

Annual Report 2021



Farmers and Merchants Bancshares, Inc.

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President's Message



In the last annual report, I stated that Farmers & Merchants Bank & Trust would move forward from the turmoil of 2020 with optimism for our country and our community, and today I am proud to report that our team did exactly that with their usual resilience and determination. With that being said, I think we can all agree that year two of the pandemic was another one for the books! Although COVID-19 was still at the forefront of life for Americans, 2021 proved to be a year for finding the path back to a sense of normalcy while also adapting to what quickly became known as “the new normal.” We continued to make our concern for the health and safety of each other and our community a priority and worked to ensure this by holding meetings virtually and following pandemic protocols as recommended.

There is no doubt that the year brought us new challenges; however, we worked hard at turning them into opportunities to build stronger relationships with our clients and to support our community. Some of our challenges included navigating through an ongoing worldwide pandemic, operating in a low interest rate environment, and managing margin compression. I believe the bank's solid financial condition speaks for itself regarding how we met each challenge head on. One of the most rewarding opportunities we had was helping clients with applying for the Small Business Administration's Paycheck Protection Program (SBA PPP loans) and seeing them through the conclusion of the program with the forgiveness process. By booking 171 SBA PPP loans for a total balance of over \$11.3 million since the inception, we were able to help many small local businesses stay ready and afloat when the going got tough.

2021 was not just a year for weathering the COVID-19 storm. As the world and our community began to reopen, reset, and move forward again, we were able to get back to doing one of the things that we love the most...serving our community! The F&M Bank team volunteered an impressive 2,175 hours to a multitude of causes, providing hands on support to countless local folks. One of the brightest moments we had in 2021 was getting the green light to reopen our F&M Kids Banks in person at our participating schools. We take great pride in our program knowing that the students' experience of working or banking at their school's Kids Bank is both a positive and a progressive step toward bettering financial literacy in our community.

It is my privilege to report that despite the challenges we faced, the Bank's financial condition remained solid throughout 2021, again due to sound oversight by the Board of Directors and the management team. None of our financial achievements would be possible without the hard work of our team as a whole.

Farmers and Merchants Bancshares, Inc. (Company) had another positive year for earnings. Net income for 2021 totaled \$872,019 or \$3.24 per share, compared to net income of \$1,188,432 or \$4.44 per share in 2020. The primary reason for the decreased earnings was lower loan interest income and related loan fee income, including loan fees from the SBA Paycheck Protection Program or PPP.

The Company experienced strong growth in 2021 ending the year with total assets at \$250,688,350. Total deposits increased by \$22 million, or 11%, year-over-year ending the year at \$230,198,891.

Stockholders' equity was \$15,004,576 at year-end 2021 with a Book Value per share of \$54.22. Once again, we were able to return to you, our shareholders, a total of \$1.00 per share in 2021 through two cash dividends of \$0.50 per share.

Our capital ratios continued to exceed "Well Capitalized" levels with the Company's Tier 1 Leverage ratio at 7.8% and the Total Risk-Based Capital ratio at 17.2% as of December 31, 2021. In addition, the Company's liquidity position remained favorable due to our strong core deposit base.

The integration of brokerage (Four Points Financial) and Trust Services under the Integrated Financial Resources (IFR) umbrella had one of its best years ever, contributing \$273,467 of net income to the bank's bottom line. The amount was 58% over the budgeted amount. Assets under management (AUM) finished 2021 at an all-time record high of \$291,533,094 and IFR opened 178 new accounts for the year.

2021 was not just the story of the pandemic or even the roller coaster ride of the economy. It was the story of building and strengthening relationships. I am proud of the work and perseverance of the F&M Bank team to overcome the unique challenges we faced. I am also quite proud of the trust and confidence you, our shareholders, placed in us during unprecedented financial times. They say it takes a village. I would say the past year or two has given new meaning to those words.

On behalf of the F&M Bank team, I would like to take this opportunity to thank you, our shareholders, for your continued support. Without you, we wouldn't be here.

We look forward to seeing you at our annual meeting in May.

Sincerely,



Charles E. Walsh
President

Financials

Balance Sheets

	12/31/2021	12/31/2020
Assets		
Cash	\$13,692	\$22,003
Investments	101,182	60,651
Net Loans	119,029	129,709
All Other Assets	16,785	17,273
TOTAL ASSETS	\$250,688	\$229,636
Liabilities		
Total Deposits	\$230,199	\$208,192
All Other Liabilities	5,484	5,938
TOTAL LIABILITIES	\$235,683	\$214,130
Capital		
Total Capital Accounts	15,005	15,506
TOTAL LIABILITIES AND CAPITAL	\$250,688	\$229,636

Income Statements

Total Interest and Dividend Income	\$6,426	\$7,665
Total Interest Expense	(555)	(941)
Provision for Loan Losses	—	(700)
Net Interest Income After Provision for Loan Losses	\$5,871	\$6,024
Total Non-Interest Income	3,545	3,561
Total Non-Interest Expense	(8,391)	(8,234)
Income (Loss) Before Income Taxes	\$1,025	\$1,351
Income Tax Benefit (Expense)	(153)	(163)
NET INCOME (LOSS)	\$872	\$1,188

These summary financial statements are derived from the Company's audited consolidated financial statements, which are prepared in accordance with auditing standards generally accepted in the United States of America.

Crowe LLP is the Company's independent auditor. The Company's audited consolidated financial statements are available upon written request to Farmers and Merchants Bancshares, Inc., P.O. Box 928, Burlington, Iowa 52601.

Organizational Chart

Farmers and Merchants Bancshares, Inc.

Established in 1993, is a Holding Company consisting of 191 shareholders representing 269,211 shares owning 100% of Farmers & Merchants Bank & Trust, Burlington, Iowa

Farmers & Merchants Bank & Trust

Established in 1916, is a financial institution whose primary market area is Des Moines and Louisa Counties, Iowa

Farmers and Merchants Building Corporation Burlington, Iowa

Owned 100% by Farmers & Merchants Bank & Trust, Burlington, Iowa
The Building Corporation is the Bank's real estate management company.

Farmers and Merchants Community Foundation

A separate entity founded and organized by Bank employees in 2008.

The Foundation's purpose is to obtain donations of school supplies and funds to help area teachers in Des Moines County, Iowa; to provide scholarships for post-secondary education to graduates of Des Moines County schools and to participate in fundraising efforts with other charitable organizations.

Monetary donations can be sent to:
Farmers and Merchants Community Foundation, Inc.
PO Box 928
Burlington, IA 52601



Farmers and Merchants Bancshares, Inc.
221 Jefferson Street
P.O. Box 928
Burlington, Iowa 52601

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