



Farmers & Merchants Bancshares, Inc.

Annual Meeting of Shareholders

April 26, 2022



The "Community" Bank that Puts People First

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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 2021

- Achieved all-time record earnings in 2021 of \$8,149,606, or \$2.70 per share, compared to 2020's net income of \$2,682,003, or \$0.90 per share, and 2020's net income excluding acquisition costs of \$5,113,225, or \$1.71 per share
 - Acquisition of Carroll Bancorp, Inc. ("Carroll") in the fourth quarter of 2020 was the primary driver of the increased earnings
 - Income from Paycheck Protection Program ("PPP") loans contributed \$802,000 to net income
- Managed through the COVID-19 pandemic
- Balance sheet changes:
 - Total assets increased by \$39 million, or 6%, to \$717 million
 - Loans & loans held for sale decreased by \$41 million, or 8%, to \$482 million
 - Investments increased by \$93 million, or 116%, to \$173 million
 - Deposits increased by \$53 million, or 9%, to \$626 million
- Dividends paid increased to \$.57 per share, up from \$.52 per share in 2020



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Acquisition of Carroll Bancorp, Inc.

- Acquisition closed on October 1, 2020
 - Price - \$25 million in cash
 - \$17 million loan obtained along with \$8 million from the Bank
 - Assets acquired – \$176 million
 - Loans acquired - \$145 million
 - Deposits acquired - \$145 million
 - \$7 million of goodwill recorded
 - 17 employees added
- Entry into attractive Eldersburg market, expanding the Bank's presence in Carroll County
 - Eldersburg location total deposits are the highest in the Bank
- Enhances scale which is critical in today's low margin environment
- Projected earnings per share accretion in excess of 30%
 - Actual earnings per share accretion of approximately 42% in 2021 excluding the impact of PPP loans versus 2020's earnings per share excluding acquisition costs



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COVID-19 Impact

- Health and well-being of our employees and customers has been the top priority since the start of the pandemic
 - Bank lobbies were closed as necessary, employees were rotated, work at home accommodations were made, and meetings were held virtually
 - We have encouraged all employees to get the COVID vaccination
- The Bank has provided relief to customers in two ways:
 - Deferred loan payments
 - 30% of the Bank's portfolio of loans received at least 3 months of deferred payments
 - At 12/31/21, the deferrals were down to 1 loan with a principal balance equal to 1% of the portfolio
 - Paycheck Protection Program ("PPP") loans
 - \$38 million of PPP loans were originated by the Bank in 2020
 - An additional \$22 million of PPP loans were originated in 2021
 - All but \$10 million had been forgiven as of 12/31/21
- We are hopeful that the pandemic has run its course



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Total Assets

(in thousands)

	12/31/2021	12/31/2020	Change
Cash & Due From Banks	\$ 26,462	\$ 40,976	\$ (14,514)
Investments	172,659	79,859	92,800
Loans & Loans Held For Sale	482,138	523,364	(41,226)
Fixed Assets	6,259	7,737	(1,478)
Bank Owned Life Insurance	11,556	11,297	259
Other Real Estate Owned	1,242	1,412	(170)
Goodwill & Other Intangibles	7,051	7,059	(8)
Other	9,310	5,613	3,697
Total	\$ 716,677	\$ 677,317	\$ 39,360



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Loan Portfolio

- The loan portfolio decreased by \$41 million during 2021 due primarily to:
 - \$22 million net decrease in PPP loans
 - \$6 million decrease in credit lines used
 - Intense competition due to high liquidity at all banks

Loan Quality:

- No net loan losses for three consecutive years
 - Net recoveries totaled \$23,730 in 2021 and \$77,823 in 2020
- Non performing assets to total assets remain low at 0.90% at 12/31/21, compared to 0.89% at 12/31/20 and 0.00% at 12/31/19
- Non-accrual loans (90 days or more past due) to total loans was 1.03% at 12/31/21 and 0.88% at 12/31/20 compared to 0.41% and 0.56% for our national peer group

