



Farmers & Merchants Bancshares, Inc.

Annual Meeting of Shareholders

April 25, 2023



The "Community" Bank that Puts People First

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

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 2022

- Achieved earnings in 2022 of \$8,090,127, or \$2.66 per share, compared to 2021's all-time record earnings of \$8,149,606, or \$2.70 per share
- Dividends paid increased to \$.63 per share, up from \$.57 per share in 2021
 - 12th consecutive year the dividend has increased
- Average interest earning assets increased by \$22 million
- Loans & loans held for sale increased by \$35 million, or 7%, to \$517 million
- New leader of the Bank
 - James R. Bosley, Jr., President since 1995, retired at the end of the year
 - Gary A. Harris, EVP, Chief Lending Officer, was selected to succeed Mr. Bosley



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Assets

(in thousands)

	12/31/2022	12/31/2021	Change
Cash & Due From Banks	\$ 7,264	\$ 26,462	\$ (19,198)
Investments	148,745	172,659	(23,914)
Loans & Loans Held For Sale	517,349	482,138	35,211
Fixed Assets	6,187	6,259	(72)
Bank Owned Life Insurance	14,585	11,556	3,029
Other Real Estate Owned	1,242	1,242	-
Goodwill & Other Intangibles	7,043	7,051	(8)
Deferred Income Taxes	8,393	2,177	6,216
Other	7,403	7,133	270
Total	<u>\$ 718,211</u>	<u>\$ 716,677</u>	<u>\$ 1,534</u>



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Loan Portfolio

- The loan portfolio increased by \$35 million during 2022 despite:
 - \$9 million net decrease in PPP loans

Loan Quality:

- No net loan losses for four consecutive years
 - Net recoveries totaled \$24,930 in 2022 and \$23,730 in 2021
- Non performing assets to total assets decreased to 0.26% at 12/31/22, compared to 0.90% at 12/31/21
- Non-accrual loans (90 days or more past due) to total loans was 0.13% at 12/31/22 and 1.03% at 12/31/21 compared to 0.29% and 0.41% for our national peer group

