



**Farmers and Merchants
Bancshares, Inc.
Annual Meeting of Shareholders
April 28, 2020**



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 2019

- 2019 net income of \$4,560,804 was the second highest in the Company's history below 2018's net income of \$4,712,676.
 - Return on equity: 9.52% in 2019 vs. 10.77% in 2018
 - Return on assets: 1.06% in 2019 vs. 1.14% in 2018
- Continued balance sheet growth:
 - Total assets increased by \$25 million, or 6%, to \$442 million
 - Loans outstanding increased by \$18 million, or 5%, to \$360 million
 - Deposits increased by \$22 million, or 6%, to \$377 million
- Dividends paid increased to \$.51 per share, up from \$.47 per share in 2018
- The stock price increased by 6% from \$17.41 to \$18.40 per share
- The Bank celebrated its 100th anniversary



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Total Assets

(in thousands)

	12/31/2019	12/31/2018	Change
Cash & Due From Banks	\$ 9,121	\$ 14,618	\$ (5,497)
Investments	57,050	45,899	11,151
Loans & Loans Held For Sale	359,625	341,474	18,151
Fixed Assets	5,037	5,075	(38)
Bank Owned Life Insurance	7,145	7,053	92
Other	4,237	3,039	1,198
Total	<u>\$ 442,215</u>	<u>\$ 417,158</u>	<u>\$ 25,057</u>



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Loan Quality

- Loan losses remained low in 2019
 - Net recoveries totaled \$44,381 in 2019 compared to net charge-offs of \$424,577 in 2018
- Non performing assets to total assets remain low at 0.00% at 12/31/19, compared to 0.29% at 12/31/18 and 0.66% at 12/31/17.
- Net loan (recoveries) losses to loans outstanding was (0.01%) in 2019 and 0.12% in 2018 compared to 0.09% for both years for our national peer group.
- Non-accrual loans (90 days or more past due) to total loans was 0.00% at 12/31/19 and 0.29% at 12/31/18 compared to 0.58% and 0.55% for our national peer group.

