ (2,688)</u>

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Noninterest Income

Noninterest income was \$1.7 million in 2024 compared to \$1.6 million in 2023, an increase of \$0.1 million. The increase was due primarily to an increase of \$138.4 thousand on insurance proceeds from storm damage to the Bank's Upperco, Maryland location, an increase in service charges on deposit accounts of \$17.3 thousand, an increase in mortgage banking revenue of \$10.8 thousand and an increase of \$48.3 thousand in bank owned life insurance income, offset by a decrease in the fair value adjustment on an equity security of \$9.8 thousand, a write down of the value of other real estate owned of \$50.0 thousand, a loss on the sale of investment securities of \$13.2 thousand, a loss on the sale of property and equipment of \$5.2 thousand, a decrease in the gain on sale of SBA loans of \$19.4 thousand, and a \$6.3 thousand decrease in other fees and commissions.

Noninterest Expense

Total noninterest expense increased by \$1.8 million to \$16.9 million in 2024 from \$15.1 million in 2023. The increase was due primarily to an increase in salaries and benefits of \$495.7 thousand due to additional lending staff being added during the year, and increase in occupancy costs of \$195.7 thousand as a result of the opening of the Towson office in 2024, an increase on furniture and equipment costs of \$309.6 due to the addition of the Towson office and purchases of computer equipment. Additionally, professional fees increased by \$222.4 thousand due to consultant fees related to the Company's core system conversion in 2024 and legal fees. ATM and debit card expenses increased by \$138.5 thousand related to the core conversion in 2024, FDIC insurance premiums increased \$52.2 thousand due to higher assessment rates, postage, delivery, and armored car services increased by \$27.1 thousand. Gains on other real estate owned increased by \$311.5 thousand. All of which were offset by decreased advertising and other expenses of \$14.8 thousand.

Other noninterest expenses include the following:

(Dollars in thousands)	2024	2023
Directors fees	\$ 294	\$ 250
Correspondent bank services	242	223
Telephone	283	218
Internet banking fees	218	201
Stationery, printing and supplies	141	160
Liability insurance	120	146
Insurance claims (1)	(57)	(110)
Other	782	859
	<u>\$ 2,023</u>	<u>\$ 1,947</u>

Income Taxes

Income taxes decreased by \$786.2 thousand to \$1.2 million in 2024 from \$2.1 million in 2023.

The Company's effective tax rate decreased to 22.4% in 2024, from 23.9% in 2023. The decrease was due to a higher percentage of tax exempt revenue. Note 11 to the consolidated financial statements provides additional information about the Company's taxes, including a reconciliation of the Company's effective tax rate to the Federal statutory rate of 21%.

Farmers and Merchant's Bancshares, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Quarterly Results of Operations

(\$000s)	Three Months Ended - 2024				
	Unaudited				
	December 31	September 30	June 30	March 31	
Interest income	\$ 10,272	\$ 9,846	\$ 9,179	\$ 9,066	
Interest expense	4,827	4,762	4,046	3,892	
Net interest income	5,445	5,084	5,133	5,174	
Provision for credit losses	150	-	-	-	
Net income	856	1,123	1,079	1,220	
Earnings per share - basic and diluted	\$ 0.27	\$ 0.36	\$ 0.35	\$ 0.39	

(\$000s)	Three Months Ended - 2023				
	Unaudited				
	December 31	September 30	June 30	March 31	
Interest income	\$ 8,885	\$ 8,002	\$ 7,384	\$ 7,052	
Interest expense	3,584	2,815	2,113	1,395	
Net interest income	5,301	5,187	5,271	5,657	
Provision/(recovery) for credit losses	-	(75)	(225)	(270)	
Net income	1,415	1,432	1,670	1,901	
Earnings per share - basic and diluted	\$ 0.46	\$ 0.46	\$ 0.54	\$ 0.62	

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTEREST RATE RISK

The Company's principal market risk is exposure to the risk that the interest rates associated with our interest-bearing liabilities and interest-earning assets will fluctuate. This risk arises from the Company's lending, investing and deposit-taking activities, and is affected by many factors, including economic and financial conditions, movements in interest rates and consumer preferences. Interest rate fluctuation has a direct impact on the Company's net interest income. Net interest income is susceptible to interest rate risk when deposits and other short-term liabilities have different repricing intervals than do loans, investments and other interest-earning assets. When interest-earning assets mature or reprice faster than interest-bearing liabilities, a decline in interest rates may cause a decline in net interest income. Conversely, when interest-bearing liabilities mature or reprice faster than interest-earning assets, an increase in interest rates may cause a decline in net interest income.

The Company recognizes that there are many types of interest rate risk. Management believes that the three types that pose the greatest potential threat to current and long-term earnings are:

- Repricing risk – the difference in the timing of the scheduled maturity and re-pricing dates of assets and liabilities within a certain time frame;
- Option risk – interest rate related options embedded in the Company's assets and liabilities which change the cash flow characteristics of the assets and liabilities; and
- Yield curve / basis risk – changes in the relationship between different interest rates with the same maturity or interest rates across a maturity spectrum which create compression or expansion of our net interest margin.

The Company uses earnings at risk and economic value at risk measures to quantify our exposure to these types of interest rate risk. We believe that using simulations that measure all three types of risks in combination is a more efficient tool for measurement, and we therefore do not routinely process models to isolate each risk. Rather, we combine the three types of analyses, which we believe provides a better overall result than a simulation based on a single system and a more economical use of resources than targeted models. Following is a description of the analyses to be utilized:

Earnings at Risk

Earnings at Risk ("EAR") measures exposure to net changes in net interest income ("NII"), and is considered the Company's best source of managing short-term interest rate risk (one-year and two-year time frames). EAR is a dynamic analysis, which can capture all the different forms of interest rate risk under many different interest rate scenarios, and using various assumptions for growth, optionality, and yield curve structure.

Economic Value of Equity

Economic Value of Equity ("EVE") is management's primary analytical tool for measuring long-term interest rate risk, and helps to measure if the long-term safety and soundness of the Company is being compromised for the sake of short-term results. However, the Company also recognizes the inherent difficulties of calculating a definitive value for many sections of the balance sheet as well as the weakness that EVE ignores future events (e.g., growth, etc.). These difficulties, coupled with the nature of our core business, allow the Company to adopt wide limits for this measure.

In order to mitigate the impact of changing interest rates, the Board of Directors has established policies and procedures that include acceptable parameters for the relationship between rate sensitive assets to rate sensitive liabilities as measured by earnings at risk and economic value at risk. The Asset/Liability Committee reviews rate sensitivity measures on a quarterly basis. Material deviations from policy parameters are reported to the Board of Directors and corrective action is initiated and monitored.

Measures of NII at risk produced by simulation analysis are indicators of an institution's short-term performance in alternative rate environments. These measures are typically based upon a relatively brief period, usually one year. They do not necessarily indicate the long-term prospects or economic value of the institution.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Based upon the most recent data available to the Company (as of September 30, 2024), the simulation analysis produced the following estimated changes in NII, assuming the indicated rate changes:

<u>Change in Rate</u>	(\$000s) <u>2024</u>
400 basis point increase	\$ (3,305)
300 basis point increase	(2,181)
200 basis point increase	(1,264)
100 basis point increase	(500)
100 basis point decrease	758
200 basis point decrease	1,149
300 basis point decrease	1,479

LIQUIDITY MANAGEMENT

Liquidity describes our ability to meet financial obligations that arise out of the ordinary course of business. Liquidity is primarily needed to meet depositor withdrawal requirements, to fund loans, and to fund our other debts and obligations as they come due in the normal course of business. We maintain our asset liquidity position internally through short-term investments, the maturity distribution of the investment portfolio, loan repayments, and income from earning assets. On the liability side of the balance sheet, liquidity is affected by the timing of maturing liabilities and the ability to generate new deposits or borrowings as needed.

The Bank is approved to borrow 75% of eligible pledged single-family residential loans and 50% of eligible pledged commercial loans as well as investment securities, or approximately \$70.4 million under a secured line of credit with the FHLB. The Bank also has two facilities with the FRB. Under the first facility, which has been in place for over 10 years and is collateralized by loans, the Bank can borrow approximately \$32.5 million. The second facility is the BTFP that the Federal Reserve previously created in 2023, but expired in 2024. The BTFP facility allowed securities to be pledged at par, provided fixed rates for up to one-year terms, and allowed prepayments in whole or in part at any time. Finally, the Bank has \$23.5 million (\$14.5 million unsecured and \$9.0 million secured) of overnight federal funds lines of credit available from commercial banks.

FHLB advances of \$5.0 million were outstanding as of both December 31, 2024 and 2023. BTFP advances of \$0.0 and \$33.0 million were outstanding as of December 31, 2024 and 2023, respectively. The Company borrowed \$17.0 million to facilitate the Merger in 2020. There were no borrowings from the FRB, other than the BTFP advances noted above, or from our commercial bank lenders at December 31, 2024 and 2023. Management believes that we have adequate liquidity sources to meet all anticipated liquidity needs over the next 12 months. Management knows of no trend or event which is likely to have a material impact on our ability to maintain liquidity at satisfactory levels. The Company's uninsured deposits were approximately \$477.1 thousand as of December 31, 2024.

Cash provided by operating activities decreased by \$3.6 million to \$2.3 million in 2024 from \$6.2 million in 2023. Cash used in investing activities decreased by \$19.7 million to \$22.7 million in 2024 from \$42.4 in 2023 due primarily to a \$5.1 million increase in the net cash inflow from the debt securities portfolio, \$23.9 million provided by the sale of a security, and a decrease in the purchases of securities of \$45.9 million offset by a \$54.1 million increase in the net cash outflow from the loan portfolio. Cash provided by financing activities decreased by \$33.5 million to \$40.4 million in 2024 from \$73.9 million in 2023 due primarily to a \$2.8 million decrease in repurchase agreement activity and a \$66.0 million decrease in the net cash inflow from FRB advances. These were offset by a \$20.4 million increase in the net cash inflow from deposits \$15.0 million a increase in the net cash outflow from Federal Home Loan Bank of Atlanta advances.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Information about the various financial obligations, including contractual obligations and commitments that may require future cash payments, to which we are subject is set forth above under the captions "Off-Balance Sheet Transactions" and "Borrowings and Other Contractual Obligations".

CAPITAL RESOURCES AND ADEQUACY

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

On September 17, 2019, the FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio ("CBLR") framework), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

On April 6, 2020, in a joint statement, the FDIC, Federal Reserve and the Office of Comptroller of the Currency, issued two interim final rules regarding temporary changes to the CBLR framework to implement provisions of the CARES Act. Under the interim final rules, the community bank leverage ratio was reduced to 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 8%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Company has not opted-in to the CBLR framework.

Additional information regarding the capital requirements that apply to us can be found in Note 12 of the consolidated financial statements and notes thereto included in the Annual Report.

The following table presents actual and required capital ratios as of December 31, 2024 and 2023, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2024 and 2023, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

Farmers and Merchant's Bancshares, Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(Dollars in thousands)	Actual		Minimum Capital Adequacy		To Be Well Capitalized	
December 31, 2024	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk-weighted assets)	\$ 81,161	12.37%	\$ 68,910	10.50%	\$ 65,628	10.00%
Tier 1 capital (to risk-weighted assets)	76,601	11.67%	55,784	8.50%	52,503	8.00%
Common equity tier 1 (to risk-weighted assets)	76,601	11.67%	45,940	7.00%	42,658	6.50%
Tier 1 leverage (to average assets)	76,601	9.12%	33,580	4.00%	41,974	5.00%
December 31, 2023						
Total capital (to risk-weighted assets)	\$ 79,988	13.45%	\$ 62,437	10.50%	\$ 59,464	10.00%
Tier 1 capital (to risk-weighted assets)	75,440	12.69%	50,544	8.50%	47,571	8.00%
Common equity tier 1 (to risk-weighted assets)	75,440	12.69%	41,625	7.00%	38,651	6.50%
Tier 1 leverage (to average assets)	75,440	9.42%	32,051	4.00%	40,063	5.00%

The Company intends to fund future growth primarily with cash, federal funds, maturities of investment securities and deposit growth. Management knows of no other trend or event that will have a material impact on capital.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Bank is a “smaller reporting company” as defined in Exchange Act Rule 12b-2 and, accordingly, is not required to include the information required by this item.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors
Farmers and Merchants Bancshares, Inc.
Hampstead, Maryland

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Farmers and Merchants Bancshares, Inc. and its Subsidiaries (the Company) as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Loans Collectively Evaluated for Losses

As described in Note 1 – Summary of Significant Accounting Policies and Note 5 – Loans and Allowance for Credit Losses to the consolidated financial statements. The allowance for credit losses on loans (ACLL) is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms. Loans which share common

risk characteristics are pooled and collectively evaluated by the Company using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Company's ACLL related to collectively evaluated loans made up \$3.9 million of the total recorded ACLL of \$4.3 million as of December 31, 2024. The collectively evaluated ACLL consists of quantitative and qualitative components.

The quantitative component consists of loss estimates derived from an average charge off or loss rate methodology using primarily internal observations of historical loan losses adjusted for estimated prepayment and forecasts of future conditions over a reasonable and supportable period. These estimates consider large amounts of data in tabulating loss and prepayment rates and require complex calculations as well as management judgment in the selection of appropriate inputs.

In addition to the quantitative component, the collectively evaluated ACLL also includes a qualitative component which aggregates management's assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. Factors considered by management in developing its qualitative estimates include: economic conditions, concentrations of credit, interest rates, ability of staff, loan review, trends in loan quality, policy changes and changes in the nature and/or volume of loans.

Management exercised significant judgment when estimating the ACLL on collectively evaluated loans. We identified the estimation of the collectively evaluated ACLL as a critical audit matter as auditing the collectively evaluated ACLL involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

The primary audit procedures we performed to address this critical audit matter included:

- Substantively testing management's process for measuring the collectively evaluated ACLL, including:
 - Evaluating conceptual soundness, assumptions, and key data inputs of the Company's loss rate methodology, including the identification of loan segments, the calculation of loss rate inputs, and the calculation of prepayment rate inputs for each segment.
 - Evaluating the methodology and testing the reasonableness of incorporating reasonable and supportable forecasts in the collectively evaluated ACLL estimate.
 - Evaluating the completeness and accuracy of data inputs used as a basis for the qualitative factors.
 - Evaluating the qualitative factors for directional consistency in comparison to prior periods and for reasonableness in comparison to underlying supporting data.
 - Testing the mathematical accuracy of the ACLL for collectively evaluated loans including both the quantitative and qualitative components of the calculation.