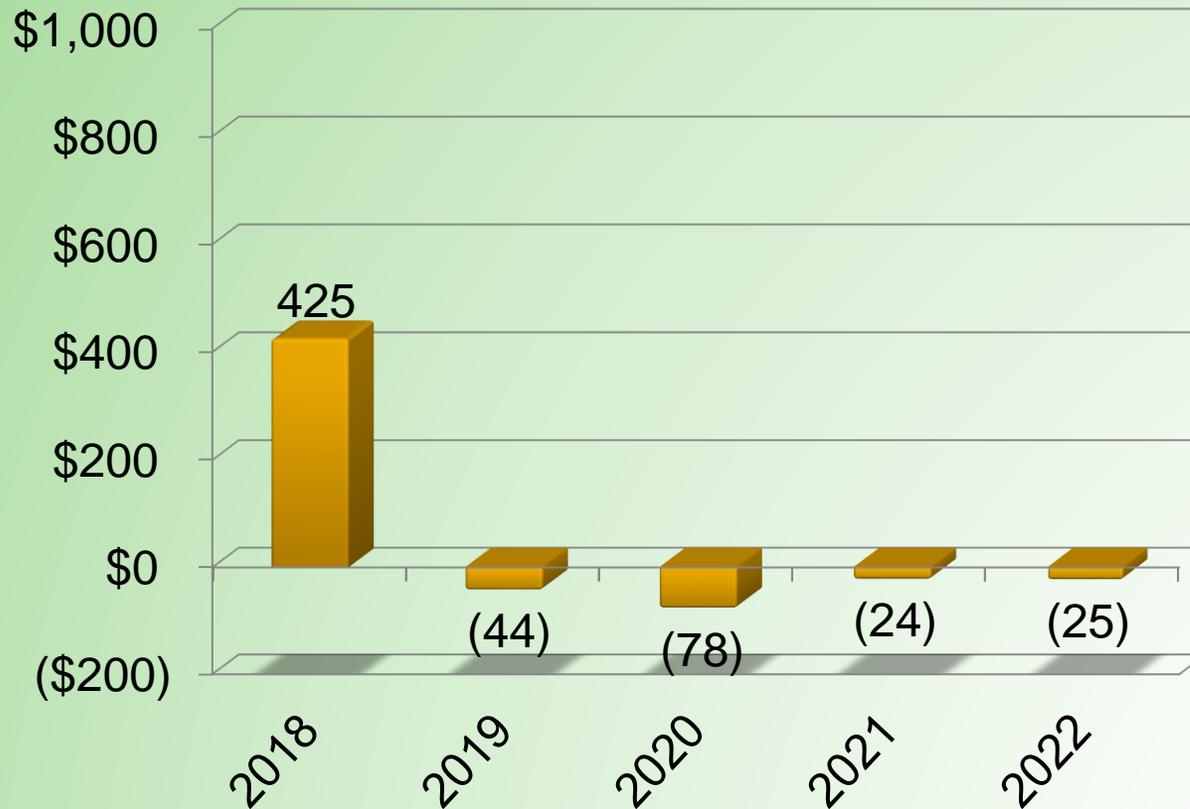


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Loan Charge-off Trend

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



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Liabilities and Equity

(in thousands)

	12/31/2022	12/31/2021	Change
Deposits	\$ 623,611	\$ 626,415	\$ (2,804)
Repurchase Agreements	5,175	5,414	(239)
FHLB Advances	20,000	5,000	15,000
Long-Term Debt	15,096	16,979	(1,883)
Other	6,554	6,248	306
Total Liabilities	<u>670,436</u>	<u>660,056</u>	<u>10,380</u>
Stockholders' Equity	47,775	56,621	(8,846)
Total	<u>\$ 718,211</u>	<u>\$ 716,677</u>	<u>\$ 1,534</u>

