



**Farmers and Merchants
Bancshares, Inc.
Annual Meeting of Shareholders
April 23, 2019**



The "Community" Bank that Puts People First
Upperco ... Hampstead ... Greenmount ... Reisterstown ... Owings Mills ... Westminster

Forward-Looking Statements

The statements contained herein that are not historical facts are forward-looking statements (as defined by the Private Securities Litigation Reform Act of 1995) based on management's current expectations and beliefs concerning future developments and their potential effects on the Company. Such statements involve inherent risks and uncertainties, many of which are difficult to predict and are generally beyond the control of the Company. There can be no assurance that future developments affecting the Company will be the same as those anticipated by management. These statements are evidenced by terms such as “anticipate,” “estimate,” “should,” “will,” “expect,” “believe,” “intend,” and similar expressions. Although these statements reflect management’s good faith beliefs and projections, they are not guarantees of future performance and they may not prove true. These projections involve risk and uncertainties that could cause actual results to differ materially from those addressed in the forward-looking statements. For a discussion of these risks and uncertainties, see the section of the periodic reports filed by Farmers and Merchants Bancshares, Inc. with the Securities and Exchange Commission entitled “Risk Factors”.



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Highlights for 2018

- 2018 net income of \$4,712,676 was the highest in the Company's history ahead of 2015's \$4,268,222, 2016's \$3,909,129 and 2017's \$3,789,241
 - Return on equity: 10.77% in 2018 vs. 9.26% in 2017 vs. 10.26% in 2016
 - Return on assets: 1.14% in 2018 vs. 0.96% in 2017 vs. 1.08% in 2016
- Continued balance sheet growth:
 - Total assets increased by 4%
 - Loans outstanding increased by 3%
 - Deposits increased by 11%
- Dividends paid increased to \$.83 per share, up from \$.76 per share in 2017
- The stock price increased by 3% from \$29.50 to \$30.45 per share



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Balance Sheet Highlights for 2018

- Assets increased \$14 million to \$417 million
- Investments decreased \$2 million to \$46 million
- Loans increased \$8 million to \$341 million
- Deposits increased \$35 million to \$355 million
- Stockholders' equity increased \$3.6 million to \$45.4 million



Total Assets

(in thousands)

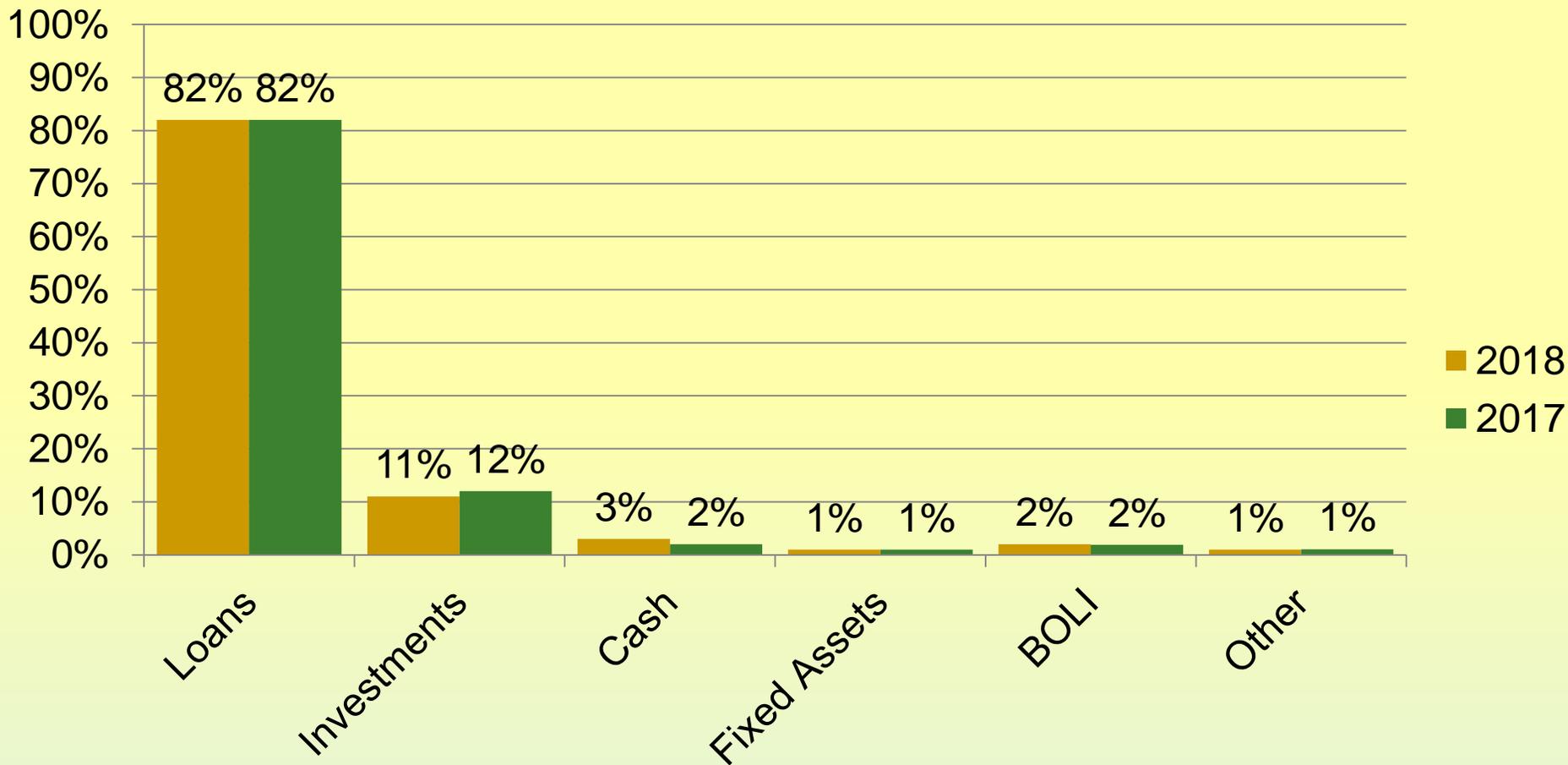
	12/31/2018	12/31/2017	Change
Cash & Due From Banks	\$ 14,618	\$ 7,237	\$ 7,381
Investments	45,899	47,801	(1,902)
Loans & Loans Held For Sale	341,474	332,862	8,612
Fixed Assets	5,075	5,206	(131)
Bank Owned Life Insurance	7,053	6,892	161
Other	3,039	2,906	133
Total	<u>\$ 417,158</u>	<u>\$ 402,904</u>	<u>\$ 14,254</u>