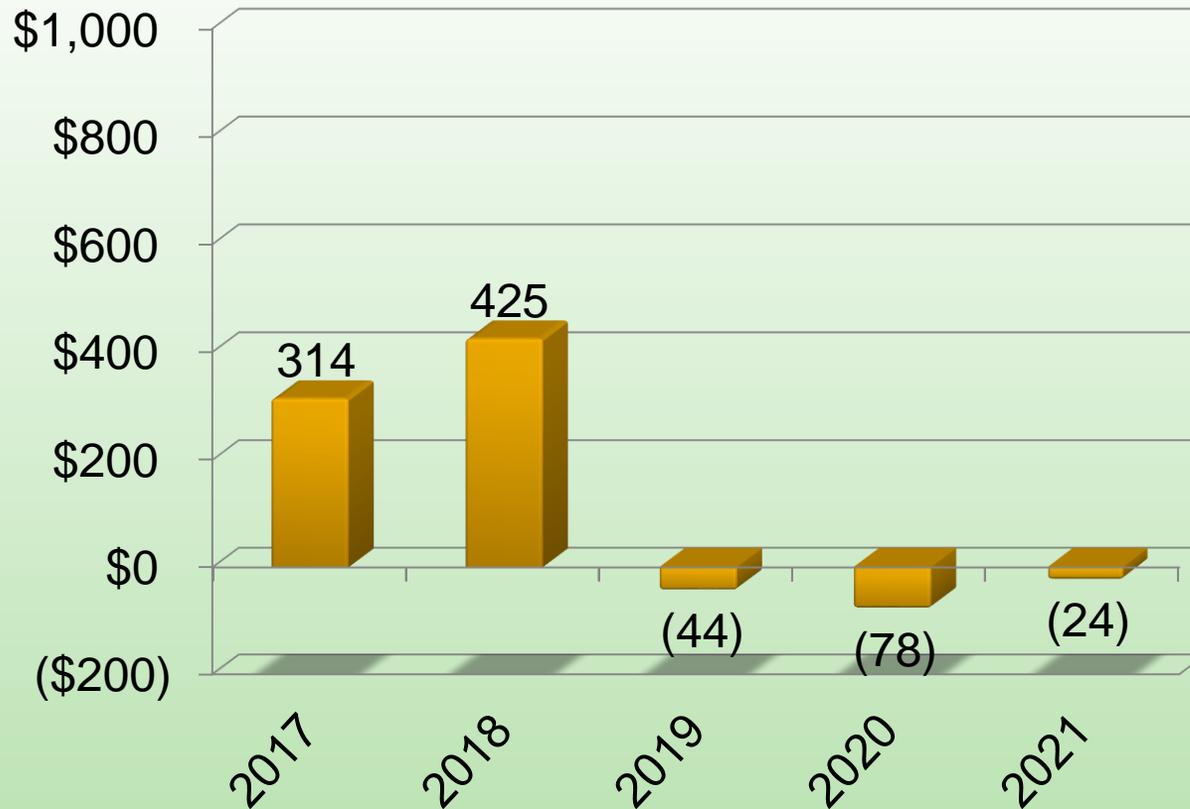


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Loan Charge-off Trend

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



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Liabilities and Equity

(in thousands)

	12/31/2021	12/31/2020	Change
Deposits	\$ 626,415	\$ 573,402	\$ 53,013
Repurchase Agreements	5,414	24,754	(19,340)
FHLB Advances	5,000	5,000	-
Long-Term Debt	16,979	16,973	6
Other	6,248	5,459	789
Total Liabilities	660,056	625,588	34,468
Stockholders' Equity	56,621	51,729	4,892
Total	\$ 716,677	\$ 677,317	\$ 39,360

