



Annual Report 2023



Farmers and Merchants Bancshares, Inc.

Contents

3-5 Message from the President

6 Financials

7 Organizational Chart &
Contact Information

President's Message



*T*hey say time flies and it sure has. 2023 is just a memory and we're more than a quarter of the way through 2024. No doubt 2024 will bring its share of excitement and challenges as we work up to the election in November, but for now let's take a look back at 2023.

If I had to sum it up, I would start with this: 2023 was not an easy year to be a banker! It was another year of uncertainty and volatility in the economy, which took quite a toll on the financial industry, including community banks. In early March, news of the failure of three big

banks rocked our industry to its core as financial markets fluctuated minute by minute and banks saw an outflow of deposits that hadn't been seen since 2008. It was definitely not the start to the year that we wanted and the challenges kept coming. The historically unparalleled rapid rise in interest rates continued along with high inflation and the increased expense of nearly everything, especially gas and groceries. Global turmoil was still of great concern with not one, but two, conflicts on foreign soil. I think we can all agree that 2023 will not go down in the history books as a year of economic stability or peace.

Now that we've examined the harsh realities of a tough year for our community, our country, and the world, let me assure you that Farmers & Merchants Bank & Trust is still here doing what we do best. We are taking care of our clients, our community, and each other, just as we have for over a hundred years. Although we were not immune to the unique challenges faced by the industry in 2023, at F&M Bank we stuck together and stuck it out. We kept our eyes trained on our mission and continued to work diligently to be a reliable, trustworthy community resource while meeting the financial needs of our clients. In many ways it was business as usual at the bank with a few changes along the way. Our team members continued to volunteer their valuable time to various local worthy causes and participated in Wednesday casual days to fund charitable donations each month, which were handpicked by different bank departments. There were some changes to our organizational chart as we wished the bank's CEO, C.L. Walsh, and his wife Amy, the bank's VP of Marketing, all the best on their new venture outside of the banking industry. I've resumed the role of CEO in addition to my position as President. The changes were handled seamlessly as our team members transitioned into new positions and took on new responsibilities. The Board of Directors and I are confident that we have the team we need in place to carry F&M Bank into the future with continued success.

In spite of the less than ideal economy and financial trials of the year, I'm proud to say that we were able to pay two cash dividends to you, our shareholders. I consider that a feather in our cap, all things considered. Although the bank's financial results did not meet our expectations, we still had an ace in the hole. As you will see below, Integrated Financial Resources enjoyed the success of the best year in its history with net income over budget by 26.77%. There were some silver linings in the cloud that was 2023 after all.

With last year in the rearview mirror, rest assured that we remain committed to the financial success and stability of our bank. We have 108 years in this community and this is where we will stay. We will continue to create value for our clients, our shareholders, and our team, as the bank evolves over time with the implementation of the latest technology and new products and services available to us.

A brief recap of the 2023 financials follows.

Farmers and Merchants Bancshares, Inc. (Company) had a challenging year in 2023. The Company reported a net loss for 2023 totaling \$81,859 or \$0.30 per share, compared to net income of \$803,076 or \$2.96 per share in 2022. Higher interest rates were the primary contributor to lower earnings as interest expense on deposits and borrowings rose more quickly in 2023 than interest income on loans and investments. In addition, the reorganization of the executive management of the Company resulted in increased expenses that were one-time in nature and were not expected to occur in the future.

The Company ended the year with total assets of \$234,233,000. Net loans increased almost \$2 million or 2% ending the year at \$120,511,000. Total deposits decreased by \$36 million, or 15%, year-over-year ending the year at \$207,247,000.

Stockholders' equity was \$7,755,881 at year-end 2023 with a Book Value per share of \$28.56. 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 the past two years 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 \$62.72. Once again, we were able to return to you, our shareholders, a total of \$1.00 per share in 2023 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 8.6% and the Total Risk-Based Capital ratio at 16.8% as of December 31, 2023. In addition, the Company's liquidity position remained favorable due to our strong core deposit base.

Integrated Financial Resources (Trust and Brokerage) had its best year in history with some staggering success in several different areas. Assets under management (AUM) finished at a record high of \$329,212,615 growing by over \$47.6 million in 2023. While the markets were helpful in this growth, net new AUM of over \$26 million contributed greatly to the growth and will have a long lasting influence on the success of IFR in the future. Account openings totaled 270 which was 130 more than budget expectations. The above numbers made for a very successful year on the income statement with net income for IFR being over budget by 26.77% at \$317,555.

Finally, I would like to take this opportunity to thank the folks behind the scenes that keep F&M Bank running smoothly with enthusiastic determination. First, thank you to our Board of Directors for their consistent guidance and focus every year. As an integral part of the bank's success, the Board takes the responsibility of their role very seriously. I also want to thank the management team and our team members. It is their hard work and dedication that we count on every day as they go about the business of providing exceptional service and building strong relationships with our clients.

Thank you to our shareholders for your support through the years. As always, your loyalty and trust in F&M Bank & Trust are greatly appreciated. Without you, we wouldn't be here.

We look forward to seeing you at the meeting in May.



Charles E. Walsh, President

Financials

Balance Sheets

Assets	12/31/2023	12/31/2022
Cash	\$5,198	\$13,759
Investments	88,376	103,344
Net Loans	120,511	118,579
All Other Assets	20,148	20,380
TOTAL ASSETS	\$234,233	\$256,062
Liabilities		
Total Deposits	\$207,247	\$243,560
All Other Liabilities	19,230	6,683
TOTAL LIABILITIES	\$226,477	\$250,243
Capital		
Total Capital Accounts	7,756	5,819
TOTAL LIABILITIES AND CAPITAL	\$234,233	\$256,062

Income Statements

Total Interest and Dividend Income	\$7,622	\$6,977
Total Interest Expense	(2,405)	(1,007)
Provision for Loan Losses	(67)	—
Net Interest Income After Provision for Loan Losses	\$5,150	\$5,970
Total Non-Interest Income	3,514	3,408
Total Non-Interest Expense	(8,855)	(8,375)
Income (Loss) Before Income Taxes	\$(191)	\$1,003
Income Tax Benefit (Expense)	109	(200)
NET INCOME (LOSS)	\$(82)	\$803

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 232 shareholders representing 271,530 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