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Asset Distribution 2018 versus 2017



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Loan Quality

- Loan losses remained low in 2018
 - Net charge-offs totaled \$424,577 in 2018 compared to net charge-offs of \$314,577 in 2017
- Non performing assets to total assets remain low at 0.29% at 12/31/18, compared to 0.66% at 12/31/17 and 0.31% at 12/31/16.
- Net loan losses to loans outstanding was 0.12% in 2018 and 0.10% in 2017 compared to 0.08% and 0.10% for our national peer group.
- Non-current loans (90 days or more past due) to total loans was 0.29% at 12/31/18 and 0.71% at 12/31/17 compared to 0.62% and 0.66% for our national peer group.



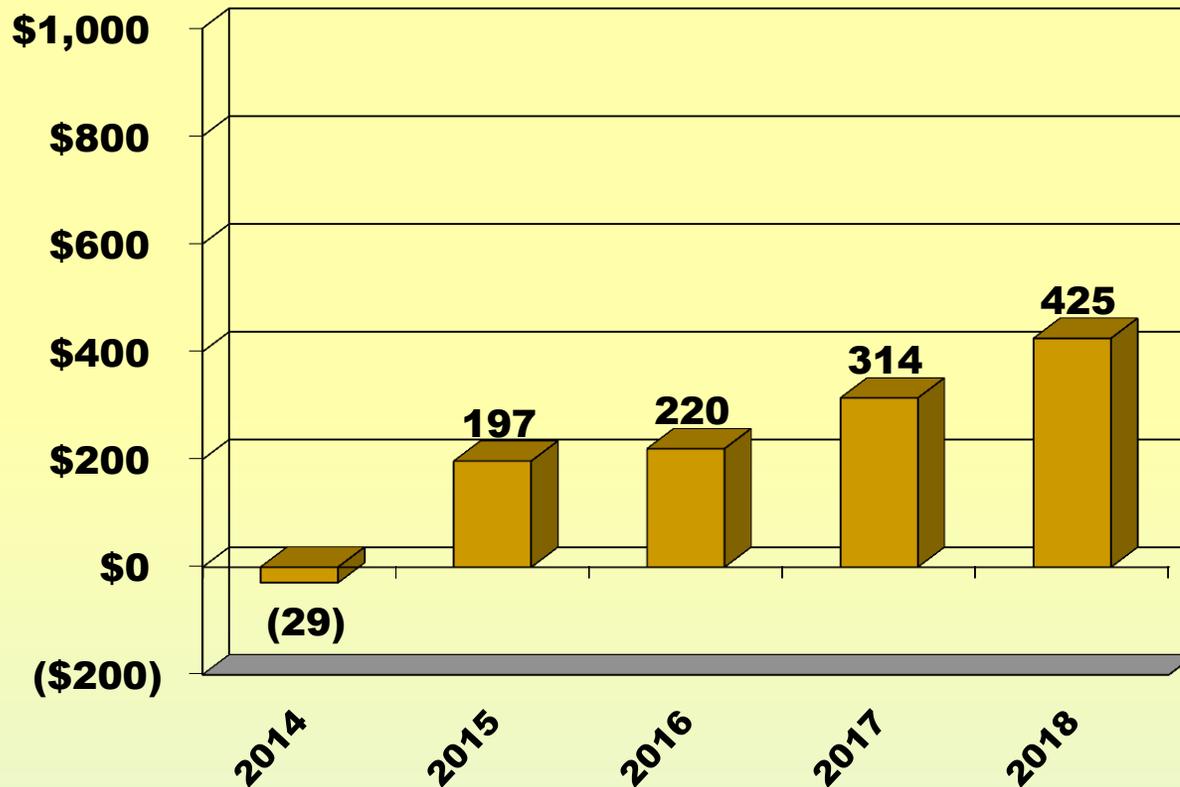
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Loan Charge-off Trend

