



Annual Meeting of Shareholders

April 26, 2016



The "Community" Bank that Puts People First

Upperco ... Hampstead ... Greenmount ... Reisterstown ... Owings Mills ... Westminster

Highlights for 2015

- 2015 net income of \$4,268,222 set another all-time earnings record, topping the previous record set last year of \$ 3,573,973
 - Return on equity: 12.26% in 2015 vs. 11.43% in 2014
 - Return on assets: 1.29% in 2015 vs. 1.15% in 2014
 - Net income excluding non-recurring items totaled \$3,971,128 – still a new record

- Strong growth:
 - Total assets increased by 7%
 - Investments increased by 30%
 - Loans outstanding increased by 2%
 - Deposits increased by 6%

- Dividends paid increased to \$.64 per share, up from \$.59 per share in 2014



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Highlights for 2015

(continued)

- The stock price increased by 21% from \$19.95 to \$24.10 per share
- Ranked as the #2 performing Maryland state chartered bank in the Baltimore area and #3 in the entire state
- Ranked #48 in the United States for all publicly traded banks with less than \$2 billion in assets
 - The ranking is based upon our three year average return on equity of 11.71%
 - Top ranked Maryland bank



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Balance Sheet Highlights for 2015

- Assets increased \$22.5 million to \$345 million
- Investments increased \$10 million to \$43 million
- Loans increased \$6 million to \$268 million
- Deposits increased \$15 million to \$276 million
- Stockholders' equity increased \$3.5 million to \$36.2 million



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Total Assets

(in thousands)

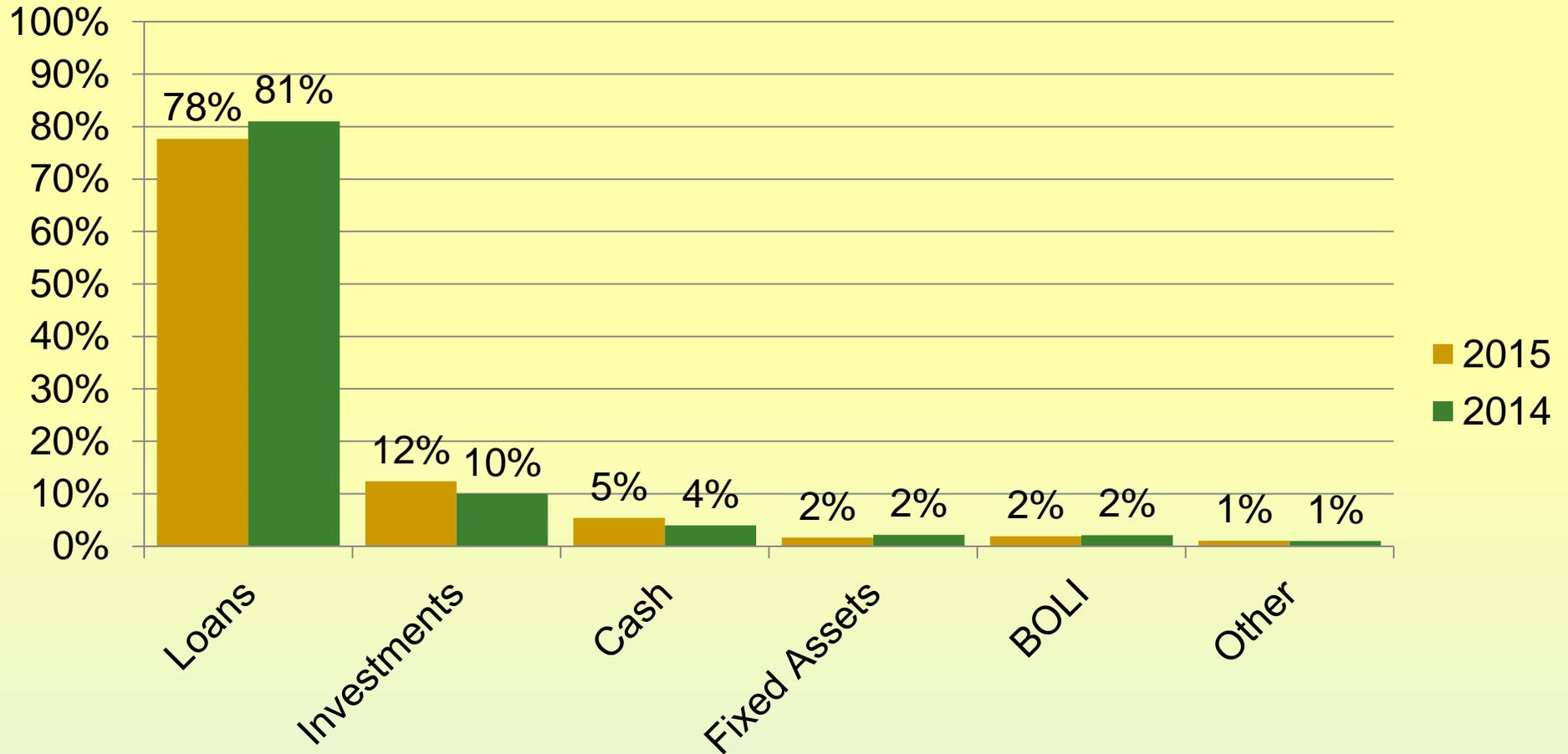
	12/31/2015	12/31/2014	Change
Cash & Due From Banks	\$ 18,535	\$ 12,048	\$ 6,487
Investments	42,765	32,876	9,889
Loans & Loans Held For Sale	268,249	262,643	5,606
Fixed Assets	5,648	5,536	112
Bank Owned Life Insurance	6,541	6,069	472
Other	3,572	3,615	(43)
Total	<u>\$ 345,310</u>	<u>\$ 322,787</u>	<u>\$ 22,523</u>