/s/ YOUNT, HYDE & BARBOUR, P.C.

We have served as the Company's auditor since 2021.

Richmond, Virginia
March 12, 2025

Farmers and Merchants Bancshares, Inc.

Consolidated Balance Sheets

(Amounts in thousands except share data)

December 31,	2024	2023
Assets		
Cash and due from banks	\$ 63,962	\$ 44,404
Federal funds sold and other interest-bearing deposits	697	286
Cash and cash equivalents	64,659	44,690
Certificates of deposit in other banks	100	100
Securities available for sale, at fair value	125,713	164,085
Securities held to maturity, at amortized cost less allowance for credit losses of \$60.0 thousand and \$35.6 thousand	20,499	20,164
Equity security, at fair value	518	507
Restricted stock, at cost	921	864
Mortgage loans held for sale	157	-
Loans, less allowance for credit losses of \$4.3 million and \$4.3 million	582,993	523,308
Premises and equipment, net	7,349	6,583
Accrued interest receivable	2,439	2,181
Deferred income taxes, net	7,606	8,312
Other real estate owned, net	1,176	1,242
Bank owned life insurance	15,324	14,931
Goodwill and other intangibles, net	7,026	7,034
Other assets	8,163	5,940
	<u>\$ 844,643</u>	<u>\$ 799,941</u>
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$ 107,197	\$ 115,285
Interest-bearing	651,609	565,678
Total deposits	758,806	680,963
Securities sold under repurchase agreements	5,564	6,760
Federal Home Loan Bank of Atlanta advances	5,000	5,000
Federal Reserve Bank advances	-	33,000
Long-term debt, net of issuance costs	11,329	13,212
Accrued interest payable	1,003	1,483
Other liabilities	6,669	7,345
	<u>788,371</u>	<u>747,763</u>
Stockholders' equity		
Common stock, par value \$.01 per share, authorized 5,000,000 shares; issued and outstanding 3,166,653 shares in 2024 and 3,116,966 shares in 2023	32	31
Additional paid-in capital	31,136	30,398
Retained earnings	41,613	39,433
Accumulated other comprehensive loss	(16,509)	(17,684)
	<u>56,272</u>	<u>52,178</u>
	<u>\$ 844,643</u>	<u>\$ 799,941</u>

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Consolidated Statements of Income

(Amounts in thousands except per share data)

Years Ended December 31,	2024	2023
Interest income		
Loans, including fees	\$ 30,338	\$ 25,731
Investment securities - taxable	6,263	4,299
Investment securities - tax exempt	559	554
Federal funds sold and other interest earning assets	1,203	739
Total interest income	38,363	31,323
Interest expense		
Deposits	14,519	7,971
Securities sold under repurchase agreements	65	42
Federal Home Loan Bank advances	123	486
Federal Reserve Bank advances	2,313	823
Long-term debt	507	585
Total interest expense	17,527	9,907
Net interest income	20,836	21,416
Provision for (recovery of) credit losses	150	(570)
Net interest income after provision for (recovery of) credit losses	20,686	21,986
Noninterest income		
Service charges on deposit accounts	810	793
Mortgage banking income	108	97
Bank owned life insurance income	394	345
Fair value adjustment of equity security	(4)	5
Loss on sale of investment securities	(13)	-
Loss on sale of premises and equipment	(5)	-
Gain on sale of SBA loans	-	19
Gain on insurance proceeds, net	142	4
Other fees and commissions	320	328
Total noninterest income	1,752	1,591
Noninterest expense		
Salaries	7,854	7,545
Employee benefits	2,187	2,001
Occupancy	1,070	875
Furniture and equipment	1,293	983
Professional services	865	642
Automated teller machine and debit card expenses	648	509
Federal Deposit Insurance Corporation premiums	391	339
Postage, delivery, and armored carrier	294	267
Advertising	228	270
Other real estate owned expense/(income), net	76	(236)
Other	2,023	1,947
Total noninterest expense	16,929	15,142
Income before income taxes	5,509	8,435
Income taxes	1,231	2,017
Net income	\$ 4,278	\$ 6,418
Earnings per common share - basic	\$ 1.37	\$ 2.08
Earnings per common share - diluted	\$ 1.37	\$ 2.08

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Consolidated Statements of Comprehensive Income
(Amounts in thousands)

Years Ended December 31,	2024	2023
Net income	\$ 4,278	\$ 6,418
Other comprehensive income (loss), net of income taxes:		
Total unrealized (loss) gain on investment securities		
available for sale	(553)	811
Reclassification adjustment for realized losses	13	
Income tax expense benefit (expense)	<u>149</u>	<u>(223)</u>
Net unrealized (loss) gain on investment securities		
available for sale	<u>(391)</u>	<u>588</u>
Total unrealized gain (loss) on derivatives		
designated as fair value hedges	2,162	(1,564)
Income tax (expense) benefit	<u>(596)</u>	<u>397</u>
Net unrealized gain (loss) on derivatives		
designated as fair value hedges	<u>1,566</u>	<u>(1,166)</u>
Total other comprehensive income (loss)	<u>1,176</u>	<u>(578)</u>
Total comprehensive income	<u>\$ 5,453</u>	<u>\$ 5,840</u>

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

(Amounts in thousands except share and per share data)

	Common stock		Additional	Retained	Accumulated other	Total
	Shares	Par value	paid-in capital	earnings	comprehensive income (loss)	stockholders' equity
Balance, December 31, 2022	3,071,214	\$ 31	\$ 29,550	\$ 35,300	\$ (17,106)	\$ 47,775
Net income	-	-	-	6,418	-	6,418
Other comprehensive loss	-	-	-	-	(578)	(578)
Stock-based compensation	2,000	-	43	-	-	43
Cash dividends, \$0.66 per share	-	-	-	(2,034)	-	(2,034)
Reclassification due to the adoption of ASU 2016-13			-	(243)	-	(243)
Dividends reinvested	<u>43,752</u>	<u>-</u>	<u>805</u>	<u>(8)</u>	<u>-</u>	<u>797</u>
Balance, December 31, 2023	3,116,966	31	30,398	39,433	(17,684)	52,178
Net income	-	-	-	4,278	-	4,278
Other comprehensive income	-	-	-	-	1,175	1,175
Stock-based compensation	-	-	18	-	-	18
Vested restricted stock units	1,000	-	-	-	-	-
Cash dividends, \$0.67 per share	-	-	-	(2,098)	-	(2,098)
Dividends reinvested	<u>48,687</u>	<u>1</u>	<u>720</u>	<u>-</u>	<u>-</u>	<u>721</u>
Balance, December 31, 2024	<u>3,166,653</u>	<u>\$ 32</u>	<u>\$ 31,136</u>	<u>\$ 41,613</u>	<u>\$ (16,509)</u>	<u>\$ 56,272</u>

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Statement of Cash Flows
(Amounts in thousands)

Years Ended December 31,	2024	2023
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 4,278	\$ 6,418
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	636	510
Provision for (recovery of) credit losses	150	(570)
Amortization (accretion) of right of use asset	5	(7)
Equity security dividends reinvested	(15)	(13)
Unrealized loss (gain) on equity security	4	(5)
Non-cash compensation	10	-
Loss (gain) on disposal of premises and equipment	5	(9)
Gain on insurance proceeds	(142)	(4)
Gain on sale of SBA loans	-	(19)
Deferred tax expense (benefit)	257	392
Gain on sale of other real estate owned	-	(236)
Write down of other real estate owned	50	-
Gain on fair value hedge	(260)	(46)
Loss on sale of security	(13)	-
Stock based compensation	18	43
Amortization of debt issuance costs	6	6
Amortization of premiums and (accretion of discounts), net	(992)	(332)
Bank owned life insurance cash surrender value	(394)	(345)
Increase (decrease) in		
Deferred loan fees and costs, net	136	(35)
Accrued interest payable	(480)	1,133
Other liabilities	872	(495)
Decrease (increase) in		
Mortgage loans held for sale	(157)	428
Accrued interest receivable	(258)	(365)
Other assets	(1,424)	(545)
Net cash provided by operating activities	<u>2,292</u>	<u>5,904</u>

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Statement of Cash Flows
(Amounts in thousands)

Years Ended December 31,	2024	2023
Cash flows from investing activities		
Proceeds from maturity and call of securities		
Available for sale	18,071	12,910
Held to maturity	351	431
Proceeds from sale of securities		
Available for sale	23,887	-
Held to maturity	-	-
Purchase of securities		
Available for sale	(3,269)	(49,741)
Held to maturity	(573)	-
Loans made to customers, net of principal collected	(59,921)	(5,814)
Redemption (purchase) of stock in FHLB of Atlanta	(58)	469
Proceeds from sale of other real estate owned	-	236
Proceeds from sale of premises and equipment	-	9
Proceeds from insurance	142	4
Purchases of premises, equipment and software	(1,339)	(863)
Net cash used in investing activities	(22,709)	(42,359)
Cash flows from financing activities		
Net increase (decrease) in		
Noninterest-bearing deposits	(8,087)	(11,411)
Interest-bearing deposits	85,935	68,833
Securities sold under repurchase agreements	(1,196)	1,585
Federal Home Loan Bank of Atlanta advances	-	(15,000)
Federal Reserve Bank advances	(33,000)	33,000
Long-term debt principal payments	(1,889)	(1,889)
Dividends paid, net of reinvestments	(1,377)	(1,236)
Net cash provided by financing activities	40,386	73,882
Net increase in cash and cash equivalents	19,969	37,427
Cash and cash equivalents at beginning of period	44,690	7,264
Cash and cash equivalents at end of period	\$ 64,659	\$ 44,690
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 17,998	\$ 8,830
Cash paid during the period for income taxes	724	2,391
Supplemental disclosure of non-cash transactions:		
Net unrealized gain (loss) on securities available for sale	(540)	811
Increase (decrease) in fair value of interest rate swap agreements	2,162	(1,564)
Additions to right of use assets obtained in exchange for lease liabilities	705	-

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Management makes estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosures of commitments and contingent liabilities at the balance sheet date, and revenues and expenses during the year. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates.

Principles of consolidation

The consolidated financial statements include the accounts of Farmers and Merchants Bancshares, Inc. and its wholly owned subsidiaries, Farmers and Merchants Bank (the “Bank”), and Series Protected Cell FCB-4 (the “Insurance Subsidiary”), and one subsidiary of the Bank, Reliable Community Financial Services, Inc. (collectively the “Company”, “we”, “us”, or “our”). The Insurance Subsidiary is a series investment, 100% owned by the Company, in First Community Bankers Insurance Co., LLC, a Tennessee “series” limited liability company and licensed property and casualty insurance company. Intercompany balances and transactions, including insurance premiums paid by the Bank that were received by the Insurance Subsidiary through an intermediary, have been eliminated.

Business

The Bank provides banking services to individuals and businesses located in Baltimore County, Maryland, Carroll County, Maryland and surrounding areas of northern Maryland. The Insurance Subsidiary is a captive insurance entity that provides insurance coverage for the Bank. The Bank chose to not renew coverage effective on November 7, 2022, but may do so in the future. The Insurance Subsidiary is still responsible for claims for events that occurred prior to November 7, 2022. Reliable Community Financial Services, Inc. is licensed to provide a wide range of investment and insurance products to its customers but is inactive.

On October 1, 2020, Farmers and Merchants Bancshares, Inc. acquired Carroll Bancorp, Inc. (“Carroll”) and the Bank acquired Carroll’s wholly-owned subsidiary, Carroll Community Bank, in a series of merger transactions (collectively, the “Merger”). As a result of the Merger, Carroll was merged with and into Farmers and Merchants Bancshares, Inc., with Farmers and Merchants Bancshares, Inc. as the surviving corporation, and Carroll Community Bank merged with and into the Bank, with the Bank as the surviving bank. The Merger was intended to constitute a tax-free reorganization for federal income tax purposes.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to the current year presentation. These reclassifications had no effect on net income or stockholders’ equity.

Cash and cash equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

Comprehensive (loss) income

Comprehensive (loss) income includes net income and the unrealized gains or losses on investment securities available for sale and derivative financial instruments, net of income taxes.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

Investment securities

As debt securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities that management has the intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts. Discounts are accreted through maturity. Premiums are amortized through the earliest call date. Securities held to meet liquidity

needs or that may be sold before maturity are classified as available for sale and carried at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Gains and losses on disposal are determined using the specific-identification method. The Company amortizes premiums and accretes discounts using the interest method. Declines in the fair value of individual available-for-sale securities below their amortized cost due to credit-related factors are recognized as an allowance for credit losses. Credit-related factors affecting the determination of whether impairment has occurred include a downgrading of the security below investment grade by a rating agency or due to potential default, a significant deterioration in the financial condition of the issuer, or an increase in entity-specific credit spreads. Additionally, on any available-for-sale securities with unrealized losses, the Company evaluates its intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

Equity security at fair value

The Company owns a mutual fund that is measured at fair value with changes in fair value recognized in noninterest income.

Restricted stock, at cost

Restricted stock consists of Federal Home Loan Bank of Atlanta (the "FHLB") stock, Community Bankers Bank ("CBB") stock, and Atlantic Community Bankers Bank ("ACBB") stock. As a member of the FHLB, the Bank is required to purchase FHLB stock in an amount that is based on the Bank's total assets. Additional stock is purchased and redeemed based on the outstanding FHLB advances to the Bank. CBB and ACBB require its correspondent banking institutions to hold stock as a condition of membership. The restricted investment in bank stocks is carried at cost. On a quarterly basis, management evaluates the bank stocks for impairment based on assessment of the ultimate recoverability of cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of cost is influenced by criteria such as operating performance, liquidity, funding and capital positions, stock repurchase history, dividend history, and impact of legislative and regulatory changes.