Net Loan Charge-offs (Recoveries)

(in thousands)



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Liabilities and Equity

(in thousands)

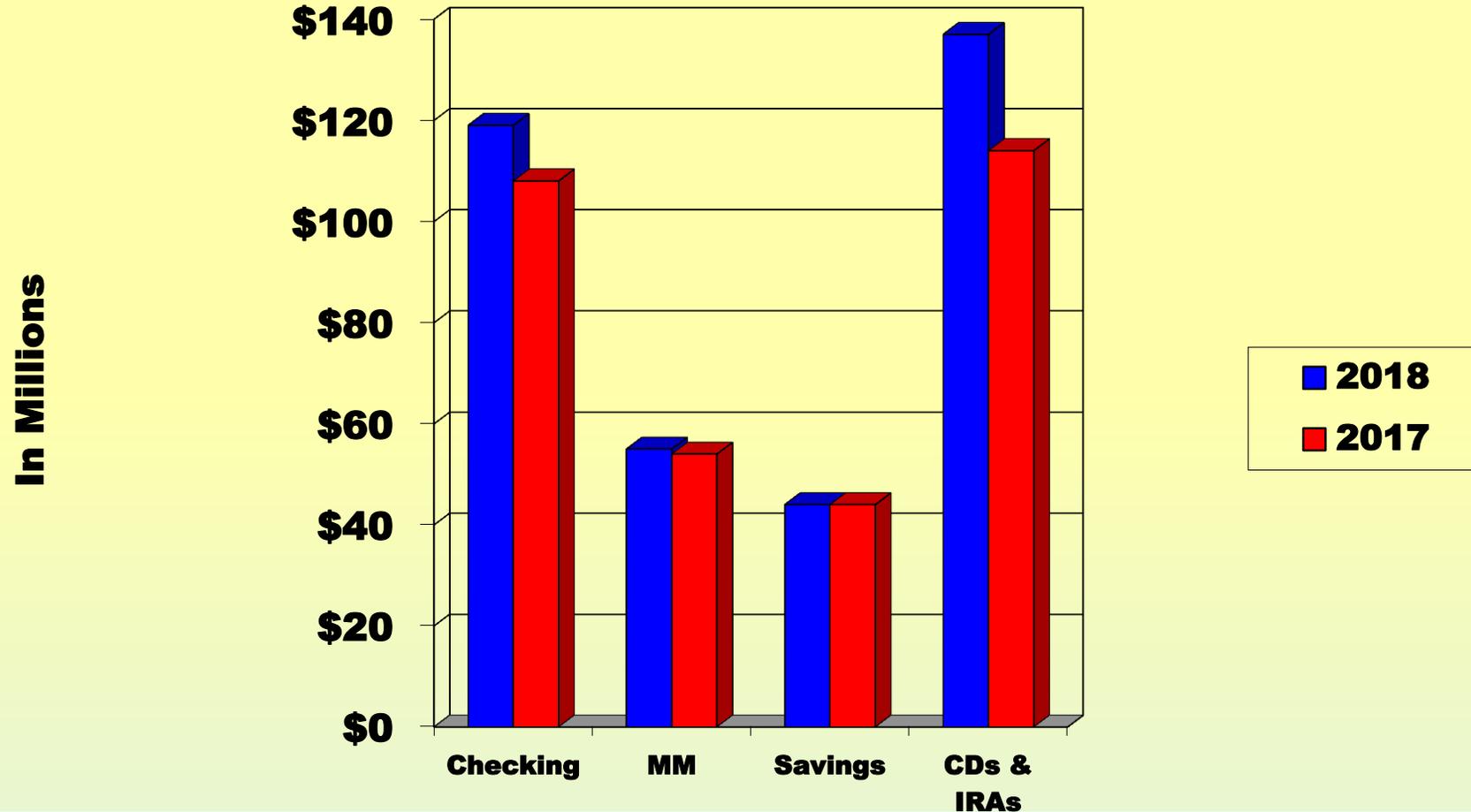
	12/31/2018	12/31/2017	Change
Deposits	\$ 354,713	\$ 319,796	\$ 34,917
Repurchase Agreements	11,012	21,769	(10,757)
FHLB Advances	3,000	17,000	(14,000)
Other	3,038	2,540	498
Total Liabilities	<u>371,763</u>	<u>361,105</u>	10,658
Stockholders' Equity	45,395	41,799	3,596
Total	<u>\$ 417,158</u>	<u>\$ 402,904</u>	<u>\$ 14,254</u>