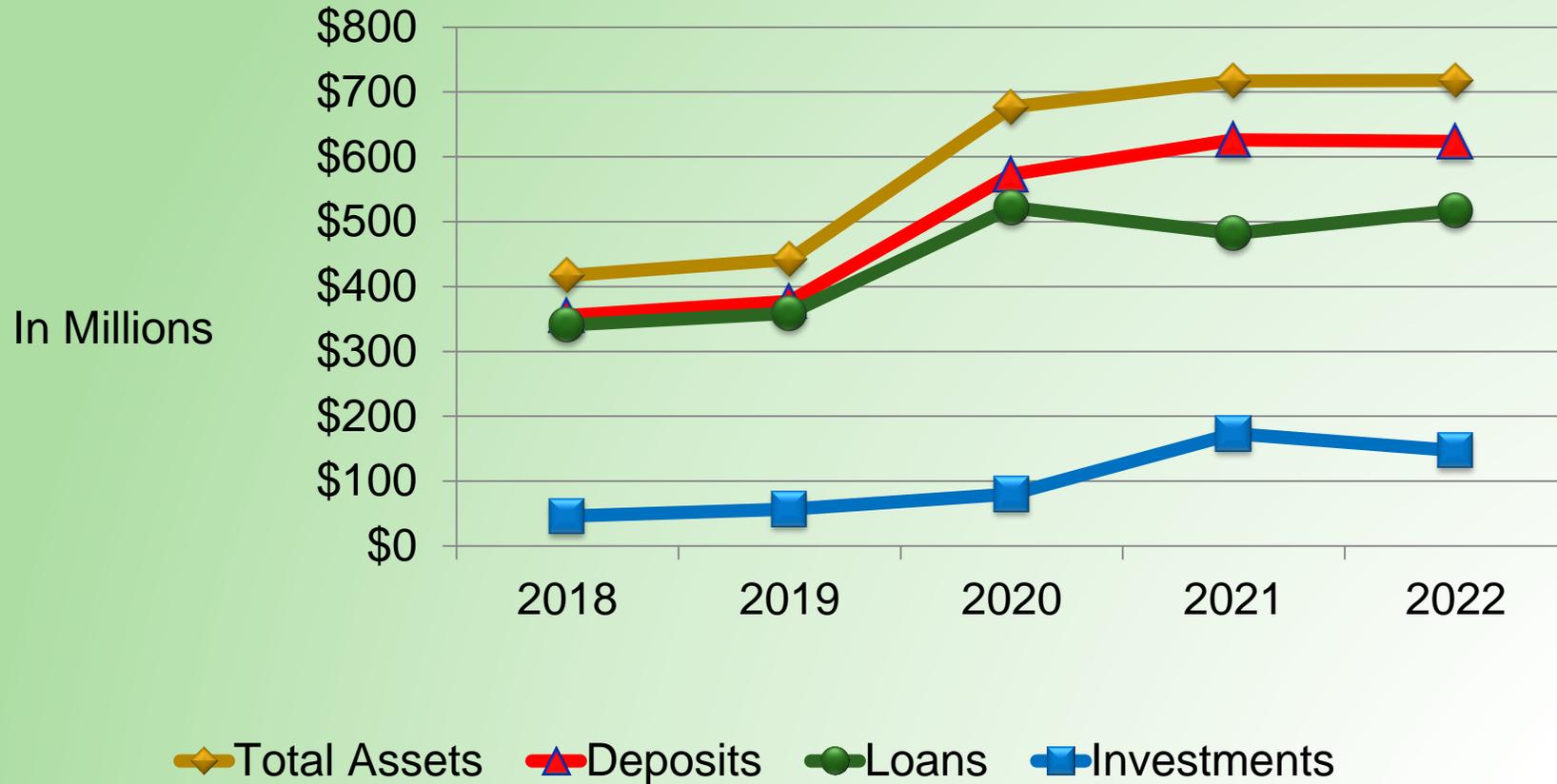


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Balance Sheet

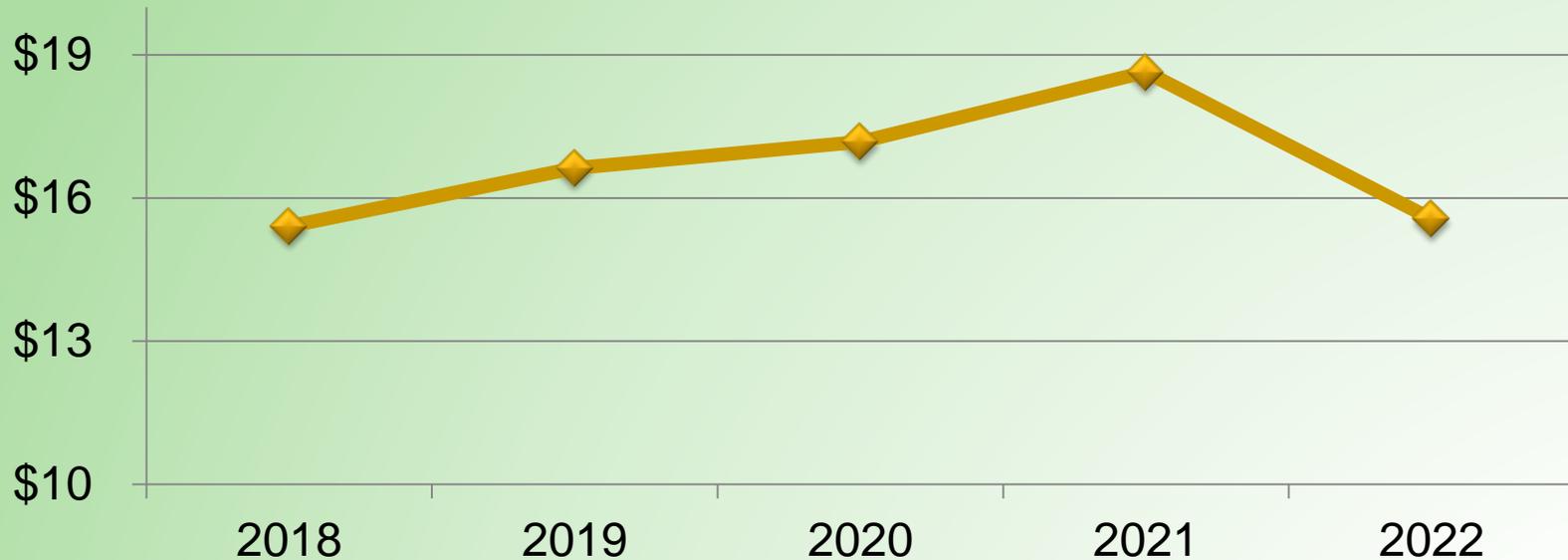
Five Year Trend



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Book Value per Share Five Year Trend



The unrealized loss on available for sale securities is the cause of the decrease in 2022



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Income Statement Highlights for 2022

- 2022 Net Income compared to 2021 Net Income

	Twelve Months Ended	
	December 31, 2022	December 31, 2021
	As Reported	As Reported
Income before income taxes	\$ 10,575,153	\$ 10,582,419
Income taxes	2,485,026	2,432,813
Net income	\$ 8,090,127	\$ 8,149,606
Earnings per share	\$ 2.66	\$ 2.70
Return on average assets	1.13%	1.16%
Return on average equity	16.03%	14.85%



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Income Statement Highlights for 2022

(continued)

- Net Interest Income increased by \$1,248,000
 - Average interest earning assets increased by \$22 million
 - Tax equivalent net yield on interest-earning assets increased to 3.54% in 2022 from 3.47% in 2021
 - Tax equivalent yield on interest earning assets was down 4 basis points
 - Cost of funds on interest bearing deposits was down 13 basis points
 - Income from PPP loans was \$857,000 less in 2022 as compared to 2021
- Noninterest Income increased by \$128,000
 - Gain on insurance proceeds increased by \$673,000
 - Gain on sale of SBA loans increased by \$151,000
 - Mortgage banking income decreased by \$696,000
- Operating Expenses up \$1,239,000 or 9% due to the addition of several new employees and the costs associated with hiring
 - Efficiency ratio was 58% in 2022 versus the national peer avg. of 62%



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Income Statement

(in thousands)