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Asset Distribution 2015 versus 2014



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Loan Quality

- Loan losses remained low in 2015
 - Net charge-offs totaled \$196,804 compared to net recoveries of \$29,295 in 2014
- Non performing assets to total assets remain low at 0.41% at 12/31/15, compared to 0.29% at 12/31/14 and 0.74% at 12/31/13.
- Net loan losses to loans outstanding was 0.07% in 2015 and -0.01% in 2014 compared to 0.12% and 0.18% for our national peer group.
- Non-current loans (90 days or more past due) to total loans was 0.35% at 12/31/15 and 0.00% at 12/31/14 compared to 0.87% and 1.06% for our national peer group.
- The Bank was ranked #6 for asset quality among all state headquartered banks.

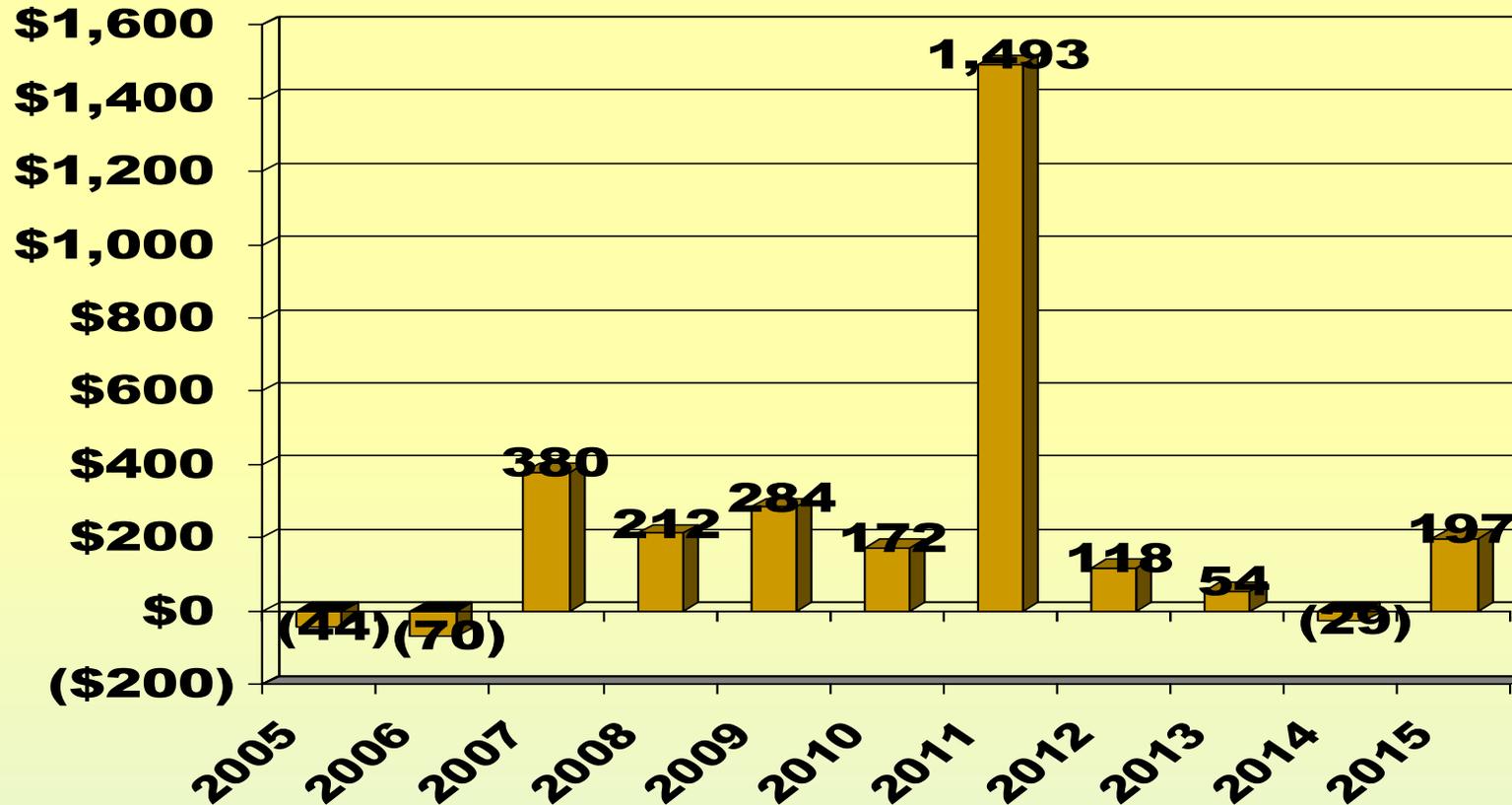


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Loan Charge-off Trend

Net Loan Chargeoffs (Recoveries)
(in thousands)



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Liabilities and Equity

(in thousands)