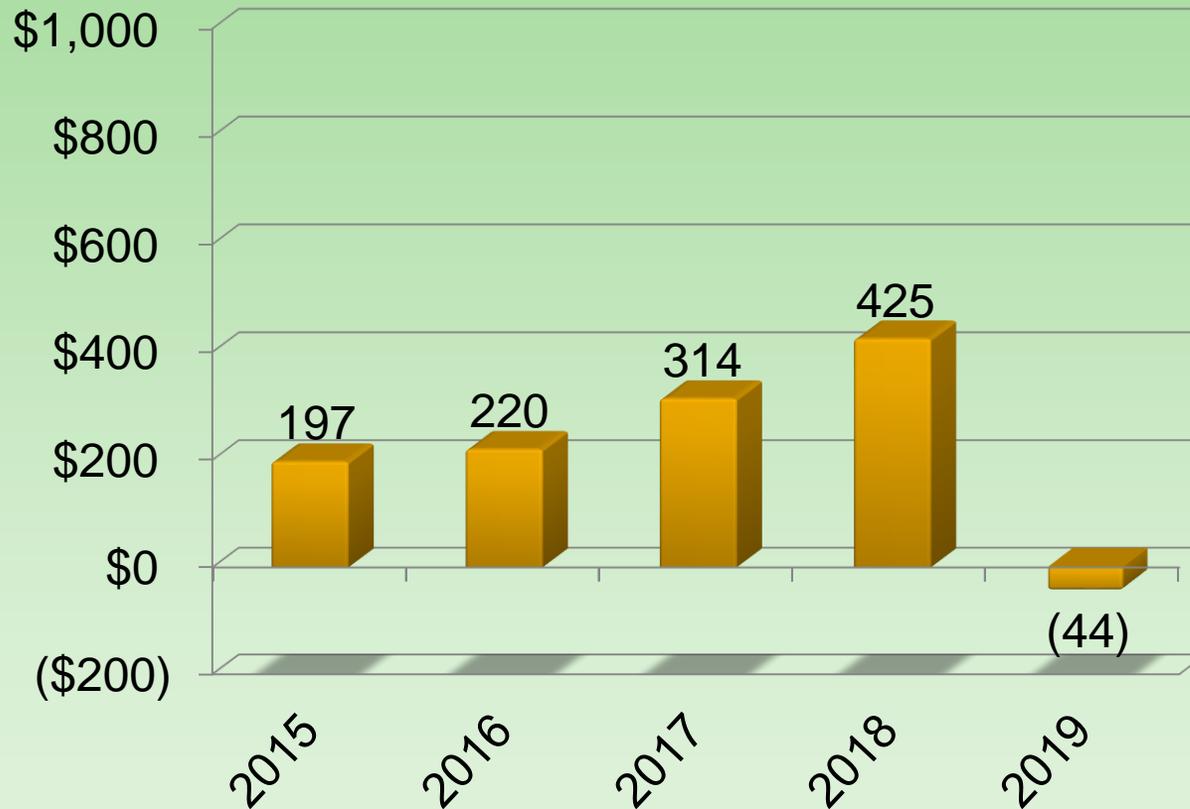


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Loan Charge-off Trend

Net Loan Charge-offs (Recoveries)
(in thousands)



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Liabilities and Equity

(in thousands)

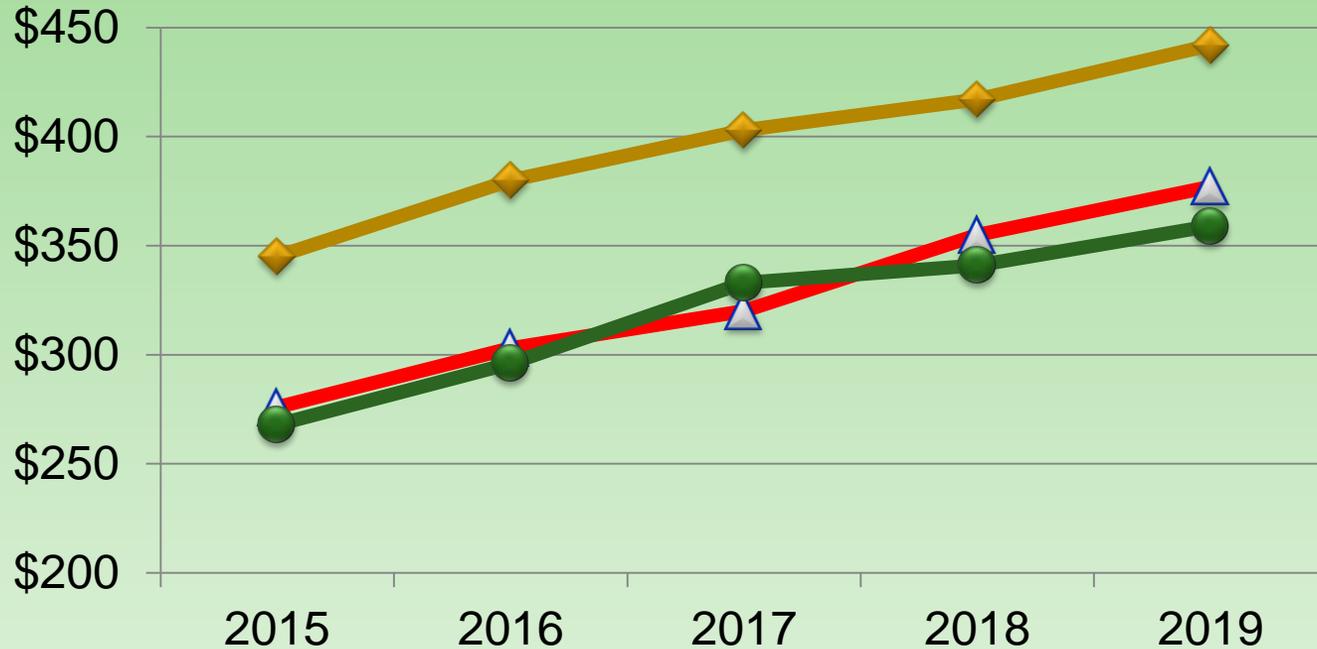
	<u>12/31/2019</u>	<u>12/31/2018</u>	<u>Change</u>
Deposits	\$ 376,613	\$ 354,713	\$ 21,900
Repurchase Agreements	10,958	11,012	(54)
FHLB Advances	-	3,000	(3,000)
Other	5,190	3,038	2,152
Total Liabilities	<u>392,761</u>	<u>371,763</u>	<u>20,998</u>
Stockholders' Equity	49,454	45,395	4,059
Total	<u>\$ 442,215</u>	<u>\$ 417,158</u>	<u>\$ 25,057</u>



