

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For quarterly period ended September 30, 2025

☐ TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE EXCHANGE ACT

For the transition period from _____ to _____

Commission file number 000-55756

Farmers and Merchants Bancshares, Inc.
(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

81-3605835
(I. R. S. Employer Identification No.)

4510 Lower Beekleysville Road, Suite H, Hampstead, Maryland 21074
(Address of principal executive offices) (Zip Code)

(410) 374-1510
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "large accelerated filer", "accelerated filer", "smaller reporting company", and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☐
Non-accelerated filer ☒
Emerging growth company ☐

Accelerated filer ☐
Smaller reporting company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date: 3,202,935 as of November 13, 2025.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Table of Contents

	<u>Page</u>
PART I – FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Consolidated balance sheets at September 30, 2025 (unaudited) and December 31, 2024	3
Consolidated statements of income (unaudited) for the three and nine months ended September 30, 2025 and 2024	4
Consolidated statements of comprehensive income (unaudited) for the three and nine months ended September 30, 2025 and 2024	5
Consolidated statements of changes in stockholders' equity (unaudited) for the three and nine months ended September 30, 2025 and 2024	6
Consolidated statements of cash flows (unaudited) for the nine months ended September 30, 2025 and 2024	7
Notes to consolidated financial statements (unaudited)	9
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	38
Item 3. Quantitative and Qualitative Disclosures About Market Risk	54
Item 4. Controls and Procedures	54
PART II – OTHER INFORMATION	55
Item 1. Legal Proceedings	55
Item 1A. Risk Factors	55
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	55
Item 3. Defaults upon Senior Securities	55
Item 4. Mine Safety Disclosures	55
Item 5. Other Information	55
Item 6. Exhibits	56
SIGNATURES	56

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Consolidated Balance Sheets
Dollars in thousands except share data
(Unaudited)

	September 30, 2025	December 31, 2024 *
Assets		
Cash and due from banks	\$ 51,666	\$ 63,962
Federal funds sold and other interest-bearing deposits	521	697
Cash and cash equivalents	52,187	64,659
Certificates of deposit in other banks	100	100
Securities available for sale, at fair value	121,138	125,713
Securities held to maturity, at amortized cost less allowance for credit losses of \$79 and \$60	21,128	20,499
Equity security, at fair value	546	518
Restricted stock, at cost	3,100	921
Mortgage loans held for sale	-	157
Loans, less allowance for credit losses of \$4,257 and \$4,260	622,457	582,993
Premises and equipment, net	7,222	7,349
Accrued interest receivable	2,550	2,439
Deferred income taxes, net	6,410	7,606
Other real estate owned, net	2,775	1,176
Bank owned life insurance	15,640	15,324
Goodwill and other intangibles, net	7,020	7,026
Other assets	7,359	8,163
Total Assets	\$ 869,632	\$ 844,643
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$ 116,187	\$ 107,197
Interest-bearing	617,909	651,609
Total deposits	734,096	758,806
Securities sold under repurchase agreements	2,458	5,564
Federal Home Loan Bank of Atlanta advances	50,200	5,000
Long-term debt, net of issuance costs	12,024	11,329
Accrued interest payable	935	1,003
Other liabilities	6,756	6,669
Total liabilities	806,469	788,371
Stockholders' equity		
Common stock, par value \$.01 per share, authorized 5,000,000 shares; issued and outstanding 3,202,935 shares in 2025 and 3,166,653 shares in 2024	32	32
Additional paid-in capital	31,718	31,136
Retained earnings	44,602	41,613
Accumulated other comprehensive loss	(13,189)	(16,509)
Total Stockholders' equity	63,163	56,272
Total liabilities and stockholders' equity	\$ 869,632	\$ 844,643

* Derived from audited consolidated financial statements

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Consolidated Statements of Income
Dollars in thousands except per share data
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2025	2024	2025	2024
Interest income				
Loans, including fees	\$ 9,307	\$ 7,902	\$ 26,572	\$ 22,021
Investment securities - taxable	1,071	1,623	3,191	4,794
Investment securities - tax exempt	157	141	467	416
Federal funds sold and other interest earning assets	424	181	909	861
Total interest income	10,959	9,847	31,139	28,092
Interest expense				
Deposits	4,344	3,911	12,665	10,244
Securities sold under repurchase agreements	13	13	42	49
Federal Home Loan Bank advances	129	65	251	109
Federal Reserve Bank advances	-	648	-	1,911
Long-term debt	120	125	342	387
Total interest expense	4,606	4,762	13,300	12,700
Net interest income	6,353	5,085	17,839	15,392
Provision for credit losses	327	-	595	-
Net interest income after provision for credit losses	6,026	5,085	17,244	15,392
Noninterest income				
Service charges on deposit accounts	185	209	527	621
Mortgage banking income	75	43	151	66
Bank owned life insurance income	105	103	316	288
Fair value adjustment of equity security	7	20	16	14
Loss on sale of debt securities	-	-	-	(32)
Gain on settlement of fair value hedge	-	-	94	-
Loss on sale of premises and equipment	-	(5)	-	(5)
Gain on insurance proceeds, net	73	-	73	143
Other fees and commissions	106	81	343	234
Total noninterest income	551	451	1,520	1,329
Noninterest expense				
Salaries	2,178	1,878	6,576	5,848
Employee benefits	573	549	1,486	1,597
Occupancy	281	275	890	799
Furniture and equipment	370	327	1,185	897
Professional services	174	167	565	530
Automated teller machine and debit card expenses	71	173	407	474
Federal Deposit Insurance Corporation premiums	150	91	466	282
Postage, delivery, and armored carrier	62	72	204	217
Advertising	63	57	193	180
Other real estate owned expense, net	(13)	11	58	17
Other	500	471	1,607	1,466
Total noninterest expense	4,409	4,071	13,637	12,307
Income before income taxes	2,168	1,465	5,127	4,414
Income taxes	462	342	1,058	993
Net income	\$ 1,706	\$ 1,123	\$ 4,069	\$ 3,421
Earnings per common share - basic	\$ 0.53	\$ 0.36	\$ 1.28	\$ 1.09
Earnings per common share - diluted	\$ 0.53	\$ 0.36	\$ 1.28	\$ 1.09

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

	Three Months Ended September 30		Nine Months Ended September 30	
	2025	2024	2025	2024
Net income	\$ 1,706	\$ 1,123	\$ 4,069	\$ 3,421
Other comprehensive income, net of income taxes:				
Total unrealized gain on investment securities available for sale, net of hedges	2,582	4,818	4,577	5,695
Reclassification adjustment for realized loss	-	-	-	32
Income tax expense	(710)	(1,326)	(1,257)	(1,576)
Total other comprehensive income	1,872	3,492	3,320	4,151
Total comprehensive income	<u>\$ 3,578</u>	<u>\$ 4,615</u>	<u>\$ 7,389</u>	<u>\$ 7,572</u>

The accompanying notes are an integral part of these consolidated financial statements.

Farmers and Merchants Bancshares, Inc.
Consolidated Statements of Changes in Stockholders' Equity
Three and Nine Months Ended September 30, 2025 and 2024
(Unaudited)
(Dollars in thousands except per share data)

	Common stock		Additional	Retained	Accumulated other	Total
	Shares	Par value	paid-in capital	earnings	comprehensive loss	stockholders' equity
Three months ended September 30, 2024						
Balance, June 30, 2024	3,144,974	\$ 31	\$ 30,833	\$ 40,703	\$ (17,024)	\$ 54,543
Net income	-	-	-	1,123	-	1,123
Other comprehensive income	-	-	-	-	3,492	3,492
Stock-based compensation	-	-	4	-	-	4
Vested restricted stock units	1,000	-	-	-	-	-
Balance, September 30, 2024	3,145,974	\$ 31	\$ 30,837	\$ 41,826	\$ (13,532)	\$ 59,162
Nine months ended September 30, 2024						
Balance, December 31, 2023	3,116,966	\$ 31	\$ 30,398	\$ 39,434	\$ (17,683)	\$ 52,180
Net income	-	-	-	3,421	-	3,421
Other comprehensive income	-	-	-	-	4,151	4,151
Stock-based compensation	-	-	14	-	-	14
Vested restricted stock units	1,000	-	-	-	-	-
Cash dividends, \$0.33 per share	-	-	-	(1,029)	-	(1,029)
Dividends reinvested	28,008	-	425	-	-	425
Balance, September 30, 2024	3,145,974	\$ 31	\$ 30,837	\$ 41,826	\$ (13,532)	\$ 59,162
Three months ended September 30, 2025						
Balance, June 30, 2025	3,175,347	\$ 32	\$ 31,298	\$ 43,976	\$ (15,061)	\$ 60,245
Net income	-	-	-	1,706	-	1,706
Other comprehensive income	-	-	-	-	1,872	1,872
Stock-based compensation	-	-	5	-	-	5
Vested restricted stock units	1,000	-	-	-	-	-
Cash dividends, \$.34 per share	-	-	-	(1,080)	-	(1,080)
Dividends reinvested	26,588	-	415	-	-	415
Balance, September 30, 2025	3,202,935	\$ 32	\$ 31,718	\$ 44,602	\$ (13,189)	\$ 63,163
Nine months ended September 30, 2025						
Balance, December 31, 2024	3,166,653	\$ 32	\$ 31,136	\$ 41,613	\$ (16,509)	\$ 56,272
Net income	-	-	-	4,069	-	4,069
Other comprehensive income	-	-	-	-	3,320	3,320
Stock-based compensation	8,694	-	168	-	-	168
Vested restricted stock units	1,000	-	-	-	-	-
Cash dividends, \$.34 per share	-	-	-	(1,080)	-	(1,080)
Dividends reinvested	26,588	-	414	-	-	414
Balance, September 30, 2025	3,202,935	\$ 32	\$ 31,718	\$ 44,602	\$ (13,189)	\$ 63,163

The accompanying notes are an integral part of these consolidated financial statements

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(Dollars in thousands)

Nine Months Ended September 30,	2025	2024
Reconciliation of net income to net cash provided by operating activities		
Net income	\$ 4,069	\$ 3,421
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	565	446
Provision for credit losses	595	-
Amortization (accretion) of right of use asset	(5)	5
Unrealized (gain) loss on equity security	(16)	(14)
Write down of other real estate owned	83	-
Non cash compensation	-	10
Loss on disposal of premises and equipment	-	5
Gain on insurance proceeds	(73)	(143)
Gain on fair value hedge	50	21
Settlement of fair value hedge	(94)	-
Loss on sale of debt securities	-	32
Stock based compensation	168	14
Amortization of debt issuance costs	4	4
Amortization of premiums and (accretion of discounts), net	(345)	(767)
Increase in bank owned life insurance cash surrender value	(316)	(288)
Increase (decrease) in		
Deferred loan fees and costs, net	54	85
Accrued interest payable	(68)	1,099
Other liabilities	81	6
Decrease (increase) in		
Mortgage loans held for sale	157	(759)
Accrued interest receivable	(111)	(181)
Other assets	(65)	(548)
Net cash provided by operating activities	4,733	2,448

The accompanying notes are an integral part of these consolidated financial statements

Farmers and Merchants Bancshares, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(Unaudited)