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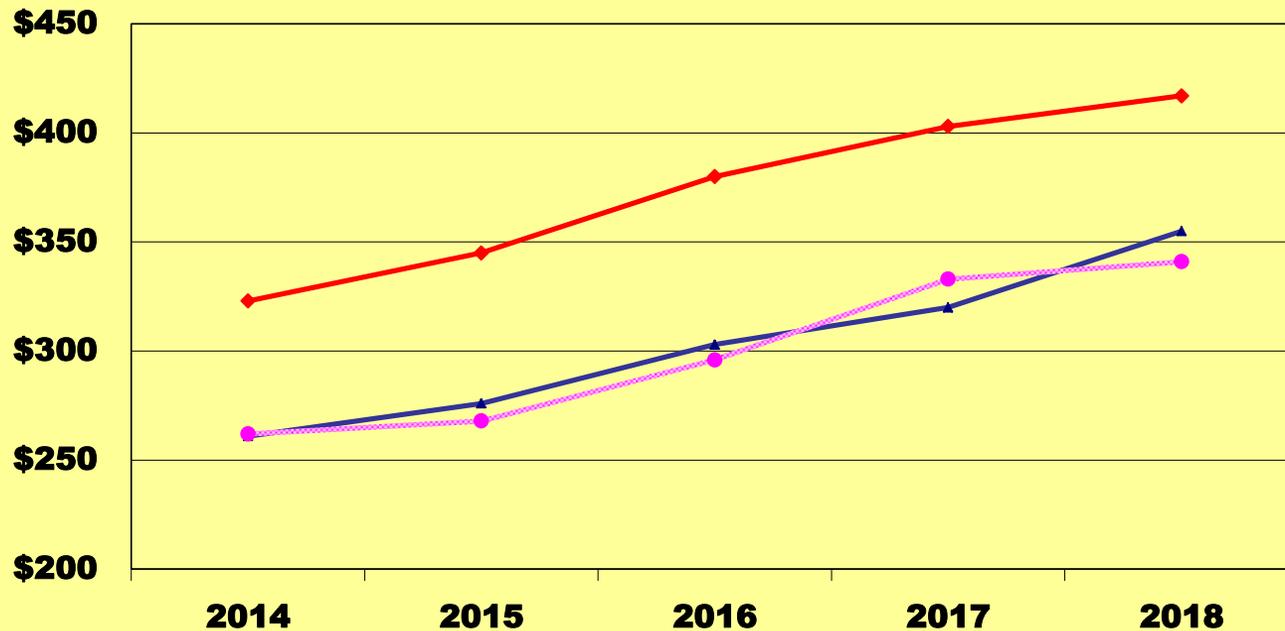
Deposit Composition 2018 versus 2017



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Balance Sheet Five Year Trend