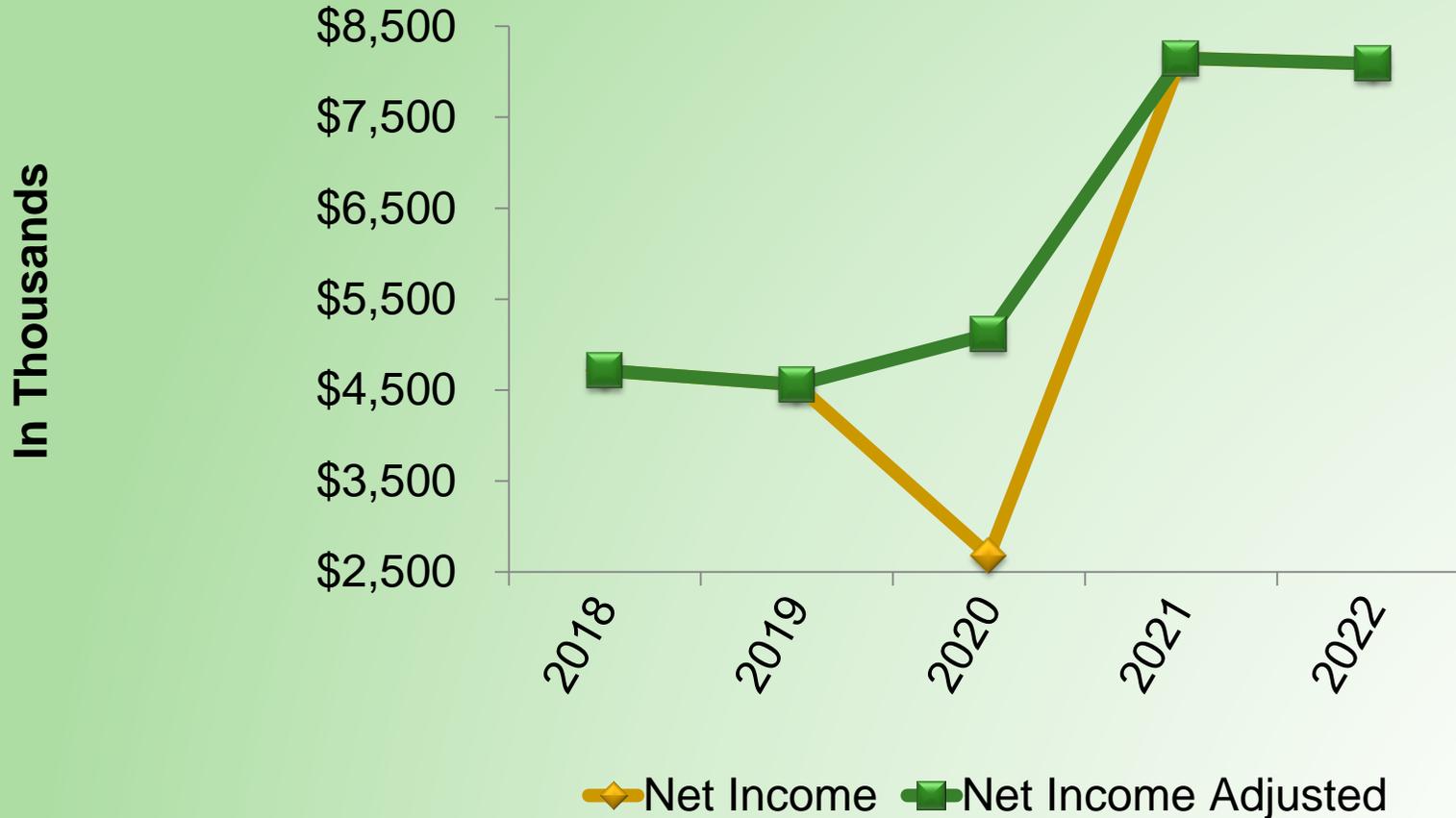
	2022	2021	Change
Interest - Loans	\$ 22,565	\$ 23,492	\$ (927)
Interest - Investments	3,704	2,188	1,516
Total Interest Income	26,269	25,680	589
Interest Expense	(2,146)	(2,805)	659
Net Interest Income	24,123	22,875	1,248
Loan Loss Provision	(475)	(330)	(145)
Other Income	2,294	2,166	128
Operating Expenses	(15,367)	(14,128)	(1,239)
Income Before Taxes	10,575	10,583	(8)
Income Taxes	(2,485)	(2,433)	(52)
Net Income	\$ 8,090	\$ 8,150	\$ (60)



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Net Income - Five Year Trend

