



Farmers & Merchants Bancshares, Inc.

Annual Meeting of Shareholders

April 23, 2024



The "Community" Bank that Puts People First

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Forward-Looking Statements

This presentation may contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Forward-looking statements do not represent historical facts, but are statements regarding management's beliefs, plans and objectives about the future. These statements are evidenced by words such as "may", "will", "should", "expect", "plan", "anticipate", "intend", "believe", "estimate", "predict", "potential", or "continue" or the negative of those words and other comparable words. Although these statements reflect management's good faith beliefs and projections, they are based on various factors, were derived based on numerous assumptions, and are subject to known and unknown risks and uncertainties. If management's assumptions prove to be incorrect or if any of the known or unknown risks or uncertainties were to materialize, then actual results could differ materially from those reflected in these forward-looking statements. You should bear this in mind when reading this presentation and not place undue reliance on forward-looking statements. You should also consider carefully the risks discussed in the section of the periodic reports filed by Farmers and Merchants Bancshares, Inc. with the Securities and Exchange Commission entitled "Risk Factors", the materialization of which could cause our actual results to differ materially from those set forth in the forward-looking statements.



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Highlights for 2023

- Achieved earnings in 2023 of \$6,418,337, or \$2.08 per share, compared to 2022 earnings of \$8,090,127, or \$2.66 per share
 - Cost of deposits and borrowings increased by 133 basis points in 2023 compared to 2022 causing the decline in net income
- Dividends paid increased to \$.66 per share, up from \$.63 per share in 2022
 - 13th consecutive year the dividend has increased
- Assets increased by \$82 million, or 11%, to \$800 million
- Investments increased by \$37 million, or 25%, to \$184 million
- Loan Quality is strong with a fifth consecutive year of net recoveries



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Assets

(in thousands)

	12/31/2023	12/31/2022	Change
Cash & Due From Banks	\$ 44,690	\$ 7,264	\$ 37,426
Investments	185,719	148,745	36,974
Loans & Loans Held For Sale	523,308	517,349	5,959
Fixed Assets	6,584	6,187	397
Bank Owned Life Insurance	14,931	14,585	346
Other Real Estate Owned	1,242	1,242	-
Goodwill & Other Intangibles	7,034	7,043	(9)
Deferred Income Taxes	8,313	8,393	(80)
Other	8,120	7,403	717
Total	<u>\$ 799,941</u>	<u>\$ 718,211</u>	<u>\$ 81,730</u>



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Loan Portfolio

- The loan portfolio increased by \$6 million during 2023

Loan Quality:

- No net loan losses for five consecutive years
 - Net recoveries totaled \$398,973 in 2023 and \$24,930 in 2022
- Non performing assets to total assets decreased to 0.24% at 12/31/23, compared to 0.26% at 12/31/22
- Non-accrual loans (90 days or more past due) to total loans was 0.12% at 12/31/23 and 0.13% at 12/31/22 compared to 0.31% and 0.29% for our national peer group