Loans and allowance for credit losses

Loans are stated at the current amount of unpaid principal, adjusted for deferred origination costs, deferred origination fees, premiums and discounts on acquired loans, and the allowance for credit losses. Interest on loans is accrued based on the principal amounts outstanding. Origination fees and costs, along with premiums and accretable discounts, are amortized to income over the terms of loans.

Past due status is based on the contractual terms of the loan. Management may make an exception to reporting a loan as past due, if the past due status is solely due to the loan being past maturity, the Company intends to extend the loan, and the borrower is making principal and interest payments in accordance with the terms of the matured note. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full. If collection of principal is evaluated as doubtful, all payments are applied to principal. Loans are individually evaluated when, based on current information, management considers it unlikely that the collection of principal and interest payments will be made according to contractual terms when due. Generally, loans are not reviewed for impairment until the accrual of interest has been discontinued, the loans are included on the watch list, or the loans are experiencing financial difficulties.

Farmers and Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses - Held-to-Maturity Securities: The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account, calculated in accordance with ASC Topic 326, which is deducted from the amortized cost basis of held-to-maturity securities to present management's best estimate of the net amount expected to be collected. Held-to-maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management has made the accounting policy election to exclude accrued interest receivable on held-to-maturity securities from the estimate of credit losses. Further information regarding our policies and methodology used to estimate the allowance for credit losses on held-to-maturity securities is presented in Note 3 – Investment Securities.

Allowance For Credit Losses - Available-for-Sale Securities: For available-for-sale securities in an unrealized loss position, we first assess whether (i) we intend to sell the security or (ii) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive (loss) income. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management has made the accounting policy election to exclude accrued interest receivable on available-for-sale securities from the estimate of credit losses. Available-for-sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

Allowance for Credit Losses - Loans: The allowance for credit losses on loans is a contra-asset valuation account, calculated in accordance with ASC Topic 326, which is deducted from the amortized cost basis of loans to present management's best estimate of the net amount expected to be collected. Loans are charged-off against the allowance when deemed uncollectible by management. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management has made the accounting policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

The amount of the allowance represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless (i) management has a reasonable expectation that a loan to an individual borrower that is experiencing financial difficulty will be modified or (ii) such extension or renewal options are not unconditionally cancellable by us and, in such cases, the borrower is likely to meet applicable conditions and likely to request extension or renewal. Relevant available information includes historical credit loss experience, current conditions and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current portfolio-specific risk characteristics, environmental conditions or other relevant factors. The allowance for credit losses is measured on a collective basis for portfolios of loans when similar risk characteristics exist. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans,

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

including loans where the borrower is experiencing financial difficulty but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Credit loss expense related to loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged off. While management utilizes its best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

In calculating the allowance for credit losses, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles include the type/purpose of loan, underlying collateral, and historical/expected credit loss patterns. For modeling purposes, our loan pools include (i) commercial real estate - owner occupied, (ii) commercial real estate - non-owner occupied, (iii) construction/land development, (iv) residential – multifamily, (v) residential – single family (vi) residential – single family home equity, (vii) commercial and industrial (viii) consumer and other. We periodically reassess each pool to ensure that the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

The average charge-off method calculates an estimate of losses based upon past experience, which is applied prospectively across the life of each loan. This method allows for analysis and calculation on a note-by-note basis due to the CECL model calculating future cash flows at the individual note level based upon note characteristics. A forward balance is calculated from each note's prior period balance, less monthly principal paydown and prepayment amount.

The Company utilizes its own loss data as the source for its historical loss calculations within the CECL model, where appropriate. This information is sourced from call report data and spans back to an effective start date of March 31, 2000. Loss data will continuously be uploaded into the model across subsequent periods, with results always one quarter in arrears. Utilization of loss rates across this length of time helps to incorporate results recognized across the full economic cycle and smooth periods of economic recession and recovery. The Company may deviate from utilization of its own loss rates on an as-needed basis when said loss rates have historically been non-existent. The Company may also deviate from its existing loss rates when said rates are no longer indicative of the current portfolio composition/quality, such as historical rates impacted by losses resulting from purchased loan portfolios which have since matured or been divested. In these events, the Company will utilize aggregate loss rates recognized from banks of comparable asset size throughout the state of Maryland, incurred across the same period, March 31, 2000 to present.

The measurement of expected credit losses is impacted by loan/borrower attributes and certain macroeconomic variables. Significant loan/borrower attributes utilized in our modeling processes include, among other things, (i) origination date, (ii) maturity date, (iii) payment type, (iv) collateral type and amount, (v) current risk grade, (vi) current unpaid balance, (vii) payment status/delinquency history and (viii) expected recoveries of previously charged-off amounts.

Management qualitatively adjusts model results for risk factors that are not considered within our modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor ("Q-Factor") and other qualitative adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor and other qualitative adjustments include, among other things, the impact of (i) any concentrations of credit, (ii) local and national economic and business conditions, (iii) changes in the nature and volume of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and staff, (v) changes in volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified loans, (vi) our credit review function, (vii) changes in lending policies and procedures and, (viii) other factors such as rising interest rates. Management also adjusts model results using a forecast of unemployment and Gross Domestic Product ("GDP") compared to the actual unemployment

Farmers and Merchants Bancshares, Inc.
Notes to Consolidated Financial Statements
(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

and GDP during the historical look back period used in the model. This adjustment is referred to as the forward look adjustment. It reverts back to historical losses after three months.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

Allowance for Credit Losses - Off-Balance-Sheet Credit Exposures: The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC Topic 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The measurement of expected credit losses is impacted by loan/borrower attributes and certain macroeconomic variables. Significant loan/borrower attributes utilized in our modeling processes include, among other things, (i) commitment utilization rate, and (ii) collateral type and amount. The loss rates utilized are consistent with those in the allowance for credit losses related to the outstanding loan portfolio. The allowance is reported as a component of other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of credit loss expense.

Derivative Financial Instruments

At the inception of a derivative contract, the Company designates the derivative as one of three types based on the Company's intentions and belief as to likely effectiveness as a hedge. These three types are (i) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (ii) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), and (iii) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income (loss) and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives not designated or that do not qualify for hedge accounting are reported currently in earnings, as non-interest income.

Accrued settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Accrued settlements on derivatives not designated or that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as non-interest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value and the existing basis adjustment is amortized or accreted over the remaining life of the

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

asset or liability. When a cash flow hedge is discontinued but the hedged cash flows or forecasted transactions are still expected to occur, gains or losses that were accumulated in other comprehensive income are amortized into earnings over the same periods which the hedged transactions will affect earnings.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

The Company's derivative financial instruments are described more fully in Note 13.

Stock-based Compensation

The Company recognizes in the income statement the grant date fair value of stock awards, restricted stock and restricted stock units. The fair value related to forfeitures of stock awards, restricted stock and restricted stock units are recorded to the income statement as they occur, reducing stock-based compensation expense in that period. The Company classifies stock-based compensation as either an equity award or a liability award. Equity classified awards are valued as of the grant date using either an observable market price or a valuation methodology. Liability classified awards are valued at fair value at each reporting date. For the periods presented, all of the Company's stock awards, restricted stock, and restricted stock units are classified as equity awards.

During the third quarter of 2023, the Company granted stock awards under the Farmers and Merchants Bancshares, Inc. 2023 Equity Compensation Plan (the "Plan"). Each share of common stock subject to such awards is valued at the fair market value of such share (as defined in the Plan") as of the grant date. Outstanding restricted stock units vest in one-third increments on the anniversary date of the grant. Compensation expense is recognized on a straight-line basis over the requisite vesting period for the entire award.

The Company's stock-based compensation is described more fully in Note 15.

Mortgage loans held for sale and mortgage banking income

Mortgage loans held for sale are carried at the lower of aggregate cost or fair value based on the current fair value of each outstanding loan. Sales of loans are recorded when the proceeds are received, with any gain or loss recorded in mortgage banking income.

The Company sells its mortgage loans to third party investors with servicing released. Upon sale and delivery, loans are legally isolated from the Company and the Company has no ability to restrict or constrain the ability of third party investors to pledge or exchange the mortgage loans. The Company does not have the entitlement or ability to repurchase the mortgage loans or unilaterally cause third party investors to put the mortgage loans back to the Company.

Premises and equipment

Land is carried at cost. Premises and equipment are recorded at cost less accumulated depreciation and amortization. Depreciation on buildings and equipment is computed over the estimated useful lives of the assets using the straight-line method. Leasehold improvements are amortized using the straight-line method over the term of the lease or the estimated useful lives of the asset, whichever is shorter.

Other real estate owned

Real estate acquired through foreclosure or by deed in lieu of foreclosure is recorded at fair value less estimated costs to sell on the date acquired establishing a new cost basis. Losses incurred at the time of acquisition

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

of the property are charged to the allowance for credit losses. Subsequent reductions in the estimated value of the property are included with any gains or losses on sale in noninterest expense.

Bank owned life insurance

The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and other intangible assets

Goodwill is calculated as the purchase premium, if any, after adjusting for the fair value of net assets acquired in purchase transactions. Goodwill is not amortized but is reviewed for potential impairment on at least an annual basis, with testing between annual evaluation if an event occurs or circumstances change that could potentially reduce the fair value of a reporting unit. Other intangible assets represent purchased assets that can be distinguished from goodwill because of contractual or other legal rights. The Company's other intangible asset, core deposit intangible ("CDI") has a finite life and is amortized over 10 years on a straight line basis, which is believed to be substantially the same as the interest method.

Revenue recognition

ASC Topic 606 does not apply to revenue associated with the financial instruments, including revenue from loans and securities. The Company's services that fall within the scope of Topic 606 are presented within noninterest income and are recognized as revenue as the Company satisfies its obligation to the customer. A description of the Company's noninterest revenue streams is discussed below:

Service Charges on Deposit Accounts: The Company earns fees from its deposit customers for overdraft, monthly service fees, and other deposit account related fees. Overdraft fees are recognized when the overdraft occurs. The Company's performance obligation for monthly service fees is generally satisfied over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time.

Interchange Income: The Company earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services. The Company's analysis of its relationship with its interchange debit card provider is agent based.

As a result, income from debit cardholder transactions is presented net against expenses paid to the interchange debit card provider in service charges on deposit accounts on the consolidated statements of income.

Other Service Charges and Fees: The Company earns fees from its customers for transaction-based services. Services include, safe deposit box, debit/ATM card income, cashier's check, stop payment and wire transfer fees. In each case, these fees and service charges are recognized in income at the time or within the same period that the services are rendered.

Operating leases: The Company accounts for lease obligations in accordance with ASU 2016-02, "Leases (Topic 842)." Among other things, in the amendments in ASU 2016-02, lessees are required to recognize the following for all leases (with the exception of qualifying short-term leases) at the commencement date: (i) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and (ii) a right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term. The Company has determined it has no financing or sales type leases as of the balance sheet date.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

Advertising costs

Advertising costs are expensed in the period incurred and totaled \$228.3 thousand and \$270.3 thousand for the years ended December 31, 2024 and 2023, respectively.

Income taxes

The provision for income taxes includes income taxes payable for the current year and deferred income taxes. Deferred tax assets and liabilities are determined based on the difference between the financial statement basis and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

Earnings per share

Earnings per share is determined by dividing net income by the weighted average number of shares of common stock outstanding, giving retroactive effect to any stock dividends. The following table shows the weighted average number of shares used in computing earnings per share and the effect of weighted average number of shares of dilutive potential common stock. Dilutive potential common stock has no effect on income available to common shareholders. There were 2,000 and 3,000 restricted stock units included in weighted average dilutive shares for the year ended December 31, 2024 and 2023, respectively, as the shares were dilutive.

(Dollars in thousands)	Year Ended December 31,	
	2024	2023
Net income	\$ 4,278	\$ 6,418
Weighted average shares outstanding	3,132,876	3,083,021
Effect of dilutive restricted stock units	<u>125</u>	<u>3,000</u>
Weighted average shares outstanding	3,133,001	3,086,021
Earnings per share - basic	\$1.37	\$2.08
Earnings per share - diluted	\$1.37	\$2.08

Operating Segments

While the chief decision makers monitor the revenue streams of the various products and services, operations are managed, and financial performance, is evaluated on a company wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

1. Summary of Significant Accounting Policies (continued)

Recent accounting pronouncements

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in the notes to the consolidated financial statements.

Recently Adopted Accounting Developments

On January 1, 2024, the Company adopted ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures.” The Company does not expect the adoption of ASU 2023-07 to have a material impact on its consolidated financial statements.

Management believes that the accounting policies adopted by management are consistent with authoritative GAAP and are consistent with those followed by our peers.

2. Cash and Cash Equivalents

The Company normally carries balances with other banks that exceed the federally insured limit. The average balance carried in excess of the limit, including unsecured federal funds sold to the same banks, was \$447.1 thousand and \$1.1 million during the years ended December 31, 2024 and 2023, respectively.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same category. The combined total is insured up to \$250,000.

Banks are required to carry noninterest-bearing cash reserves of specified percentages of deposit balances. The Company’s normal balances of cash on hand and on deposit with other banks are sufficient to satisfy the reserve requirements. The FRB reserve requirement was \$0 at December 31, 2024 and 2023.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

3. Investment Securities

Debt securities are summarized as follows:

December 31, 2024						
(Dollars in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses	Net Carrying Amount
<i>Available for sale</i>						
State and municipal	\$ 500	\$ -	\$ 13	\$ 487	\$ -	\$ 487
SBA pools	634	1	6	629	-	629
Corporate bonds	8,054	-	869	7,185	-	7,185
Mortgage-backed securities	139,853	13	22,454	117,412	-	117,412
	<u>\$ 149,041</u>	<u>\$ 14</u>	<u>\$ 23,342</u>	<u>\$ 125,713</u>	<u>\$ -</u>	<u>\$ 125,713</u>

Held to maturity

State and municipal	<u>\$ 20,559</u>	<u>\$ 1</u>	<u>\$ 1,628</u>	<u>\$ 18,931</u>	<u>\$ 60</u>	<u>\$ 20,499</u>
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December 31, 2023						
(Dollars in thousands)	Amortized cost	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses	Net Carrying Amount
<i>Available for sale</i>						
State and municipal	\$ 500	\$ -	\$ 15	\$ 485	\$ -	\$ 485
SBA pools	777	1	11	767	-	767
Corporate bonds	9,854	-	1,284	8,570	-	8,570
Mortgage-backed securities	175,743	1,026	22,505	154,263	-	154,263
	<u>\$ 186,874</u>	<u>\$ 1,027</u>	<u>\$ 23,815</u>	<u>\$ 164,085</u>	<u>\$ -</u>	<u>\$ 164,085</u>

Held to maturity

State and municipal	<u>\$ 20,200</u>	<u>\$ 40</u>	<u>\$ 1,176</u>	<u>\$ 19,064</u>	<u>\$ 36</u>	<u>\$ 20,164</u>
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The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held-to-maturity securities to present the net amount expected to be collected. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

3. Investment Securities (continued)

information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to securities issued by states and political subdivisions, management considers (i) issuer bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, and (iv) internal forecasts. Unrated bonds were underwritten similar to commercial loans and the financial condition of the issuer is monitored periodically. Expected credit losses on commercial loans are applied to unrated bonds.