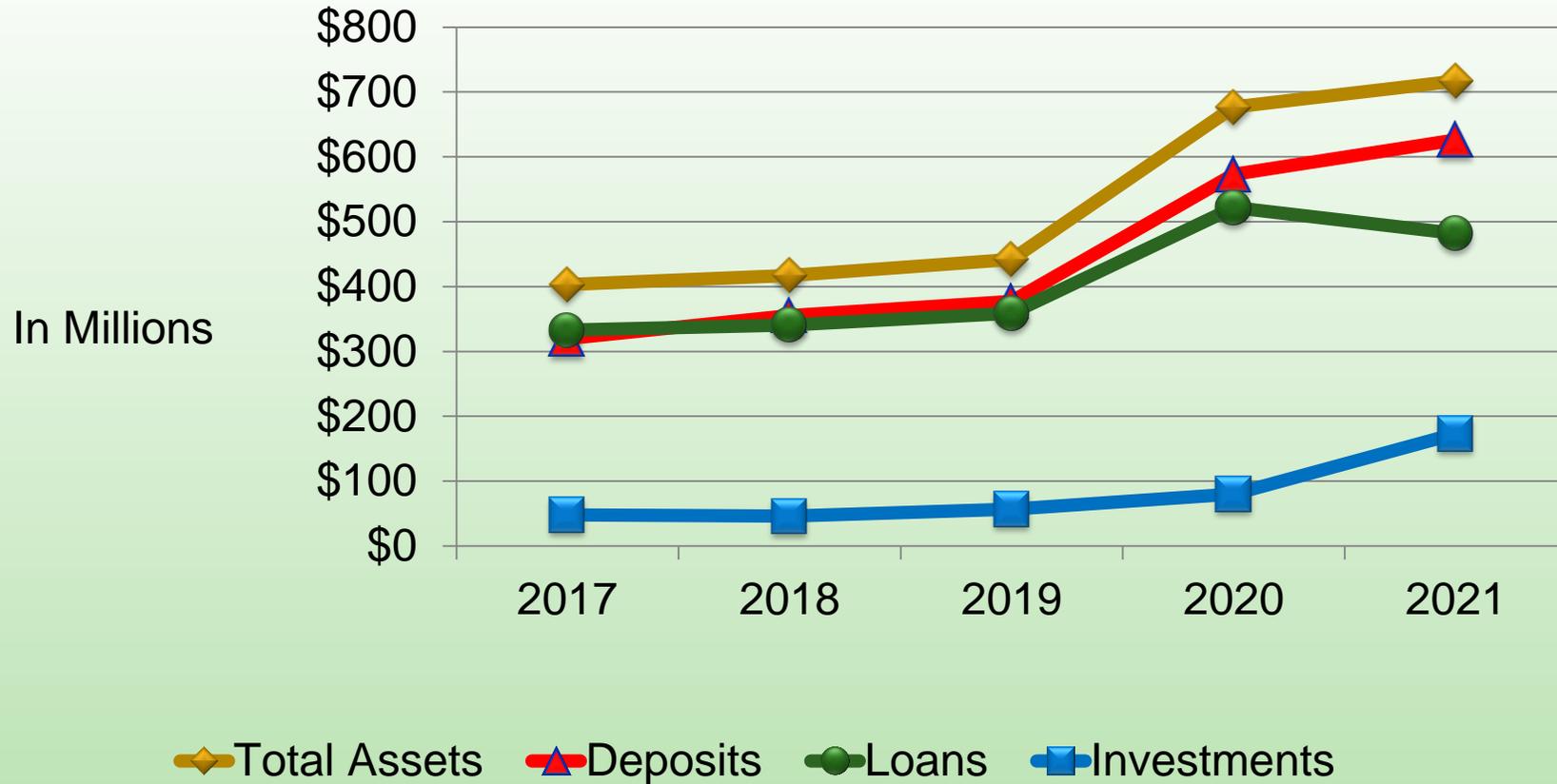


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Balance Sheet

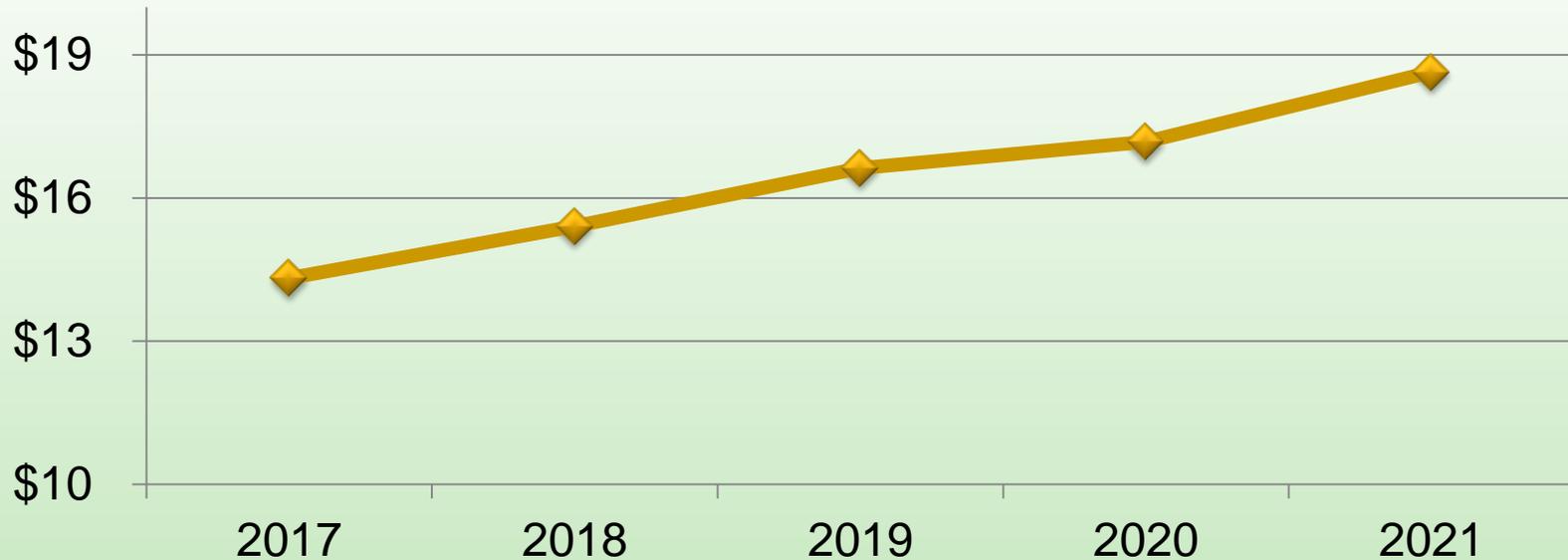
Five Year Trend



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Book Value per Share Five Year Trend



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Income Statement Highlights for 2021

- 2021 Net Income compared to 2020 Net Income with and without impact of Carroll acquisition costs:

	Twelve Months Ended		
	December 31, 2021		December 31, 2020
	As Reported	As Reported	Excluding Acquisition Costs
Income before income taxes	\$ 10,582,419	\$ 3,169,214	\$ 6,406,031
Income taxes	2,432,813	487,211	1,292,806
Net income	\$ 8,149,606	\$ 2,682,003	\$ 5,113,225
Earnings per share	\$ 2.70	\$ 0.90	\$ 1.71
Return on average assets	1.16%	0.51%	0.97%
Return on average equity	14.85%	5.22%	9.96%



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Income Statement Highlights for 2021

(continued)

- Net Interest Income increased by \$5,571,000
 - Average interest earning assets increased by \$165 million due to the Carroll acquisition
 - Tax equivalent net yield on interest-earning assets decreased to 3.47% in 2021 from 3.50% in 2020
 - Tax equivalent yield on interest earning assets was down 30 basis points
 - Cost of funds on interest bearing deposits was down 35 basis points
- Operating Expenses up \$1,783,000 or 14% due to the addition of locations, employees, and customers as a result of the Carroll acquisition (2020 expenses exclude acquisition costs)
 - Efficiency ratio was 56% in 2021 versus the national peer avg. of 62%



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Income Statement

(in thousands)

