

Annual Report 2022



Farmers and Merchants Bancshares, Inc.

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President's Message



It's that time again. Time to look back on another year of interesting, challenging, and sometimes shocking events that affected the economy, the country, and the community.

While we spent 2020 and 2021 navigating a global pandemic, unprecedented financial times in a sustained low interest rate environment, and the slow recovery of our country, 2022 bounced us back in the opposite direction when the Federal Reserve launched an aggressive series of interest rate hikes the likes of which we haven't seen since the early 80s. It is safe to say that the financial industry in general was faced with some unique challenges in 2022 and community banks were no exception. We grappled with economic uncertainty, the global effects of a full scale ground war as Russia invaded Ukraine, soaring inflation, extreme market volatility, and the rising cost of just about everything. Now that I have your attention, let me give you the good news. Through it all, Farmers & Merchants Bank & Trust stayed the course and stood strong, serving our community with care and efficiency the same way we always

have since we started this journey 107 years ago. In spite of the many challenges we faced, we kept moving forward together and finished the year with solid financial results, which are recounted for you later in the report.

2022 wasn't all doom and gloom, of course. Our team continued to find ways to make banking with us as convenient and safe as possible, rolling out some advanced and improved products and services that we're proud to offer. One of the biggest projects we undertook was the implementation of a new suite of checking products that condensed our previous 16 accounts into five. Along with the new checking account selection comes some enhanced free benefits including financial wellness features, ID Theft protection, and lots of useful discounts. For our business clients, we offered a very effective and practical business solution that helps guard against check and ACH fraud by providing daily protection from those potential losses – it's known as Positive Pay. It's a great tool that saved bank business clients a lot of money through the year. We also continued two of our finest F&M Bank traditions in 2022: furthering financial literacy through our Kids Banks in the local schools and community involvement. Our team volunteered an amazing 2,888 hours supporting multiple local causes in 2022, topping the hours they gave in 2021 by a whopping 713! If that doesn't exemplify the spirit of what it means to be a community bank, I don't know what does.

A brief recap of last year's financials follows.

Farmers and Merchants Bancshares, Inc. (Company) had another positive year for earnings. Net income for 2022 totaled \$803,076 or \$2.96 per share, compared to net income of \$872,019 or \$3.24 per share in 2021. The primary reason for the modest decrease in net income was \$213,294 of proceeds from bank owned life insurance received in 2021 that did not occur in 2022.

The Company again experienced growth in 2022, ending the year with total assets at \$256,061,702. Total deposits increased by \$13 million, or 6% year-over-year, ending the year at \$243,559,654.

Stockholders' equity was \$5,819,294 at year-end 2022 with a Book Value per share of \$24.53. Similar to most community banks, the company's bond portfolio has been impacted by net unrealized losses which has reduced book value per share. The significant increase in interest rates during 2022 resulted in the bond portfolio losing market value. While we have no current plans to sell any bonds at a loss, we are required by Generally Accepted Accounting Principles (GAAP) to mark them to the current market value which is recorded in Accumulated Other Comprehensive Income (AOCI) in the equity section of the balance sheet. Book value per share excluding AOCI was \$62.70. Once again, we were able to return to you, our shareholders, a total of \$1.00 per share in 2022 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 7.9% and the Total Risk-Based Capital ratio at 17.4% as of December 31, 2022. In addition, the Company's liquidity position remained favorable due to our strong core deposit base.

Integrated Financial Resources (Trust and Brokerage) had a difficult year with extreme headwinds from almost every market index. The S&P 500 was down 18.1% and the bond market was down 13% as an example. Not surprisingly, Assets under Management (AUM) finished the year at \$281,615,753, down almost \$10 million from a record high in December of 2021. Yet, even with the decline in assets in some ways IFR had one of the best years in its history opening up 166 new accounts and bringing in a staggering \$19.2 million of net new assets under management. IFR is well positioned for the future when the markets correct. Net income in 2022 while under budget almost 6% was still a positive \$220,334.

I would be remiss not to speak to recent events in the banking industry with the collapse of Silicon Valley Bank based in California and Signature Bank of New York. We want to assure you, our shareholders, that those banks were the exact opposite of Farmers & Merchants Bank & Trust. With a high concentration of customers in the technology sector, ninety percent of their depositors were underinsured. Less than ten percent of our depositors have funds that are not covered by FDIC insurance. They had serious liquidity issues; we have strong liquidity even in worst case scenarios. We have already taken measures to assess any potential risk to our liquidity and deposits and are confident in the positive results of the analysis. Rest assured that your bank is safe, sound, and stable with the oversight of an experienced Board of Directors and management team. As I mentioned above, F&M Bank has been here for 107 years serving this community. We were founded in 1916. That's a lot of history.

Thank you to our shareholders, our Board of Directors, and our bank team as a whole. I appreciate the steady hand you've all shown in the historic events of the last few years. With your continued support and confidence, we'll be here for 107 more.

We hope you will join us for the meeting in May.

Sincerely,



Charles E. Walsh, President

Financials

Balance Sheets

	12/31/2022	12/31/2021
Assets		
Cash	\$13,759	\$13,692
Investments	103,344	101,182
Net Loans	118,579	119,029
All Other Assets	20,380	16,785
TOTAL ASSETS	\$256,062	\$250,688
Liabilities		
Total Deposits	\$243,560	\$230,199
All Other Liabilities	6,683	5,484
TOTAL LIABILITIES	\$250,243	\$235,683
Capital		
Total Capital Accounts	5,819	15,005
TOTAL LIABILITIES AND CAPITAL	\$256,062	\$250,688

Income Statements

Total Interest and Dividend Income	\$6,977	\$6,426
Total Interest Expense	(1,007)	(555)
Provision for Loan Losses	—	—
Net Interest Income After Provision for Loan Losses	\$5,970	\$5,871
Total Non-Interest Income	3,408	3,545
Total Non-Interest Expense	(8,375)	(8,391)
Income (Loss) Before Income Taxes	\$1,003	\$1,025
Income Tax Benefit (Expense)	(200)	(153)
NET INCOME (LOSS)	\$803	\$872

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 185 shareholders representing 271,009 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 Southeast 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

319-754-BANK or 888-331-BANK
fmbanktrust.bank