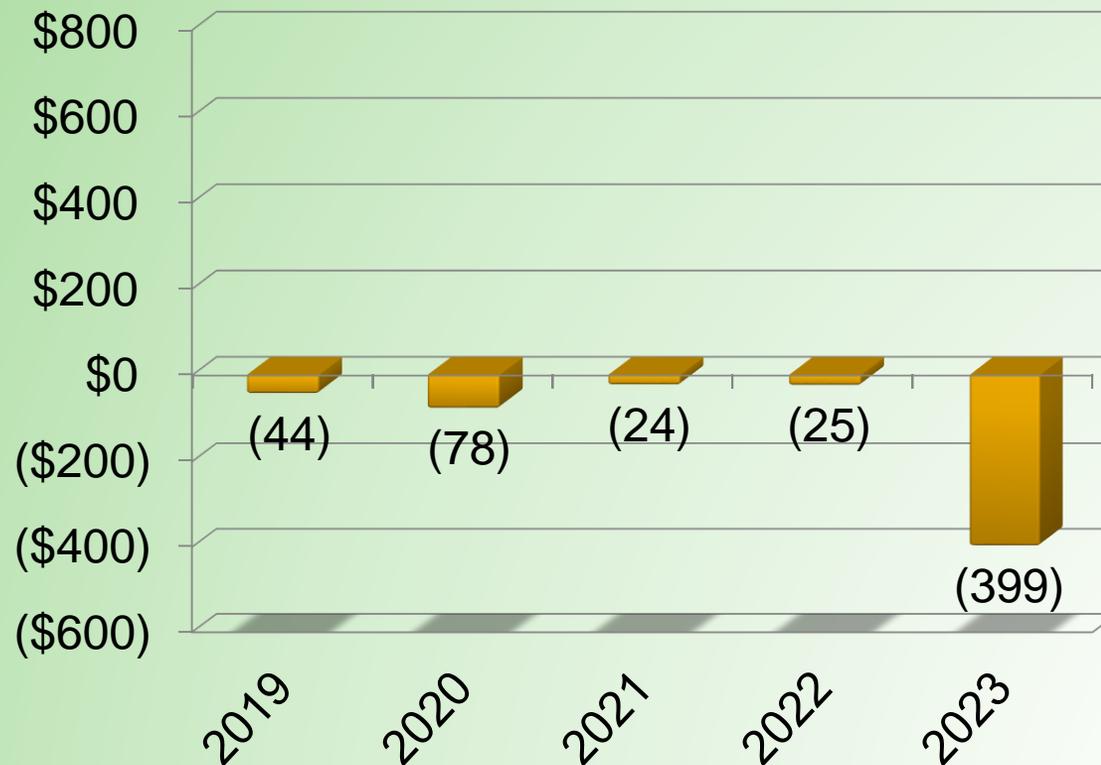
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Loan Charge-off Trend

Five Consecutive Years of Net Recoveries

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



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Liabilities and Equity

(in thousands)

	12/31/2023	12/31/2022	Change
Deposits	\$ 680,963	\$ 623,611	\$ 57,352
Repurchase Agreements	6,761	5,175	1,586
FHLB Advances	5,000	20,000	(15,000)
FRB BTFP Advances	33,000	-	33,000
Long-Term Debt	13,212	15,096	(1,884)
Other	8,827	6,554	2,273
Total Liabilities	747,763	670,436	77,327
Stockholders' Equity	52,178	47,775	4,403
Total	\$ 799,941	\$ 718,211	\$ 81,730