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Balance Sheet Five Year Trend



In Millions

◆ Total Assets

▲ Deposits

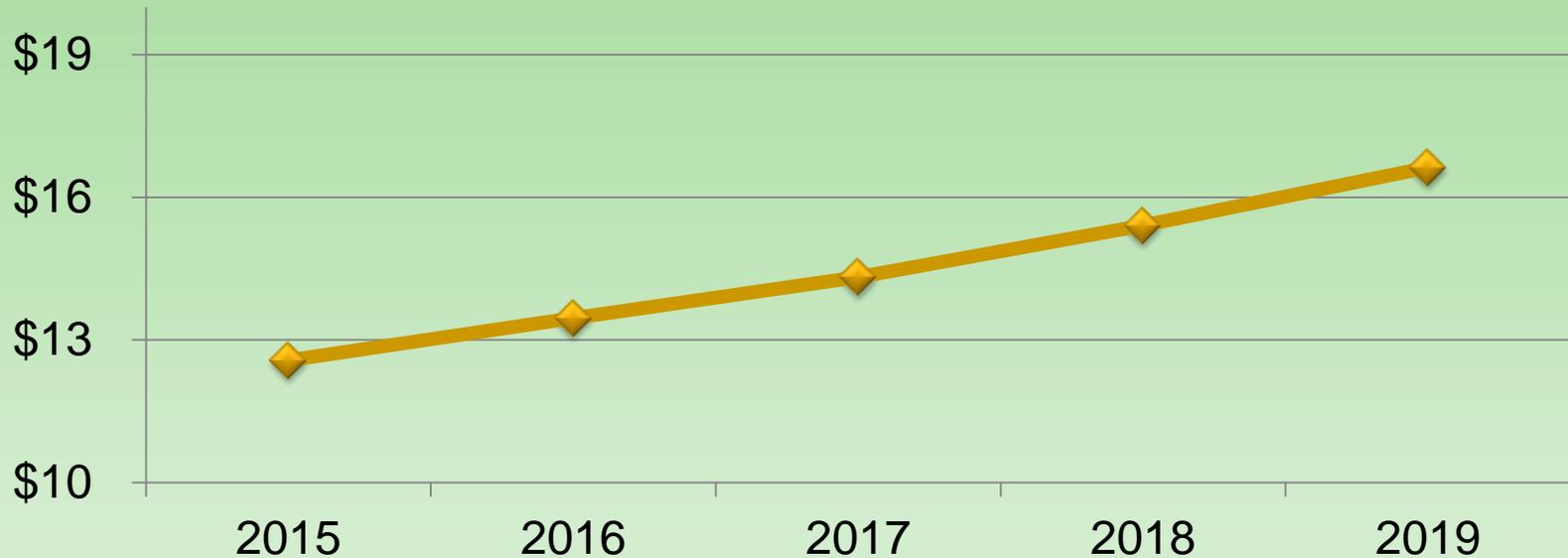
● Loans



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Book Value per Share Five Year Trend



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Income Statement Highlights for 2019

- Net Income down \$152,000 to \$4,561,000
- Earnings Per Share was \$1.54 in 2019 compared to \$1.61 in 2018
- Net Interest Income decreased by \$239,000
 - Tax equivalent net yield on interest-earning assets decreased to 3.67% in 2019 from 3.88% in 2018
 - Average interest earning assets increased by \$18 million
- Operating Expenses up \$544,000 or 5%
 - Efficiency ratio was 66% versus the national peer avg. of 64%



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Income Statement

(in thousands)

	2019	2018	Change
Interest - Loans	\$ 16,895	\$ 16,402	\$ 493
Interest - Investments	1,807	1,366	441
Total Interest Income	18,702	17,768	934
Interest Expense	(3,680)	(2,507)	(1,173)
Net Interest Income	15,022	15,261	(239)
Loan Loss Provision	(40)	(475)	435
Other Income	1,494	1,365	129
Operating Expenses	(10,876)	(10,332)	(544)
Income Before Taxes	5,600	5,819	(219)
Income Taxes	(1,039)	(1,106)	67
Net Income	\$ 4,561	\$ 4,713	\$ (152)