Nine Months Ended September 30,	2025	2024
Cash flows from investing activities		
Proceeds from paydowns, maturity and call of securities		
Available for sale	10,158	14,168
Held to maturity	353	63
Proceeds from sale of securities		
Available for sale	-	521
Purchases of securities		
Available for sale	(887)	(3,269)
Loans made to customers, net of principal collected	(41,816)	(48,372)
Purchase of stock in FHLB of Atlanta	(2,179)	(153)
Equity securities dividend reinvested	(12)	(11)
Proceeds from insurance	73	143
Purchases of premises, equipment and software	(305)	(1,279)
Net cash used in investing activities	<u>(34,615)</u>	<u>(38,189)</u>
Cash flows from financing activities		
Net increase (decrease) in		
Noninterest-bearing deposits	8,989	(6,842)
Interest-bearing deposits	(33,699)	(371)
Securities sold under repurchase agreements	(3,106)	(3,875)
Federal Home Loan Bank of Atlanta advances	45,200	-
Federal Reserve Bank advances	-	21,000
Subordinated debt offering	12,024	-
Long-term debt principal payments	(11,333)	(1,416)
Dividends paid, net of reinvestments	(665)	(603)
Net cash provided by (used in) financing activities	<u>17,410</u>	<u>7,893</u>
Net decrease in cash and cash equivalents	(12,472)	(27,848)
Cash and cash equivalents at beginning of period	64,659	44,690
Cash and cash equivalents at end of period	<u><u>\$ 52,187</u></u>	<u><u>\$ 16,842</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	\$ 13,834	\$ 11,595
Cash paid during the period for income taxes	508	380
Supplemental disclosure of non-cash transactions:		
Net unrealized gain (loss) on securities available for sale	4,577	6,207
(Decrease) increase in fair value of interest rate swap agreements	(1,473)	(459)
Additions to right of use assets obtained in exchange for lease liabilities	-	705
Foreclosure in settlement of loan receivable	1,682	-

The accompanying notes are an integral part of these consolidated financial statements

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Unaudited)

1. Principles of consolidation

The consolidated financial statements include the accounts of Farmers and Merchants Bancshares, Inc. and its wholly owned subsidiaries, Farmers and Merchants Bank (the “Bank”), and Series Protected Cell FCB-4 (the “Insurance Subsidiary”), and one subsidiary of the Bank, Reliable Community Financial Services, Inc. (collectively the “Company”, “we”, “us”, or “our”). The Insurance Subsidiary is a series investment, 100% owned by Farmers and Merchants Bancshares, Inc. in First Community Bankers Insurance Co., LLC, a Tennessee “series” limited liability company and licensed property and casualty insurance company. Intercompany balances and transactions, including insurance premium paid by the Bank that were received by the Insurance Subsidiary through an intermediary, have been eliminated.

2. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and in accordance with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. In the opinion of management, all adjustments necessary for a fair presentation of the results of operations for the interim periods have been made. Such adjustments were normal and recurring in nature. The results of operations for the three and nine month periods ended September 30, 2025 do not necessarily reflect the results that may be expected for the fiscal year ending December 31, 2025 or any future interim period. The consolidated financial statements should be read in conjunction with the audited consolidated financial statements and related notes for the year ended December 31, 2024, which are included in Farmers and Merchants Bancshares, Inc.’s Annual Report on Form 10-K for the year ended December 31, 2024 that was filed with the Securities and Exchange Commission (the “SEC”).

Recent Accounting Pronouncements

Management has the responsibility for the selection and use of appropriate accounting policies. The significant accounting policies used by the Company are described in the notes to the consolidated financial statements.

In November 2024, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2024-03, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.” ASU 2024-03 requires public companies to disclose, in the notes to the financial statements, specific information about certain costs and expenses at each interim and annual reporting period. This includes disclosing amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date”, which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of ASU 2024-03 is permitted. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Company does not expect the adoption of ASU 2024-03 to have a material impact on its consolidated financial statements.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Recently Adopted Accounting Developments

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. ASU 2023-09 was effective for the Company on January 1, 2025. The adoption of ASU 2023-09 did not have a material impact on its consolidated financial statements.

Management believes that the accounting policies adopted by management are consistent with authoritative GAAP and are consistent with those followed by our peers.

Summary of Significant Accounting Policies

There have been no changes to significant accounting policies since the Company's Annual Report on Form 10-K for the year ended December 31, 2024 was filed with the SEC.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

3. Investment Securities

Investments in debt securities are summarized as follows:

(dollars in thousands) September 30, 2025	Amortized cost (1)	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses	Net Carrying Amount
Available for sale						
State and municipal	\$ 455	\$ -	\$ 3	\$ 452	\$ -	\$ 452
SBA pools	542	1	4	539	-	539
Corporate bonds	7,047	-	719	6,328	-	6,328
Mortgage-backed securities	131,068	162	17,411	113,819	-	113,819
	<u>\$ 139,112</u>	<u>\$ 163</u>	<u>\$ 18,137</u>	<u>\$ 121,138</u>	<u>\$ -</u>	<u>\$ 121,138</u>

Held to maturity

State and municipal	<u>\$ 21,207</u>	<u>\$ -</u>	<u>\$ 956</u>	<u>\$ 20,251</u>	<u>\$ 79</u>	<u>\$ 21,128</u>
---------------------	------------------	-------------	---------------	------------------	--------------	------------------

(dollars in thousands) December 31, 2024	Amortized cost (1)	Unrealized gains	Unrealized losses	Fair value	Allowance for Credit Losses	Net Carrying Amount
---	-----------------------	---------------------	----------------------	---------------	--------------------------------	------------------------

Available for sale

State and municipal	\$ 500	\$ -	\$ 13	\$ 487	\$ -	\$ 487
SBA pools	634	1	6	629	-	629
Corporate bonds	8,054	-	869	7,185	-	7,185
Mortgage-backed securities	139,853	13	22,454	117,412	-	117,412
	<u>\$ 149,041</u>	<u>\$ 14</u>	<u>\$ 23,342</u>	<u>\$ 125,713</u>	<u>\$ -</u>	<u>\$ 125,713</u>

Held to maturity

State and municipal	<u>\$ 20,559</u>	<u>\$ 1</u>	<u>\$ 1,628</u>	<u>\$ 18,932</u>	<u>\$ 60</u>	<u>\$ 20,499</u>
---------------------	------------------	-------------	-----------------	------------------	--------------	------------------

(1) Excluded from the amortized cost of securities available for sale are basis adjustments for securities designated in active fair value hedges. Basis adjustments totaled \$222 thousand and (\$556) thousand as of September 30, 2025 and December 31, 2024, respectively.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation allowance that is deducted from the amortized cost basis of held-to-maturity securities to present the net amount expected to be collected. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to securities issued by states and political subdivisions, management considers (i) issuer bond ratings, (ii) historical loss rates for given bond ratings, (iii) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, and (iv) internal forecasts. Unrated bonds were underwritten similar to commercial loans and the financial condition of the issuer is monitored periodically. Expected credit losses on commercial loans are applied to unrated bonds. The duration of each bond is used as the remaining life in the calculation of expected credit losses.

The following table summarizes Moody's and/or Standard & Poor's bond ratings (the Company's primary credit quality indicators) for our portfolio of held-to-maturity securities issued by states and political subdivisions as of September 30, 2025 and December 31, 2024 at amortized cost:

(dollars in thousands)	September 30, 2025	December 31, 2024
AAA	\$ 2,816	\$ 2,803
AA	12,443	12,603
A	1,202	1,811
Not rated	4,746	3,342
Total	<u>\$ 21,207</u>	<u>\$ 20,559</u>

Generally, the historical loss rates associated with securities having similar grades as those in our portfolio have not been significant. Furthermore, as of September 30, 2025, there were no past due principal or interest payments associated with these securities and none were on nonaccrual status.

The following table details activity in the allowance for credit losses on held-to-maturity securities for the three- and nine-month periods ended September 30, 2025 and 2024:

(dollars in thousands)	Three Months Ended September 30, 2025	Nine Months Ended September 30, 2025	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
Beginning balance	\$ 81	\$ 60	\$ 127	\$ 36
Credit loss provision	(2)	19	(90)	1
Ending balance	<u>\$ 79</u>	<u>\$ 79</u>	<u>\$ 37</u>	<u>\$ 37</u>

Accrued interest receivable on available for sale securities totaled \$281.1 thousand and \$302.5 thousand as of September 30, 2025 and December 31, 2024, respectively, and accrued interest receivable on held to maturity securities totaled \$120.2 thousand and \$122.0 thousand as of September 30, 2025 and December 31, 2024, respectively. Both are grouped in accrued interest receivable on the consolidated balance sheets.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Contractual maturities, shown below, will differ from actual maturities because borrowers and issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(dollars in thousands)	Available for Sale		Held to Maturity	
	Amortized cost (1)	Fair value	Amortized cost	Fair value
September 30, 2025				
Within one year	\$ 250	\$ 250	\$ 181	\$ 181
Over one to five years	752	707	1,577	1,595
Over five to ten years	6,500	5,822	8,104	7,883
Over ten years	-	-	11,345	10,592
	7,502	6,779	21,207	20,251
Mortgage-backed securities and SBA pools, due in monthly installments	131,610	114,359	-	-
	<u>\$ 139,112</u>	<u>\$ 121,138</u>	<u>\$ 21,207</u>	<u>\$ 20,251</u>

(1) Excluded from the amortized cost of securities available for sale are basis adjustments for securities designated in active fair value hedges. Basis adjustments totaled \$222 thousand as of September 30, 2025.

Securities with a carrying value of \$21.5 million and \$26.3 million as of September 30, 2025 and December 31, 2024, respectively, were pledged as collateral for borrowings, securities sold under repurchase agreements and other collateralized deposits.

During the three- and nine-month periods ended September 30, 2025, there were no sales of available for sale securities. The Bank settled a fair value hedge during the first quarter of 2025 which resulted in a gain of \$94 thousand. There were no sales of available for sale securities during the three and nine- month periods ended September 30, 2024.

The following table sets forth the Company's gross unrealized losses on a continuous basis for available for sale debt securities, by category and length of time.

(dollars in thousands) <u>September 30, 2025</u>	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Description of investments						
State and municipal	\$ -	\$ -	\$ 452	\$ 3	\$ 452	\$ 3
SBA pools	148	-	326	4	474	4
Corporate bonds	-	-	6,327	719	6,327	719
Mortgage-backed securities	9,059	89	89,099	17,322	98,158	17,411
Total	<u>\$ 9,207</u>	<u>\$ 89</u>	<u>\$ 96,204</u>	<u>\$ 18,048</u>	<u>\$ 105,411</u>	<u>\$ 18,137</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

(dollars in thousands)

December 31, 2024

Description of investments	Less than 12 months		12 months or more		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
State and municipal	\$ -	\$ -	\$ 487	\$ 13	\$ 487	\$ 13
SBA pools	162	-	372	6	534	6
Corporate bonds	-	-	7,185	869	7,185	869
Mortgage-backed securities	22,141	552	91,991	21,902	114,132	22,454
Total	\$ 22,303	\$ 552	\$ 100,035	\$ 22,790	\$ 122,338	\$ 23,342

As of September 30, 2025, management did not have the intent to sell any of the securities before the recovery of cost and it is not more likely than not that the Company will be required to sell before the recovery of the amortized cost basis. The unrealized losses as of September 30, 2025 were due to increases in market interest rates over the yields available at the time the underlying securities were purchased as well as other market conditions for each particular security based upon the structure and remaining principal balance. The fair values of the investment securities are expected to recover as the securities approach their maturity dates or repricing dates or if market yields for such investments decline. Based on these factors, as of September 30, 2025, management believes that the unrealized losses detailed in the table above are temporary and, accordingly, none of these unrealized losses have been recognized in the Company's consolidated statement of income.