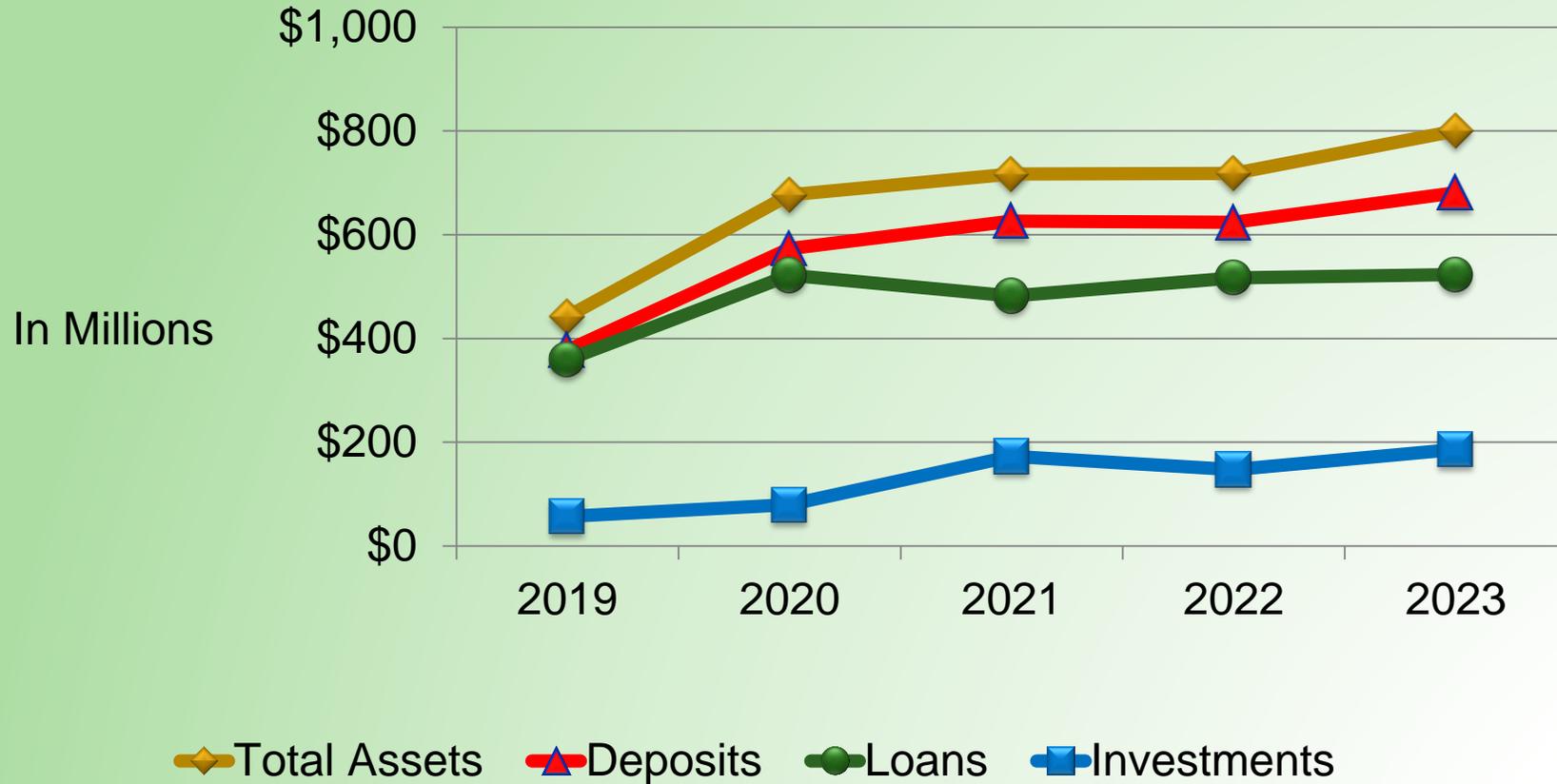


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Balance Sheet

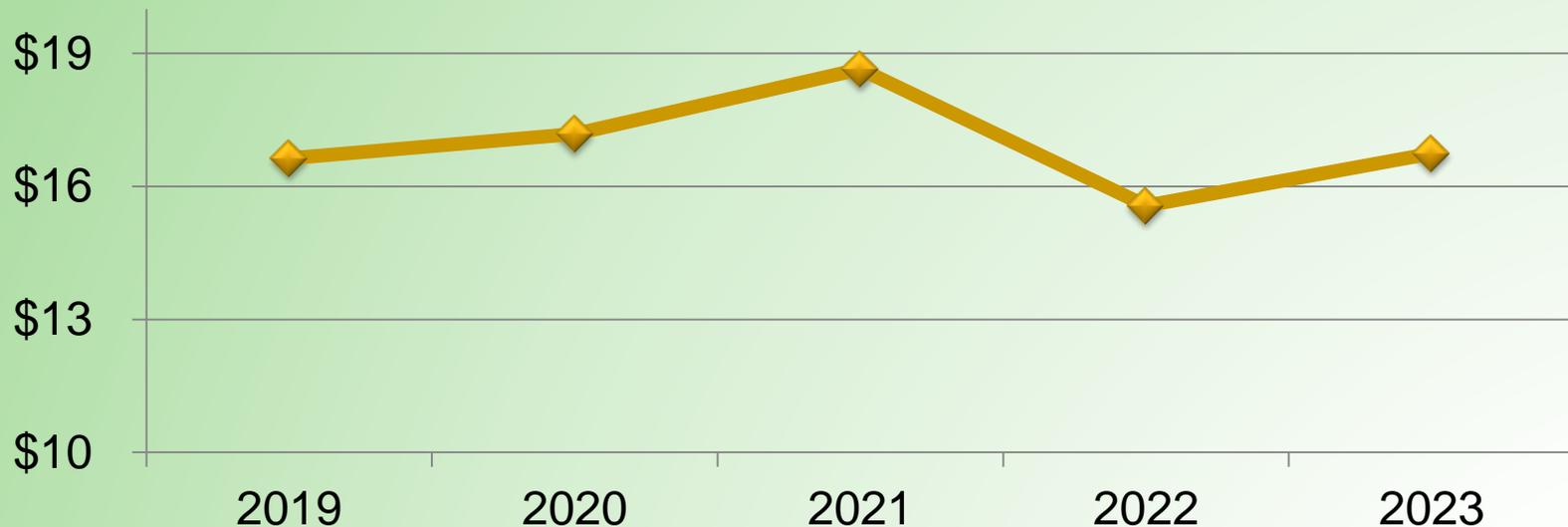
Five Year Trend



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Book Value per Share Five Year Trend (at year end)



The unrealized loss on available for sale securities is the cause of the decrease in 2022 and has not recovered as of 12/31/23.



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Income Statement Highlights for 2023

	Twelve Months Ended	
	December 31, 2023	December 31, 2022
	As Reported	As Reported
Income before income taxes	\$ 8,435,587	\$ 10,575,153
Income taxes	2,017,250	2,485,026
Net income	\$ 6,418,337	\$ 8,090,127
Earnings per share	\$ 2.08	\$ 2.66
Return on average assets	0.86%	1.13%
Return on average equity	13.08%	16.03%



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Income Statement Highlights for 2023

(continued)

- Net Interest Income decreased by \$2,707,000
 - Average interest earning assets increased by \$41 million
 - Tax equivalent net yield on interest-earning assets decreased to 2.97% in 2023 from 3.54% in 2022
 - Tax equivalent yield on interest earning assets was up 48 basis points
 - Cost of funds on interest bearing deposits and borrowings was up 133 basis points
 - Several interest rate swaps were entered into during 2023, some in combination with the purchase of mortgage backed securities, to offset the impact of higher interest expense.
- Noninterest Income decreased by \$702,000
 - Gain on insurance proceeds decreased by \$669,000
 - Gain on sale of SBA loans decreased by \$139,000
- Operating Expenses down \$225,000 or 1%
 - Efficiency ratio was 66% in 2023 versus the national peer avg. of 64%