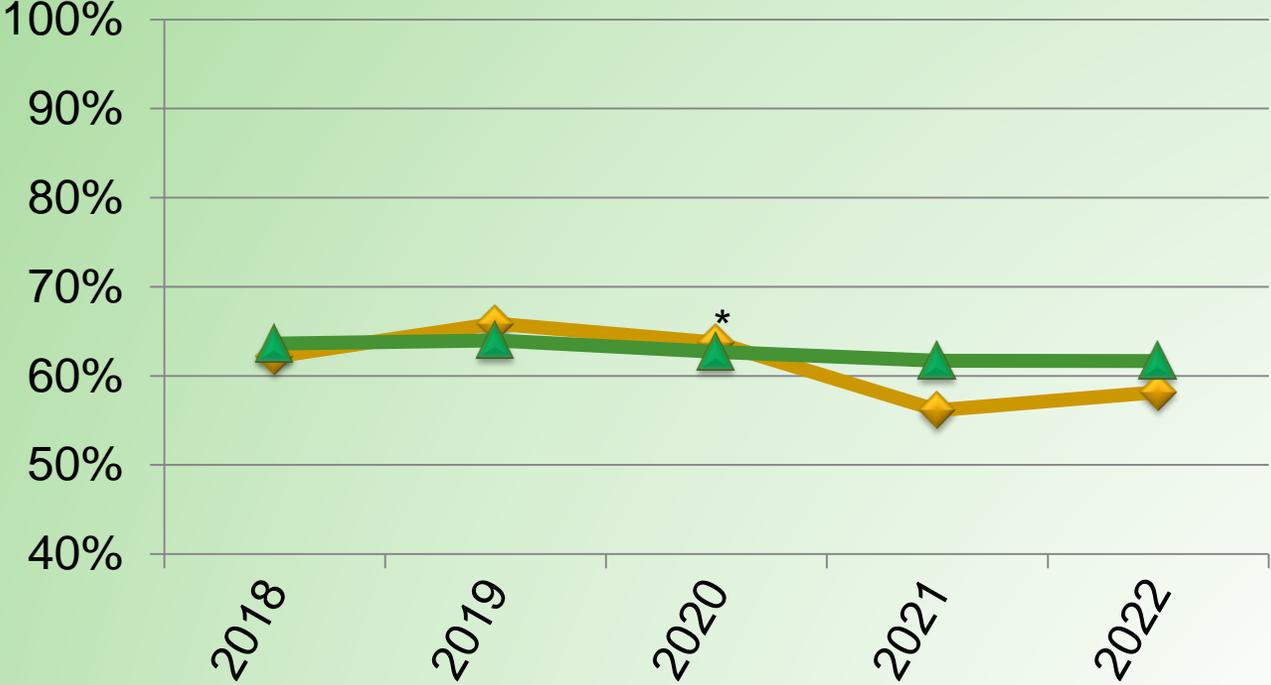


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Efficiency Ratio

Five Year Trend



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

◆ F&M Bank
▲ Peer Group



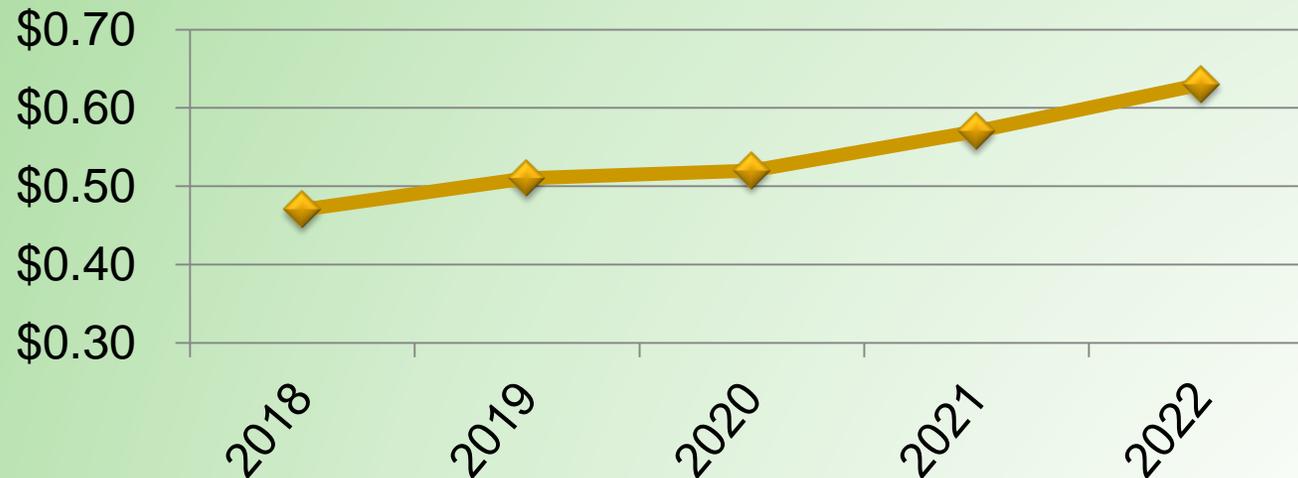
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Cash Dividends per Share