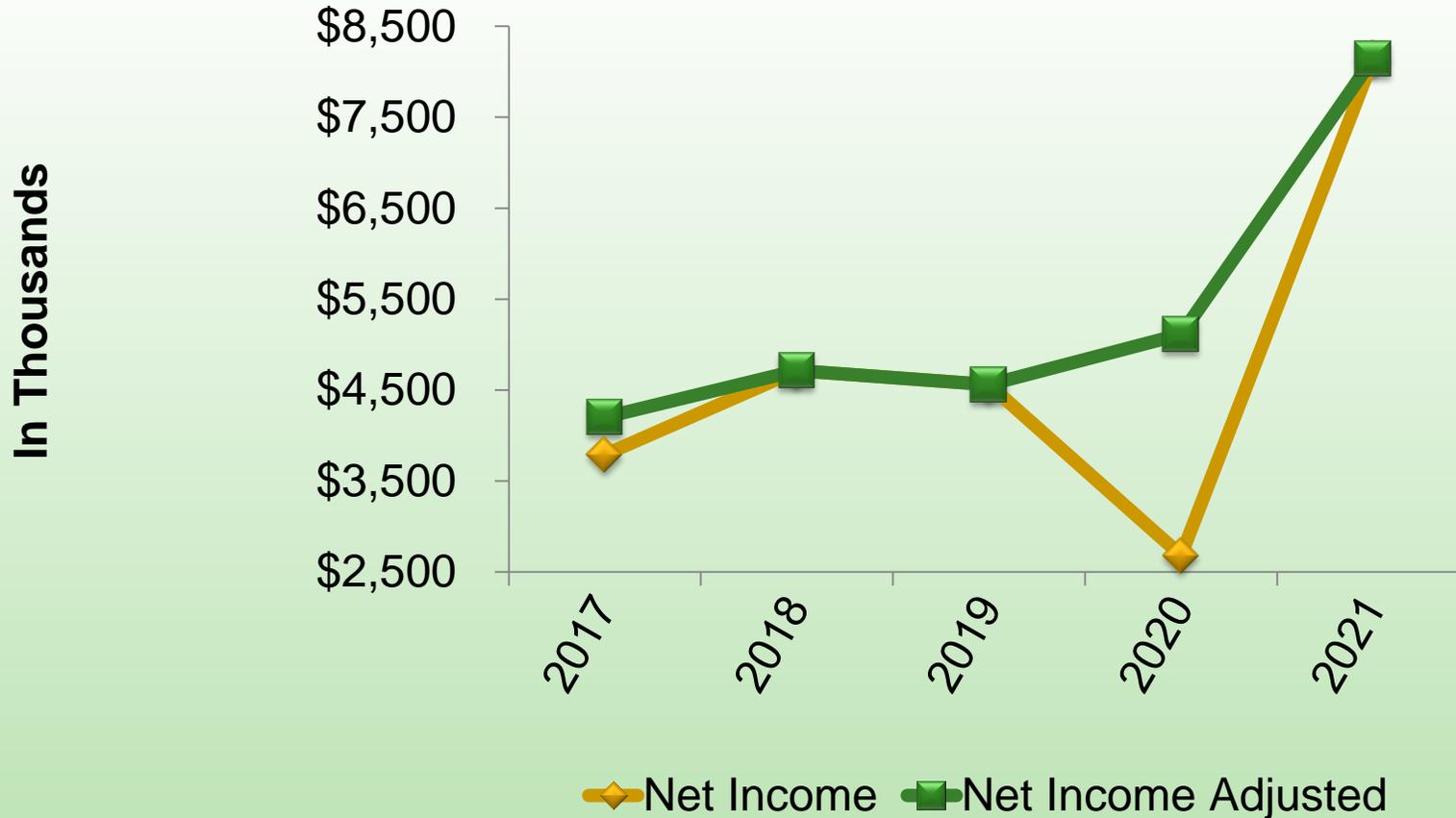
	2021	2020	Change
Interest - Loans	\$ 23,492	\$ 19,291	\$ 4,201
Interest - Investments	2,188	1,472	716
Total Interest Income	25,680	20,763	4,917
Interest Expense	(2,805)	(3,459)	654
Net Interest Income	22,875	17,304	5,571
Loan Loss Provision	(330)	(625)	295
Other Income	2,166	2,072	94
Acquisition Expenses	-	(3,237)	3,237
Operating Expenses	(14,128)	(12,345)	(1,783)
Income Before Taxes	10,583	3,169	7,414
Income Taxes	(2,433)	(487)	(1,946)
Net Income	\$ 8,150	\$ 2,682	\$ 5,468
Net Income Excl. Acquisition Expenses	\$ 8,150	\$ 5,113	\$ 3,037



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Net Income - Five Year Trend