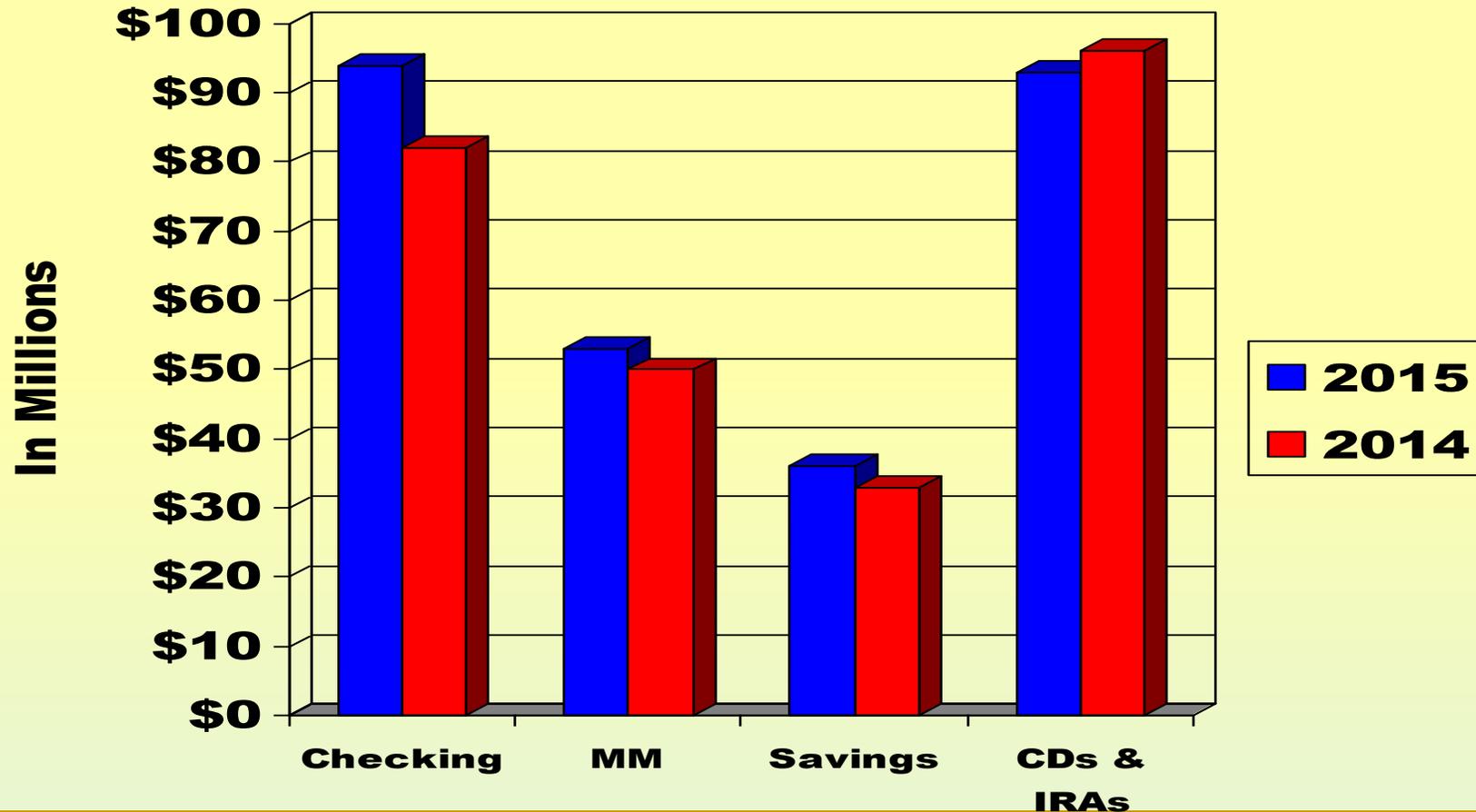
	12/31/2015	12/31/2014	Change
Deposits	\$ 275,965	\$ 261,211	\$ 14,754
Repurchase Agreements	20,491	19,639	852
FHLB Advances	11,000	8,000	3,000
Other	1,631	1,235	396
Total Liabilities	<u>309,087</u>	<u>290,085</u>	<u>19,002</u>
Stockholders' Equity	36,223	32,702	3,521
Total	<u>\$ 345,310</u>	<u>\$ 322,787</u>	<u>\$ 22,523</u>



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Deposit Composition 2015 versus 2014