In Millions

◆ Total Assets

▲ Deposits

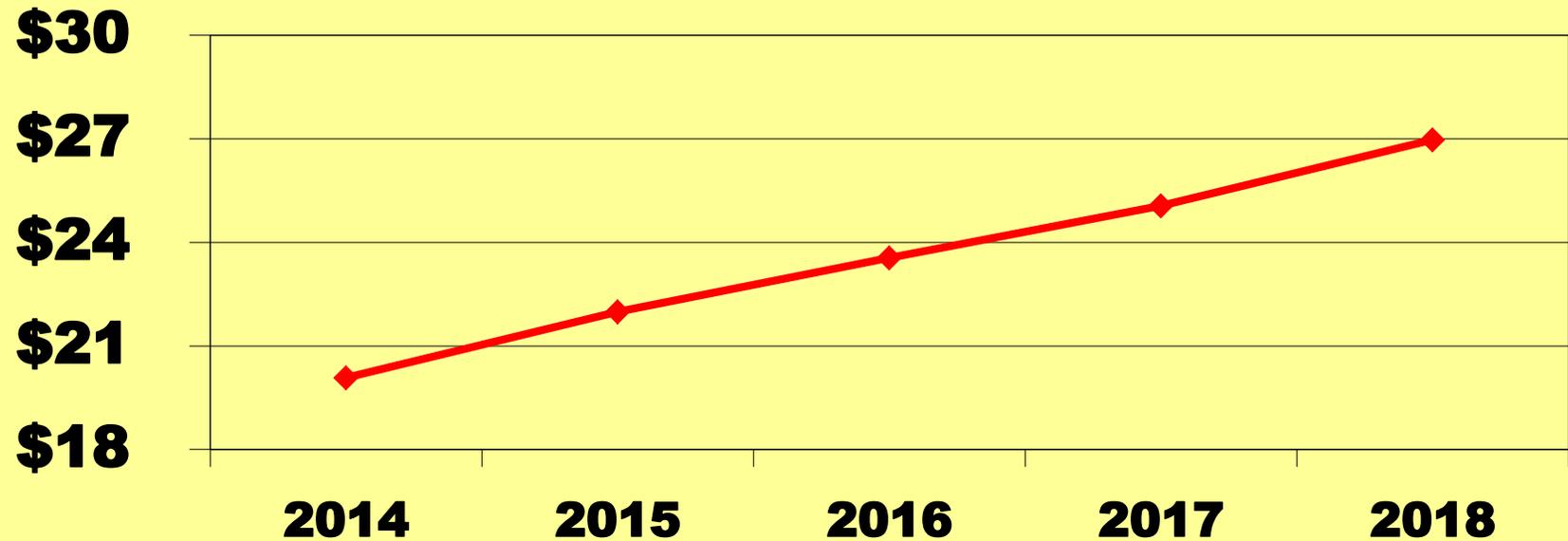
● Loans



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Book Value per Share Five Year Trend



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Income Statement Highlights for 2018

- Net Income up \$924,000 to \$4,713,000
 - A \$896,000 decrease in income taxes accounted almost all of the change
 - \$478,606 due to the tax rate reduction to 21% from 34%
 - \$410,391 due to the one-time charge included in 2017's income taxes
- Earnings Per Share was \$2.82 in 2018 compared to \$2.28 in 2017
- Net Interest Income increased by \$374,000
 - Tax equivalent net yield on interest-earning assets decreased to 3.88% in 2018 from 4.04% in 2017
 - Average interest earning assets increased by \$21 million
- Operating Expenses up \$309,000 or 3%
 - Efficiency ratio was 62% versus the national peer avg. of 63%



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Income Statement

(in thousands)

	2018	2017	Change
Interest - Loans	\$ 16,402	\$ 15,189	\$ 1,213
Interest - Investments	1,366	1,406	(40)
Total Interest Income	17,768	16,595	1,173
Interest Expense	(2,507)	(1,708)	(799)
Net Interest Income	15,261	14,887	374
Loan Loss Provision	(475)	(410)	(65)
Other Income	1,365	1,337	28
Operating Expenses	(10,332)	(10,023)	(309)
Income Before Taxes	5,819	5,791	28
Income Taxes	(1,106)	(2,002)	896
Net Income	\$ 4,713	\$ 3,789	\$ 924