The following table summarizes Moody's and/or Standard & Poor's bond ratings (Company's primary credit quality indicator) for our portfolio of held-to-maturity securities issued by states and political subdivisions as of December 31, 2024 at amortized cost:

(Dollars in thousands)	December 31, 2024
AAA	\$ 2,803
AA	12,603
A	1,811
BBB	-
Not rated	3,342
Total	<u>\$ 20,559</u>

Historical loss rates associated with securities having similar grades as those in our portfolio have generally not been significant. Furthermore, as of December 31, 2024, there were no past due principal or interest payments associated with these securities and none are on nonaccrual.

The following table details activity in the allowance for credit losses on held-to-maturity securities for the year ended December 31, 2024:

	Years Ended December 31,	
	2024	2023
Beginning balance	\$ 36	\$ -
Provision for (recovery of) credit losses	24	-
Impact of adopting ASC 326	-	52
Recoveries	-	(16)
Ending balance	<u>\$ 60</u>	<u>\$ 36</u>

Available for sale securities accrued interest receivable totaled \$302.5 thousand and \$418.5 thousand and held to maturity securities accrued interest receivable totaled \$122.0 thousand and \$121.7 thousand as of December 31, 2024 and 2023, respectively. Both are grouped in accrued interest receivable on the balance sheet.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

3. Investment Securities (continued)

Contractual maturities, shown below, will differ from actual maturities because borrowers and issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized cost	Fair value	Amortized cost	Fair value
December 31, 2024				
Within one year	\$ 1,250	\$ 1,245	\$ 257	\$ 255
Over one to five years	250	240	400	391
Over five to ten years	7,054	6,187	8,095	7,521
Over ten years	-	-	11,747	10,764
	8,554	7,672	20,499	18,931
Mortgage-backed securities and SBA pools, due in monthly installments	140,487	118,041	-	-
	<u>\$ 149,041</u>	<u>\$ 125,713</u>	<u>\$ 20,499</u>	<u>\$ 18,931</u>
December 31, 2023				
Within one year	\$ 1,260	\$ 1,220	\$ 230	\$ 230
Over one to five years	1,780	1,708	666	652
Over five to ten years	7,314	6,127	5,864	5,654
Over ten years	-	-	13,404	12,527
	10,354	9,055	20,164	19,063
Mortgage-backed securities and SBA pools, due in monthly installments	176,520	155,030	-	-
	<u>\$ 186,874</u>	<u>\$ 164,085</u>	<u>\$ 20,164</u>	<u>\$ 19,063</u>

Securities with a carrying value of \$26.3 million and \$50.4 million as of December 31, 2024 and 2023, respectively, were pledged as collateral for securities sold under repurchase agreements and other collateralized deposits.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

3. Investment Securities (continued)

During the year ended December 31, 2024, there was one sale of an available for sale security corporate bond with a principal balance of \$521 thousand, resulting in a loss of \$32 thousand. There was also the sale of five available for sale mortgage backed securities with a principal balance of \$23,366 thousand resulting in a gain of \$605 thousand. There was a fair value hedge associated with these securities which was unwound in connection with the sale resulting in a loss of \$586 thousand. The net loss on all of the transactions in 2024 was \$18 thousand. There were no sales of securities for the year ended December 31, 2023.

The following table sets forth the Company's gross unrealized losses on a continuous basis for investment securities, by category and length of time.

December 31, 2024	Less than 12 months		12 months or more		Total	
(Dollars in thousands)						
	Unrealized					
Description of investments	Fair Value	Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
State and municipal	\$ 4,933	\$ 118	\$ 10,866	\$ 1,524	\$ 15,799	\$ 1,642
SBA pools	162	-	372	6	534	6
Corporate bonds	-	-	7,185	869	7,185	869
Mortgage-backed securities	22,141	552	91,991	21,902	114,132	22,454
Total	\$ 27,236	\$ 670	\$ 110,414	\$ 24,301	\$ 137,650	\$ 24,971

December 31, 2023	Less than 12 months		12 months or more		Total	
(Dollars in thousands)						
Description of investments	Unrealized		Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
	Fair Value	Loss				
State and municipal	\$ 2,211	\$ 20	\$ 11,834	\$ 1,171	\$ 14,045	\$ 1,191
SBA pools	-	-	660	11	660	11
Corporate bonds	341	59	8,229	1,225	8,570	1,284
Mortgage-backed securities	<u>23,840</u>	<u>378</u>	<u>104,658</u>	<u>22,127</u>	<u>128,498</u>	<u>22,505</u>
Total	\$ 26,392	\$ 457	\$ 125,381	\$ 24,534	\$ 151,773	\$ 24,991

Management has the ability and intent to hold securities classified as held to maturity until they mature, at which time the Company should receive full value for the securities. As of December 31, 2024, management did not have the intent to sell any of the securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased as well as other market conditions for each particular security based upon the structure and remaining principal balance. The fair values of the investment securities are expected to recover as the securities approach their maturity dates or repricing dates or if market yields for such investments decline. Based on these factors, as of December 31, 2024, management believes the unrealized losses detailed in the table above are temporary and, accordingly, none of these unrealized losses have been recognized in the Company's consolidated statement of income.

There were no held to maturity security sales in 2024 or 2023.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

4. Related Party Transactions

Certain executive officers and directors of the Company, including members of their immediate families and related companies were indebted to the Company during 2024 and 2023. The loans were made on the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans with borrowers who are not related to the Company. During the years ended December 31, 2024 and 2023, the activity of these loans was as follows:

	2024	2023
Balance, beginning of year	\$ 11,479	\$ 12,228
Additions	-	178
Amounts collected	(1,019)	(927)
Balance, end of year	<u>\$ 10,460</u>	<u>\$ 11,479</u>

Unused lines of credit to related parties totaled **\$558.0** thousand and \$58.0 thousand at December 31, 2024 and 2023, respectively.

Letters of credit issued to related parties totaled \$15.8 thousand at December 31, 2024 and 2023.

Deposits at the Company from related parties totaled **\$7.9** million and \$8.3 million at December 31, 2024 and 2023, respectively.

Payments to companies controlled by directors totaled **\$22.6** thousand in 2024 and \$6.5 thousand in 2023.

5. Loans and allowance for credit losses

Major categories of loans at December 31, 2024 and 2023 are as follows:

(Dollars in Thousands)	2024	2023
Real estate:		
Commercial	\$ 398,126	\$ 361,942
Construction/Land development	27,357	20,446
Residential	111,898	112,790
Commercial	50,405	32,823
Consumer	176	165
	<u>587,962</u>	<u>528,166</u>
Less: Allowance for credit losses	4,260	4,284
Deferred origination fees net of costs	709	574
	<u>\$ 582,993</u>	<u>\$ 523,308</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

For purposes of monitoring the performance of the loan portfolio and estimating the allowance for credit losses, the Company's loans receivable portfolio is segmented as follows: commercial real estate, construction and land development, residential, commercial and industrial, and consumer.

Commercial real estate loans carry risks of the client's ability to repay the loan from the cash flow derived from the underlying real estate. Risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. These risks are attempted to be mitigated by carefully underwriting loans of this type and by following appropriate loan-to-value standards. The Company generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for real estate-commercial loans generally do not exceed 80%.

Construction and land development real estate loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project. The Company generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for real estate-commercial loans generally do not exceed 80%.

Residential real estate mortgage loans, including equity lines of credit, carry risks associated with the continued credit-worthiness of the borrower and the changes in the value of the collateral.

Commercial and industrial loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral. The Company's consumer loans consist primarily of installment loans made to individuals for personal, family and household purposes. These risks are attempted to be mitigated by following appropriate loan-to-value standards and an experienced management team for this type of portfolio.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

The following tables present the amortized cost basis of loans on nonaccrual status and loans past 90 days or more still accruing as of December 31, 2024 and 2023:

(Dollars in thousands)	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Loans Past Due 90 Days or More and Still Accruing
<u>December 31, 2024</u>			
Real estate:			
Commercial	\$ -	\$ 2,440	\$ -
Construction and land development	-	-	-
Residential	-	-	-
Commercial	-	-	-
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ 2,440</u>	<u>\$ -</u>
<u>December 31, 2023</u>			
Real estate:			
Commercial	\$ -	\$ 503	\$ -
Construction and land development	-	-	-
Residential	-	-	-
Commercial	-	152	-
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ 655</u>	<u>\$ -</u>

The Company did not recognize any interest income on nonaccrual loans during the year ended December 31, 2024 or the year ended December 31, 2023.

At December 31, 2024, the Company had three non-accrual commercial real estate loan totaling \$404.5 thousand. Gross interest income of \$25.0 thousand would have been recorded in 2024 if these non-accrual loans had been current and performing in accordance with the original terms. The Company allocated \$360.0 thousand of its allowance for credit losses to these non-accrual loans.

At December 31, 2023, the Company had one non-accrual commercial real estate loan totaling \$503.0 thousand and one non-accrual commercial loan totaling \$152.4 thousand. The commercial loan was secured by business assets and a personal guaranty. Gross interest income of \$45.9 thousand would have been recorded in 2023 if these non-accrual loans had been current and performing in accordance with the original terms. The Company allocated \$450.0 thousand of its allowance for credit losses to these non-accrual loans.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

An age analysis of past due loans, segregated by class of loans, as of year-end, is as follows:

(Dollars in thousands)	90 Days				Total	Current	Total	Past Due 90
	30 - 59 Days	60 - 89 Days	or More	Total				
December 31, 2024	Past Due	Past Due	Past Due	Past Due			Loans	Days or More
Real estate:								and Accruing
Commercial	\$ -	\$ -	\$ 404	\$ 404	\$ 397,722	\$ 398,126	\$ -	
Construction and land development	-	-	-	-	27,357	27,357	-	
Residential	-	270	-	270	111,628	111,898	-	
Commercial	-	-	-	-	50,405	50,405	-	
Consumer	-	-	-	-	176	176	-	
Total	<u>\$ -</u>	<u>\$ 270</u>	<u>\$ 404</u>	<u>\$ 674</u>	<u>\$ 587,288</u>	<u>\$ 587,962</u>	<u>\$ -</u>	
December 31, 2023								
Real estate:								
Commercial	\$ -	\$ -	\$ 503	\$ 503	\$ 361,440	\$ 361,942	\$ -	
Construction and land development	-	-	-	-	20,446	20,446	-	
Residential	161	-	-	161	112,628	112,790	-	
Commercial	-	-	152	152	32,671	32,823	-	
Consumer	1	-	-	1	164	165	-	
Total	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 655</u>	<u>\$ 817</u>	<u>\$ 527,348</u>	<u>\$ 528,166</u>	<u>\$ -</u>	

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023:

(Dollars in thousands)	2024	2023
Real estate:		
Commercial	\$ 2,440	\$ 2,515
Residential	270	276
Commercial	-	152
	<u>\$ 2,710</u>	<u>\$ 2,943</u>

From time to time, loans to borrowers experiencing financial difficulty may be modified. Generally, the modifications we grant are extensions of terms, deferrals of payments for an extended period or interest rate reductions. Occasionally, we may modify a loan by providing principal forgiveness. In some cases, we will modify a loan by providing multiple types, or combinations, of concessions.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

The following table presents the amortized cost basis of loans at December 31, 2024 that were both experiencing financial difficulty and modified during the year ended December 31, 2024, by class and type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of loans is also presented below. There was one modification to a borrower experiencing financial difficulty during the year ended December 31, 2024. The term of the loan was extended by three months. The loan was not delinquent at December 31, 2024 and was not in default.

(Dollars in thousands)	2024	
	Term Extension	Total Class of Financing Receivable
Commercial real estate	\$ 2,038	0.51%
Total	<u>\$ 2,038</u>	<u>0.35%</u>

Accrued interest receivable on loans totaled \$1.9 million and \$1.5 million as of December 31, 2024 and 2023, respectively, and is included accrued interest receivable on the balance sheet.

Credit Quality Indicators

As part of our portfolio risk management, the Company assigns a risk grade to each loan. The factors used to determine the grade are the payment history of the loan and the borrower, the value of the collateral and net worth of the guarantor, and cash flow projections of the borrower. Excellent, Above Average, Average and Acceptable grades are assigned to loans with limited or no delinquent payments and more than sufficient collateral and/or cash flow.