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Net Income - Five Year Trend

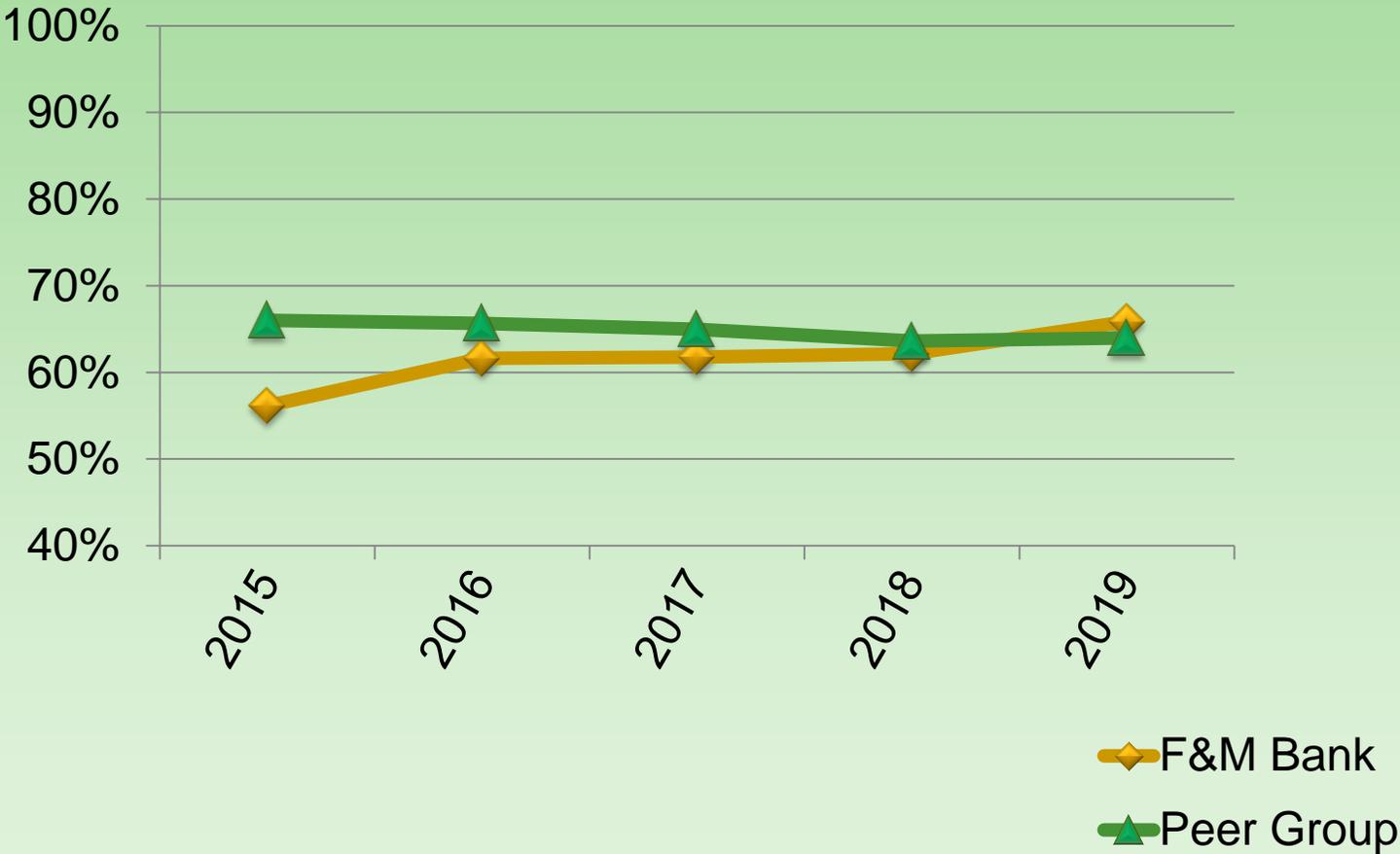


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Efficiency Ratio

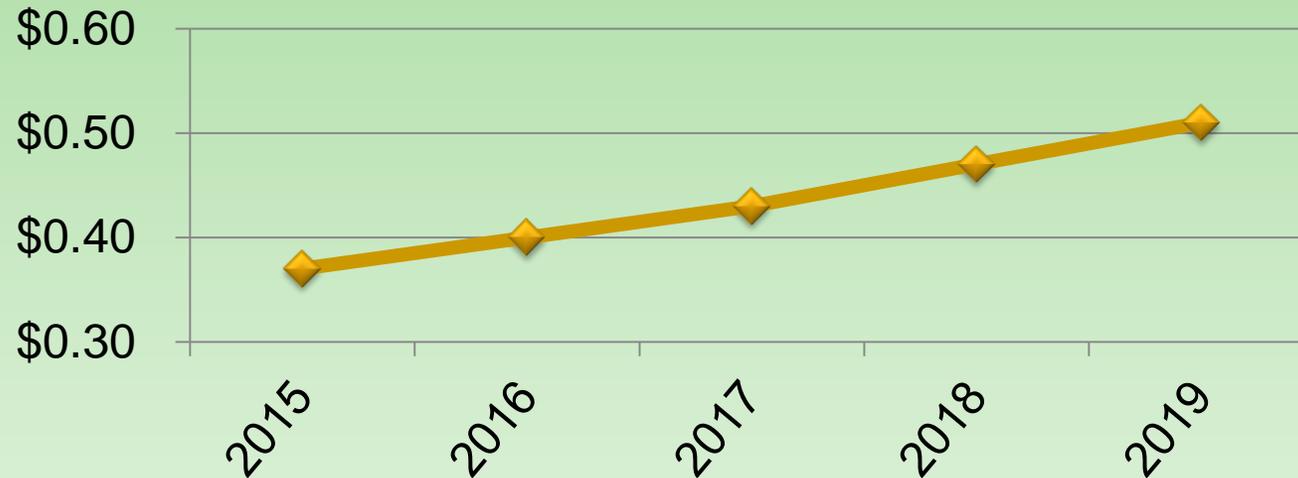
Five Year Trend



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Cash Dividends per Share Five Year Trend

Cash dividends increased \$0.04 to \$0.51 in 2019 from \$0.47 in 2018



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Maryland State Chartered Banks

(selected local banks)

Return on Average Assets

Ranked by 5 Year Average Return

	2019	2018	2017	2016	2015	5 Year Average
F&M Bank	1.06%	1.14%	0.96%	1.08%	1.29%	1.11%
ACNB	1.40%	1.34%	0.69%	0.93%	0.99%	1.07%
Harford Bank	0.88%	0.90%	0.56%	0.57%	0.66%	0.71%
Orrstown Bank	0.76%	0.75%	0.54%	0.50%	0.64%	0.64%
Frederick County	0.47%	0.81%	0.52%	0.40%	0.63%	0.57%
Howard Bancorp	0.75%	-0.15%	0.67%	0.61%	0.19%	0.41%
Middletown Valley	0.57%	0.53%	0.39%	0.34%	0.18%	0.40%