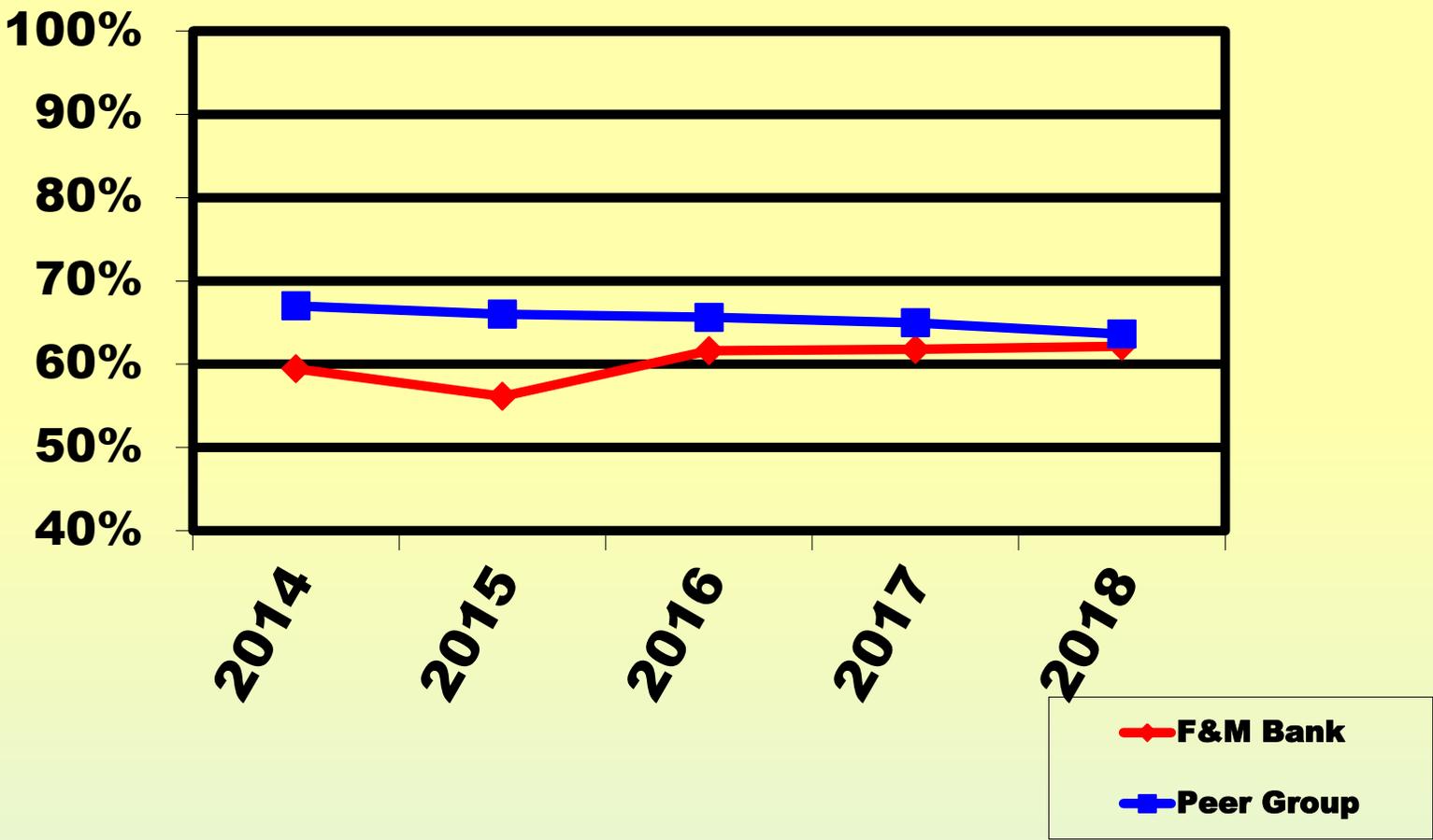


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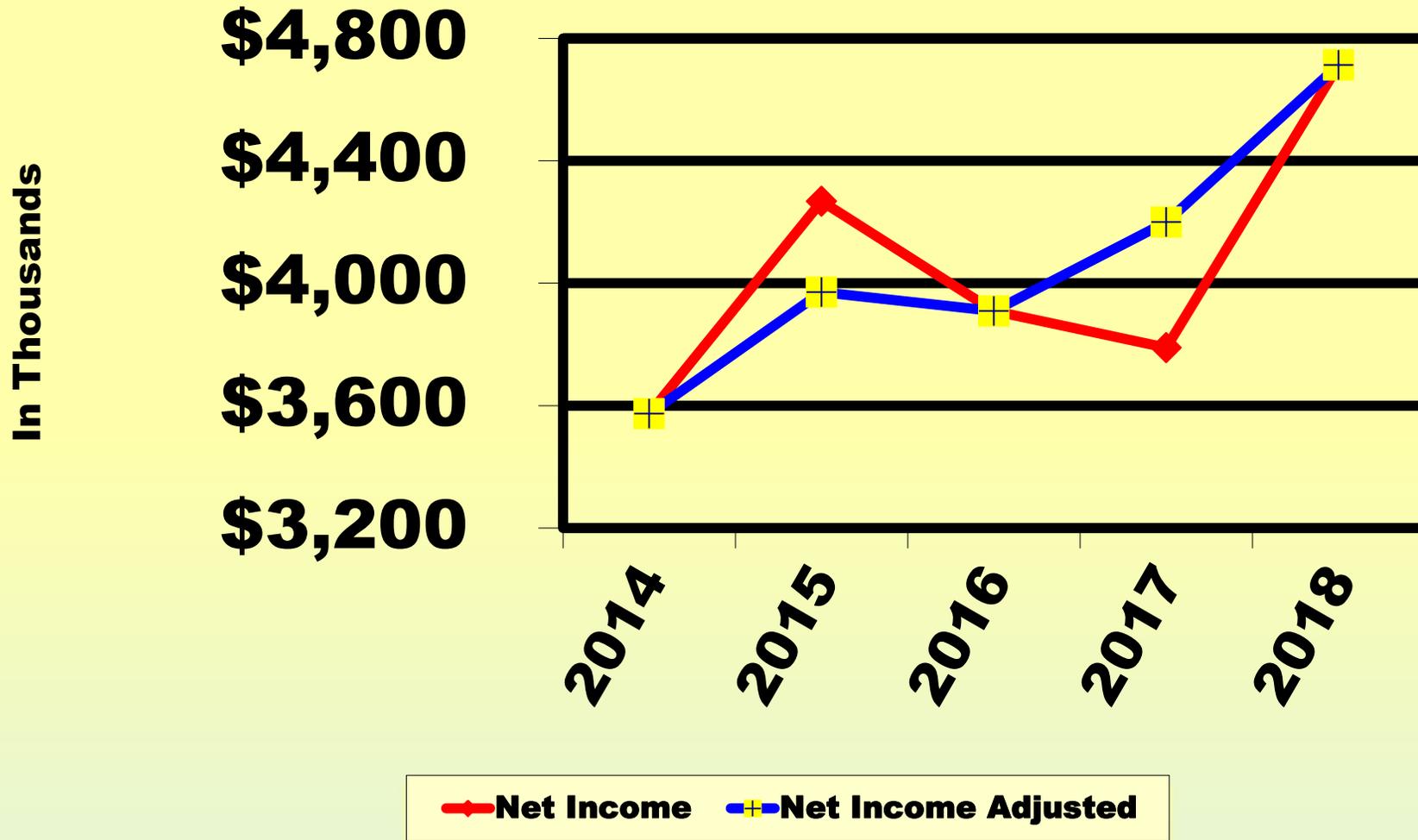
Efficiency Ratio

Five Year Trend