A description of the general characteristics of loans characterized as watch list or classified is as follows:

Special Mention

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. This classification is intended to be temporary while the Bank learns more about the condition of the borrower and the collateral.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

Substandard

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

Doubtful

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Loans by credit grade, segregated by loan type, at year-end, are as follows:

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

Loans by credit grade, segregated by loan type, at year-end, are as follows:

	Term Loans Amortized Cost Basis by Origination							
	As of December 31, 2024							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
<u>Commercial Real Estate</u>								
Pass	\$ 63,427	\$ 26,745	\$ 69,261	\$ 54,346	\$ 19,727	\$ 151,876	\$ 3,559	\$ 388,941
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	9,185	-	9,185
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 63,427</u>	<u>\$ 26,745</u>	<u>\$ 69,261</u>	<u>\$ 54,346</u>	<u>\$ 19,727</u>	<u>\$ 161,061</u>	<u>\$ 3,559</u>	<u>\$ 398,126</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Construction and Land Development</u>								
Pass	\$ 14,710	\$ 3,365	\$ 1,568	\$ 1,443	\$ 930	\$ 5,341	\$ -	\$ 27,357
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 14,710</u>	<u>\$ 3,365</u>	<u>\$ 1,568</u>	<u>\$ 1,443</u>	<u>\$ 930</u>	<u>\$ 5,341</u>	<u>\$ -</u>	<u>\$ 27,357</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Residential Real Estate</u>								
Pass	\$ 12,385	\$ 10,592	\$ 18,474	\$ 9,363	\$ 7,084	\$ 44,409	\$ 7,985	\$ 110,292
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,582	24	1,606
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 12,385</u>	<u>\$ 10,592</u>	<u>\$ 18,474</u>	<u>\$ 9,363</u>	<u>\$ 7,084</u>	<u>\$ 45,991</u>	<u>\$ 8,009</u>	<u>\$ 111,898</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 5</u>
<u>Commercial</u>								
Pass	\$ 9,928	\$ 5,017	\$ 5,675	\$ 2,632	\$ 472	\$ 467	\$ 21,040	\$ 45,231
Special Mention	4,674	-	-	-	-	-	-	4,674
Substandard	-	-	-	-	-	500	-	500
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 14,602</u>	<u>\$ 5,017</u>	<u>\$ 5,675</u>	<u>\$ 2,632</u>	<u>\$ 472</u>	<u>\$ 967</u>	<u>\$ 21,040</u>	<u>\$ 50,405</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 152</u>
<u>Consumer</u>								
Pass	\$ 106	\$ 57	\$ 9	\$ -	\$ 3	\$ -	\$ -	\$ 176
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	2	-	1	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 106</u>	<u>\$ 59</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 5</u>
<u>Aggregate total</u>								
Pass	\$ 100,556	45,774	94,987	67,784	28,216	202,093	32,584	571,994
Special Mention	4,674	-	-	-	-	-	-	4,674
Substandard	-	2	-	1	-	11,267	24	11,294
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 105,230</u>	<u>45,776</u>	<u>94,987</u>	<u>67,785</u>	<u>28,216</u>	<u>213,360</u>	<u>32,608</u>	<u>587,962</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 162</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

Term Loans Amortized Cost Basis by Origination								
As of December 31, 2023								
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans	Total
<u>Commercial Real Estate</u>								
Pass	\$ 27,502	\$ 73,945	\$ 54,974	\$ 20,540	\$ 25,102	\$ 147,755	\$ 2,693	\$ 352,511
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	9,431	-	9,431
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 27,502</u>	<u>\$ 73,945</u>	<u>\$ 54,974</u>	<u>\$ 20,540</u>	<u>\$ 25,102</u>	<u>\$ 157,186</u>	<u>\$ 2,693</u>	<u>\$ 361,942</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Construction and Land Development</u>								
Pass	\$ 3,359	\$ 6,519	\$ 4,623	\$ 643	\$ 309	\$ 4,993	\$ -	\$ 20,446
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 3,359</u>	<u>\$ 6,519</u>	<u>\$ 4,623</u>	<u>\$ 643</u>	<u>\$ 309</u>	<u>\$ 4,993</u>	<u>\$ -</u>	<u>\$ 20,446</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Residential Real Estate</u>								
Pass	\$ 10,109	\$ 18,603	\$ 9,871	\$ 6,793	\$ 16,219	\$ 40,016	\$ 9,502	\$ 111,113
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,677	-	1,677
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 10,109</u>	<u>\$ 18,603</u>	<u>\$ 9,871</u>	<u>\$ 6,793</u>	<u>\$ 16,219</u>	<u>\$ 41,693</u>	<u>\$ 9,502</u>	<u>\$ 112,790</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Commercial</u>								
Pass	\$ 7,017	\$ 8,074	\$ 3,264	\$ 1,225	\$ 885	\$ 910	\$ 11,295	\$ 32,671
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	152	-	-	152
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 7,017</u>	<u>\$ 8,074</u>	<u>\$ 3,264</u>	<u>\$ 1,225</u>	<u>\$ 1,037</u>	<u>\$ 910</u>	<u>\$ 11,295</u>	<u>\$ 32,823</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Consumer</u>								
Pass	\$ 92	\$ 33	\$ 4	\$ 5	\$ 7	\$ 0	\$ -	\$ 141
Special Mention	-	-	-	-	-	-	-	-
Substandard	6	-	2	-	-	-	-	8
Doubtful	-	-	-	-	-	-	16	16
Total	<u>\$ 98</u>	<u>\$ 33</u>	<u>\$ 6</u>	<u>\$ 5</u>	<u>\$ 7</u>	<u>\$ 0</u>	<u>\$ 16</u>	<u>\$ 165</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>Aggregate total</u>								
Pass	\$ 48,080	\$ 107,175	\$ 72,736	\$ 29,206	\$ 42,522	\$ 193,674	\$ 23,491	\$ 516,882
Special Mention	-	-	-	-	-	-	-	-
Substandard	6	-	2	-	152	11,108	-	11,268
Doubtful	-	-	-	-	-	-	16	16
Total	<u>\$ 48,086</u>	<u>\$ 107,175</u>	<u>\$ 72,738</u>	<u>\$ 29,206</u>	<u>\$ 42,674</u>	<u>\$ 204,782</u>	<u>\$ 23,507</u>	<u>\$ 528,166</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

The following tables detail activity in the allowance for credit losses by portfolio for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in thousands)	Beginning balance	Provision for (recovery of) credit losses	Charge offs	Recoveries	Ending balance	Allowance for credit losses ending balance evaluated for impairment:		Outstanding loan balances evaluated:	
						Individually	Collectively	Individually	Collectively
December 31, 2024									
Real estate:									
Commercial	\$ 2,448	\$ 33	\$ -	\$ -	\$ 2,481	\$ 360	\$ 2,122	\$ 2,440	\$ 395,686
Construction and land development	-	-	-	-	-	-	-	-	-
Residential	253	225	-	-	478	-	478	-	27,357
Commercial	1,013	(281)	(5)	24	751	-	751	270	111,629
Commercial	494	171	(152)	-	513	-	512	-	50,405
Consumer	2	7	(5)	-	4	-	4	-	176
Unallocated	74	(41)	-	-	33	-	33	-	-
	<u>\$ 4,284</u>	<u>\$ 114</u>	<u>\$ (162)</u>	<u>\$ 24</u>	<u>\$ 4,260</u>	<u>\$ 360</u>	<u>\$ 3,899</u>	<u>\$ 2,710</u>	<u>\$ 585,253</u>

(Dollars in thousands)	Beginning balance	Impact of ASC 326 Adoption	Provision for (recovery of) credit losses	Charge offs	Recoveries	Ending balance	Allowance for credit losses ending balance evaluated for impairment:		Outstanding loan balances evaluated:	
							Individually	Collectively	Individually	Collectively
December 31, 2023										
Real estate:										
Commercial	\$ 2,816	\$ (448)	\$ 80	\$ -	\$ -	\$ 2,448	\$ 298	\$ 2,152	\$ 2,515	\$ 359,427
Construction and land development	-	-	-	-	-	-	-	-	-	-
Residential	165	277	(201)	-	12	253	-	253	-	20,446
Commercial	794	509	(677)	-	387	1,013	-	1,013	276	112,514
Commercial	338	134	22	-	-	494	152	341	152	32,671
Consumer	5	(5)	2	-	-	2	-	2	-	165
Unallocated	31	(31)	74	-	-	74	-	74	-	-
	<u>\$ 4,149</u>	<u>\$ 436</u>	<u>\$ (700)</u>	<u>\$ -</u>	<u>\$ 399</u>	<u>\$ 4,284</u>	<u>\$ 450</u>	<u>\$ 3,835</u>	<u>\$ 2,943</u>	<u>\$ 525,223</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

Loans acquired from Carroll Community Bank in 2020 were measured at fair value at the acquisition date with no carryover of any allowance for credit losses. The following table provides activity for the accretable credit discount of purchased loans:

(Dollars in thousands)

Balance at December 31, 2023	\$	539
Accretion		(253)
Balance at December 31, 2024	\$	<u>286</u>

The nonaccretable difference on purchased credit impaired loans was \$0 for December 31, 2024 and 2023. At December 31, 2024, the remaining yield premium on purchased loans was \$270 thousand. Yield premium amortization was \$239 thousand and \$370 thousand in 2024 and 2023, respectively. At December 31, 2024, the principal balance of purchased loans was \$62.56 million and the carrying value was \$62.54 million.

The following table details activity in the allowance for credit losses on unfunded loan commitments:

	<u>2024</u>
Balance at December 31, 2023	\$ 228
Provision for credit loss	<u>12</u>
Balance at December 31, 2024	<u>\$ 240</u>
	<u>2023</u>
Balance at December 31, 2022	\$ -
Impact of adopting ASC 326	82
Provision for credit loss	<u>146</u>
Balance at December 31, 2023	<u>\$ 228</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

The following table provides a summary of all of the components of the allowance for credit losses:

(Dollars in thousands)	Held to maturity securities	Loans	Unfunded loan commitments	Rounding	Total
Beginning balance	\$ 36	\$ 4,284	\$ 228		\$ 4,548
Provision for (recovery of) credit losses	24	114	12		150
Charge-offs	-	(162)	-		(162)
Recoveries	-	24	-		24
Ending balance	<u>\$ 60</u>	<u>\$ 4,260</u>	<u>\$ 240</u>		<u>\$ 4,560</u>

Year Ended December 31, 2023

(Dollars in thousands)	Held to maturity securities	Loans	Unfunded loan commitments	Total
Beginning balance	\$ -	\$ 4,149	\$ -	\$ 4,149
Impact of adopting ASC 326	52	436	82	569
Provision for (recovery of) credit losses	(16)	(700)	146	(570)
Charge-offs	-	-	-	-
Recoveries	-	399	-	399
Ending balance	<u>\$ 36</u>	<u>\$ 4,284</u>	<u>\$ 228</u>	<u>\$ 4,548</u>

Loans having an aggregate balance of approximately **\$502.3** million were pledged as collateral to the FHLB as of December 31, 2024. Loans having an aggregate balance of approximately **\$85.1** million were pledged as collateral to the Federal Reserve Bank of Richmond (the “FRB”) as of December 31, 2024. At December 31, 2024 and 2023, the Company serviced participation loans for others totaling **\$17.7** million and \$15.5 million, respectively.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

5. Loans and allowance for credit losses (continued)

The Company makes loans to customers located primarily in Baltimore County and Carroll County, Maryland and in surrounding areas of northern Maryland. Although management believes that the loan portfolio is diversified, many loans are secured by real estate and its performance will be influenced by the economy of the region, including local real estate markets.

6. Premises and Equipment

A summary of premises and equipment is as follows:

(Dollars in thousands)	Useful lives	2024	2023
Land and improvements	-	\$ 2,603	\$ 2,603
Buildings and improvements	15-39 years	7,434	6,718
Furniture and equipment	3-10 years	6,029	5,443
		16,066	14,764
Accumulated depreciation and amortization		8,717	8,181
		<u>\$ 7,349</u>	<u>\$ 6,583</u>
Depreciation and amortization expense		<u>\$ 559</u>	<u>\$ 467</u>

Software with a net book value of \$939.0 thousand and \$66.4 thousand as of December 31, 2024 and 2023, respectively, is included in other assets. Amortization expense of \$77.4 thousand and \$43.5 thousand was recorded in 2024 and 2023, respectively.

7. Goodwill and Other Intangibles

The Merger resulted in the recording of goodwill and CDI. The following table presents the changes in both assets:

(Dollars in thousands)	<u>Goodwill</u>	<u>CDI</u>	<u>Total</u>
Balance at December 31, 2022	\$ 6,978	\$ 64	\$ 7,042
Amortization	-	(8)	(8)
Balance at December 31, 2023	6,978	56	7,034
Amortization	-	(8)	(8)
Balance at December 31, 2024	<u>\$ 6,978</u>	<u>\$ 48</u>	<u>\$ 7,026</u>

The CDI is being amortized over 10 years on a straight-line basis. Annual amortization will be \$8,328 per year and \$6,246 in year 10. Since the Merger was a tax-free reorganization, neither the goodwill nor CDI is deductible for income tax purposes. A goodwill impairment analysis is performed annually as of December 31, 2024.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

8. Commitments and Contingencies

Lease Commitments

The Company has an operating lease for the land on which the Hampstead branch is located. The initial term of the lease expired on September 30, 2009 and the lease was renewed for three five year terms with an expiration date of September 30, 2024. The lease has options to renew for five additional consecutive five- year terms. Effective in July 2012, the Company entered into an operating lease for certain facilities where the Greenmount branch is located. The initial term of the lease was for five years and, effective January 2018, the lease has been renewed for one five-year term with an option to renew for an additional five-year term. The Company entered into an operating lease for the corporate headquarters in June 2015. In July 2019, the lease was amended to increase the amount of space. The lease was renewed in June 2020 with options to renew for three additional consecutive five year terms. In May 2018, the Company entered into a lease for its Carroll Lutheran Village branch with a term of five years and the option to renew for two additional five year terms. In December 2023, the Company entered into a lease for its Towson office with a term of five years with an option to renew for two five-year terms.