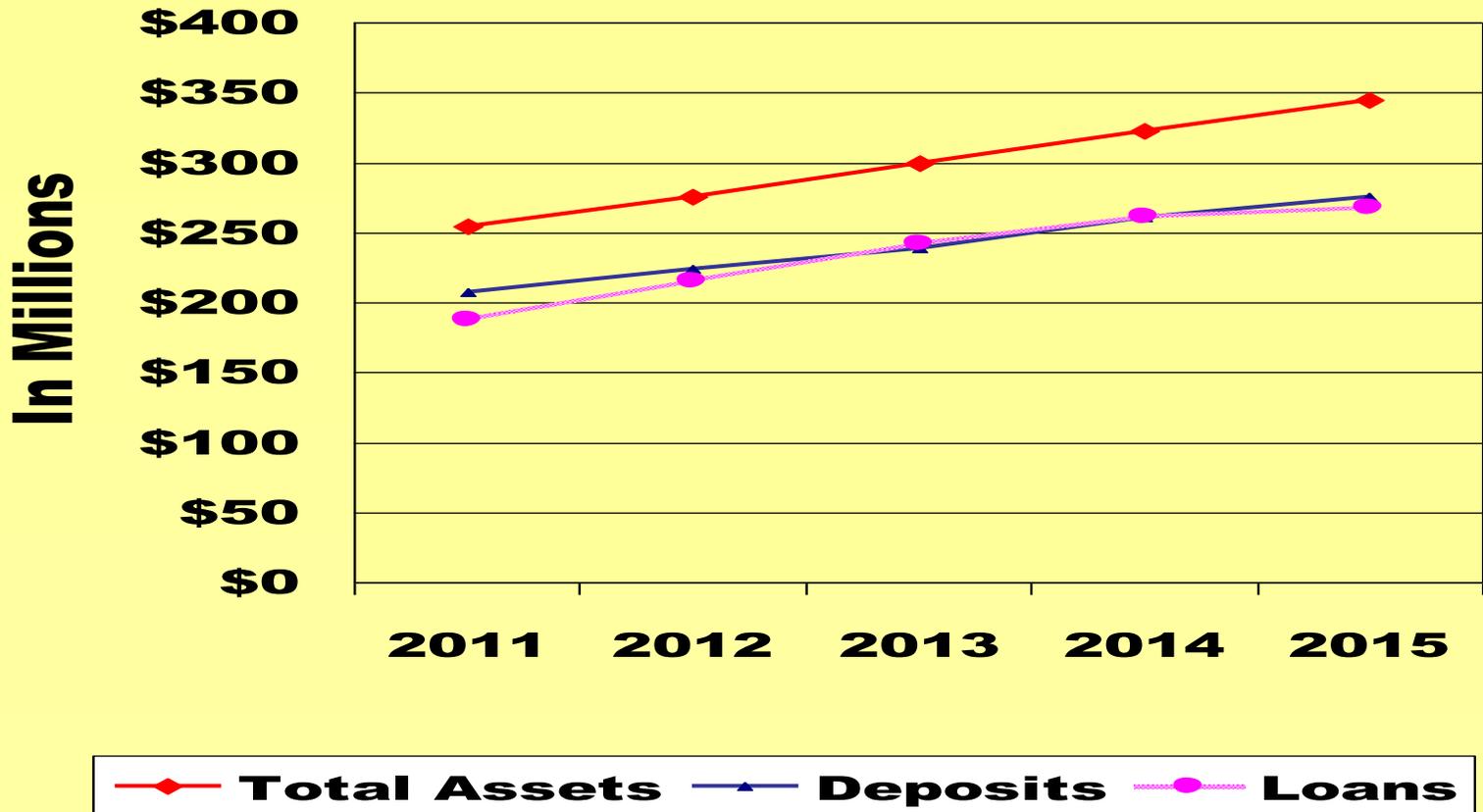


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Balance Sheet

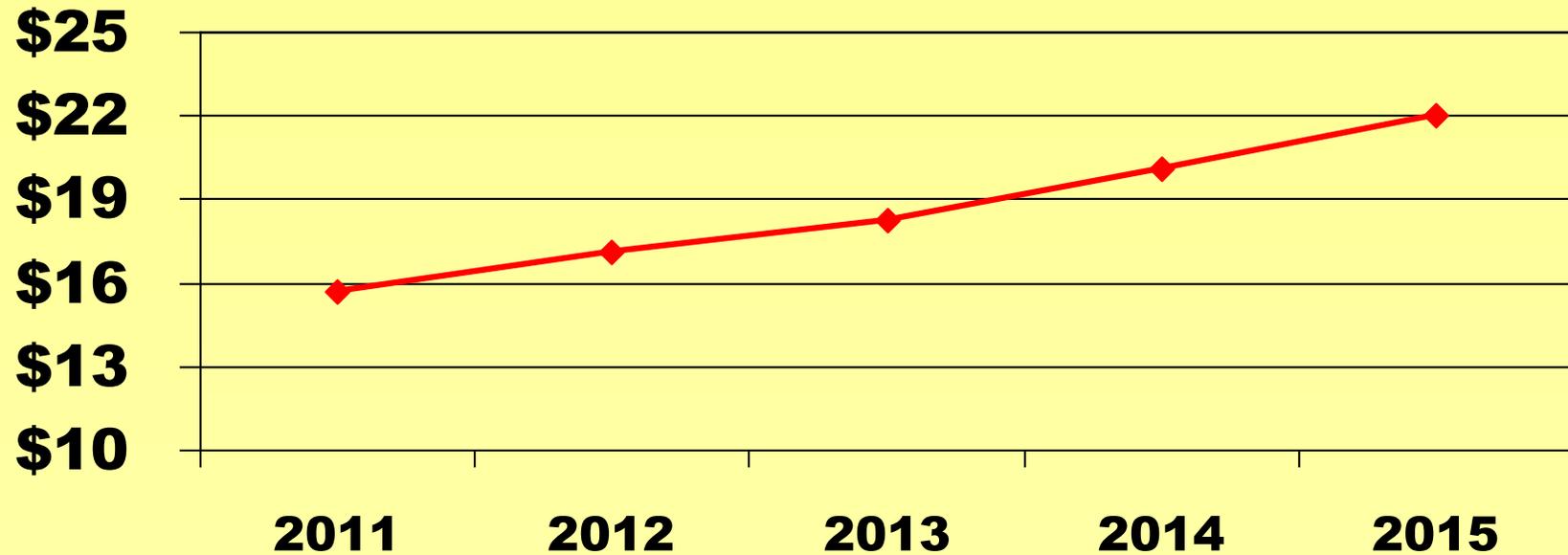
Five Year Trend



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Book Value per Share Five Year Trend



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Income Statement Highlights for 2015