4. Loans and Allowance for Credit Losses

Major categories of loans are as follows:

(Dollars in Thousands)	September 30, 2025	December 31, 2024
Real estate:		
Commercial	\$ 430,518	\$ 398,126
Construction/Land development	34,217	27,357
Residential	111,032	111,898
Commercial	51,864	50,405
Consumer	133	176
Total Loans	627,764	587,962
Less: Allowance for credit losses	4,257	4,260
Deferred origination fees, net of costs	1,050	709
	\$ 622,457	\$ 582,993

For purposes of monitoring the performance of the loan portfolio and estimating the allowance for credit losses, the Company's loans receivable portfolio is segmented as follows: (i) commercial real estate; (ii) construction and land development; (iii) residential; (iv) commercial and industrial; (v) and consumer.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Commercial real estate loans carry risks associated with the borrower's ability to repay the loan from the cash flow derived from the underlying real estate. Risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. These risks are attempted to be mitigated by carefully underwriting loans of this type and by following appropriate loan-to-value standards. The Company generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for real estate-commercial loans generally do not exceed 80%.

Construction and land development real estate loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget, and/or the value of the collateral may, at any point in time, be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be a loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project. The Company generally requires personal guarantees or endorsements with respect to these loans and loan-to-value ratios for real estate-commercial loans generally do not exceed 80%.

Residential real estate mortgage loans, including equity lines of credit, carry risks associated with the continued credit-worthiness of the borrower and the changes in the value of the collateral.

Commercial and industrial loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

Consumer loans carry risks associated with the continued credit-worthiness of the borrower and the value of the collateral. The Company's consumer loans consist primarily of installment loans made to individuals for personal, family and household purposes. These risks are attempted to be mitigated by following appropriate loan-to-value standards and an experienced management team for this type of portfolio.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following tables present the amortized cost basis of loans on nonaccrual status as of September 30, 2025 and December 31, 2024:

(Dollars in thousands)	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Loans Past Due 90 Days or More and Still Accruing
<u>September 30, 2025</u>			
Real estate:			
Commercial	\$ -	\$ -	\$ 1,262
Construction and land development	-	-	-
Residential	-	-	-
Commercial	-	-	-
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,262</u>
<u>December 31, 2024</u>			
Real estate:			
Commercial	\$ -	\$ 2,440	\$ -
Construction and land development	-	-	-
Residential	-	-	-
Commercial	-	-	-
Consumer	-	-	-
	<u>\$ -</u>	<u>\$ 2,440</u>	<u>\$ -</u>

The Company did not recognize any interest income on nonaccrual loans during the three or nine month periods ended September 30, 2025 or 2024.

At September 30, 2025, the Company had no nonaccrual loans. At December 31, 2024, the Company had three nonaccrual loans totaling \$2.4 million which were secured by real estate, business assets and a personal guaranty. Gross interest income of \$38 thousand would have been recorded in 2024 if these nonaccrual loans had been current and performing in accordance with their original terms.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

An age analysis of past due loans, segregated by type of loan, is as follows:

(Dollars in thousands) September 30, 2025	30 - 59 Days Past Due	60 - 89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans	Past Due 90 Days or More and Accruing
Real estate:							
Commercial	\$ -	\$ -	\$ 1,262	\$ 1,262	\$ 429,256	\$ 430,518	\$ 1,262
Construction and land development	-	-	-	-	34,217	34,217	-
Residential	202	-	-	202	110,830	111,032	-
Commercial	-	-	-	-	51,864	51,864	-
Consumer	-	-	-	-	133	133	-
Total	<u>\$ 202</u>	<u>\$ -</u>	<u>\$ 1,262</u>	<u>\$ 1,464</u>	<u>\$ 626,300</u>	<u>\$ 627,764</u>	<u>\$ 1,262</u>
December 31, 2024							
Real estate:							
Commercial	\$ -	\$ -	\$ 404	\$ 404	\$ 397,722	\$ 398,126	\$ -
Construction and land development	-	-	-	-	27,357	27,357	-
Residential	-	270	-	270	111,628	111,898	-
Commercial	-	-	-	-	50,405	50,405	-
Consumer	-	-	-	-	176	176	-
Total	<u>\$ -</u>	<u>\$ 270</u>	<u>\$ 404</u>	<u>\$ 674</u>	<u>\$ 587,288</u>	<u>\$ 587,962</u>	<u>\$ -</u>

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of September 30, 2025 and December 31, 2024:

(Dollars in thousands)	September 30, 2025	December 31, 2024
Real estate:		
Commercial	\$ -	\$ 2,440
Residential	-	270
Commercial	-	-
	<u>\$ -</u>	<u>\$ 2,710</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

From time to time, loans to borrowers experiencing financial difficulty may be modified. Generally, the modifications we grant are extensions of terms, deferrals of payments for an extended period or interest rate reductions. Occasionally, we may modify a loan by providing principal forgiveness. In some cases, we will modify a loan by providing multiple types, or combinations, of concessions.

The following table presents the amortized cost basis of the loan modifications at September 30, 2025 and December 31, 2024 and the percentage of the amortized cost basis of the loan to the total cost basis of the class of loans and total loans.

	September 30, 2025		December 31, 2024	
	Term Extension	Total Class of Financing Receivable	Term Extension	Total Class of Financing Receivable
(Dollars in thousands)				
Commercial real estate	\$ 4,380	1.02%	\$ 2,038	0.51%

The Bank did not modify any loans during the three month period ended September 30, 2025, and it modified one commercial real estate loan to a borrower experiencing financial distress during the nine month period ended September 30, 2025. There were two modifications to borrowers experiencing financial distress during each of the three and nine month periods ended September 30, 2024. There were no loan payment defaults during the three or nine month periods ended September 30, 2025 or 2024.

Accrued interest receivable on loans totaled \$2.0 million and \$1.9 million at September 30, 2025 and December 31, 2024, respectively, and is included in accrued interest receivable on the consolidated balance sheets. Accrued interest receivable is not included as part of the amortized costs of loans for the allowance for credit losses estimate.

Credit Quality Indicators

As part of our portfolio risk management, the Company assigns a risk grade to each loan. The factors used to determine the grade are the payment history of the loan and the borrower, the value of the collateral and net worth of the guarantor, and cash flow projections of the borrower. Excellent, Above Average, Average, Acceptable, and Pass/Watch grades are assigned to loans with limited or no delinquent payments and more than sufficient collateral and/or cash flow.

A description of the general characteristics of loans characterized as watch list or classified is as follows:

Special Mention

A special mention loan is a loan that management believes has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention loans are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

Substandard

A substandard loan is a loan that management believes is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Such loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. Substandard loans require more intense supervision by Company management.

Doubtful

A doubtful loan is a loan that management believes has all of the weaknesses inherent in a substandard loan with the added characteristic that the weaknesses, based on currently existing facts, conditions, and values, make collection or liquidation in full highly questionable and improbable.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Loans by credit grade, segregated by loan type, and year originated as of September 30, 2025 as well as charge-offs for the nine months ended September 30, 2025 were as follows:

	Term Loans Amortized Cost Basis by Origination As of and for the nine months ended September, 2025							Revolving Loans	Total
(dollars in thousands)	2025	2024	2023	2022	2021	Prior			
<u>Commercial Real Estate</u>									
Pass	\$ 63,805	\$ 46,571	\$ 26,582	\$ 59,483	\$ 53,005	\$ 150,047	\$ 5,501	\$ 404,274	
Special Mention	2,200	12,762	-	5,914	-	-	400	21,276	
Substandard	341	-	-	-	-	4,627	-	4,968	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 65,626</u>	<u>\$ 59,333</u>	<u>\$ 26,582</u>	<u>\$ 65,397</u>	<u>\$ 53,005</u>	<u>\$ 154,674</u>	<u>\$ 5,901</u>	<u>\$ 430,518</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 646</u>	<u>\$ -</u>	<u>\$ 646</u>	
<u>Construction and Land Development</u>									
Pass	\$ 7,909	\$ 13,949	\$ 2,651	\$ 3,888	\$ 152	\$ 5,668	\$ -	\$ 34,217	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 7,909</u>	<u>\$ 13,949</u>	<u>\$ 2,651</u>	<u>\$ 3,888</u>	<u>\$ 152</u>	<u>\$ 5,668</u>	<u>\$ -</u>	<u>\$ 34,217</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Residential Real Estate</u>									
Pass	\$ 13,237	\$ 10,433	\$ 10,014	\$ 17,493	\$ 5,661	\$ 42,303	\$ 10,591	\$ 109,732	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	1,280	20	1,300	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 13,237</u>	<u>\$ 10,433</u>	<u>\$ 10,014</u>	<u>\$ 17,493</u>	<u>\$ 5,661</u>	<u>\$ 43,583</u>	<u>\$ 10,611</u>	<u>\$ 111,032</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Commercial</u>									
Pass	\$ 4,807	\$ 10,501	\$ 3,447	\$ 4,570	\$ 2,071	\$ 713	\$ 17,421	\$ 43,530	
Special Mention	2,163	111	-	-	-	-	5,627	7,901	
Substandard	8	-	-	-	-	-	425	433	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 6,978</u>	<u>\$ 10,612</u>	<u>\$ 3,447</u>	<u>\$ 4,570</u>	<u>\$ 2,071</u>	<u>\$ 713</u>	<u>\$ 23,473</u>	<u>\$ 51,864</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Consumer</u>									
Pass	\$ 32	\$ 59	\$ 40	\$ -	\$ -	\$ 2	\$ -	\$ 133	
Special Mention	-	-	-	-	-	-	-	-	
Substandard	-	-	-	-	-	-	-	-	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 32</u>	<u>\$ 59</u>	<u>\$ 40</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2</u>	<u>\$ -</u>	<u>\$ 133</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	
<u>Aggregate total</u>									
Pass	\$ 89,070	81,513	42,734	85,434	60,889	198,733	33,513	591,886	
Special Mention	4,363	12,873	-	5,914	-	6,027	6,027	29,177	
Substandard	349	-	-	-	-	445	445	6,701	
Doubtful	-	-	-	-	-	-	-	-	
Total	<u>\$ 93,782</u>	<u>94,386</u>	<u>42,734</u>	<u>91,348</u>	<u>60,889</u>	<u>204,640</u>	<u>39,985</u>	<u>627,764</u>	
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 646</u>	<u>\$ -</u>	<u>\$ 646</u>	

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Loans by credit grade, segregated by loan type, and year originated as of December 31, 2024 as well as gross charge-offs for the year ended December 31, 2024 were as follows:

(dollars in thousands)	Term Loans Amortized Cost Basis by Origination							
	As of and for the year ended December 31, 2024							
	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Commercial Real Estate								
Pass	\$ 63,427	\$ 26,745	\$ 69,261	\$ 54,346	\$ 19,727	\$ 151,876	\$ 3,559	\$ 388,941
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	9,185	-	9,185
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 63,427</u>	<u>\$ 26,745</u>	<u>\$ 69,261</u>	<u>\$ 54,346</u>	<u>\$ 19,727</u>	<u>\$ 161,061</u>	<u>\$ 3,559</u>	<u>\$ 398,126</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Construction and Land Development								
Pass	\$ 14,710	\$ 3,365	\$ 1,568	\$ 1,443	\$ 930	\$ 5,341	\$ -	\$ 27,357
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 14,710</u>	<u>\$ 3,365</u>	<u>\$ 1,568</u>	<u>\$ 1,443</u>	<u>\$ 930</u>	<u>\$ 5,341</u>	<u>\$ -</u>	<u>\$ 27,357</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Residential Real Estate								
Pass	\$ 12,385	\$ 10,592	\$ 18,474	\$ 9,363	\$ 7,084	\$ 44,409	\$ 7,985	\$ 110,292
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,582	24	1,606
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 12,385</u>	<u>\$ 10,592</u>	<u>\$ 18,474</u>	<u>\$ 9,363</u>	<u>\$ 7,084</u>	<u>\$ 45,991</u>	<u>\$ 8,009</u>	<u>\$ 111,898</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 5</u>
Commercial								
Pass	\$ 9,928	\$ 5,017	\$ 5,675	\$ 2,632	\$ 472	\$ 467	\$ 21,040	\$ 45,231
Special Mention	4,674	-	-	-	-	-	-	4,674
Substandard	-	-	-	-	-	500	-	500
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 14,602</u>	<u>\$ 5,017</u>	<u>\$ 5,675</u>	<u>\$ 2,632</u>	<u>\$ 472</u>	<u>\$ 967</u>	<u>\$ 21,040</u>	<u>\$ 50,405</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ 152</u>
Consumer								
Pass	\$ 106	\$ 57	\$ 9	\$ -	\$ 1	\$ -	\$ -	\$ 173
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	2	-	1	-	-	-	3
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 106</u>	<u>\$ 59</u>	<u>\$ 9</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 176</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ 5</u>
Aggregate total								
Pass	\$ 100,556	45,776	94,987	67,784	28,214	202,093	32,584	571,994
Special Mention	4,674	-	-	-	-	-	-	4,674
Substandard	-	2	-	1	-	11,267	24	11,294
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 105,230</u>	<u>\$ 45,778</u>	<u>\$ 94,987</u>	<u>\$ 67,785</u>	<u>\$ 28,214</u>	<u>\$ 213,360</u>	<u>\$ 32,608</u>	<u>\$ 587,962</u>
Charge-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 162</u>	<u>\$ -</u>	<u>\$ 162</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following tables detail activity in the allowance for credit losses and loan balances by portfolio as of and for the nine month periods ended September 30, 2025 and 2024, and as of and for the year ended December 31, 2024. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

(Dollars in thousands) Nine months ended September 30, 2025	Beginning balance	Provision for (recovery of) credit losses	Charge offs	Recoveries	Ending balance	Allowance for credit losses ending by evaluation method		Outstanding loan balances evaluated:	
						Individually	Collectively	Individually	Collectively
Real estate:									
Commercial	\$ 2,481	\$ 448	\$ (646)	\$ -	\$ 2,283	\$ -	\$ 2,283	\$ -	\$ 430,518
Construction and land development	478	42	-	-	520	-	520	-	34,217
Residential	751	(130)	-	21	642	-	642	-	111,032
Commercial	513	249	-	-	762	-	762	-	51,864
Consumer	4	(3)	-	-	1	-	1	-	133
Unallocated	33	16	-	-	49	-	49	-	-
	<u>\$ 4,260</u>	<u>\$ 622</u>	<u>\$ (646)</u>	<u>\$ 21</u>	<u>\$ 4,257</u>	<u>\$ -</u>	<u>\$ 4,257</u>	<u>\$ -</u>	<u>\$ 627,764</u>

(Dollars in thousands) Nine months ended September 30, 2024	Beginning balance	Provision for (recovery of) credit losses	Charge offs	Recoveries	Ending balance	Allowance for credit losses ending by evaluation method		Outstanding loan balances evaluated:	
						Individually	Collectively	Individually	Collectively
Real estate:									
Commercial	\$ 2,448	\$ (12)	\$ -	\$ -	\$ 2,436	\$ 392	\$ 2,044	\$ 2,441	\$ 383,354
Construction and land development	253	162	-	-	415	-	415	-	30,328
Residential	1,013	(255)	-	19	777	-	777	272	108,931
Commercial	494	200	(153)	-	541	-	541	-	50,932
Consumer	2	3	(3)	-	2	-	2	-	154
Unallocated	74	(54)	-	-	20	-	20	-	-
	<u>\$ 4,284</u>	<u>\$ 44</u>	<u>\$ (156)</u>	<u>\$ 19</u>	<u>\$ 4,191</u>	<u>\$ 392</u>	<u>\$ 3,799</u>	<u>\$ 2,713</u>	<u>\$ 573,699</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

(Dollars in thousands) December 31, 2024	Beginning balance	Provision for (recovery of) credit losses	Charge offs	Recoveries	Ending balance	Allowance for credit losses ending		Outstanding loan balances	
						balance evaluated for impairment:		evaluated:	
						Individually	Collectively	Individually	Collectively
Real estate:									
Commercial	\$ 2,448	\$ 33	\$ -	\$ -	\$ 2,481	\$ 360	\$ 2,122	\$ 2,440	\$ 395,686
Construction and land development	253	225	-	-	478	-	478	-	27,357
Residential	1,013	(281)	(5)	24	751	-	751	270	111,628
Commercial	494	171	(152)	-	513	-	512	-	50,405
Consumer	2	7	(5)	-	4	-	4	-	176
Unallocated	74	(41)	-	-	33	-	33	-	-
	<u>\$ 4,284</u>	<u>\$ 114</u>	<u>\$ (162)</u>	<u>\$ 24</u>	<u>\$ 4,260</u>	<u>\$ 360</u>	<u>\$ 3,899</u>	<u>\$ 2,710</u>	<u>\$ 585,252</u>

Loans acquired from Carroll Community Bank in 2020 in connection with the Company's acquisition of Carroll Bancorp, Inc. and Carroll Community Bank (collectively, the "Merger") were measured at fair value at the acquisition date with no carryover of any allowance for credit losses. The following table provides activity for the accretable discount of purchased loans:

(Dollars in thousands)

Balance at December 31, 2024	\$ 286
Accretion	(114)
Balance at September 30, 2025	<u>\$ 172</u>

The following table details activity in the allowance for credit losses on unfunded loan commitments for the three- and nine- month periods ended September 30, 2025 and 2024:

(dollars in thousands)	Three Months Ended September 30, 2025	Three Months Ended September 30, 2024	Nine Moths Ended September 30, 2025	Nine Moths Ended September 30, 2024
Beginning balance	\$ 173	\$ 196	\$ 240	\$ 228
Provision for/(recovery of) credit losses	21	(13)	(46)	(45)
Ending balance	<u>\$ 194</u>	<u>\$ 183</u>	<u>\$ 194</u>	<u>\$ 183</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following table provides a summary of all of the components of the allowance for credit losses:

(Dollars in thousands)	Three Months Ended September 30, 2025				
	Held to maturity securities	Loans	Unfunded loan commitments	Total	
Beginning balance	\$ 81	\$ 4,233	\$ 173	\$ 4,487	
Provision for (recovery of) credit losses	(2)	308	21	327	
Charge-offs	-	(290)	-	(290)	
Recoveries	-	6	-	6	
Ending balance	\$ 79	\$ 4,257	\$ 194	\$ 4,530	

(Dollars in thousands)	Three Months Ended September 30, 2024				
	Held to maturity securities	Loans	Unfunded loan commitments	Total	
Beginning balance	\$ 127	\$ 4,082	\$ 196	\$ 4,405	
Provision for (recovery of) credit losses	(90)	103	(13)	-	
Charge-offs	-	-	-	-	
Recoveries	-	6	-	6	
Ending balance	\$ 37	\$ 4,191	\$ 183	\$ 4,411	

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

(Dollars in thousands)	Nine Months Ended September 30, 2025			
	Held to maturity securities	Loans	Unfunded loan commitments	Total
Beginning balance	\$ 60	\$ 4,260	\$ 240	\$ 4,560
Provision for (recovery of) credit losses	19	622	(46)	595
Charge-offs	-	(646)	-	(646)
Recoveries	-	21	-	21
Ending balance	\$ 79	\$ 4,257	\$ 194	\$ 4,530

(Dollars in thousands)	Nine Months Ended September 30, 2024			
	Held to maturity securities	Loans	Unfunded loan commitments	Total
Beginning balance	\$ 36	\$ 4,284	\$ 228	\$ 4,548
Provision for (recovery of) credit losses	1	44	(45)	-
Charge-offs	-	(156)	-	(156)
Recoveries	-	19	-	19
Ending balance	\$ 37	\$ 4,191	\$ 183	\$ 4,411

5. Goodwill and Other Intangibles

The Merger resulted in the recording of goodwill and a core deposit intangible ("CDI"). The following table presents the changes in both assets for the nine-month periods ended September 30, 2025 and 2024:

(dollars in thousands)	Goodwill		CDI		Total
Balance at December 31, 2024	\$ 6,978	\$ 48	\$ 7,026		
Amortization	-	(6)	(6)		
Balance at September 30, 2025	\$ 6,978	\$ 42	\$ 7,020		
Balance at December 31, 2023	\$ 6,978	\$ 56	\$ 7,034		
Amortization	-	(6)	(6)		
Balance at September 30, 2024	\$ 6,978	\$ 50	\$ 7,028		

The CDI is being amortized over 10 years on a straight-line basis. Annual amortization will be \$8.3 thousand per year through year nine and \$6.2 thousand in year 10. Because the Merger was a tax-free reorganization, neither the goodwill nor the CDI is deductible for income tax purposes. A goodwill impairment analysis is performed annually.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

6. Capital Standards

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by the Basel III Capital Rules require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, insured depository institutions are required to meet the following in order to qualify as “well capitalized:” (i) a Common Equity Tier 1 risk-based capital ratio of 6.5%; (ii) a Tier 1 risk-based capital ratio of 8%; (iii) a total risk-based capital ratio of 10%; and (iv) a Tier 1 leverage ratio of 5%.

The implementation of the capital conservation buffer began on January 1, 2015, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a “countercyclical capital buffer” that is applicable to only certain covered institutions and does not have current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

On September 17, 2019, the Federal Deposit Insurance Corporation (the “FDIC”) finalized a rule that introduces an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e., the community bank leverage ratio (“CBLR”) framework), as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Under the interim final rules, the community bank leverage ratio was reduced to 8% beginning in the second quarter and for the remainder of calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of greater than 8%, less than \$10 billion in total consolidated assets, and limited amounts of off-balance-sheet exposures and trading assets and liabilities. A qualifying community banking organization that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under the Prompt Corrective Action regulations and will not be required to report or calculate risk-based capital. The Company has not opted-in to the CBLR framework.

As of September 30, 2025, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category. The Company's capital ratios as of September 30, 2025 were substantially the same as the Bank's capital ratios as of such date.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

The following table presents actual and required capital ratios as of September 30, 2025 and December 31, 2024 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of September 30, 2025 and December 31, 2024, based on the provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

(Dollars in thousands)	Actual		Minimum Capital Adequacy		To Be Well Capitalized				
	September 30, 2025	Amount	Ratio	Amount	Ratio	Amount	Ratio		
Total capital (to risk-weighted assets)	\$	83,176	11.90%	\$	73,403	10.50%	\$	69,907	10.00%
Tier 1 capital (to risk-weighted assets)		78,646	11.25%		59,421	8.50%		55,926	8.00%
Common equity tier 1 (to risk- weighted assets)		78,646	11.25%		48,935	7.00%		45,440	6.50%
Tier 1 leverage (to average assets)		78,646	9.29%		33,869	4.00%		42,336	5.00%
December 31, 2024									
Total capital (to risk-weighted assets)	\$	81,161	12.37%	\$	68,910	10.50%	\$	65,628	10.00%
Tier 1 capital (to risk-weighted assets)		76,601	11.67%		55,784	8.50%		52,503	8.00%
Common equity tier 1 (to risk- weighted assets)		76,601	11.67%		45,940	7.00%		42,658	6.50%
Tier 1 leverage (to average assets)		76,601	9.12%		33,580	4.00%		41,974	5.00%

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

7. Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements.