The following table shows operating lease right of use assets and operating lease liabilities as of December 31, 2024:

(Dollars in thousands)	Consolidated Balance		
	Sheet classification	December 31, 2024	December 31, 2023
Operating lease right of use asset	Other assets	\$ 1,285	\$ 794
Operating lease liabilities	Other liabilities	\$ 1,506	\$ 1,010

Operating lease cost included in occupancy expense in the statement of income was \$285.6 thousand during 2024 and \$184.3 thousand during 2023.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024 are as follows:

Year	(\$000s)	
	Amount	
2025	\$	324
2026		334
2027		344
2028		272
2029		234
Thereafter		432
Total lease payments		1,940
Less imputed interest		(434)
Present value of operating lease liabilities	\$	1,506

For operating leases as of December 31, 2024, the weighted average remaining lease term is 6.58 years and the weighted average discount rate is 3.72%. During the years ended December 31, 2024 and 2023, cash paid for amounts included in the measurement of lease liabilities was \$280.3 thousand and \$190.9 thousand, respectively.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

8. Commitments and Contingencies (continued)

Outstanding loan commitments, unused lines of credit, and letters of credit as of December 31, were as follows:

(Dollars in thousands)	2024	2023
Loan commitments		
Construction and land development	\$ 532	\$ 8,575
Commercial	7,250	17,877
Commercial real estate	24,062	7,278
Residential	405	2,195
	<u>\$ 32,249</u>	<u>\$ 35,925</u>
Unused lines of credit		
Home-equity lines	\$ 17,505	\$ 11,396
Commercial lines	49,249	46,611
	<u>\$ 66,754</u>	<u>\$ 58,007</u>
Letters of credit	<u>\$ 1,836</u>	<u>\$ 1,339</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not necessarily represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss that is likely to be incurred as a result of funding its credit commitments.

Insurance Reserves

Until November 6, 2022, through reinsurance and pooling arrangements, the Insurance Subsidiary insured risks of the Bank (primarily professional liability) that were not available in typical commercially available policies. In addition, the Insurance Subsidiary, as one protected cell of a protected cell captive insurance company, is responsible for a portion of all claims filed by the other captive insurance companies that participate in the pool in which the Insurance Subsidiary participates. The Company records liabilities for claims incurred but not reported based on historical loss information and claim emergence patterns. Total liabilities related to Insurance Subsidiary claims at December 31, 2024 and 2023 were \$239.9 thousand and \$332.4 thousand, respectively, and are included in other liabilities in the Consolidated Balance Sheet. The Bank did not renew the policy through the Insurance Subsidiary after the previous policy expired on November 6, 2022. The Bank may renew the policy at a later date.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

8. Commitments and Contingencies (continued)

Retirement Plans

The Company has a profit sharing plan qualifying under Section 401(k) of the Internal Revenue Code. All employees age 21 or more with six months of service are eligible for participation in the plan. The Company matches employee contributions up to 4% of total compensation and may make additional discretionary contributions. Employee and employer contributions are 100% vested when made. The Company's contributions to this plan were **\$276.3** thousand and \$261.3 thousand for 2024 and 2023, respectively.

The Company has entered into agreements with 12 employees to provide certain life insurance benefits payable in connection with policies of life insurance on those employees that are owned by the Company. Each of the agreements provides for the amount of death insurance benefits to be paid to beneficiaries of the insured. Some of the policies provide benefits subsequent to the employee's employment with the Company. For this plan, the Company expensed **\$7.9** thousand and \$7.3 thousand in 2024 and 2023, respectively.

The Company adopted supplemental executive retirement plans for four of its executives. The plans provide cash compensation to the executive officers under certain circumstances, including a separation of service. The benefits vest over the period from adoption to a specified age for each executive. The Company recorded expenses, including interest, of **\$264.9** thousand and \$165.8 thousand in 2024 and 2023, respectively, for these plans.

Retirement plan expenses are included in employee benefits on the Consolidated Statements of Income.

9. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

(Dollars in thousands)	2024	2023
NOW	\$ 120,907	\$ 137,734
Money market	67,371	71,517
Savings	79,084	86,015
Certificates of deposit, greater than \$250,000	61,647	63,400
Other time deposits	322,600	207,012
	<u>\$ 651,609</u>	<u>\$ 565,678</u>

As of December 31, 2024, certificates of deposit mature as follows:

	(Dollars in thousands)
Year	Amount
2025	\$ 340,580
2026	14,818
2027	1,673
2028	27,052
2029	124
	<u>\$ 384,247</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

9. Interest-Bearing Deposits (continued)

In connection with the Merger, the Company recognized a certificate of deposit premium of \$616.4 thousand, which is being accreted using the interest method based upon the maturity of each certificate of deposit. Accretion of \$4.8 thousand and \$69.8 thousand were recorded in 2024 and 2023, respectively.

10. Borrowed Funds

Borrowed funds consist of securities sold under repurchase agreements, which represent overnight or term borrowings from customers, advances from the FHLB of Atlanta, the FRB, and overnight borrowings from a commercial bank. The government agency securities that are the collateral for these agreements are owned by the Company and maintained in the custody of an unaffiliated agent designated by the Company.

On September 30, 2020, Farmers and Merchants Bancshares, Inc. borrowed \$17.0 million from First Horizon Bank ("FHN") to be used, on October 1, 2020, to fund a portion of the merger consideration paid in the Merger. Net of issuance costs of \$28.1 thousand, the proceeds of the net long-term debt were \$16.9 million. The loan matures on September 30, 2025. The interest rate on the loan is fixed at 4.10%. The Company made quarterly interest-only payments through October 1, 2021. During the remaining term of the loan, the Company is required to make quarterly interest and principal payments of approximately \$646.5 thousand, which is based on a nine-year straight-line amortization schedule. The remaining balance of approximately \$9.9 million will be due at maturity. To secure its obligations under this loan, the Company pledged all of its shares of common stock of the Bank to FHN.

Securities sold under agreements to repurchase represent overnight borrowings from customers. Securities owned by the Company which are used as collateral for these borrowings are primarily U.S. government agency securities.

Specific information about the Company's borrowings and contractual obligations is set forth in the following table:

<u>(Dollars in thousands)</u>	<u>2024</u>	<u>2023</u>
Amount outstanding at year-end:		
Securities sold under repurchase agreements	\$ 5,564	\$ 6,760
Federal Home Loan Bank advances	5,000	5,000
Federal Home Loan Bank advances mature in:		
2025	5,000	5,000
Federal Reserve Bank advances mature in:		
2024	-	33,000
Long-term debt (net of issuance costs)	11,329	13,212
Weighted average rate paid at year-end:		
Securities sold under repurchase agreements	1.25%	1.25%
Federal Home Loan Bank advances	1.00%	1.00%
Federal Reserve Bank advances	0.00%	4.83%
Long-term debt	4.10%	4.10%
Average rate paid during the year ended December 31:		
Securities sold under repurchase agreements	1.26%	0.90%
Federal Home Loan Bank advances	1.96%	3.57%
Federal Reserve Bank advances	4.75%	5.31%
Long-term debt	4.19%	4.10%

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

10. Borrowed Funds (continued)

The Company is approved to borrow approximately \$70.4 million against eligible pledged single family residential loans, eligible pledged multi-family loans, eligible pledged commercial loans, and eligible pledged securities under a secured line of credit with the FHLB. In addition, the Company has a facility with the FRB whereby the Company can borrow up to \$33.0 million. Additionally, the Bank had \$23.5 million available through unsecured and secured lines of credit with correspondent banks.

11. Income Taxes

The components of income tax expense are as follows:

(Dollars in thousands)	2024	2023
Current		
Federal	\$ 740	\$ 1,173
State	234	452
	974	1,625
Deferred tax expense	257	392
	<u>\$ 1,231</u>	<u>\$ 2,017</u>

The components of the deferred tax expense are as follows:

(Dollars in thousands)	2024	2023
Depreciation	\$ 273	\$ (14)
Insurance proceeds for storm damage	39	1
Provision for credit losses on loans	7	52
Provision for credit losses on held to maturity securities	(7)	5
Provision for credit losses on unfunded commitments	(3)	(40)
Other real estate owned allowance for loss	(18)	388
Nonaccrual interest	8	(4)
Write-down of equity securities	(1)	1
Lease liability, net of right of use asset	(2)	2
Purchase accounting adjustments	2	23
Stock compensation	-	(1)
Post-retirement benefits	(41)	(21)
	<u>\$ 257</u>	<u>\$ 392</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

11. Income Taxes (continued)

The components of the net deferred tax asset are as follows:

<u>(Dollars in thousands)</u>	2024	2023
Deferred tax assets		
Allowance for credit losses on loans	\$ 1,172	\$ 1,179
Allowance for credit losses on held to maturity securities	17	10
Allowance for credit losses on unfunded commitments	66	63
Other real estate owned allowance for loss	65	47
Derivatives	(155)	443
Nonaccrual interest	114	122
Post-retirement benefits	758	717
Unrealized loss on securities available for sale	6,358	6,210
Lease liability, net of right of use asset	61	59
Other	23	20
	<u>8,479</u>	<u>8,870</u>
Deferred tax liabilities		
Purchase accounting adjustments	8	6
Depreciation	623	350
Insurance proceeds from storm damage	226	187
Other	16	15
	<u>873</u>	<u>558</u>
Net deferred tax asset	<u>\$ 7,606</u>	<u>\$ 8,312</u>

The differences between the federal income tax rate in effect each year and the effective tax rate for the Company are reconciled as follows:

	2024	2023
Statutory federal income tax rate	21.0 %	21.0 %
Increase (decrease) resulting from:		
Federal tax-exempt income	(3.6)	(2.3)
State income taxes, net of federal income tax benefit	5.8	5.8
Other	(0.8)	(0.6)
	<u>22.4 %</u>	<u>23.9 %</u>

Included in Federal tax-exempt income is the insurance premium revenue of the Insurance Subsidiary.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

11. Income Taxes (continued)

The Internal Revenue Service (the “IRS”) recently audited our fiscal year 2016, 2017 and 2018 U.S. consolidated federal tax returns. As part of its audits, the IRS reviewed the deductions related to, and the income generated by, the Insurance Subsidiary. Following the completion of these audits, the IRS notified the Company that it disagrees with our tax treatment of the Insurance Subsidiary. The Company has appealed the determination, and management believes that it is more than likely that the Company will prevail in that appeal. If we do not prevail in our appeal to this decision, then we could be required to pay taxes, interest, and penalties totaling approximately \$2.0 million as of December 31, 2024 for the tax years under appeal. In addition, the IRS is auditing our fiscal year 2019, 2020 and 2021 U.S. consolidated federal tax returns. Although the IRS has not completed these audits, the IRS has notified the Company that it disagrees with our tax treatment of the Insurance Subsidiary. The Company plans to appeal the determination, and management believes that it is more than likely that the Company will prevail in that appeal. If we do not prevail in our appeal of this decision, then we may be required to amend the applicable tax return and pay additional taxes, interest, fines and/or penalties totaling approximately \$1.6 million as of December 31, 2024 for the tax years under audit. For all six years under audit, if we do not prevail, the total additional taxes, interest, fines and/or penalties would be approximately \$3.6 million. In light of the foregoing, a reserve for uncertain tax positions has not been recorded.

The Company does not have other material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Company remains subject to examination of income tax returns for the years ending after December 31, 2021.

12. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (i) a Common Equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8%; (iii) a total risk-based capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%.

The implementation of the capital conservation buffer began on January 1, 2015, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

12. Capital Standards (continued)

minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

On September 17, 2019, the FDIC finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio (“CBLR”) framework), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

On April 6, 2020, in a joint statement, the FDIC, Federal Reserve and the Office of Comptroller of the Currency issued two interim final rules regarding temporary changes to the CBLR framework to implement provisions of the CARES Act. Under the interim final rules, the community bank leverage ratio was reduced to 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 8%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Company has not opted-in to the CBLR framework.

The following table presents actual and required capital ratios as of December 31, 2024 and 2023, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2024 and 2023, based on the provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2024 the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank’s category. Capital ratios of the Company are substantially the same as the Bank’s.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

12. Capital Standards (continued)

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action. The following table presents actual and required capital ratios as of December 31, 2024 and 2023, for the Bank under the Basel III Capital Rules.

(Dollars in thousands)	Actual		Minimum Capital Adequacy		To Be Well Capitalized				
	December 31, 2024	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Total capital (to risk-weighted assets)	\$	81,161	12.37%	\$	68,910	10.50%	\$	65,628	10.00%
Tier 1 capital (to risk-weighted assets)		76,601	11.67%		55,784	8.50%		52,503	8.00%
Common equity tier 1 (to risk-weighted assets)		76,601	11.67%		45,940	7.00%		42,658	6.50%
Tier 1 leverage (to average assets)		76,601	9.12%		33,580	4.00%		41,974	5.00%
December 31, 2023									
Total capital (to risk-weighted assets)	\$	79,988	13.45%	\$	62,437	10.50%	\$	59,464	10.00%
Tier 1 capital (to risk-weighted assets)		75,440	12.69%		50,544	8.50%		47,571	8.00%
Common equity tier 1 (to risk-weighted assets)		75,440	12.69%		41,625	7.00%		38,651	6.50%
Tier 1 leverage (to average assets)		75,440	9.42%		32,051	4.00%		40,063	5.00%

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

13. Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements.

Fair Value Hedges: Interest rate swaps with notional amounts totaling \$75.3 million and \$59.8 million as of December 31, 2024 and 2023, respectively, were designated as fair value last of layer hedges of certain government agency mortgage backed securities. There were no interest rate swaps prior to 2023. The hedges were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining terms of the swaps.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustments for fair value hedges at December 31, 2024 and 2023:

Line item in the balance sheet in which the hedged item is included	Carrying amount of the hedged assets December 31, 2024	Carrying amount of fair value hedging adjustment December 31, 2024	Carrying amount of the hedged assets December 31, 2023	Carrying amount of fair value hedging adjustment December 31, 2023
Securities available for sale	\$ 103,174	\$ 556	\$ 69,921	\$ (1,609)

The Company presents derivative positions gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet at December 31, 2024 and 2023:

	December 31, 2024	December 31, 2023
	Fair Value	Fair Value
<u>Included in other assets:</u>		
Derivatives designated as hedges:		
Interest rate swaps related to securities available for sale	\$ 626	\$ -
Total included in other assets	\$ 626	\$ -
<u>Included in other liabilities:</u>		
Derivatives designated as hedges:		
Interest rate swaps related to securities available for sale	\$ 28	\$ 1,564
Total included in other liabilities	\$ 28	\$ 1,564

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

13. Derivative Financial Instruments (continued)

The effect of fair value hedge accounting on the statement of income for the years ended December 31, 2024 and 2023 is as follows:

Fair Value Hedging Relationships

Total amounts of income and expense line items presented in the statements of income in which the effects of the fair value hedge is recorded are as follows:

	Year Ended December 31, 2024	Year Ended December 31, 2023
	Interest Income	Interest Income
The effects of fair value hedging:		
Gain on fair value hedging relationships:		
Hedged items	\$ (16)	\$ 46
Interest rate contracts designated as hedging instruments	<u>784</u>	<u>326</u>
Net gain on fair value hedging relationships included in interest income from investment securities - taxable	<u>\$ 768</u>	<u>\$ 372</u>

14. Fair Value

In accordance with ASC Topic 820, “Fair Value Measurements and Disclosure”, the Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (“an exit price”) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is the most representative of fair value under current market conditions.