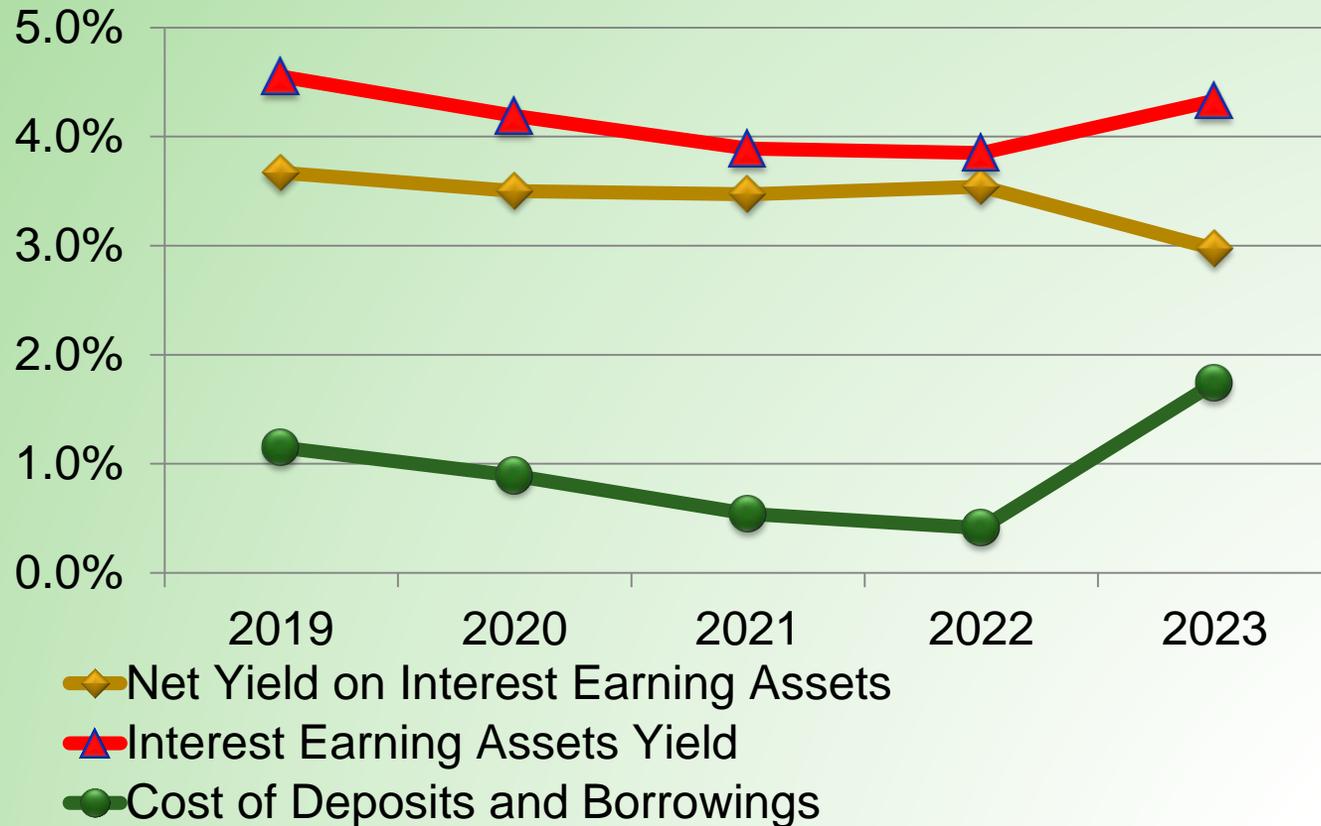


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Net Interest Margin

Five Year Trend



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Income Statement

(in thousands)