Fair Value Hedges: Interest rate swaps with notional amounts totaling \$63.8 million and \$75.3 million as of September 30, 2025 and December 31, 2024, respectively, were designated as fair value hedges under the portfolio layer method of certain government agency mortgage backed securities. The hedges were determined to be effective during all periods presented. The Company expects the hedges to remain effective during the remaining terms of the swaps.

The following table presents the amounts recorded on the consolidated balance sheets related to cumulative basis adjustments for fair value hedges at September 30, 2025 and December 31, 2024:

(dollars in thousands)

Line Item in the Balance Sheet in Which the Hedged Item is Included	Carrying amount of the hedged assets September 30, 2025	Carrying amount of fair value hedging adjustment September 30, 2025	Carrying amount of the hedged assets December 31, 2024	Carrying amount of fair value hedging adjustment December 31, 2024
Securities available for sale	\$ 82,902	\$ 222	\$ 103,174	\$ 556

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The Company presents derivative positions gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet at September 30, 2025 and December 31, 2024:

(Dollars in thousands)	September 30, 2025	December 31, 2024
	Fair Value	Fair Value
<u>Included in other assets:</u>		
Derivatives designated as hedges:		
Interest rate swaps related to securities available for sale	\$ 56	\$ 626
Total included in other assets	<u>\$ 56</u>	<u>\$ 626</u>
<u>Included in other liabilities:</u>		
Derivatives designated as hedges:		
Interest rate swaps related to securities available for sale	\$ 251	\$ 28
Total included in other liabilities	<u>\$ 251</u>	<u>\$ 28</u>

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The effect of fair value hedge accounting on the statement of income for the three and nine month periods ended September 30, 2025 and 2024 were as follows:

Fair Value Hedging Relationships

Total amounts of income and expense line items presented in the statements of income in which the effects of the fair value hedge is recorded are as follows:

	Three Months Ended September 30, 2025	Nine Months Ended September 30, 2025	Three Months Ended September 30, 2024	Nine Months Ended September 30, 2024
(Dollars in thousands)	Interest Income	Interest Income	Interest Income	Interest Income
The effects of fair value hedging:				
Gain (loss) on fair value hedging relationships:				
Hedged items	\$ 14	\$ (3)	\$ 21	\$ 21
Interest rate contracts designated as hedging instruments	118	343	208	565
Net gain on fair value hedging relationships included in interest income from investment securities - taxable	\$ 132	\$ 340	\$ 229	\$ 586

8. Fair Value

In accordance with FASB Accounting Standards Codification (“ASC”) Topic 820, “Fair Value Measurements and Disclosure”, the Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (“an exit price”) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is the most representative of fair value under current market conditions.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

In accordance with the guidance, a hierarchy of valuation techniques is based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy under ASC Topic 820 based on these two types of inputs, are as follows:

- Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.
- Level 3: Significant unobservable inputs that reflect the Company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company uses the following methods and significant assumptions to estimate the fair values of the following assets:

- Securities available for sale: The fair values of securities available for sale are determined by obtaining quoted prices from a nationally recognized securities pricing agent. If quoted market prices are not available, fair value is determined using quoted market prices for similar securities.
- Equity security at fair value: The Company's investment in an equity mutual fund is valued based on the net asset value of the fund, which is classified as Level 1.
- Other real estate owned ("OREO"): Nonrecurring fair value adjustments to OREO reflect full or partial write-downs that are based on the OREO's observable market price or current appraised value of the real estate. Since the market for OREO is not active, OREO subjected to nonrecurring fair value adjustments based on the current appraised value of the real estate are classified as Level 3. The appraised value is obtained annually from an independent third party appraiser and is reduced by expected sales costs, which has historically been 10% of the appraised value.
- Collateral-dependent loans: Nonrecurring fair value adjustments to collateral-dependent loans reflect full or partial write-downs and reserves that are based on the collateral-dependent loan's observable market price or current appraised value of the collateral. Because the market for collateral-dependent loans is not active, such loans subjected to nonrecurring fair value adjustments based on the current appraised value of the collateral are classified as Level 3. The appraised value is obtained annually from an independent third party appraiser and is reduced by expected sales costs, which has historically been 10% of the appraised value.
- Fair value hedges: The market value based on independent third party valuation sources that uses observable and traded prices of interest rate swaps from leading banks and brokers.
- Loans held for sale: These loans are carried at the lower of cost or market. The market value is considered to approximate the price at which the loan is locked in with the investor.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following tables summarize financial assets measured at fair value on a recurring and nonrecurring basis at September 30, 2025 and December 31, 2024, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value:

		Carrying Value:			
(Dollars in thousands)		Level 1	Level 2	Level 3	Total
<u>September 30, 2025</u>					
Recurring:					
Available for sale securities					
State and municipal	\$	-	\$ 452	\$ -	\$ 452
SBA pools		-	539	-	539
Corporate bonds		-	6,328	-	6,328
Mortgage-backed securities		-	113,819	-	113,819
	\$	-	\$ 121,138	\$ -	\$ 121,138
Fair value hedge:					
Hedging asset	\$	-	\$ 56	\$ -	\$ 56
Hedging liability		-	251	-	251
Net fair value hedge	\$	-	\$ (195)	\$ -	\$ (195)
Equity security at fair value					
Mutual fund	\$	-	\$ 546	\$ -	\$ 546
Nonrecurring:					
Other real estate owned, net	\$	-	\$ -	\$ 2,775	\$ 2,775

		Carrying Value:			
(dollars in thousands)		Level 1	Level 2	Level 3	Total
<u>December 31, 2024</u>					
Recurring:					
Available for sale securities					
State and municipal	\$	-	\$ 487	\$ -	\$ 487
SBA pools		-	629	-	629
Corporate bonds		-	7,185	-	7,185
Mortgage-backed securities		-	117,412	-	117,412
	\$	-	\$ 125,713	\$ -	\$ 125,713
Fair value hedge:					
Hedging asset	\$	-	\$ 626	\$ -	\$ 626
Hedging liability		-	28	-	28
Net fair value hedge	\$	-	\$ 598	\$ -	\$ 598
Equity securities at fair value					
Mutual fund	\$	-	\$ 518	\$ -	\$ 518
Nonrecurring:					
Other real estate owned, net	\$	-	\$ -	\$ 1,176	\$ 1,176
Collateral-dependent loans, net	\$	-	\$ -	\$ 2,080	\$ 2,080

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following table provides information describing the unobservable inputs used in level 3 fair value measurements at September 30, 2025 and December 31, 2024:

September 30, 2025:

(dollars in thousands)

Assets	Fair Value	Valuation Technique	Unobservable Inputs	Range (Average)
Other real estate owned	\$ 2,775	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 10% (5%)

December 31, 2024:

(dollars in thousands)

Assets	Fair Value	Valuation Techniques	Unobservable Input	Average
Collateral-dependent loans	\$ 2,080	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 20% (10%)
Other real estate owned	\$ 1,176	Third party appraisals and in-house real estate valuations of fair value	Marketability/selling costs and current market conditions	0% to 10% (5%)

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The estimated fair value of financial instruments that are reported at amortized cost less allowance for credit losses in the Company's consolidated balance sheets, segregated by the level of the valuation inputs were as follows:

(Dollars in thousands)	September 30, 2025		December 31, 2024	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets				
Level 1 inputs				
Cash and cash equivalents	\$ 52,187	\$ 52,187	\$ 64,659	\$ 64,659
Equity security	546	546	518	518
Level 2 inputs				
Certificates of deposit in other banks	100	100	100	100
Accrued interest receivable	2,550	2,550	2,439	2,439
Securities available for sale	121,138	121,138	125,713	125,713
Securities held to maturity	17,036	16,159	17,156	15,589
Mortgage loans held for sale	-	-	157	157
Restricted stock, at cost	3,100	3,100	921	921
Bank owned life insurance	15,640	15,640	15,324	15,324
Fair value hedge	56	56	626	626
Level 3 inputs				
Securities held to maturity	4,092	4,092	3,343	3,343
Loans, net	622,457	617,664	582,993	572,346
Financial liabilities				
Level 1 inputs				
Noninterest-bearing deposits	\$ 116,187	\$ 116,187	\$ 107,197	\$ 107,197
Securities sold under repurchase agreements	2,458	2,458	5,564	5,564
Level 2 inputs				
Interest-bearing deposits	617,909	615,437	651,609	654,346
Federal Home Loan Bank advances	50,200	49,251	5,000	4,957
Long-term debt	12,024	11,797	11,329	11,066
Accrued interest payable	935	935	1,003	1,003
Fair value hedge	251	233	28	28

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

9. Earnings per Share

Earnings per share is determined by dividing net income by the weighted average number of shares of common stock outstanding, giving retroactive effect to any stock dividends. The following table shows the weighted average number of shares used in computing earnings per share and the effect of the weighted average number of shares of dilutive potential common stock. The weighted average number of dilutive shares included 164 and 154 shares subject to restrictive stock units (“RSUs”) for the three and nine month periods ended September 30, 2025, respectively, and 0 and 250 shares subject to RSUs, respectively, for the same periods of 2024.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2025	2024	2025	2024
Net income	\$ 1,705,529	\$ 1,123,127	\$ 4,068,715	\$ 3,421,623
Weighted average shares outstanding - basic	3,195,097	3,145,061	3,181,334	3,127,728
Effect of dilutive restricted stock units	-	-	241	167
Weighted average shares outstanding - diluted	3,195,097	3,145,061	3,181,575	3,127,895
Earnings per share - basic	\$ 0.53	\$ 0.36	\$ 1.28	\$ 1.09
Earnings per share - diluted	\$ 0.53	\$ 0.36	\$ 1.28	\$ 1.09

10. Retirement Plans

The Company has a profit sharing plan qualifying under Section 401(k) of the Internal Revenue Code. All employees age 21 or older with nine months of service are eligible for participation in the plan. The Company matches employee contributions up to 4% of total compensation and may make additional discretionary contributions. Employee and employer contributions are 100% vested when made. The Company’s contributions to this plan were \$64.0 thousand and \$57.9 thousand for the three- month periods ended September 30, 2025 and 2024, respectively, and \$230.2 thousand and \$206.3 thousand for the nine-month periods ended September 30, 2025 and 2024, respectively.

The Company has entered into agreements with certain employees to provide life insurance benefits payable in connection with policies of life insurance on those employees that are owned by the Company. Some of the policies provide benefits subsequent to the employee’s employment with the Company. For this plan, the Company expensed \$2.1 thousand and \$2.0 thousand for the three month periods ended September 30, 2025 and 2024, respectively, and \$6.4 thousand and \$5.9 thousand for the nine month periods ended September 30, 2025 and 2024, respectively.

The Company adopted supplemental executive retirement plans for four of its executives. The plans provide cash compensation to the executive officers under certain circumstances, including a separation of service. The benefits vest over the period from adoption to a specified age for each executive. The Company recorded expenses, including interest, of \$58.5 thousand and \$66.0 thousand for the three-month periods ended September 30, 2025 and 2024, respectively, and \$187.9 thousand and \$198.0 thousand for the nine-month periods ended September 30, 2025 and 2024, respectively.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

Retirement plan expenses are included in employee benefits on the Consolidated Statements of Income.