Five Year Trend

Cash dividends increased \$0.06 to \$0.63 in 2022 from \$0.57 in 2021



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Selected Local Banks

Return on Average Assets
Ranked by 5 Year Average Return

	2022	2021	2020	2019	2018	5 Year Average
ACNB	1.31%	1.03%	0.78%	1.40%	1.34%	1.17%
Farmers & Merchants (a)	1.13%	1.16%	0.97%	1.06%	1.14%	1.09%
Bayvanguard	1.38%	1.15%	1.43%	0.83%	0.41%	1.04%
Shore Bancshares	0.90%	1.03%	0.93%	1.12%	1.15%	1.03%
Orrstown Bank	0.77%	1.14%	1.00%	0.76%	0.75%	0.88%
Harford Bank	0.85%	1.00%	0.72%	0.88%	0.90%	0.87%
Middletown Valley	0.78%	0.81%	0.51%	0.57%	0.53%	0.64%
Woodsboro	0.69%	0.64%	0.46%	0.50%	0.46%	0.55%
Rosedale Federal	0.27%	0.55%	0.35%	0.64%	0.70%	0.50%

Source: FDIC Uniform Bank Performance Report and SEC Filings

(a) - excludes Carroll Bancorp acquisition costs in 2020



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Bank Stock Price Changes

Ranked by 2022 change

	2023 Q1	2022	2021	2020	2019
Bank of America Corp	-14%	31%	-17%	-14%	43%
ACNB	-20%	29%	25%	-34%	-4%
Bayvanguard	-6%	24%	18%	-1%	19%
Harford Bank	-2%	12%	38%	-28%	9%
Farmers & Merchants	-1%	0%	66%	-28%	6%
M & T Bank Corp	-18%	-6%	21%	-25%	19%
Orrstown Bank	-14%	-8%	52%	-27%	24%
Shore Bancshares	-18%	-16%	43%	-16%	19%
PNC	-20%	-21%	35%	-7%	37%

Source: Yahoo Finance



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Bank Stock Dividend Yields

Current Yield

	<u>Current (a)</u>	<u>Prior Year</u>
PNC	4.92%	2.58%
M & T Bank Corp	4.46%	2.68%
Orrstown Bank	4.17%	3.29%
ACNB	3.64%	2.96%
Shore Bancshares	3.59%	2.30%
Bank of America Corp	2.98%	1.93%
Farmers & Merchants	2.94%	2.58%
Harford Bank	2.75%	2.39%
Bayvanguard	1.17%	1.17%

Source: Yahoo Finance (a) as of April 14, 2023



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2023 First Quarter Results

- First quarter 2023 net income of \$1,900,851 or \$0.62 per share compared to \$2,050,802 or \$0.68 per share in the first quarter of 2022
 - PPP loan fees and other one time revenue was \$548,000 lower in Q1 2023 than Q1 2022
 - Cost of funds for deposits and borrowings increased 63 basis points in Q1 2023 versus Q1 2022

	Three Months Ended	
	March 31, 2023	March 31, 2022
Income before taxes	\$ 2,552,047	\$ 2,660,298
Income taxes	651,196	609,496
Net income	<u>\$ 1,900,851</u>	<u>\$ 2,050,802</u>
Earnings per share	\$ 0.62	\$ 0.68
Return on average assets	1.05%	1.15%
Return on average equity	15.49%	14.55%

- Assets of \$723 million at March 31, 2023 were up slightly from \$718 million at December 31, 2022
 - Loan portfolio grew by \$4 million during the first quarter



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2023 First Quarter Bank Failures

- Bank failures have been in the headlines over the last two months
 - Silicon Valley, Signature, and Silvergate
- Silicon Valley had:
 - Approximately 90% of deposits were uninsured
 - Unrealized losses that exceeded their book equity
 - Inadequate liquidity
- Signature and Silvergate were deep into the crypto currency market
- Farmers and Merchants Bank has:
 - Approximately 20% uninsured deposits
 - Tangible book equity of \$58 million at March 31, 2023
 - Is reflective of a \$15 million reduction due to the unrealized losses on available for sale securities
 - Ample liquidity
 - Not involved in crypto currency



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Summary

Farmers and Merchants Bancshares is:

- Well capitalized
- Profitable
- An active lender in the community



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Best Wishes in 2023



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