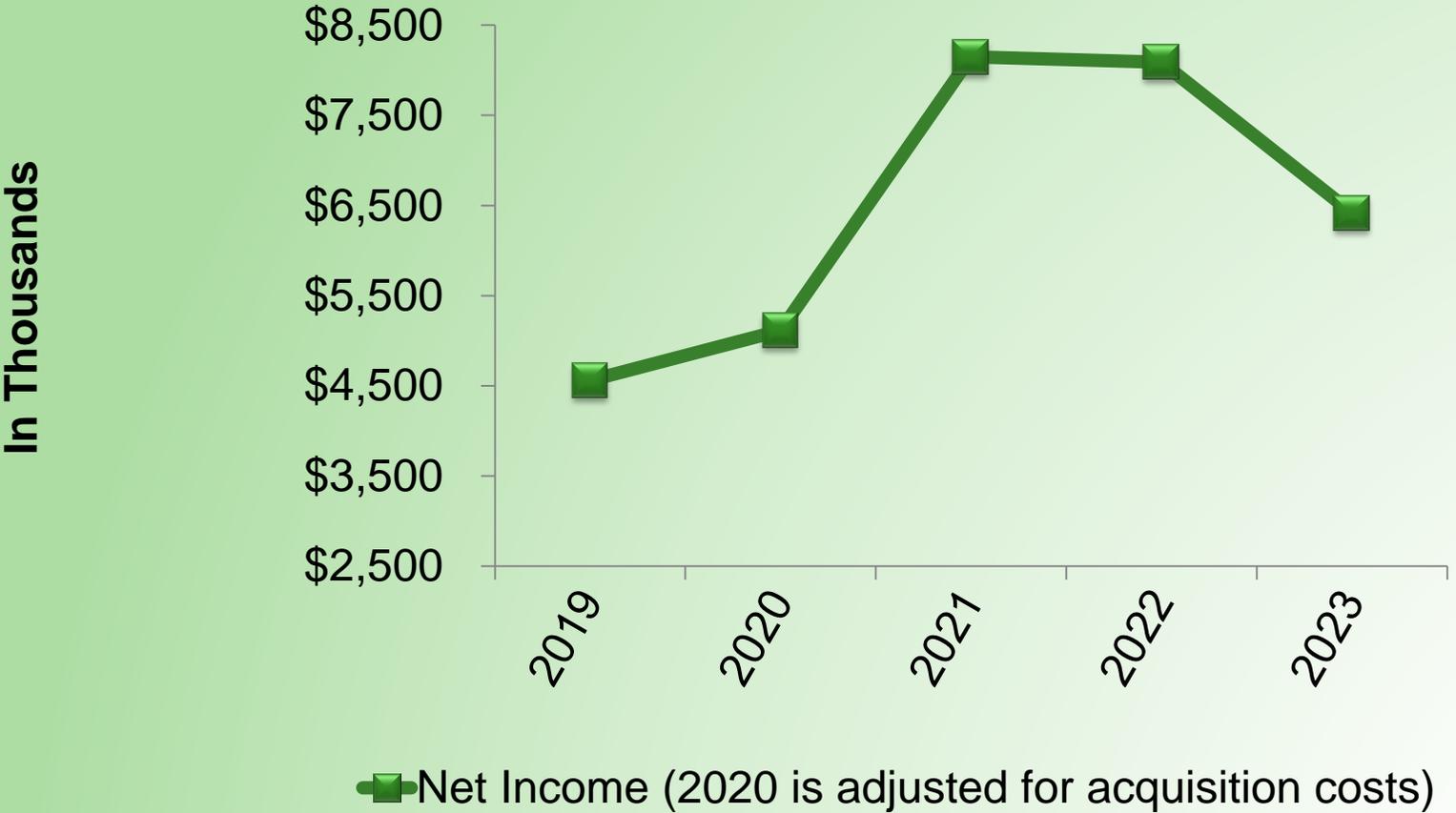
	2023	2022	Change
Interest - Loans	\$ 25,731	\$ 22,565	\$ 3,166
Interest - Investments	5,592	3,704	1,888
Total Interest Income	31,323	26,269	5,054
Interest Expense	(9,907)	(2,146)	(7,761)
Net Interest Income	21,416	24,123	(2,707)
Loan Loss Provision	570	(475)	1,045
Other Income	1,591	2,294	(703)
Operating Expenses	(15,142)	(15,367)	225
Income Before Taxes	8,435	10,575	(2,140)
Income Taxes	(2,017)	(2,485)	468
Net Income	<u>\$ 6,418</u>	<u>\$ 8,090</u>	<u>\$ (1,672)</u>



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Net Income - Five Year Trend