11. Borrowed Funds

Borrowed funds may consist of securities sold under repurchase agreements, which represent overnight or term borrowings from customers, advances from the Federal Home Loan Bank of Atlanta (“FHLB”), advances from the Federal Reserve Bank of Richmond (the “Reserve Bank”), term borrowings from a commercial bank, subordinated note issuances, and overnight borrowings from commercial banks.

Additional information is as follows:

(Dollars in thousands)	September 30, 2025	December 31, 2024
Amount outstanding at period end:		
Securities sold under repurchase agreements	\$ 2,458	\$ 5,564
Federal Home Loan Bank advances	50,200	5,000
Long-term debt (net of issuance costs)	12,024	11,329
Weighted average rate paid at period end:		
Securities sold under repurchase agreements	1.25%	1.25%
Federal Home Loan Bank advances	3.88%	1.00%
Long-term debt	7.88%	4.10%

The Bank is approved to borrow 75% of eligible pledged single-family residential loans and 50% of eligible pledged commercial loans as well as investment securities, or approximately \$22.2 million under a secured line of credit with the FHLB at September 30, 2025. The Bank also has a facility with the Reserve Bank, which has been in place for over 10 years and is collateralized by loans. Under this facility, the Bank can borrow approximately \$30.2 million. Additionally, the Bank has \$23.5 million (\$14.5 million unsecured and \$9.0 million secured) of overnight federal funds lines of credit available from commercial banks.

FHLB advances of \$50.2 million and \$5.0 million were outstanding as of September 30, 2025 and December 31, 2024, respectively. The Company borrowed \$17.0 million to facilitate the Merger in 2020, of which \$11.3 million was outstanding as of December 31, 2024. (The “Merger Loan”) was fully repaid on September 30, 2025. There were no borrowings from the Reserve Bank or our commercial bank lenders at September 30, 2025 or December 31, 2024.

On September 25, 2025, the Company entered into a Subordinated Note Purchase Agreements with certain qualified institutional buyers and institutional accredited investors pursuant to which the Company issued and sold \$12.5 million in aggregate principal amount of its 7.875% Fixed to Floating Rate Subordinated Notes due September 25, 2035. The Company used a portion of the net proceeds from the offering to repay the outstanding balance of approximately \$10.1 million that was due under the Merger Loan.

12. Stock-Based Compensation

On November 22, 2023, the Board of Directors approved the Farmers and Merchants Bancshares, Inc. 2023 Equity Compensation Plan (the “Equity Plan”). The Equity Plan allows the Board of Directors or its Compensation Committee to grant awards that may be payable in shares of common stock or the cash equivalent thereof.

Farmers and Merchants Bancshares, Inc. and Subsidiaries

Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The Company complies with the provisions of ASC Topic 718, Compensation-Stock Compensation, in measuring and disclosing stock compensation cost. The measurement objective in ASC Paragraph 718-10-30-6 requires public companies to measure the cost of employee services received in exchange for an award of equity instruments based on the grant date fair value of the award. The cost is recognized in expense over the period in which an employee is required to provide service in exchange for the award (the vesting period).

During the year ended December 31, 2023, 2,000 fully vested shares of common stock and RSUs relating to 3,000 shares of common stock were granted to one executive officer. The RSUs contemplate the issuance of shares of common stock of Farmers and Merchants Bancshares, Inc. if and when the RSUs vest. One-third of the RSUs vested on September 22, 2024, one-third vested on September 22, 2025 and one-third will vest on September 22, 2026 provided that the grantee is employed and in good standing with the Company on such date.

A summary of the Company's RSU activity during the nine months ended September 30, 2025 is shown below:

	Number of Shares	Weighted Average Grant Date Fair Value per Share
Balance at December 31, 2024	2,000	18.54
Granted	-	-
Vested	1,000	18.54
Forfeited	-	-
Balance at September 30, 2025	1,000	18.54

The compensation cost charged to income in respect of awards granted under the Equity Plan was \$4.5 thousand for each of the three month periods ended September 30, 2025 and 2024 and was \$13.6 thousand for each of the nine month periods ended September 30, 2025 and 2024, respectively. As of September 30, 2025, there was \$18.2 thousand of unrecognized compensation cost related to the unvested RSUs, which is expected to be recognized over a period of 12 months.

During the nine months ended September 30, 2025, the Company paid bonuses in the aggregate amount of \$37.3 thousand to certain employees in the form of common stock. To effect this, the Company issued 1,963 shares having a grant date fair value of \$19.00 per share. Additionally, certain directors elected to have some or all of their 2024 fees paid in common stock. The Company paid \$116.1 thousand of board fees in the form of common stock by issuing 6,731 shares having a grant date fair value of \$17.25 per share. There was no other stock based compensation during the nine month period ended September 30, 2025.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion and analysis is intended as a review of material changes in and significant factors affecting the financial condition and results of operations of Farmers and Merchants Bancshares, Inc. and its consolidated subsidiaries for the periods indicated. This discussion and analysis should be read in conjunction with the unaudited consolidated financial statements and the notes thereto contained in Item 1 of Part I of this report, and with Management’s Discussion and Analysis of Financial Condition and Results of Operations, the audited consolidated financial statements and notes thereto, and the other statistical information contained in the Annual Report of Farmers and Merchants Bancshares, Inc. on Form 10-K for the year ended December 31, 2024 (the “Form 10-K”). References in this report to “us”, “we”, “our”, and “the Company” are to Farmers and Merchants Bancshares, Inc. and, unless the context clearly suggests otherwise, its consolidated subsidiaries.

Forward-Looking Statements

This report may contain forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. Readers of this report should be aware of the speculative nature of “forward-looking statements.” Statements that are not historical in nature, including those that include the words “intend”, “believe”, “estimate”, “predict”, “potential”, or “continue” or the negative of those words and other comparable words, are based on current expectations, estimates and projections about, among other things, the industry and the markets in which we operate, and they are not guarantees of future performance. Whether actual results will conform to expectations and predictions is subject to known and unknown risks and uncertainties, including risks and uncertainties discussed in this report; general economic, market, or business conditions; changes in interest rates, deposit flow, the cost of funds, and demand for loan products and financial services; changes in our competitive position or competitive actions by other companies; changes in the quality or composition of our loan and investment portfolios; our ability to manage growth; changes in laws or regulations or policies of federal and state regulators and agencies; and other circumstances beyond our control. Consequently, all of the forward-looking statements made in this report are qualified by these cautionary statements, and there can be no assurance that the actual results anticipated will be realized, or if substantially realized, will have the expected consequences on our business or operations. These and other risks are discussed in detail in the registration statements and periodic reports that Farmers and Merchants Bancshares, Inc. files with the Securities and Exchange Commission (the “SEC”) (see Item 1A of Part II of this report for further information). Except as required by applicable laws, we do not intend to publish updates or revisions of any forward-looking statements we make to reflect new information, future events or otherwise.

Farmers and Merchants Bancshares, Inc.

Farmers and Merchants Bancshares, Inc. is a Maryland corporation and a financial holding company registered with the Board of Governors of the Federal Reserve System (the “FRB”) under the Bank Holding Company Act of 1956, as amended. The Company was incorporated on November 8, 2016 for the purpose of becoming the holding company of Farmers and Merchants Bank (the “Bank”) in a share exchange transaction that was intended to constitute a tax-free exchange under Section 351 of the Internal Revenue Code of 1986, as amended (the “Reorganization”). The Reorganization was consummated on November 1, 2016, at which time the Bank became a wholly-owned subsidiary of the Company and all of the Bank’s stockholders became stockholders of the Company by virtue of the conversion of their shares of common stock of the Bank into an equal number of shares of common stock of the Company.

The Company's primary business activities are serving as the parent company of the Bank and holding a series investment in First Community Bankers Insurance Co., LLC, a Tennessee "series" limited liability company and licensed protected cell captive insurance company ("FCBI"). The Company owns 100% of one series of membership interests issued by FCBI, which series is deemed a "protected cell" under Tennessee law and has been designated "Series Protected Cell FCB-4" (such series investment is hereinafter referred to as the "Insurance Subsidiary").

The Bank is a Maryland commercial bank chartered on October 24, 1919 that is engaged in a general commercial and retail banking business. The Bank has had one inactive subsidiary, Reliable Community Financial Services, Inc., a Maryland corporation that was incorporated in April 1992 to facilitate the sale of fixed rate annuity products and later positioned to sell a full array of investment and insurance products.

The Insurance Subsidiary represents one protected cell of a protected cell captive insurance company (*i.e.*, FCBI) that was formed on November 9, 2016 to better manage our risk programs, provide insurance efficiencies, and add operating income by both keeping insurance premiums paid with respect to such risks within our affiliated group of entities and realizing certain tax benefits that are unique to captive insurance companies. The Company's investment in the Insurance Subsidiary represents one series of membership interests in FCBI. As a "series" limited liability company, FCBI is authorized by state law and its governing instruments to issue one or more series of membership interests, each of which, for all purposes under state law, is deemed to be a legal entity separate and apart from FCBI and its other series.

Effective October 1, 2020, pursuant to a series of merger transactions, Farmers and Merchants Bancshares, Inc. acquired Carroll Bancorp, Inc. ("Carroll") and the Bank acquired Carroll's wholly-owned bank subsidiary, Carroll Community Bank (collectively, the "Merger").

The Company maintains an Internet site at www.fmb1919.bank on which it makes available, free of charge, its Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and all amendments to the foregoing as soon as reasonably practicable after these reports are electronically filed with, or furnished to, the SEC.

Estimates and Critical Accounting Policies

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent liabilities. See Note 1 of the Notes to the audited consolidated financial statements as of and for the year ended December 31, 2024, which were included in Item 8 of Part II of the Form 10-K. On an on-going basis, management evaluates estimates, including those related to credit losses and intangible assets, impairment of investment securities, income taxes, and fair value of investments. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies affect our more significant judgments and estimates used in the preparation of the consolidated financial statements.

The allowance for credit losses on loans represents management's estimate of expected credit losses inherent in the loan portfolio. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to the amount and timing of expected future cash flows on collateral dependent loans, estimated losses on pools of homogeneous loans based on historical loss experience, consideration of current economic trends and conditions and reasonable and supportable forecasts, all of which may be susceptible to significant change. The loan portfolio also represents the largest asset type on the balance sheet.

Management applies various valuation methodologies to assets and liabilities which often involve a significant degree of judgment, particularly when liquid markets do not exist for the particular items being valued. Quoted market prices are referred to when estimating fair values for certain assets, such as most investment securities. However, for those items for which an observable liquid market does not exist, management utilizes significant estimates and assumptions to value such items. Examples of these items include loans, deposits, borrowings, goodwill, core deposit and other intangible assets, other assets and liabilities obtained or assumed in business combinations. These valuations require the use of various assumptions, including, among others, discount rates, rates of return on assets, repayment rates, cash flows, default rates, and liquidation values. The use of different assumptions could produce significantly different results, which could have material positive or negative effects on our results of operations, financial condition or disclosures of fair value information. In addition to valuation, we must assess whether there are any declines in value below the carrying value of assets that should be considered impaired or otherwise require an adjustment in carrying value and recognition of a loss in the consolidated statements of income. Examples include investment securities, goodwill and core deposit intangible, among others.

Management does not believe that any material changes in our critical accounting policies have occurred since December 31, 2024.