- Net Income up \$694,000 to \$4,268,000
 - Excluding non-recurring items, net income was up \$397,000
- Earnings Per Share was \$2.61 in 2015 up from to \$2.21 in 2014
- Net Interest Income increased by \$592,000
- Net yield on interest-earning assets decreased to 4.33% in 2015 from 4.47% in 2014
- Provision for Loan Losses decreased to \$0
- Operating Expenses up \$282,000 or 3%



Income Statement

(in thousands)

	2015	2014	Change
Interest - Loans	\$ 13,809	\$ 13,218	\$ 591
Interest - Investments	896	863	33
Total Interest Income	14,705	14,081	624
Interest Expense	(1,189)	(1,157)	(32)
Net Interest Income	13,516	12,924	592
Loan Loss Provision	-	(124)	124
Other Income	1,986	1,240	746
Operating Expenses	(8,704)	(8,421)	(283)
Income Before Taxes	6,798	5,619	1,179
Income Taxes	(2,530)	(2,045)	(485)
Net Income	\$ 4,268	\$ 3,574	\$ 694

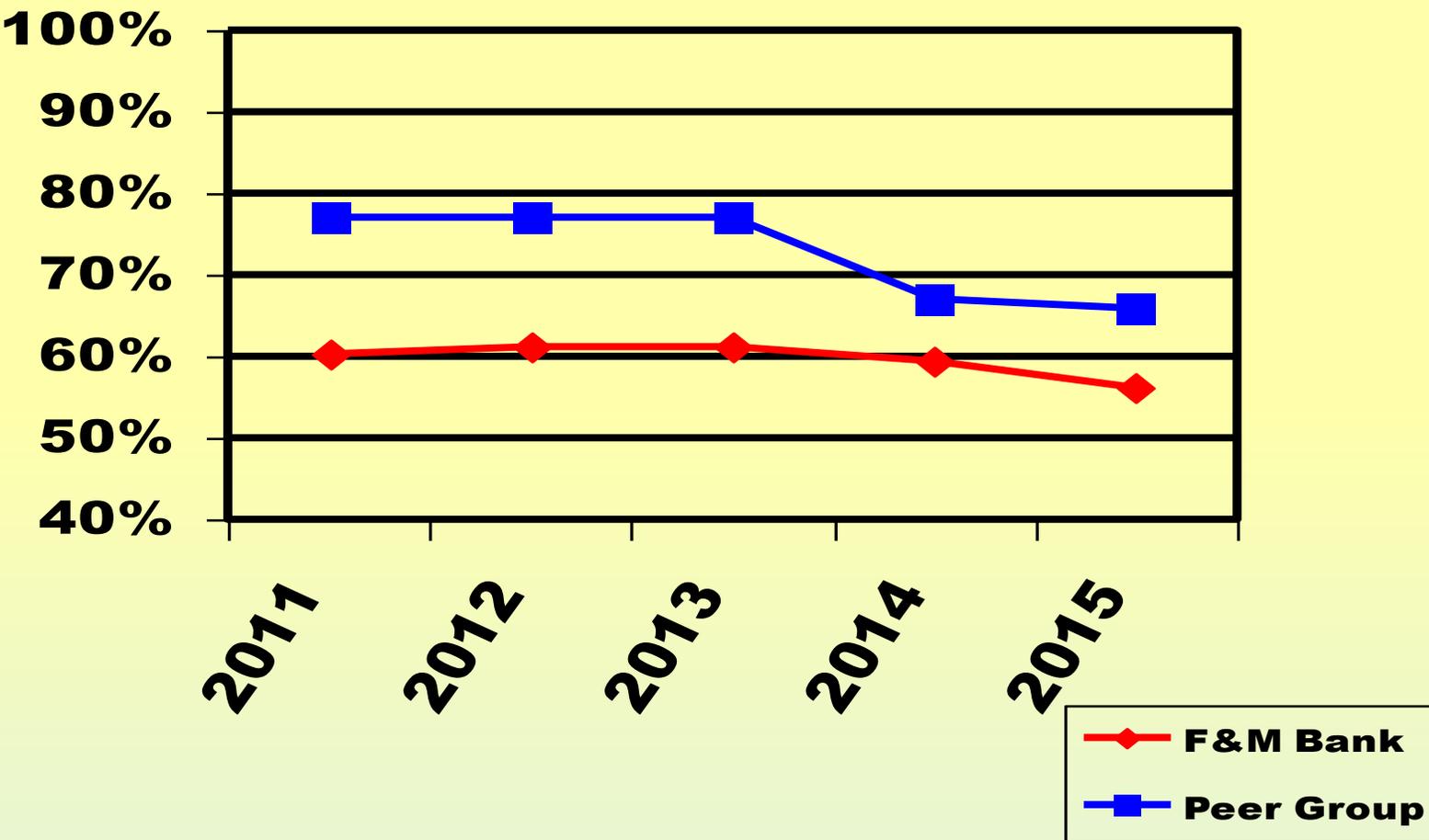


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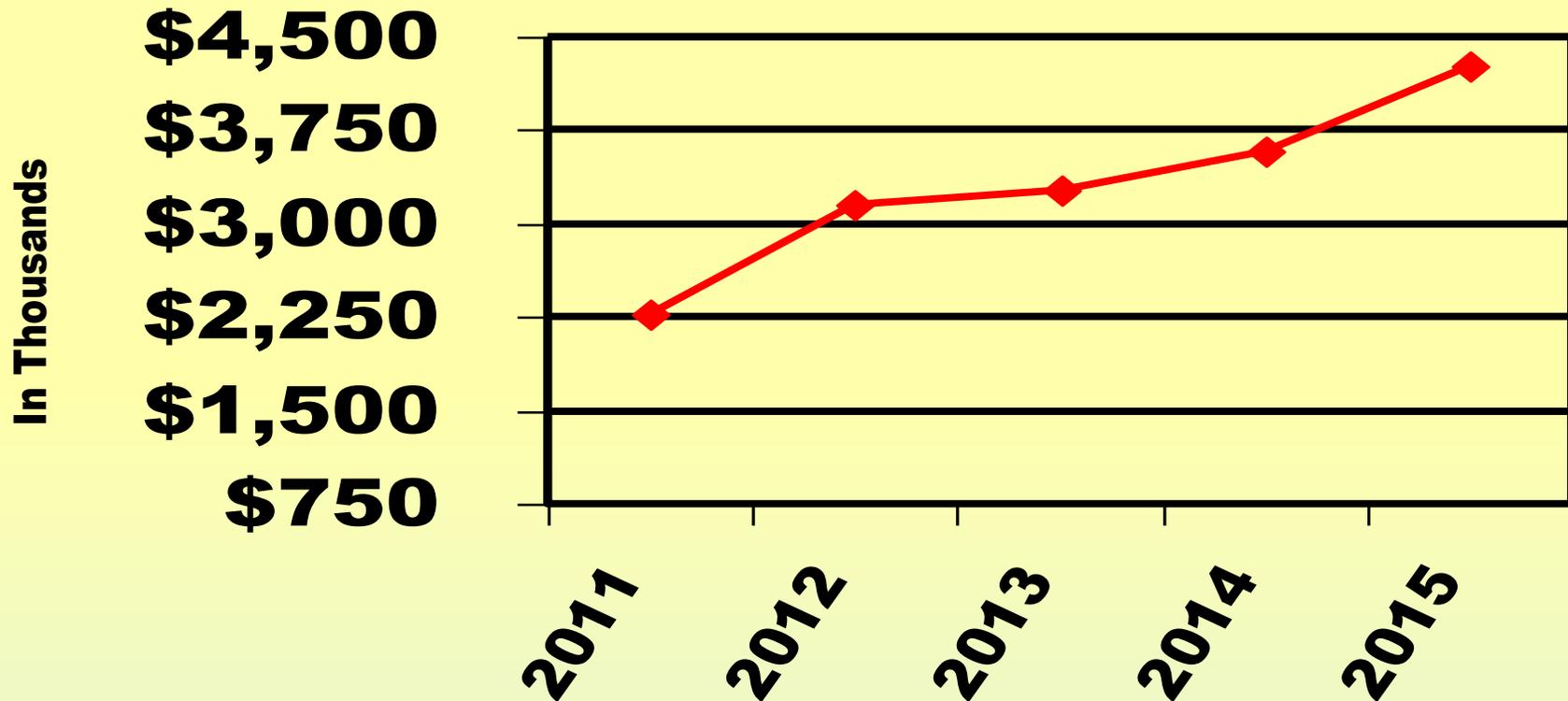
Efficiency Ratio

Five Year Trend



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Net Income Five Year Trend

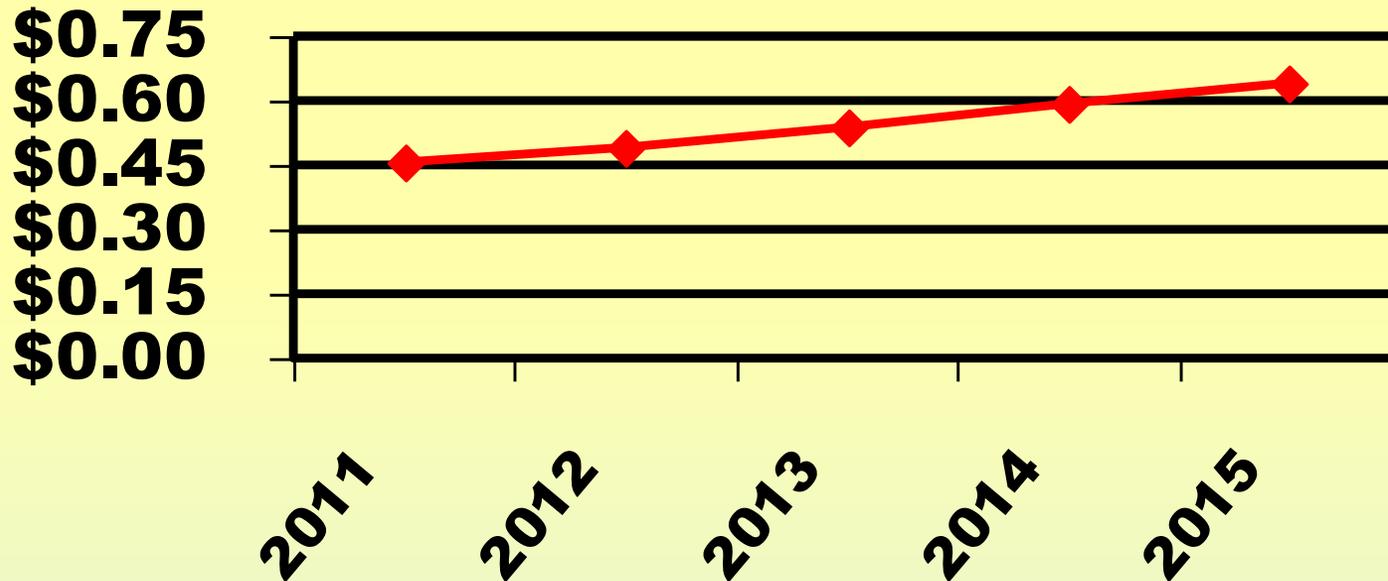


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Cash Dividends per Share Five Year Trend

Cash dividends increased \$0.05 to \$0.64 in 2015 from \$0.59 in 2014 .