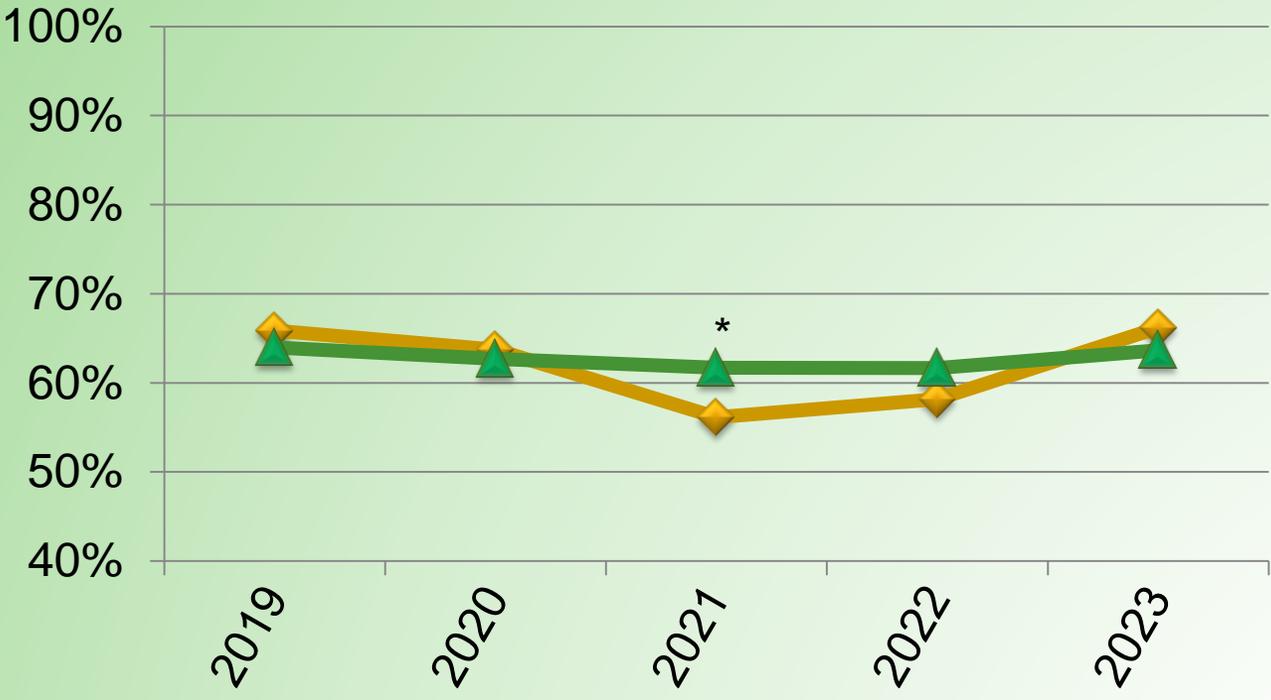


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Efficiency Ratio

Five Year Trend



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

◆ F&M Bank
▲ Peer Group



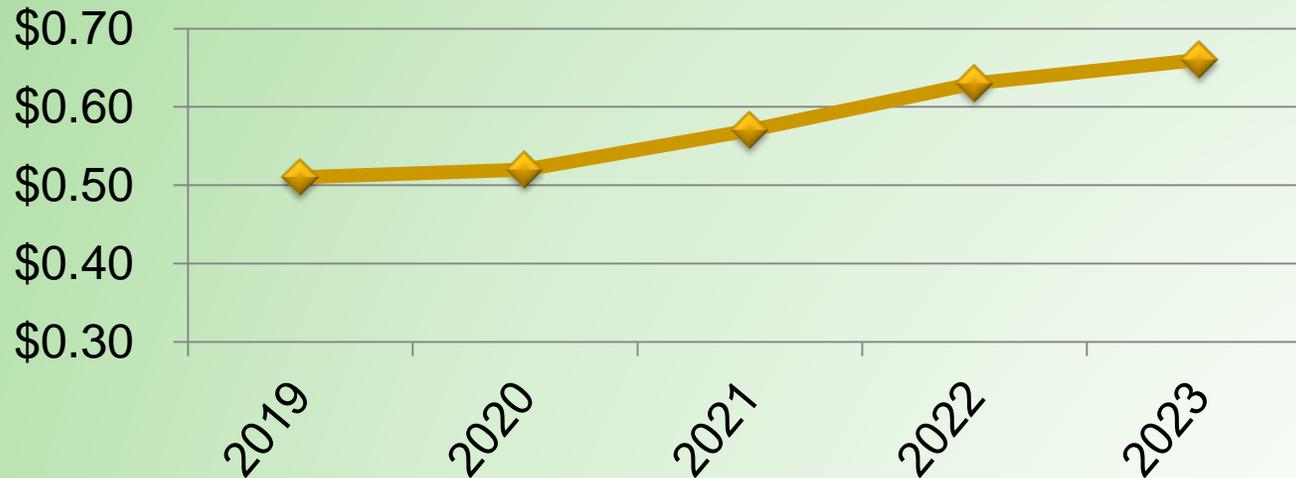
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Cash Dividends per Share