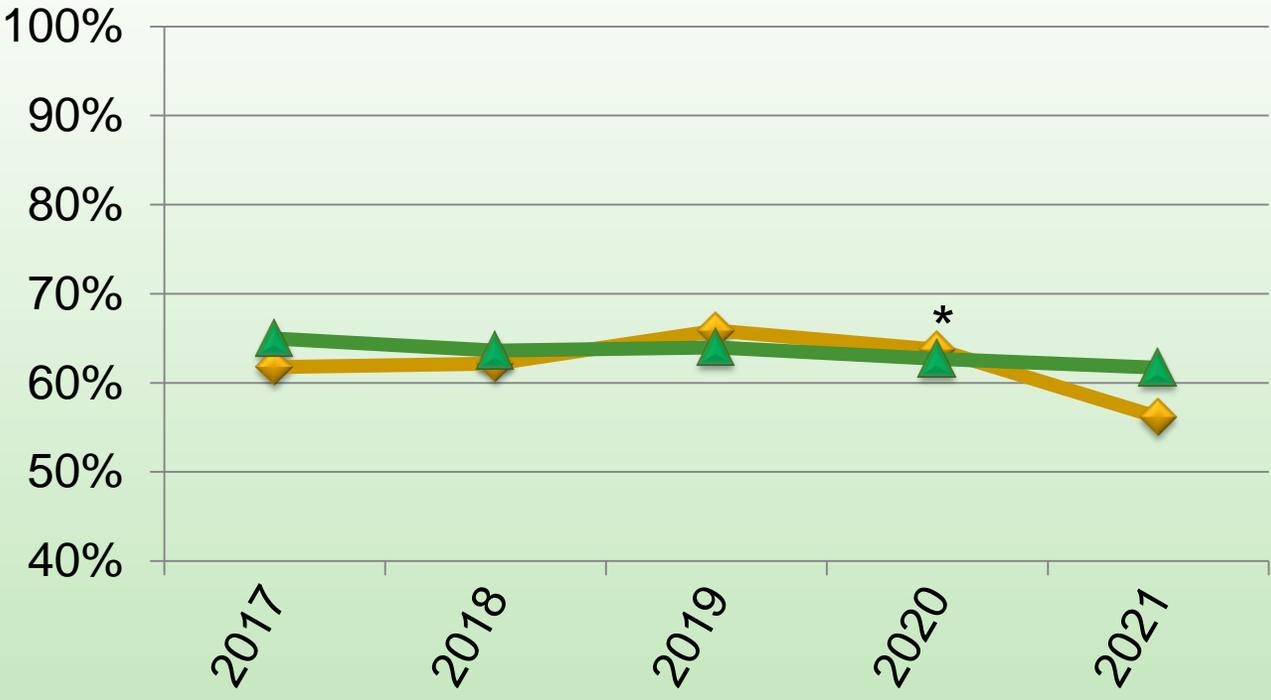


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Efficiency Ratio

Five Year Trend



* F&M Bank 2020 ratio excludes the impact of the Carroll acquisition costs.

◆ F&M Bank
▲ Peer Group



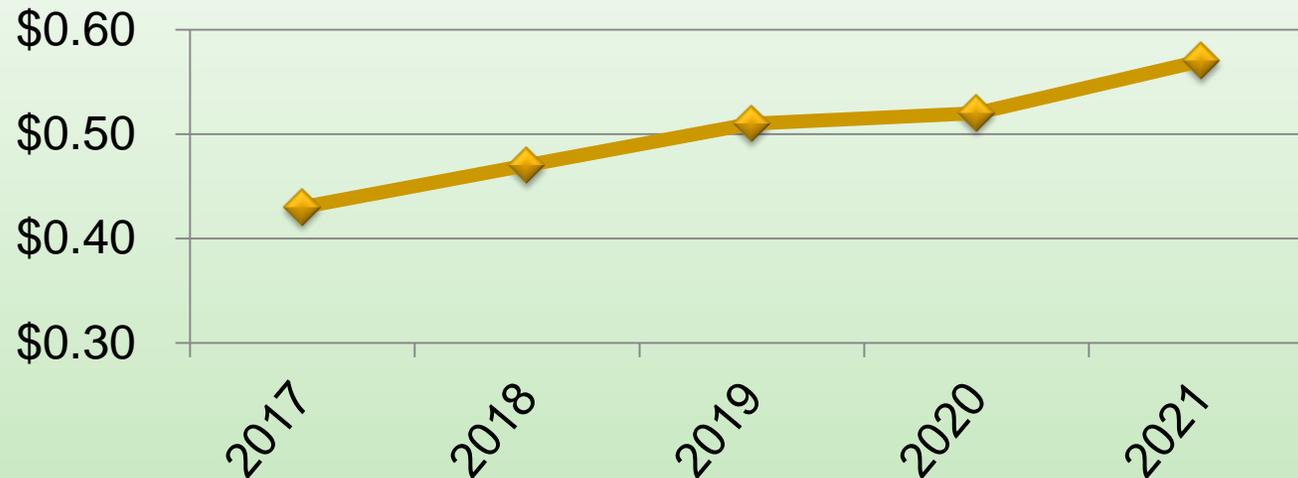
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Cash Dividends per Share