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Maryland State Chartered Banks

(selected local banks)

Return on Average Assets

Ranked by 2015 Return

	2015	2014	2013	5 Year Average
CFG Community	1.52%	1.19%	3.26%	1.61%
F&M Bank	1.29%	1.15%	1.16%	1.14%
Columbia Bank	0.88%	0.79%	0.84%	0.82%
Harford Bank	0.66%	0.93%	0.62%	0.70%
New Windsor State	0.53%	0.42%	0.22%	0.12%
Bay Bank	0.43%	0.69%	0.86%	0.54%
Bank of Glen Burnie	0.35%	0.49%	0.70%	0.62%
Carroll Community	0.20%	0.35%	0.21%	0.14%
Howard Bancorp	0.19%	1.92%	0.53%	0.72%
First Mariner	-0.68%	-0.98%	-1.33%	-0.78%

Source: FDIC Uniform Bank Performance Report



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Maryland State Chartered Banks

2015 Performance Rankings - Top 5 and Selected Local Banks

Rank	Bank Name	City	Assets (millions)	Prior Year Rank	5 year Avg. Rank
1	Eagle Bank	Bethesda	\$ 6,064	1	1
2	CFG Community	Baltimore	600	4	7
3	F&M Bank	Upperco	345	2	2
4	Sandy Spring	Olney	4,650	8	6
5	Capital Bank	Rockville	729	6	5
7	Old Line	Bowie	1,503	11	8
11	Columbia Bank	Columbia	2,110	10	11
13	New Windsor	New Windsor	296	18	31
25	Bay Bank	Lutherville	491	23	27
28	Harford	Aberdeen	316	19	20
29	Bank of Glen Burnie	Glen Burnie	389	25	19
32	Howard	Ellicott City	947	7	19
37	Carroll Community	Sykesville	151	29	43
51	Hamilton	Towson	362	61	57
55	First Mariner	Baltimore	832	63	56

Source: Financial Management Consulting Group

Criteria: Profitability, Efficiency, & Asset Quality

Number of State Headquartered Banks: 61



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Our Predictions for 2015

(compared to what actually happened)

- Our interest rate spread will continue to decline as a result of older loans resetting at lower rates while the cost of deposits has hit bottom.
 - The yield on loans declined by 17 basis points while deposit costs declined by only 1 basis point. Our net interest spread is still very healthy, ranking us #8 in the state.
- If the Fed actually raises rates, our net interest income could decline in the short-term as deposit rates will increase more quickly than loan rates.
 - The initial Fed increase, which occurred in December, has yet to have any impact on the Bank's depository rates.



Our Predictions for 2015

(compared to what actually happened)

- Loan quality will remain an issue of concern.
 - ❑ Non performing assets, delinquencies and loan losses remain low
 - ❑ No loan loss provision was required for 2015
 - ❑ Ranked #6 among the 61 state headquartered banks for loan quality



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Our Predictions for 2015

(compared to what actually happened)

- Data security will continue to be a high priority especially in light of recent high profile incidents
 - The Bank has the following controls in place:
 - 24/7/365 Network Security Monitoring
 - Scheduled FDIC Audit Examinations
 - Annual IT Risk Assessment Examinations
 - Multi-Factor Encryption for on-line banking services
 - Annual network security training for all bank personnel
- Mobile banking service will be implemented
 - Implementation was completed in June 2015



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Our Predictions for 2016

- Aggressive competition from Banks and Non-Bank entities (Insurance Companies) will keep commercial loan rates low
 - Older loans will reset at lower rates, decreasing our interest revenue
- Modest economic growth will allow the Federal Reserve to justify two increases of .25% each for a .50% increase in the Federal Funds Rate
 - These increases will put modest upward pressure on short term deposit rates increasing our cost of funds slightly
 - Loan rates are not expected to increase as quickly – the yield curve will flatten
- In either of the above scenarios, the Bank's net interest margin will decrease