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Net Income - Five Year Trend

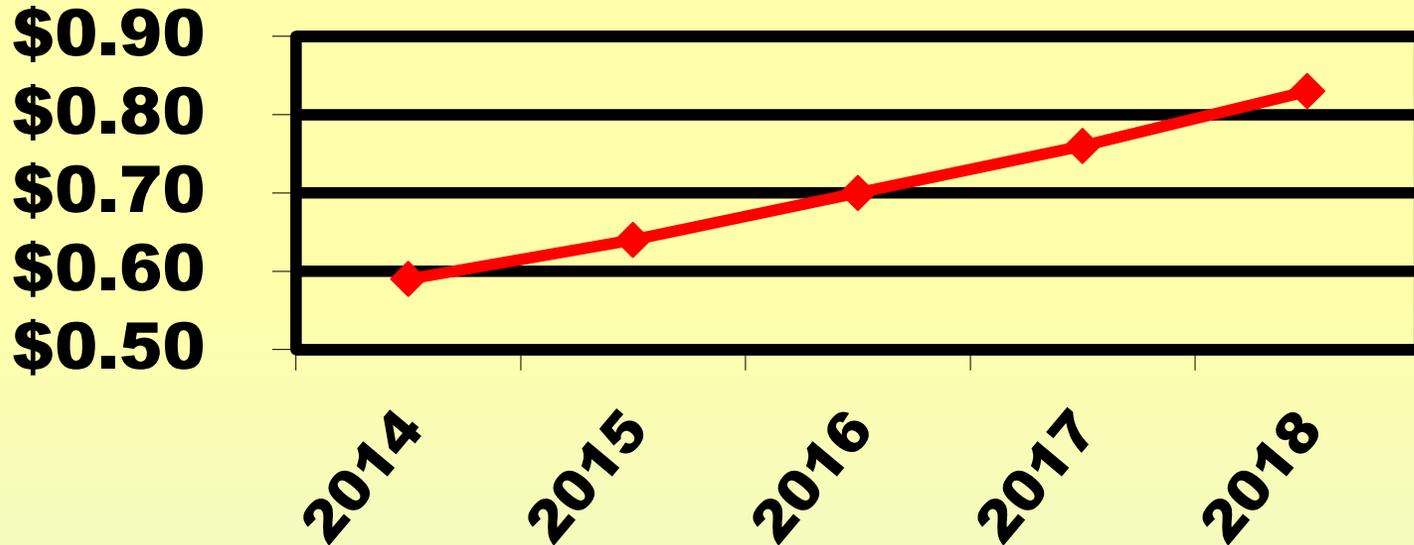


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Cash Dividends per Share Five Year Trend