Five Year Trend

Cash dividends increased \$0.05 to \$0.57 in 2021 from \$0.52 in 2020



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Selected Local Banks

Return on Average Assets
Ranked by 5 Year Average Return

	2021	2020	2019	2018	2017	5 Year Average
F&M Bank (a)	1.16%	0.97%	1.06%	1.14%	0.96%	1.06%
ACNB	1.03%	0.78%	1.40%	1.34%	0.69%	1.05%
Shore Bancshares	1.03%	0.93%	1.12%	1.15%	0.82%	1.01%
Orrstown Bank	1.14%	1.00%	0.76%	0.75%	0.54%	0.84%
Harford Bank	1.00%	0.72%	0.88%	0.90%	0.56%	0.81%
Bayvanguard	1.15%	1.43%	0.83%	0.41%	0.12%	0.79%
Middletown Valley	0.81%	0.51%	0.57%	0.53%	0.39%	0.56%
Rosedale Federal	0.55%	0.35%	0.64%	0.70%	0.33%	0.51%
Woodsboro	0.64%	0.46%	0.50%	0.46%	0.11%	0.43%

Source: FDIC Uniform Bank Performance Report and SEC Filings

(a) - excludes Carroll acquisition costs in 2020



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Bank Stock Price Changes

Ranked by 2021 change

	2021	2020	2019	2018
Farmers and Merchants	66%	-28%	6%	3%
Orrstown Bank	47%	-14%	43%	-17%
Bank of America Corp	43%	-16%	19%	-13%
Shore Bancshares	38%	-28%	9%	4%
Harford Bank	35%	-7%	37%	-19%
PNC	25%	-34%	-4%	33%
ACNB	21%	-25%	19%	-16%
M & T Bank Corp	18%	-1%	19%	58%
Bayvanguard	52%	-27%	24%	-28%

Source: Yahoo Finance



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Bank Stock Dividend Yields

Current Yield

	<u>Current (a) Prior Year</u>	
Citigroup	3.65%	2.85%
Orrstown Bank	3.29%	3.20%
ACNB	2.96%	3.23%
M & T Bank Corp	2.68%	2.92%
Farmers and Merchants	2.58%	2.67%
PNC	2.58%	2.64%
Harford Bank	2.39%	2.19%
Shore Bancshares	2.30%	2.81%
Bank of America Corp	1.93%	1.88%
Bayvanguard	1.17%	1.17%

Source: Yahoo Finance (a) as of March 30, 2022



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Stockholder Value

- Bank stock prices increased in the Mid Atlantic and nationally as a percentage of book value during 2021 as the stock market recovered from the steep decline that occurred at the start of the pandemic in March 2020. However, during the first quarter of 2022, regional and national stock prices have declined with the broader market:

<u>Price to Book</u>	<u>Mar. 31, 2022</u>	<u>Dec. 31, 2021</u>	<u>Dec. 31, 2020</u>
Farmers and Merchants	1.31	1.18	0.77
Mid Atlantic Average	1.39	1.59	1.31
National Average	1.41	1.57	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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2022 First Quarter Results

- First quarter 2022 net income of \$2,050,802 or \$0.68 per share compared to \$2,029,575 or \$0.67 per share in the first quarter of 2021
 - PPP loan fees recognized accounted for approximately \$105,000 of net income in 2022 compared to approximately \$369,000 in 2021
 - Approximately \$91,000 of unrecognized PPP fees, net of taxes, remain as of 3/31/22

	Three Months Ended	
	March 31, 2022	March 31, 2021
Income before taxes	\$ 2,660,298	\$ 2,615,276
Income taxes	609,496	585,701
Net income	<u>\$ 2,050,802</u>	<u>\$ 2,029,575</u>
Earnings per share	\$ 0.68	\$ 0.67
Return on average assets	1.15%	1.19%
Return on average equity	14.55%	15.37%

- Assets of \$718 million at March 31, 2022 were up slightly from \$717 million at December 31, 2021
 - Loan portfolio grew by \$7 million during the first quarter (excluding PPP loan activity)



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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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Best Wishes in 2022



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