Woodsboro	0.50%	0.46%	0.11%	0.28%	0.29%	0.33%
Bayvanguard	0.83%	0.41%	0.12%	-0.12%	0.38%	0.32%
Carroll Community	0.18%	0.22%	0.16%	0.19%	0.20%	0.19%



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Bank Stock Price Changes

Ranked by 2019 change

	2019	2018	2017
Citigroup	53%	-30%	-30%
Bank of America Corp	43%	-17%	-17%
PNC	37%	-19%	-19%
Orrstown Bank	24%	-28%	-7%
Bayvanguard	19%	58%	-7%
M & T Bank Corp	19%	-16%	-16%
Howard Bancorp	18%	-35%	-35%
Harford Bank	9%	4%	4%
Carroll Community	6%	-7%	-7%
Farmers and Merchants	6%	3%	3%
ACNB	-4%	33%	-7%

Source: Yahoo Finance



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Bank Stock Dividend Yields

Current Yield

	<u>Current (a) Prior Year</u>	
Orrstown Bank	5.38%	3.55%
Citigroup	5.07%	2.79%
PNC	4.79%	3.00%
M & T Bank Corp	4.01%	2.47%
ACNB	3.87%	2.49%
Farmers and Merchants	3.46%	2.83%
Bank of America Corp	3.28%	2.08%
Harford Bank	3.08%	2.35%
Banvanguard	1.17%	1.03%
Howard Bancorp	0.00%	0.00%
Carroll Community	0.00%	0.00%