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company’s market assumptions. The three levels of the fair value hierarchy under ASC Topic 820 based on these two types of inputs are as follows:

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

14. Fair Value (continued)

The fair value hierarchy is as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company uses the following methods and significant assumptions to estimate the fair values of the following assets:

- Securities available for sale: The fair values of securities available for sale are determined by obtaining quoted prices from a nationally recognized securities pricing agent. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities.
- Equity security at fair value: The Company's investment in an equity mutual fund is valued based on the net asset value of the fund, which is classified as Level 1.
- Other real estate owned ("OREO"): Nonrecurring fair value adjustments to OREO reflect full or partial write-downs that are based on the OREO's observable market price or current appraised value of the real estate. Since the market for OREO is not active, OREO subjected to nonrecurring fair value adjustments based on the current appraised value of the real estate are classified as Level 3. The appraised value is obtained annually from an independent third party appraiser and is reduced by expected sales costs, which has historically been 10% of the appraised value.
- Collateral-dependent loans: Nonrecurring fair value adjustments to collateral-dependent loans reflect full or partial write-downs and reserves that are based on the collateral-dependent loan's observable market price or current appraised value of the collateral. Because the market for collateral-dependent loans is not active, such loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral are classified as Level 3. The appraised value is obtained annually from an independent third party appraiser and is reduced by expected sales costs, which has historically been 10% of the appraised value.
- Fair value hedges: The market value based on independent third party valuation sources that uses observable and traded prices of interest rate swaps from leading banks and brokers.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

14. Fair Value (continued)

The following table summarizes financial assets measured at fair value on a recurring and nonrecurring basis as of December 31, 2024 and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Carrying Value:			
(Dollars in thousands)					
<u>December 31, 2024</u>		<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Recurring:					
Available for sale securities					
State and municipal	\$	-	\$ 487	\$ -	\$ 487
SBA pools		-	\$ 629	-	629
Corporate bonds		-	\$ 7,185	-	7,185
Mortgage-backed securities		-	\$ 117,412	-	117,412
	\$	-	\$ 125,713	\$ -	\$ 125,713
Fair value hedge:					
Hedging asset	\$	-	\$ 626	\$ -	\$ 626
Hedging liability		-	28	-	28
Net fair value hedge	\$	-	\$ 598	\$ -	\$ 598
Equity security at fair value					
Mutual fund	\$	518	\$ -	\$ -	\$ 518
Nonrecurring:					
Other real estate owned, net	\$	-	\$ -	\$ 1,176	\$ 1,176
Collateral-dependent loans, net	\$	-	\$ -	\$ 2,080	\$ 2,080

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

14. Fair Value (continued)

		Carrying Value:			
(Dollars in thousands)		Level 1	Level 2	Level 3	Total
<u>December 31, 2023</u>					
Recurring:					
Available for sale securities					
State and municipal	\$ -	\$ 485	\$ -	\$ 485	
SBA pools	-	767	-	767	
Corporate bonds	-	8,570	-	8,570	
Mortgage-backed securities	-	154,263	-	154,263	
	<u>\$ -</u>	<u>\$ 164,085</u>	<u>\$ -</u>	<u>\$ 164,085</u>	
Fair value hedge	<u>\$ -</u>	<u>\$ (1,564)</u>	<u>\$ -</u>	<u>\$ (1,564)</u>	
Equity security at fair value					
Mutual fund	<u>\$ 507</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 507</u>	
Nonrecurring:					
Other real estate owned, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,242</u>	<u>\$ 1,242</u>	
Collateral-dependent loans, net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 205</u>	<u>\$ 205</u>	

The following table provides information describing the unobservable inputs used in level 3 fair value measurements at December 31, 2024 and 2023 (Dollars in thousands):

Description of Asset	Fair Value	Valuation technique	Unobservable Inputs	Range (Average)
Collateral-dependent loans	\$ 2,080	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 20% (10%)
Other real estate owned	\$ 1,242	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 10% (5%)

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

14. Fair Value (continued)

Description of Asset	Fair Value	Valuation technique	Unobservable Inputs	Range (Average)
Collateral-dependent loans	\$ 2,086	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 20% (10%)
Other real estate owned	\$ 1,242	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 10% (5%)

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

14. Fair Value (continued)

The estimated fair value of financial instruments that are reported at amortized cost less allowance for credit losses and in the Company's consolidated balance sheets and financial instruments reported at fair value, segregated by the level of the valuation inputs were as follows:

	December 31, 2024		December 31, 2023	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	\$ 64,659	\$ 64,659	\$ 44,690	\$ 44,690
Level 2 inputs				
Certificates of deposit in other banks	100	100	100	100
Accrued interest receivable	2,439	2,439	2,181	2,181
Securities available for sale	125,713	125,713	164,085	164,085
Securities held to maturity	17,156	15,589	17,293	16,193
Equity security	518	518	507	507
Mortgage loans held for sale	157	157	-	-
Restricted stock, at cost	921	921	864	864
Bank owned life insurance	15,324	15,324	14,931	14,931
Fair value hedge	626	626	-	-
Level 3 inputs	-	-	-	-
Securities held to maturity	3,343	3,343	2,870	2,870
Loans, net	582,993	572,346	523,308	507,138
Financial liabilities				
Level 1 inputs				
Noninterest-bearing deposits	\$ 107,197	\$ 107,197	\$ 115,285	\$ 115,285
Securities sold under repurchase agreements	5,564	5,564	6,760	6,760
Level 2 inputs				
Interest-bearing deposits	651,609	654,346	565,678	566,925
Federal Home Loan Bank advances	5,000	4,957	5,000	4,754
Federal Reserve Bank advances	-	-	33,000	32,997
Long-term debt	11,329	11,066	13,212	12,428
Accrued interest payable	1,003	1,003	1,483	1,483
Fair value hedge	28	28	1,564	1,564

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

15. Stock-Based Compensation

On August 22, 2023, the Board of Directors approved the Farmers and Merchants Bancshares, Inc. 2023 Equity Compensation Plan (the “Equity Plan”). The Equity Plan allows the Board of Directors or its Compensation Committee to grant awards that may be payable in shares of common stock or the cash equivalent thereof.

The Company complies with the provisions of ASC Topic 718, Compensation-Stock Compensation, in measuring and disclosing stock compensation cost. The measurement objective in ASC Paragraph 718-10-30-6 requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost is recognized in expense over the period in which an employee is required to provide service in exchange for the award (the vesting period).

During the year ended December 31, 2023, 2,000 fully vested shares of common stock and 3,000 restricted stock units (the “RSUs”) were granted to one executive officer. One-third of the RSUs vested on September 22, 2024, one-third will vest on September 22, 2025, and one-third will vest on September 22, 2026, provided that, in each case, the grantee is employed and in good standing with the Company on the applicable vesting date.

A summary of the Company’s restricted stock unit grant activity as of December 31, 2024 is shown below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Nonvested at January 1, 2024	3,000	18.54
Granted	-	-
Vested	1,000	18.54
Forfeited	-	-
Balance at December 31, 2024	2,000	18.54

The compensation cost charged to income in respect of awards granted under the Equity Plan was \$18.0 thousand and \$42.8 thousand for the years ended December 31, 2024 and 2023, respectively. As of December 31, 2024, there was \$31.8 thousand of unrecognized compensation cost related to the unvested RSUs, respectively, which are expected to be recognized over a period of 21 months.

16. Segment information

The Company’s reportable segment is determined by the President, who is designated the chief operating decision maker, based upon information provided about the Company’s products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review the performance of the various components of the business, which are then aggregated if operating performance, products & services, and customers are similar. The chief operating decision maker will evaluate the financial performance of the Company’s business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company’s segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessment performance and in establishing compensation. Loans, investments, and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses, and payroll provide the significant expenses in the banking operation.

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

17. Parent Company Financial Information

The condensed financial statements for the Company (parent only) are presented below:

(\$000s)

December 31,	2024	2023
Assets		
Cash and cash equivalents	\$ 19	\$ 70
Investment in subsidiaries	67,644	65,314
Other assets	125	145
	<u>\$ 67,788</u>	<u>\$ 65,529</u>
Liabilities and Stockholders' Equity		
Long-term debt	\$ 11,329	\$ 13,212
Accrued interest payable	119	139
Other liabilities	68	-
	<u>11,516</u>	<u>13,351</u>
Stockholders' equity		
Common stock, par value \$.01 per share, authorized 5,000,000 shares; issued and outstanding 3,166,653 in 2024 and 3,116,966 in 2023	32	31
Additional paid-in capital	31,136	30,398
Retained earnings	41,613	39,433
Accumulated other comprehensive loss	(16,509)	(17,684)
	<u>56,272</u>	<u>52,178</u>
	<u>\$ 67,788</u>	<u>\$ 65,529</u>

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

17. Parent Company Financial Information (continued)

Statements of Income

(\$000s)

Years Ended December 31,

2024

2023

Income

Cash dividends from subsidiaries

\$ **3,598** \$ 2,880

Total income

3,598 2,880

Interest expense - long-term debt

(508) (585)

Noninterest expense

(92) (89)

Income before income taxes and equity in

undistributed income of subsidiaries

2,998 2,206

Income tax (benefit)

(125) (141)

Income before equity in undistributed

income of subsidiaries

3,123 2,347

Dividends in excess of income of insurance subsidiary

- -

Equity in undistributed income of insurance subsidiary

- 72

Equity in undistributed income of bank subsidiary

1,155 3,999

Net Income

\$ 4,278 \$ 6,418

Farmers and Merchants Bancshares, Inc.

Notes to Consolidated Financial Statements

(Amounts in thousands except per share data)

17. Parent Company Financial Information (continued)

Statements of Cash Flows

(Dollars in thousands)

Years Ended December 31,

2024

2023

Cash flows from operating activities

Net Income	\$	4,278	\$	6,418
Adjustments to reconcile net income to net cash provided by operating activities:				
Equity in undistributed income of subsidiaries		(1,155)		(4,072)
Decrease in accrued interest payable		(20)		(19)
Amortization of debt issuance costs		6		6
Stock based compensation		18		43
Change in income tax receivable		20		13
Increase in other liabilities		68		-
Dividend received in excess of income of insurance subsidiary		-		-
Cash provided by operating activities		<u>3,215</u>		<u>2,389</u>

Cash flows from investing activities

Cash used in investing activities		<u>-</u>		<u>-</u>
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Cash flows from financing activities

Long-term debt		(1,889)		(1,889)
Dividends paid, net of reinvestments		<u>(1,377)</u>		<u>(1,236)</u>
Cash used in financing activities		<u>(3,266)</u>		<u>(3,125)</u>

Net decrease in cash and cash equivalents		(51)		(736)
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Cash and cash equivalents at beginning of period		<u>70</u>		<u>806</u>
Cash and cash equivalents at end of period	\$	<u>19</u>	\$	<u>70</u>

18. Litigation

In the ordinary course of its business, the Company is periodically party to various legal actions normally associated with a financial institution. Management does not believe that any of these normal course proceedings are likely to have a material adverse effect on the financial condition or liquidity of the Company.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the Company's reports filed under the Exchange Act with the SEC, such as this annual report, is recorded, processed, summarized and reported within the time periods specified in those rules and forms, and that such information is accumulated and communicated to the Company's management, including the principal executive officer ("PEO") and the principal financial officer ("PFO"), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls as of December 31, 2024 was carried out under the supervision and with the participation of the Company's management, including the PEO and the PFO. Based on that evaluation, the Company's management, including the PEO and the PFO, has concluded that the Company's disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

During the fourth quarter of 2024, there was no change in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

As required by Section 404 of the Sarbanes-Oxley Act of 2002, management has performed an evaluation and testing of the Company's internal control over financial reporting as of December 31, 2024. Management's report on the Company's internal control over financial reporting is included on the following page. The Company's is a "smaller reporting company" as defined by Rule 12b-2 under the Exchange Act and, accordingly, its independent registered public accounting firm is not required to attest to the foregoing management report.

Management's Report on Internal Control over Financial Reporting

Management of Farmers and Merchants Bancshares, Inc. (the "Company") is responsible for the preparation, integrity and fair presentation of the consolidated financial statements included in this annual report. The Company's consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and, as such, include some amounts that are based on the best estimates and judgments of management.

Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, reports on internal control over financial reporting issued by management of "smaller reporting companies", as defined by Exchange Act Rule 12b-2, are exempt from the auditor attestation requirements imposed by Section 404(b) of the Sarbanes-Oxley Act of 2002. The Company is a smaller reporting company. Accordingly, this Annual Report on Form 10-K does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting.

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting. This internal control system is designed to provide reasonable assurance to management and the Board of Directors regarding the reliability of the Company's financial reporting and the preparation and presentation of financial statements for external reporting purposes in conformity with accounting principles generally accepted in the United States of America, as well as to safeguard assets from unauthorized use or disposition. The system of internal control over financial reporting is evaluated for effectiveness by management and tested for reliability through a program of internal audit with actions taken to correct potential deficiencies as they are identified. Because of inherent limitations in any internal control system, no matter how well designed, misstatement due to error or fraud may occur and not be detected, including the possibility of the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, internal control effectiveness may vary over time.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2024 based upon criteria set forth in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Based on this assessment and on the foregoing criteria, management has concluded that, as of December 31, 2024, the Company's internal control over financial reporting is effective.