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Stockholder Value

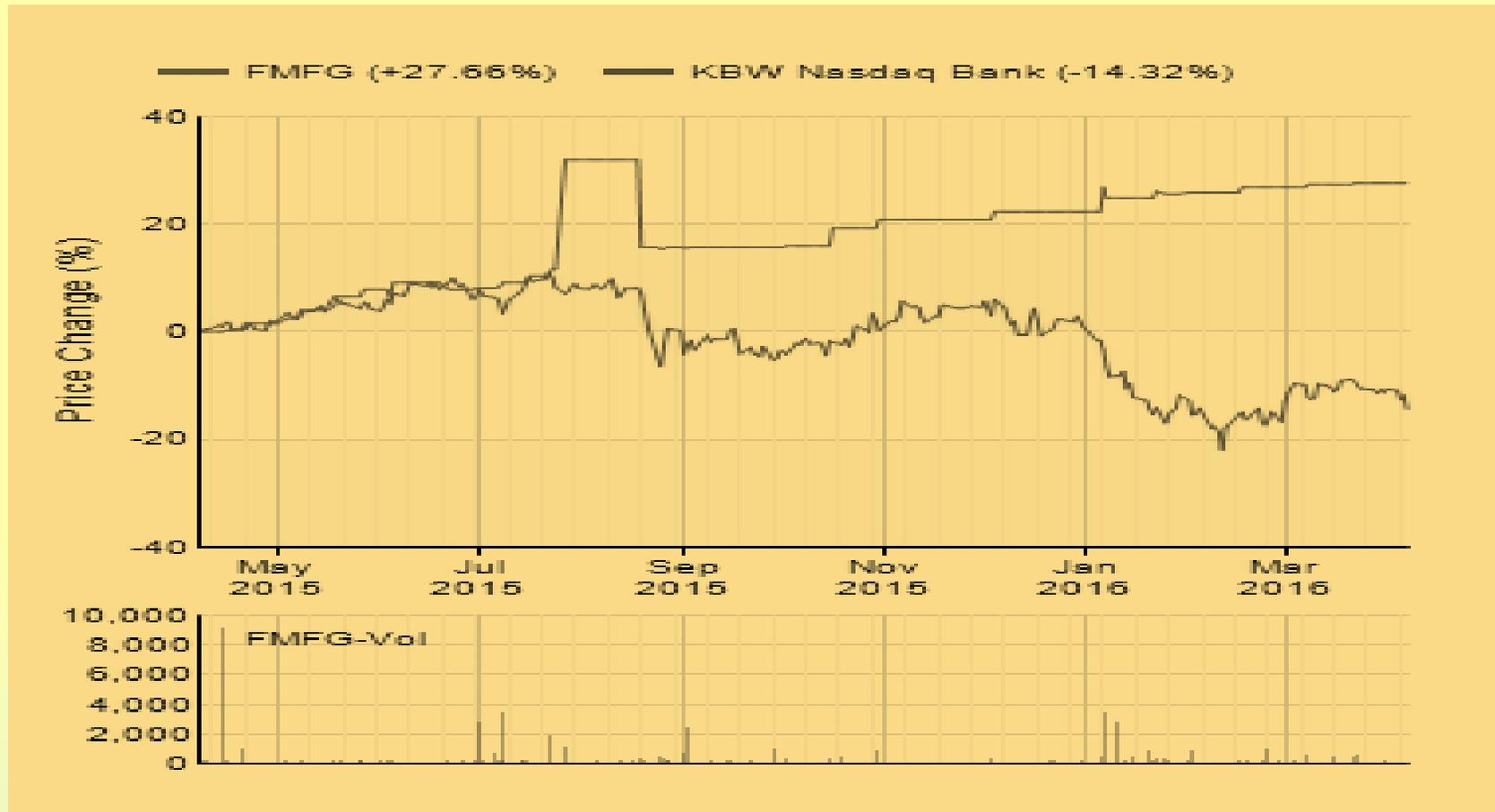
- Bank stock prices have improved in the Mid Atlantic and Nationally as a percentage of book value:
 - Price to Book at 12/31/15:
 - Farmers & Merchants – 1.10 (.99 @ 12/31/14)
 - Mid-Atlantic median – 1.07(.94 @ 12/31/14)
 - National median – 1.25 (1.23 @ 12/31/14)
 - 12/31/04 average – 2.96
- Long term value will be enhanced by remaining well-capitalized, maximizing profits and growing assets and deposits.
- The Bank's common stock is listed on the NASDAQ Over-the-Counter Bulletin Board under the symbol FMFG



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Stock Price Performance Against Industry Average



Source: SNL



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Bank Stock Price Changes

Ranked by 2015 change

	2015	2014	2013
Farmers and Merchants	21%	12%	37%
Howard Bancorp	16%	21%	47%
Bay Bank	15%	-11%	147%
Harford Bank	14%	12%	51%
Old Line Bancshares	11%	9%	28%
PNC	4%	18%	33%
BB&T Corp	-3%	4%	30%
M & T Bank Corp	-4%	8%	19%
Citigroup	-4%	4%	32%
Carroll Community	-4%	0%	67%
Bank of America Corp	-6%	15%	34%
County First Bank	-16%	-3%	-7%

Source: Bloomberg & Yahoo Finance



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Bank Stock Dividend Yields

Current (March 31, 2016) Yield

	<u>Current</u>	<u>Prior Year</u>
BB&T Corp	3.22%	2.50%
Farmers and Merchants	2.62%	3.00%
M & T Bank Corp	2.50%	2.20%
PNC	2.39%	2.20%
Harford Bank	2.25%	2.30%
County First Bank	1.83%	1.70%
New Windsor	1.50%	0.20%
Bank of America Corp	1.47%	1.30%
Old Line Bancshares	1.33%	1.30%
Citigroup	0.47%	0.10%
Howard Bancorp	0.00%	0.00%
Carroll Community	0.00%	0.00%
Bay Bank	0.00%	0.00%

Source: Bloomberg & Yahoo Finance



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2016 First Quarter Results

Farmers and Merchants Bank is off to another good start

- 2016 net income of \$936,468 or \$0.57 per share compared to \$928,308 or \$0.57 per share in the first quarter of 2015
- Return on average equity was 10.14% compared to 11.13% in 2015 Q1
- Return on average assets was 1.09% compared to 1.15% in 2015 Q1
- Assets increased to \$348 million at March 31, 2016 compared to \$345 million at December 31, 2015
- The book value per share was \$22.71 at March 31, 2016, up from \$21.99 at December 31, 2015



Summary

Farmers and Merchants Bank is:

- Well capitalized
- Profitable
- An active lender in the community
- Growing assets and deposits



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Best Wishes in 2016



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