Source: Yahoo Finance (a) as of the end of March 2020



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Stockholder Value

- Bank stock prices increased in the Mid Atlantic and Nationally as a percentage of book value during 2019 and into early 2020 before the coronavirus sent the stock market into a steep decline in March:

Price to Book	April 6, 2020	Dec. 31, 2019	Dec. 31, 2018
Farmers and Merchants	0.81	1.11	1.13
Mid Atlantic Average	0.97	1.55	1.22
National Average	0.90	1.47	1.23

- The Bank's common stock is listed on the NASDAQ Over-the-Counter Bulletin Board under the symbol FMFG



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Acquisition of Carroll Bancorp, Inc.

March 6, 2020



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Transaction Rationale

Strategically Compelling

- Expands presence in Carroll County, entry into attractive Eldersburg market
- Enhances scale with pro forma total assets in excess of \$620 million
- Long-standing, core community bank established in 1870

Financially Attractive

- Projected 30% earnings per share accretion¹
- Meaningful expense savings opportunities
- Pro forma company to remain well capitalized

Mitigated Risks

- Familiarity with Carroll's bankers, customers, and communities
- Conducted extensive due diligence review
- Similar customer-focused cultures



1) Once cost saves fully realized.

Note: Pro forma total assets based on financial data as of December 31, 2019 and excludes purchase accounting adjustments.

Source: Company Documents, S&P Global Market Intelligence.

Transaction Terms

Structure	Acquisition of Carroll Bancorp, Inc. (“Carroll”)
Transaction Value	Aggregate transaction value of \$25.0 million
Consideration	100% cash consideration
Tax Treatment	Tax-free reorganization at corporate level
Required Approvals	Shareholder approvals for Carroll Customary regulatory approvals
Expected Closing	Second half of 2020
Transaction Multiple	Price / Tangible Book Value ¹ : 137% (Compared to 158% for all banks sold in 2019) ²



1) Based on Carroll Bancorp Inc. tangible common equity of \$18,190,983 as of December 31, 2019.
2) Based on all bank transactions announced in 2019 where pricing information was publicly disclosed.
Source: S&P Global Market Intelligence and Carroll Company Management.

Overview of Carroll Community Bank

Company Overview

Headquarters:	Eldersburg, MD
Year Bank Founded:	1870
Chief Executive Officer:	Russell J. Grimes Jr.
Parent Company:	Carroll Bancorp, Inc.
Total Branches:	3
Employees:	34

Financial Highlights

Total Assets: (\$MM)	\$184
Gross Loans: (\$MM)	\$153
Total Deposits: (\$MM)	\$144
Net Income: (\$MM, LTM)	\$0.3
ROAA: (LTM)	0.18%
NPA / Assets: (MRQ)	1.88%
Efficiency Ratio: (LTM)	94.1%

Deposit Market Share: Carroll County

Rank	Institution	Market Share (%)	Deposits in Market (\$000s)	Number of Branches
1	Truist Bank	31.0	1,197,494	13
2	PNC Bank NA	24.4	942,750	8
3	Manufacturers and Traders Trust Co.	10.9	420,196	6
4	Bank of America NA	8.6	333,319	3
5	ACNB Bank	7.6	293,845	7
6	Wells Fargo Bank NA	5.0	193,484	2
7	Carroll Community Bank	3.5	133,871	2
8	Farmers and Merchants Bank	3.5	133,352	4
9	Capital One NA	2.1	81,172	1
10	WesBanco Bank Inc.	2.0	76,273	2
Total for Institutions in Market			3,859,932	49