March 12, 2025

/s/Gary A. Harris
Gary A. Harris
President & Chief Executive Officer
(Principal Executive Officer)

/s/Mark C. Krebs
Mark C. Krebs
Executive Vice President & Chief Financial Officer
(Principal Financial Officer)

ITEM 9B. OTHER INFORMATION

Based on the most recent information provided to us by our directors and officers, no director or officer adopted or terminated (i) any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) promulgated under the Exchange Act or (ii) any “non-Rule 10b5-1 trading arrangement” as defined in Rule 10b5-1(c).

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTION.

N/A

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The Company has adopted a Code of Ethics applicable to its principal executive officer, principal financial officer, principal accounting officer, or controller, or persons performing similar functions. This Code of Ethics is applicable to all directors and employees. A copy of this Codes of Ethics is available on our website, www.fmb1919.bank, and may be accessed by clicking on “Investor Relations”, then “Corporate Overview” and then “Code of Ethics”.

All other information required by this item is incorporated herein by reference to the following sections of the Company’s definitive proxy statement for the 2025 annual meeting of stockholders that will be filed by April 30, 2025 with the SEC pursuant to Regulation 14A (the “2025 Proxy Statement”):

- ELECTION OF CLASS III DIRECTORS (Proposal 1);
- CONTINUING DIRECTORS;
- QUALIFICATIONS OF DIRECTOR NOMINEES AND CURRENT DIRECTORS;
- EXECUTIVE OFFICERS;
- DELINQUENT SECTION 16(a) REPORTS; and
- CORPORATE GOVERNANCE MATTERS (under “Committees of the Board of Directors - *Audit Committee*” and “- *Insider Trading Policy*”).

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated herein by reference to the sections of the 2025 Proxy Statement entitled “DIRECTOR COMPENSATION” and “EXECUTIVE COMPENSATION”.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

On July 17, 2023, the Board of Directors adopted the Farmers and Merchants Bancshares, Inc. 2023 Equity Compensation Plan (the “Equity Plan”), which authorizes the grant of various forms of incentive awards, including stock awards (both fully-vested and restricted), restricted stock units, and performance awards, to non-employee directors, employees, and consultants of the Company and its subsidiaries with respect to up to 30,000 shares of the Company’s common stock (subject to adjustment as provided in the Equity Plan). The Equity Plan was not approved by stockholders. Our Board of Directors or one of its committees will administer the Equity Plan (the “Administrator”). Among other powers, the Administrator will have full and exclusive power to, among other things,: (i) approve the forms of award agreements for use under the Equity Plan; (ii) determine the employees, non-employee directors and consultants to whom awards may be granted under the Equity Plan; (iii) determine the type, number of shares or dollar amounts, and terms of the awards to be granted to each participant, including whether and the terms upon which awards that have not vested may be retained following the termination of a participant’s service with the Company; (iv) determine the time when the awards will be granted and the duration of any applicable restriction or vesting period; (v) accelerate the vesting or payment of any outstanding award notwithstanding any vesting or payment date set forth in the related award agreement; (vi) amend the terms of any previously issued award, subject to certain limitations contained in the Equity Plan; (vii) adopt and rescind rules and regulations separate from the Equity Plan that set forth specific terms and conditions for awards; and (viii) deal with any other matters arising under the Equity Plan.

Each award will be reflected in an agreement between the Company and the participant, will be subject to the applicable terms and conditions of the Equity Plan and any rules and regulations adopted under the Equity Plan, and may also be subject to other terms and conditions contained in the award agreement consistent with the Equity Plan that the Administrator deems appropriate, including restrictions on vesting and provisions related to settlement in the event of a participant’s death, disability or termination of service. The provisions of the various award agreements entered into under the Equity Plan do not need to be identical.

In the event of a Change in Control (as defined in the Equity Plan), each outstanding award will be treated as the Administrator determines without a participant's consent, including, without limitation, that (i) awards will be assumed, or substantially equivalent awards will be substituted, by the acquiring or succeeding entity (or an affiliate thereof) with appropriate adjustments as to the number and kind of shares and prices; (ii) upon written notice to a participant, that the participant's awards will terminate upon or immediately prior to the consummation of such Change in Control; (iii) outstanding awards will vest and become realizable or payable, or restrictions applicable to an award will lapse, in whole or in part prior to or upon consummation of such Change in Control, and, to the extent the Administrator determines, terminate upon or immediately prior to the effectiveness of such Change in Control; (iv) (A) the termination of an award in exchange for an amount of cash and/or property, if any, equal to the amount that would have been attained upon the realization of the participant's rights as of the date of the occurrence of the Change in Control (and, for the avoidance of doubt, if as of the date of the occurrence of the Change in Control the Administrator determines in good faith that no amount would have been attained upon the realization of the participant's rights, then such award may be terminated by the Company without payment), or (B) the replacement of such award with other rights or property selected by the Administrator in its sole discretion; or (v) any combination of the foregoing. Notwithstanding the foregoing, with respect to awards granted to an Outside Director (as defined in the Equity Plan) while such individual was an Outside Director that are assumed or substituted for, if on the date of or following such assumption or substitution the participant's status as a director or a director of the successor entity, as applicable, is terminated other than upon a voluntary resignation by the participant (unless such resignation is at the request of the successor entity), then all restrictions on restricted shares and restricted stock units will lapse, and, with respect to awards with performance-based vesting, all performance goals or other vesting criteria will be deemed achieved at one hundred percent (100%) of target levels and all other terms and conditions met, unless specifically provided otherwise under the applicable award agreement or other written agreement authorized by the Administrator between the participant and the Company or any of its affiliates, as applicable.

A copy of the Equity Plan was filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, and the material terms of the Equity Plan are more fully summarized in the Company's Current Report on Form 8-K filed with the SEC on July 19, 2023.

The following table contains information as of December 31, 2024 regarding securities that are authorized for issuance under the Equity Plan:

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants, and rights (a)	Weighted-average exercise price of outstanding options, warrants, and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	-	-	-
Equity compensation plans not approved by security holders	2,000	N/A	25,000
Total	2,000	N/A	25,000

Notes:

- (1) Equity awards outstanding as of December 31, 2024 consisted of time vesting restricted stock units ("RSUs"), of which, assuming that the grantee is employed on each such date, one-third will vest on September 22, 2025, and one-third will vest on September 22, 2026.

All other information required by this item is incorporated herein by reference to the section of the 2025 Proxy Statement entitled "BENEFICIAL OWNERSHIP OF COMMON STOCK BY PRINCIPAL STOCKHOLDERS AND MANAGEMENT".

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the section of the 2025 Proxy Statement entitled "AUDIT FEES AND SERVICES".

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1), (2) and (c) Financial Statements.

Report of Independent Registered Public Accounting Firm
Consolidated Balance Sheets at December 31, 2024 and 2023
Consolidated Statements of Income for the years ended December 31, 2024 and 2023
Consolidated Statement of Comprehensive (Loss) Income for the years ended December 31, 2024 and 2023
Consolidated Statement of Changes in Stockholders' Equity for the years ended December 31, 2024 and 2023
Consolidated Statement of Cash Flows for the years ended December 31, 2024 and 2023
Notes to Consolidated Financial Statements for the years ended December 31, 2024 and 2023

(a)(3) and (b) Exhibits.

The exhibits filed or furnished with this annual report are listed in the following Exhibit Index:

<u>Exhibit</u>	<u>Description</u>
2.1	Plan of Reorganization and Share Exchange, dated as of August 15, 2016, by and between Farmers and Merchants Bancshares, Inc. and Farmers and Merchants Bank (incorporated by reference to Exhibit 2.1 to the Company's Registration Statement on Form 10)
2.2	Agreement and Plan of Merger, dated as of September 28, 2020, between Farmers and Merchants Bancshares, Inc. and Carroll Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on October 1, 2020)
2.3	Agreement and Plan of Merger, dated as of March 6, 2020, among the Company, Anthem Acquisition Corp., and Carroll Bancorp, Inc. (incorporated by reference to Exhibit 2.1 to the Current Report of Farmers and Merchants Bancshares, Inc. on Form 8-K filed on March 12, 2020)
3.1(i)	Articles of Incorporation (incorporated by reference to Exhibit 3.1(i) to the Company's Registration Statement on Form 10)
3.1(ii)	Articles of Share Exchange, dated as of October 20, 2016, by and between Farmers and Merchants Bancshares, Inc. and Farmers and Merchants Bank (incorporated by reference to Exhibit 3.1(ii) to the Company's Registration Statement on Form 10)
3.2(i)	Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form 10)
3.2(i)	First Amendment to Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed on July 20, 2023)
4.1	Rights Agreement, dated as of July 30, 2024, by and between Farmers and Merchants Bancshares, Inc. and Equiniti Trust Company, LLC (incorporated by reference Exhibit 4.1 to the Company's Current Report on Form 8-K filed on July 30, 2024)
10.1	Supplemental Executive Retirement Agreement, dated as of August 8, 2022 between Farmers and Merchants Bank and Gary A. Harris (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 27, 2023)
10.2	Supplemental Executive Retirement Agreement, dated as of December 30, 2010, between Farmers and Merchants Bank and Christopher T. Oswald (incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form 10)

- 10.3 First Amendment to Supplemental Executive Retirement Agreement, dated as of February 22, 2011, between Farmers and Merchants Bank and Christopher T. Oswald (incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form 10)
- 10.4 Performance Driven Retirement Plan Agreement, dated as of November 17, 2015, between Farmers and Merchants Bank and Mark C. Krebs (incorporated by reference to Exhibit 10.5 to the Company's Registration Statement on Form 10)
- 10.5 Severance Agreement, dated as of February 19, 2013, between Farmers and Merchants Bank and Mark C. Krebs (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022)
- 10.6 First Amendment to Severance Agreement, dated as of November 15, 2023, between Farmers and Merchants Bank and Mark C. Krebs (incorporated by reference to Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2022)
- 10.7 Change in Control Severance Agreement, dated July 18, 2023, between Farmers and Merchants Bancshares, Inc. and Gary Harris (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on July 20, 2023)
- 10.8 Farmers and Merchants 2023 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report for the quarter ended September 30, 2023)
- 10.9 Form of Restricted Stock Unit (RSU) Award Agreement under the Farmers and Merchants 2023 Equity Compensation Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K/A filed on November 15, 2023)
- 19 Farmers and Merchants Bancshares, Inc. Insider Trading Policy (filed herewith)
- 21 Subsidiaries (filed herewith)
- 23.1 Consent of Independent Registered Public Accounting Firm (filed herewith)
- 31.1 Certifications of Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
- 31.2 Certifications of Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)
- 32 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith)
- 101 Interactive Data Files pursuant to Rule 405 of Regulation S-T (filed herewith)
- 104 The cover page of Farmers and Merchants Bancshares, Inc.'s Annual Report on Form 10-K for the year ended December 31, 2023, formatted in Inline XBRL, included within the Exhibit 101 attachments (filed herewith).

ITEM 16. FORM 10-K SUMMARY.

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FARMERS AND MERCHANTS BANCSHARES, INC.

Dated: March 12, 2025

By: /s/ Gary A. Harris
Gary A. Harris
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated.

/s/ Gary A. Harris
Gary A. Harris, Director, President
and Chief Executive Officer
(Principal Executive Officer)
March 12, 2025

/s/ Roger D. Cassell
Roger D. Cassell, Director
March 12, 2025

/s/ Steven W. Eline
Steven W. Eline, Director
March 12, 2025

/s/ Edward A. Halle, Jr.
Edward A. Halle, Jr., Director
March 12, 2025

/s/ Ronald W. Hux
Ronald W. Hux, Director
March 12, 2025

/s/ Mark C. Krebs
Mark C. Krebs, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
March 12, 2025

/s/ Bruce L. Schindler
Bruce L. Schindler, Director
March 12, 2025

/s/ J. Lawrence Mekulski
J. Lawrence Mekulski, Director
March 12, 2025

/s/ Teresa L. Smack
Teresa L. Smack, Director
March 12, 2025

/s/ James R. Bosley, Jr.
James R. Bosley, Jr., Director
March 12, 2025

/s/ Emily B. Miller
Emily B. Miller, Director
March 12, 2025

/s/ Paul F. Wooden, Jr.
Paul F. Wooden, Jr., Director
March 12, 2025

/s/ Robert G. Pollokoff
Robert G. Pollokoff, Director
March 12, 2025

SUBSIDIARIES

Subsidiaries of Farmers and Merchants Bancshares, Inc.

Farmers and Merchants Bank, a Maryland commercial bank (the “Bank”)

Series Protected Cell FCB-4, a series of First Community Bankers Insurance, Co., LLC, a Tennessee limited liability company.

Subsidiaries of the Bank

Reliable Community Financial Services, Inc., a Maryland corporation

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-1 (No. 333-217918) and Form S-8 (No. 333-274152) of Farmers and Merchants Bancshares, Inc. of our report dated March 12, 2025, relating to the consolidated financial statements of Farmers and Merchants Bancshares, Inc., appearing in this Annual Report on Form 10-K of Farmers & Merchants Bancshares, Inc. for the year ended December 31, 2024.

/s/ YOUNT, HYDE & BARBOUR, P.C.

Richmond, Virginia
March 12, 2025

**Certifications of the Principal Executive Officer
Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Gary A. Harris, certify that:

1. I have reviewed this annual report on Form 10-K of Farmers and Merchants Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2025

/s/ Gary A. Harris
 Gary A. Harris
 President and Chief Executive Officer
 (Principal Executive Officer)

**Certifications of the Principal Financial Officer
Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Mark C. Krebs, certify that:

1. I have reviewed this annual report on Form 10-K of Farmers and Merchants Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 12, 2025

/s/ Mark C. Krebs
Mark C. Krebs, Treasurer and Chief Financial Officer
(Principal Financial Officer)

Certification of Periodic Report
Pursuant to 18 U.S.C. § Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, each of the undersigned hereby certifies that (i) the Annual Report of Farmers and Merchants Bancshares, Inc. on Form 10-K for the year ended December 31, 2024 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers and Merchants Bancshares, Inc.

Date: March 12, 2025

/s/ Gary A. Harris
Gary A. Harris
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 12, 2025

/s/ Mark C. Krebs
Mark C. Krebs, Treasurer and Chief Financial Officer
(Principal Financial Officer)