Five Year Trend

Cash dividends increased \$0.03 to \$0.66 in 2023 from \$0.63 in 2022



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Selected Local Banks

Return on Average Assets
Ranked by 5 Year Average Return

	2023	2022	2021	2020	2019	5 Year Average
Bay Vanguard	1.54%	1.38%	1.15%	1.43%	0.83%	1.27%
ACNB	1.32%	1.31%	1.03%	0.78%	1.40%	1.17%
Farmers & Merchants (a)	0.86%	1.13%	1.16%	0.97%	1.06%	1.04%
Orrstown Bank	1.19%	0.77%	1.14%	1.00%	0.76%	0.97%
Shore Bancshares	0.58%	0.90%	1.03%	0.93%	1.12%	0.91%
Harford Bank	1.03%	0.85%	1.00%	0.72%	0.88%	0.90%
Woodsboro	0.87%	0.69%	0.64%	0.46%	0.50%	0.63%
Middletown Valley	0.44%	0.78%	0.81%	0.51%	0.57%	0.62%
Rosedale Federal	0.38%	0.27%	0.55%	0.35%	0.64%	0.44%

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 2023 change

	2024 Q1	2023	2022	2021	2020
Orrstown Bank	-12%	27%	-8%	52%	-27%
ACNB	-27%	11%	29%	25%	-34%
Bank of America Corp	8%	2%	31%	-17%	-14%
Harford Bank	-3%	0%	12%	38%	-28%
PNC	0%	-2%	-21%	35%	-7%
M & T Bank Corp	4%	-6%	-6%	21%	-25%
Shore Bancshares	-27%	-18%	-16%	43%	-16%
Farmers & Merchants	-4%	-20%	0%	66%	-28%
Bay Vanguard	-37%	-43%	24%	18%	-1%

Source: Yahoo Finance



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Bank Stock Dividend Yields

Current Yield

	<u>Current (a)</u>	<u>Prior Year</u>
Shore Bancshares	4.47%	3.59%
PNC	4.10%	4.92%
Farmers & Merchants	3.91%	2.94%
M & T Bank Corp	3.72%	4.46%
ACNB	3.42%	3.64%
Orrstown Bank	3.14%	4.17%
Harford Bank	2.88%	2.75%
Bank of America Corp	2.66%	2.98%
Bay Vanguard	0.00%	1.17%

Source: Yahoo Finance (a) as of March 19, 2024



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2024 First Quarter Results

- First quarter 2024 net income of \$1,219,987 or \$0.39 per share compared to \$1,900,851 or \$0.62 per share in the first quarter of 2023
 - Cost of funds for deposits and borrowings increased 145 basis points in Q1 2024 versus Q1 2023

	Three Months Ended	
	March 31, 2024	March 31, 2023
Income before taxes	\$ 1,566,204	\$ 2,552,047
Income taxes	346,217	651,196
Net income	<u>\$ 1,219,987</u>	<u>\$ 1,900,851</u>
Earnings per share	\$ 0.39	\$ 0.62
Return on average assets	0.61%	1.05%
Return on average equity	9.40%	15.49%

- Assets of \$795 million at March 31, 2024 were down slightly from \$800 million at December 31, 2023
 - Loan portfolio grew by \$14 million
 - Cash decreased by \$19 million



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2024 Initiatives

- The Upperco (Fowblesburg) location reopened in March after suffering significant damage due to high winds in July 2022
- A loan production branch will be opened in downtown Towson in May
- The Bank has been primarily a commercial real estate lender. In order to diversify into C & I or asset based lending, the Bank has hired several loan officers who have experience in this type of lending
- The Bank will be going through a major system conversion during the year which should be completed by the end of October



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Summary

Farmers & Merchants Bancshares is:

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



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BEST WISHES IN 2024!



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