Financial Condition

Total assets increased by \$25.0 million, or 3.0%, to \$869.6 million at September 30, 2025 from \$844.6 million at December 31, 2024. The increase in total assets was due primarily to an increase of \$39.5 million in loans, an increase of \$2.2 million on stock issued by the Federal Home Loan Bank of Atlanta (the "FHLB"), and a \$1.6 million increase in other real estate owned. The increase was offset by a decrease in cash equivalents of \$12.5 million, a decrease of \$4.6 million in debt securities, and a \$1.2 million decrease in deferred income taxes.

Total liabilities increased by \$18.1 million, or 2.3%, to \$806.5 million at September 30, 2025 from \$788.4 million at December 31, 2024. The increase was due primarily to a \$45.2 million increase in FHLB advances and a \$0.7 million increase in long term debt. This was offset by a decrease in deposits of \$24.7 million and a \$3.1 million decrease in repurchase agreements.

Stockholders' equity increased by \$6.9 million, or 12.3%, to \$63.2 million at September 30, 2025 from \$56.3 million at December 31, 2024. The increase was primarily due to net income of \$4.1 million, a reduction of \$3.3 million in accumulated other comprehensive loss, and a \$0.6 million increase in additional paid in capital, offset by cash dividends paid of \$1.1 million.

Loans

Major categories of loans at September 30, 2025 and December 31, 2024 were as follows:

(Dollars in Thousands)	September 30, 2025		December 31, 2024	
Real estate:				
Commercial	\$	430,518	69%	\$ 398,126 68%
Construction/Land development		34,217	5%	27,357 5%
Residential		111,032	18%	111,898 19%
Commercial		51,864	8%	50,405 8%
Consumer		133	0%	176 0%
Total Loans		627,764	100%	587,962 100%
Less: Allowance for credit losses		4,257		4,260
Deferred origination fees, net of costs		1,050		709
	\$	622,457		\$ 582,993

Net loans increased by \$39.5 million, or 6.8%, to \$622.5 million at September 30, 2025 from \$583.0 million at December 31, 2024. The increase was due primarily to increases of \$32.4 million in commercial real estate loans, \$6.9 million in construction loans, and \$1.5 million in commercial loans. The growth was due to the addition of new lending staff during the last 18 months and stabilizing interest rates. The allowance for credit losses on loans at September 30, 2025 remained steady at \$4.3 million at December 31, 2024.

The Company has adopted policies and procedures that seek to mitigate credit risk and to maintain the quality of the loan portfolio. These policies include underwriting standards for new credits as well as the continuous monitoring and reporting of asset quality and the adequacy of the allowance for credit losses on loans. These policies, coupled with continuous training efforts, have provided effective checks and balances for the risk associated with the lending process. Lending authority is based on the level of risk, size of the loan, and the experience of the lending officer. The Company's policy is to make the majority of its loan commitments in the market area it serves. Management believes that this tends to reduce risk because management is familiar with the credit histories of loan applicants and has in-depth knowledge of the risk to which a given credit is subject. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

The following table provides the activity for the allowance for credit losses losses for the three and nine month periods ended September 30, 2025 and 2024:

(Dollars in thousands)	Three Months Ended September 30, 2025				Nine Months Ended September 30, 2025			
	Held to maturity securities	Loans	Unfunded loan commitments	Total	Held to maturity securities	Loans	Unfunded loan commitments	Total
Beginning balance	\$ 81	\$ 4,233	\$ 173	\$ 4,487	\$ 60	\$ 4,260	\$ 240	\$ 4,560
Provision for (recovery of) credit losses	(2)	308	21	327	19	622	(46)	595
Charge-offs	-	(290)	-	(290)	-	(646)	-	(646)
Recoveries	-	6	-	6	-	21	-	21
Ending balance	\$ 79	\$ 4,257	\$ 194	\$ 4,530	\$ 79	\$ 4,257	\$ 194	\$ 4,530

(Dollars in thousands)	Three Months Ended September 30, 2024				Nine Months Ended September 30, 2024			
	Held to maturity securities	Loans	Unfunded loan commitments	Total	Held to maturity securities	Loans	Unfunded loan commitments	Total
Beginning balance	\$ 127	\$ 4,082	\$ 196	\$ 4,405	\$ 36	\$ 4,284	\$ 228	\$ 4,548
Provision for (recovery of) credit losses	(90)	103	(13)	-	1	44	(45)	-
Charge-offs	-	-	-	-	-	(156)	-	(156)
Recoveries	-	6	-	6	-	19	-	19
Ending balance	\$ 37	\$ 4,191	\$ 183	\$ 4,411	\$ 37	\$ 4,191	\$ 183	\$ 4,411

Watch list loans include loans classified as Special Mention, Substandard, and Doubtful. As of September 30, 2025, the Company had \$35.9 million of loans on a watch list for which the borrowers have the potential for experiencing financial difficulties. As of December 31, 2024, the Company had \$8.1 million of such loans. Watch List loans are subject to ongoing management attention and their classifications are reviewed regularly.

Management believes that the \$4.3 million reserve at September 30, 2025 is adequate to cover the expected losses in the loan portfolio. The Company's loan portfolio grew by \$39.5 million during the first nine months of 2025. The allowance for credit losses on loans was 0.68% of the loan portfolio at September 30, 2025 compared to 0.72% at December 31, 2024.

The reserve for held to maturity securities was \$79 thousand at September 30, 2025 and \$60 thousand at December 31, 2024. The reserve can vary from quarter to quarter due to the unrated portion of the bond portfolio where the projected life is the most significant factor in determining the reserve. The unrated bonds have a call provision at the option of the issuer. Market rates at quarter end determines if the bonds are projected to be called which shortens the projected life of the bonds significantly. If market rates are at a level that a call is not projected, the bonds are assumed to reach maturity which significantly lengthens the projected life. A longer projected life increases the allowance for credit losses.

Investment Securities

Investments in debt securities decreased by \$3.9 million, or 2.7%, to \$142.3 million at September 30, 2025 from \$146.2 million at December 31, 2024. The Company had classified 85% and 86% of the investment portfolio as available for sale as of September 30, 2025 and December 31, 2024, respectively. The remaining balance of the portfolio was classified as held to maturity.

Securities classified as available for sale are held for an indefinite period of time and may be sold in response to changing market and interest rate conditions as part of the Company’s asset/liability management strategy. Available for sale debt securities are carried at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders’ equity, net of income taxes. Securities classified as held to maturity, which the Company has both the positive intent and ability to hold to maturity, are reported at amortized cost. The Company records unrealized gains and losses on equity securities in earnings. The Company does not currently follow a strategy of making security purchases with a view to near-term sales, and, therefore, does not own trading securities. The Company manages the investment portfolio within policies that seek to achieve desired levels of liquidity, manage interest rate sensitivity, meet earnings objectives, and provide required collateral for deposit and borrowing activities.

Other Real Estate Owned

Other real estate owned (“OREO”) as of September 30, 2025 consisted of three properties: (i) a strip shopping center in Carroll County, Maryland that was placed in OREO during June, 2025; (ii) an apartment building in Baltimore, Maryland that was acquired in the Merger; and (iii) a land parcel in Gettysburg, Pennsylvania. All three properties are being marketed for sale.

(dollars in thousands)	September 30, 2025	December 31, 2024
Other Real Estate Owned	\$ 2,775	\$ 1,176

Other assets

Other assets decreased by \$804 thousand to \$7.4 million at September 30, 2025 from \$8.2 million at December 31, 2024 due primarily to decreases in prepaid expenses.

Deposits

Total deposits decreased by \$24.7 million, or 3.3%, to \$734.1 million at September 30, 2025 from \$758.8 million at December 31, 2024. The decrease in deposits was due primarily to a \$61.8 million decrease in brokered CDs, a \$6.7 million decrease in interest bearing checking accounts, a \$3.1 million decrease in sweep accounts, and a \$2.6 million decrease in savings accounts. This was offset by a \$15.5 million increase in CDARS deposits, \$14.2 million increase in demand deposits, a \$12.6 million increase in money market accounts, a \$5.9 million in ICS accounts, and a \$3.1 million increase in CDs. The decreases in brokered CDs were due to calls and maturities that were strategically replaced with lower cost FHLB advances and other lower cost brokered CDs.

The following table shows the average balances and average costs of deposits for the nine month periods ended September 30, 2025 and 2024:

(dollars in thousands)	September 30, 2025 Average		September 30, 2024 Average	
	Balance	Cost	Balance	Cost
Noninterest bearing demand deposits	\$ 109,687	0.00%	\$ 111,088	0.00%
Interest bearing demand deposits	116,694	0.91%	125,273	0.76%
Savings and money market deposits	145,791	0.77%	150,372	0.69%
Time deposits	370,849	3.97%	271,372	4.30%
	<u>\$ 743,021</u>	<u>2.28%</u>	<u>\$ 658,105</u>	<u>2.08%</u>

Liquidity Management

Liquidity describes our ability to meet financial obligations that arise out of the ordinary course of business. Liquidity is primarily needed to meet depositor withdrawal requirements, to fund loans, and to fund our other debts and obligations as they come due in the normal course of business. We maintain our asset liquidity position internally through short-term investments, the maturity distribution of the investment portfolio, loan repayments, and income from earning assets. On the liability side of the balance sheet, liquidity is affected by the timing of maturing liabilities and the ability to generate new deposits or borrowings as needed.

The Bank is approved to borrow 75% of eligible pledged single-family residential loans and 50% of eligible pledged commercial loans as well as investment securities, or approximately \$22.2 million under a secured line of credit with the Federal Home Loan Bank of Atlanta (the “FHLB”). At September 30, 2025 the Bank also has a facility with the Federal Reserve Bank of Richmond (the “Reserve Bank”), which has been in place for over 10 years and is collateralized by loans. Under this facility, the Bank can borrow approximately \$30.2 million at September 30, 2025. Additionally, the Bank has \$23.5 million (\$14.5 million unsecured and \$9.0 million secured) of overnight federal funds lines of credit available from commercial banks at September 30, 2025.

FHLB advances of \$50.2 million and \$5.0 million were outstanding as of September 30, 2025 and December 31, 2024, respectively. There were no borrowings from the Reserve Bank or our commercial bank lenders at September 30, 2025 or December 31, 2024. Management believes that we have adequate liquidity sources to meet all anticipated liquidity needs over the next 12 months. Management knows of no trend or event which is likely to have a material impact on our ability to maintain liquidity at satisfactory levels. Uninsured deposits were approximately \$120.3 million, or 16.4% of total deposits, at September 30, 2025.

Borrowings and Other Contractual Obligations

The Company’s contractual obligations consist primarily of borrowings and operating leases for various facilities.

Securities sold under agreements to repurchase represent overnight borrowings from customers. Securities owned by the Company which are used as collateral for these borrowings are primarily U.S. government agency securities.

On September 30, 2020, Farmers and Merchants Bancshares, Inc. borrowed \$17.0 million from First Horizon Bank that was used, on October 1, 2020, to fund a portion of the merger consideration paid in the Merger (the “Merger Loan”). Net of issuance costs of \$28.1 thousand, the Company received \$16.9 million in loan proceeds. The Merger Loan matured on September 30, 2025. The interest rate on the Merger Loan was fixed at 4.10%. The Company made quarterly interest-only payments through October 1, 2021. During the remaining term of the Merger Loan, the Company was required to make quarterly interest and principal payments of approximately \$646.5 thousand, which was based on a nine year straight-line amortization schedule. To secure its obligations under the Merger Loan, the Company pledged all of its shares of common stock of the Bank to the lender. As of December 31, 2024, the balance due under the Merger Loan was \$11.3 million. On September 30, 2025, the Company repaid the \$10.0 million due under the Merger Loan using a portion of the net proceeds from its sale of Subordinated Notes discussed below.