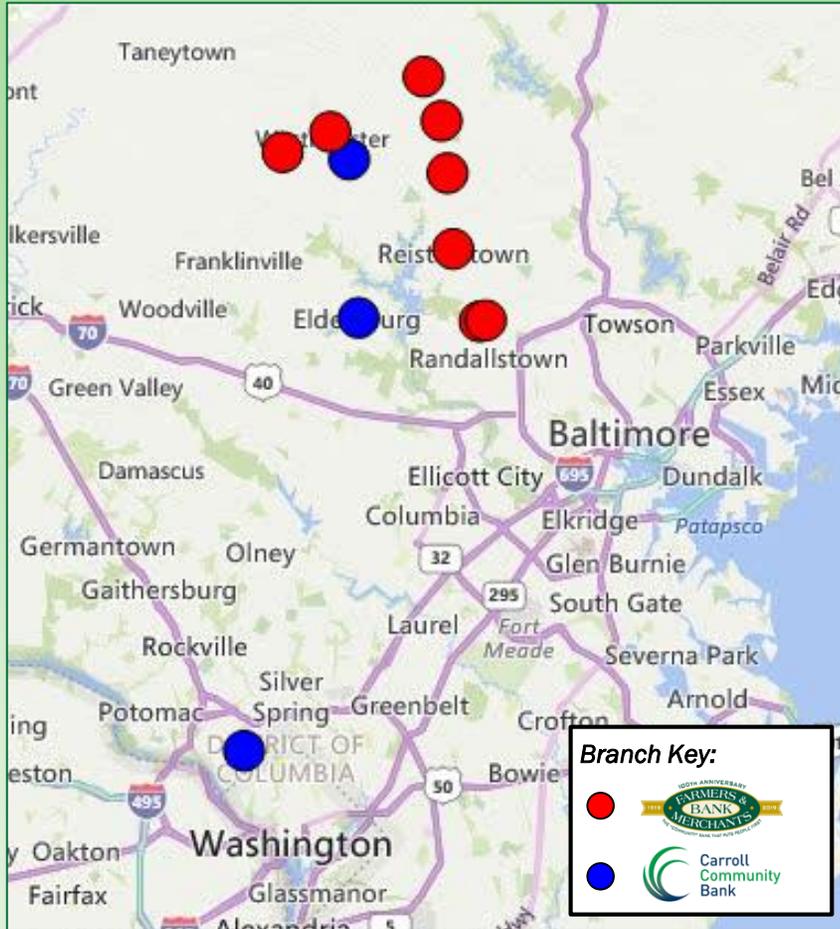
Carroll Company Highlights

- Established presence in Eldersburg, MD market with over \$100 million in total deposits
- Long-standing institution founded in 1870
- #7 deposit market share in Carroll County, MD



Combined Company

Pro Forma Map



Pro Forma Financial Highlights

Assets	\$626 million
Loans	\$512 million
Deposits	\$521 million
Loans / Deposits	98%

Pro Forma Rankings

Deposit Market Share: Carroll County	# 6
Deposit Market Share: State of Maryland	# 25
Total Deposits: State of Maryland¹	# 14



Note: Pro Forma Financial Highlights data as of December 31, 2019 and excludes purchase accounting adjustments. Pro Forma Deposit Market Share data as of June 30, 2019.

1. Based on commercial banks headquartered in the state of Maryland ranked by total deposits as of December 31, 2019.

Source: S&P Global Market Intelligence and Carroll Company Management.

COVID-19 Impact

- Health and well-being of our employees and customers is the top priority
- The banking industry is considered essential and banks must remain open
- Since early March, we have been serving customers using our drive thru facilities only
- Employees are rotating time spent in the office, are working from home, and are strongly encouraged to follow safe practices
- All board, board committee, and management meetings are being conducted via conference call
- Borrowers are already experiencing financial difficulties
 - The Bank is assisting them with government loans/aid including Paycheck Protection Program loans
 - The Bank is providing relief on a case by case basis to borrowers in the form of reduced or deferred payments
- We would like to extend our best wishes to you and your family to stay safe and healthy through these difficult times



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2020 First Quarter Results

- 2020 net income of \$843,307 or \$0.28 per share compared to \$1,096,287 or \$0.37 per share in the first quarter of 2019
- Transaction costs related to the acquisition of Carroll Community Bank totaled \$179,824 for the quarter
 - Results with and without the transaction costs compared to 2019:

	Three Months Ended		
	March 31, 2020		March 31, 2019
	As Reported	Excluding Transaction Costs	As Reported
Income before taxes	\$ 996,223	\$ 1,176,047	\$ 1,350,263
Income taxes	152,916	202,399	253,976
Net income	<u>\$ 843,307</u>	<u>\$ 973,648</u>	<u>\$ 1,096,287</u>
Earnings per share	\$ 0.28	\$ 0.33	\$ 0.37
Return on average assets	0.75%	0.87%	1.05%
Return on average equity	6.72%	7.76%	9.49%

- Assets increased to \$460 million at March 31, 2020 compared to \$442 million at December 31, 2019



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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 2020



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