Cash dividends increased \$0.07 to \$0.83 in 2018 from \$0.76 in 2017



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Maryland State Chartered Banks

(selected local banks)

Return on Average Assets

Ranked by 2018 Return

	2018	2017	2016	5 Year Average
CFG Community	2.53%	2.58%	2.07%	1.98%
F&M Bank	1.14%	0.96%	1.08%	1.12%
Harford Bank	0.90%	0.56%	0.57%	0.72%
Frederick County	0.81%	0.52%	0.40%	0.59%
Middletown Valley	0.53%	0.39%	0.34%	0.35%
Woodsboro	0.46%	0.11%	0.28%	0.28%
Bank of Glen Burnie	0.42%	0.23%	0.27%	0.35%
Carroll Community	0.22%	0.16%	0.19%	0.22%
Howard Bancorp	-0.15%	0.67%	0.61%	0.65%
Hamilton	-0.57%	-0.41%	0.10%	-0.19%

Source: FDIC Uniform Bank Performance Report



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Our Predictions for 2018

(compared to what actually happened)

- The Bank's net interest margin will decrease as deposit rates will increase (due to Federal Reserve increases and fierce competition and demand for deposits) more quickly than yields on assets
 - ❑ Net interest margin declined to 3.88% in 2018 vs 4.04% in 2017, a decrease of 16 bps
 - ❑ The yield on interest-earning assets increased by 2 bps
 - ❑ Cost of funds increased 24 bps
- We will open branch at Carroll Lutheran Village
 - ❑ CLV was opened on July 2nd
- Our loan production will be steady, but not likely to be as robust as 2017.
 - ❑ Loan portfolio grew 3% in 2018 vs. 13% in 2017



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Our Predictions for 2019

- The Bank's net interest margin will decrease as deposit rates continue to increase more quickly than yields on assets
- The Bank will celebrate its 100th anniversary!



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Stockholder Value

- Bank stock prices declined in the Mid Atlantic and Nationally as a percentage of book value when the stock market took a big plunge at the end of 2018:
 - Price to Book at 12/31/18:
 - Farmers & Merchants – 1.13 (1.18 @ 12/31/17)
 - Mid-Atlantic median – 1.22 (1.46 @ 12/31/17)
 - National median – 1.23 (1.50 @ 12/31/17)
- 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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Bank Stock Price Changes

Ranked by 2018 change

	2018	2017	2016
Harford Bank	4%	7%	-14%
Farmers and Merchants	3%	15%	7%
Frederick County Bank	3%	16%	-6%
Carroll Community	-7%	-9%	-2%
Hamilton	-10%	8%	0%
Old Line Bancshares	-11%	23%	36%
BB&T Corp	-13%	6%	24%
M & T Bank Corp	-16%	9%	29%
Bank of America Corp	-17%	34%	31%
PNC	-19%	23%	23%
Citigroup	-30%	25%	15%
Howard Bancorp	-35%	46%	14%

Source: Yahoo Finance



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Bank Stock Dividend Yields

Current (April 11, 2019) Yield

	<u>Current</u>	<u>Prior Year</u>
BB&T Corp	3.34%	2.94%
PNC	3.00%	1.96%
Farmers and Merchants	2.83%	2.52%
Citigroup	2.79%	1.82%
M & T Bank Corp	2.47%	1.97%
Harford Bank	2.35%	2.35%
Bank of America Corp	2.08%	1.58%
Old Line Bancshares	1.88%	0.97%
Frederick County	1.33%	1.16%
Hamilton	0.00%	0.00%
Howard Bancorp	0.00%	0.00%
Carroll Community	0.00%	0.00%

Source: Bloomberg & Yahoo Finance



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2019 First Quarter Results

Farmers and Merchants Bancshares is off to another good start

- 2019 net income of \$1,096,287 or \$0.65 per share compared to \$1,122,118 or \$0.67 per share in the first quarter of 2018
- Return on average equity was 9.49% compared to 10.58% in 2018 Q1
- Return on average assets was 1.05% compared to 1.11% in 2018 Q1
- Assets increased to \$428 million at March 31, 2019 compared to \$417 million at December 31, 2018



Summary

Farmers and Merchants Bancshares is:

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



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**THANK YOU TO ALL WHO
HELPED US REACH 100 YEARS:
Customers, Shareholders, Employees,
& Directors**



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Best Wishes in 2019



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