On September 25, 2025, Farmers and Merchants Bancshares, Inc. entered into a Subordinated Note Purchase Agreements with certain qualified institutional buyers and institutional accredited investors pursuant to which the Company issued and sold \$12.5 million in aggregate principal amount of its 7.875% Fixed to Floating Rate Subordinated Notes due September 25, 2035 (the “Subordinated Notes”). From and including the original issue date of the Subordinated Notes (the “Issue Date”) to but excluding September 26, 2030 or the date of earlier redemption, the Company will pay interest on the Notes semi-annually in arrears on March 26th and September 26th of each year at a fixed interest rate of 7.875% per annum, computed on the basis of a 360-day year consisting of twelve 30-day months, beginning on March 26, 2026. From and including September 26, 2030, to, but excluding, their maturity dates or the date of earlier redemption (the “Floating Rate Period”), the Company will pay interest on the Subordinated Notes at a floating interest rate at the Three-Month Term SOFR (as defined in the Subordinated Notes), reset quarterly, plus 458 basis points, computed on the basis of a 360-day year and the actual number of days elapsed. During the Floating Rate Period, the Company will pay interest on the Subordinated Notes quarterly in arrears on March 26th, June 26th, September 26th, and December 26th of each year, beginning on December 26, 2030. Notwithstanding the foregoing, if the Three-Month Term SOFR rate is less than zero, then the Three-Month Term SOFR rate shall be deemed to be zero.

The Subordinated Notes are not subject to any sinking fund and are not convertible into or exchangeable for any other securities or assets of the Company or any of its subsidiaries. The Subordinated Notes are not subject to redemption at the option of the holder. Prior to September 26, 2030, the Company may redeem the Subordinated Notes, in whole or in part, only under certain limited circumstances set forth in the Subordinated Notes. On or after September 26, 2030, the Company may redeem the Subordinated Notes, in whole or in part, at its option, on any Interest Payment Date (as defined in the Notes). Any redemption by the Company would be at a redemption price equal to 100% of the principal amount of the Subordinated Notes being redeemed, together with any accrued and unpaid interest on the Subordinated Notes being redeemed to but excluding the date of redemption. Any redemption of the Subordinated Notes will be subject to the receipt of any and all required federal and state regulatory approvals, including the approval of the Board of Governors of the Federal Reserve System to the extent then required under applicable laws or regulations.

The payment of principal and interest on the Notes is subject to acceleration only in limited circumstances in the case of certain bankruptcy and insolvency-related events with respect to the Company. The Subordinated Notes are general unsecured, subordinated obligations of the Company and rank junior to all of its existing and future Senior Indebtedness (as defined in the Subordinated Notes). The portion of the net proceeds that were not used to repay the Merger Loan are intended to qualify as Tier 2 capital of the Company for regulatory capital purposes.

Specific information about the Company's borrowings and contractual obligations is set forth in the following table:

(Dollars in thousands)	September 30, 2025	December 31, 2024
Amount outstanding at period end:		
Securities sold under repurchase agreements	\$ 2,458	\$ 5,564
Federal Home Loan Bank advances	50,200	5,000
Long-term debt (net of issuance costs)	12,024	11,329
Weighted average rate paid at period end:		
Securites sold under repurchase agreements	1.25%	1.25%
Federal Home Loan Bank advances	3.88%	1.00%
Long-term debt	7.88%	4.10%
Average rate paid during the period ended:		
Securites sold under repurchase agreements	1.27%	1.25%
Federal Home Loan Bank advances	3.61%	1.00%
Long-term debt	4.26%	4.10%

The long-term debt outstanding at September 30, 2025 will be payable at maturity on September 30, 2035.

Off-Balance Sheet Arrangements

In the normal course of business, the Bank makes commitments to extend credit and issues standby letters of credit. Outstanding loan commitments, unused lines of credit, and letters of credit as of September 30, 2025 and December 31, 2024 are as follows:

(Dollars in thousands)	September 30, 2025	December 31, 2024
Loan commitments		
Construction and land development	\$ 3,323	\$ 532
Commercial	4,057	7,250
Commercial real estate	19,560	24,062
Residential	5,826	405
	<u>\$ 32,766</u>	<u>\$ 32,249</u>
Unused lines of credit		
Home-equity lines	\$ 16,018	\$ 17,505
Commercial lines	65,026	49,249
	<u>\$ 81,044</u>	<u>\$ 66,754</u>
Letters of credit	<u>\$ 2,311</u>	<u>\$ 1,974</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have interest rates at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

The maximum exposure to credit loss in the event of nonperformance by the customer is the contractual amount of the commitment. Loan commitments, lines of credit and letters of credit are made on the same terms, including collateral, as outstanding loans. Management is not aware of any accounting loss that is likely to be incurred as a result of funding its credit commitments.

RESULTS OF OPERATIONS

Comparison of Operating Results for the Nine Months Ended September 30, 2025 and 2024

General

Net income for the nine months ended September 30, 2025 was \$4.1 million compared to \$3.4 million for the same period of 2024. Total interest income increased by \$3.0 million, from \$28.1 million for the nine months ended September 30, 2024 to \$31.1 million for the nine months ended September 30, 2025. Total interest expense increased by \$600 thousand, from \$12.7 million for the nine months ended September 30, 2024 to \$13.3 million for the nine months ended September 30, 2025. The provision for credit losses for the nine month periods ended September 30, 2025 and 2024 was \$595 thousand and \$0, respectively. Noninterest income increased by \$191 thousand, from \$1.3 million for the nine months ended September 30, 2024 to \$1.5 million thousand for the nine months ended September 30, 2025. Noninterest expense increased by \$1.3 million, from \$12.3 million for the nine months ended September 30, 2024 to \$13.6 million for the nine months ended September 30, 2025. Income tax expense increased by \$65 thousand, from \$993 thousand for the nine months ended September 30, 2024 to \$1.1 million for the nine months ended September 30, 2025.

Net Interest Income

Net interest income was \$17.8 million for the nine months ended September 30, 2025 compared to \$15.4 million for the same period of 2024. The net yield on interest earning assets increased to 2.98% for the nine months ended September 30, 2025 from 2.67% for the same period of 2024. Higher interest income on loans was the driving factor in the higher net interest income along with lower cost of funds.

Total interest income for the nine months ended September 30, 2025 was \$31.1 million compared to \$28.1 million for the same period of 2024, an increase of \$3.0 million, or 11.0%.

Total interest income on loans for the nine months ended September 30, 2025 increased by \$4.6 million when compared to the same period of 2024 due to a \$64.1 million higher average loan balance for the nine months ended September 30, 2025 when compared to the same period of 2024 and a higher loan yield of 5.79% for the nine months ended September 30, 2025 versus 5.36% for the same period of 2024. Investment income for the nine months ended September 30, 2025 decreased by \$1.6 million, or 29.8%, when compared to the same period of 2024 due to a decrease in the fully-taxable equivalent yield to 3.02% for the nine months ended September 30, 2025 compared to 3.47% for the same period of 2024, and a \$39.1 million lower average investment balance. The fully-taxable equivalent yield on total interest-earning assets increased 33 basis points to 5.19% for the nine months ended September 30, 2025 from 4.86% for the same period of 2024. The average balance of total interest-earning assets increased by \$28.4 million to \$804.3 million for the nine months ended September 30, 2025 compared to \$775.9 million for the same period of 2024.

Total interest expense for the nine months ended September 30, 2025 was \$13.3 million compared to \$12.7 million for the same period of 2024, an increase of \$600 thousand, or 4.7%. The increase was due to a \$33.3 million increase in the average balance of interest-bearing liabilities to \$657.8 million for the nine months ended September 30, 2025 compared to \$624.5 million for the same period of 2024. Overall cost of funds on interest bearing deposits and borrowings was 2.70% for the nine months ended September 30, 2025 compared to 2.71% for the same period of 2024. The cost of funds for time deposits decreased to 3.97% for the nine months ended September 30, 2025 from 4.30% for the same period of 2024. Costs of funds attributable to long-term debt increased slightly from 4.18% for the nine months ended September 30, 2024 to 4.26% for the same period of 2025. The cost of advances from the FHLB increased to 3.61% for the nine months ended September 30, 2025 from 2.18% for the same period of 2024.

Average noninterest-earning assets increased by \$7.3 million to \$28.7 million for the nine months ended September 30, 2025 compared to \$21.5 million in the same period of 2024. Average noninterest-bearing deposits decreased by \$1.4 million to \$109.7 million during the nine months ended September 30, 2025 compared to \$111.1 million in the same period of 2024. The average balance in stockholders' equity increased by \$5.3 million for the nine months ended September 30, 2025 when compared with the same period of 2024.

The following table sets forth information regarding the average balances of interest-earning assets and interest-bearing liabilities, the amount of interest income and interest expense and the resulting yields on average interest-earning assets and rates paid on average interest-bearing liabilities for the nine month periods ended September 30, 2025 and 2024. Average balances are also provided for noninterest-earning assets and noninterest-bearing liabilities.

Average Balance Sheet, Interest and Yields

(Dollars in thousands)	Nine Months Ended September 30, 2025			Nine Months Ended September 30, 2024		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Assets:						
Loans	\$ 611,727	\$ 26,572	5.79%	\$ 547,646	\$ 22,021	5.36%
Securities, taxable	146,273	3,194	2.91%	186,277	4,798	3.43%
Securities, tax exempt	18,975	548	3.85%	18,076	516	3.80%
Securities combined	165,248	3,742	3.02%	204,353	5,314	3.47%
Federal funds sold and other interest bearing deposits	27,350	971	4.73%	23,887	920	5.14%
Total interest-earning assets	804,325	\$ 31,285	5.19%	775,886	\$ 28,255	4.86%
Noninterest-earning assets	28,744			21,481		
Total assets	<u>\$ 833,069</u>			<u>\$ 797,367</u>		
Liabilities and Stockholders' Equity:						
NOW, savings, and money market	\$ 262,485	\$ 1,632	0.83%	\$ 275,645	\$ 1,490	0.72%
Certificates of deposit	370,849	11,033	3.97%	271,372	8,754	4.30%
Securities sold under repurchase agreements	4,448	42	1.27%	5,207	49	1.26%
Term Debt	10,708	342	4.26%	12,364	388	4.18%
FRB advances and other borrowings	-	-	0.00%	53,234	1,910	4.78%
FHLB advances	9,288	251	3.61%	6,682	109	2.18%
Total interest-bearing liabilities	657,778	13,300	2.70%	624,504	12,700	2.71%
Noninterest-bearing deposits	109,687			111,088		
Noninterest-bearing liabilities	6,859			8,299		
Total liabilities	774,324			743,891		
Stockholders' equity	58,745			53,476		
Total liabilities and stockholders' equity	<u>\$ 833,069</u>			<u>\$ 797,367</u>		
Net interest income		<u>\$ 17,985</u>			<u>\$ 15,555</u>	
Interest rate spread			2.49%			2.15%
Net yield on interest-earning assets			2.98%			2.67%
Ratio of average interest-earning assets to Average interest-bearing liabilities			122.28%			124.24%

Provision for Credit Losses

For the nine months ended September 30, 2025, provisions for credit losses on loans totaled \$622 thousand and a provision for held to maturity securities of \$19 thousand, offset by a recovery for unfunded loan commitments of \$46 thousand, resulted in a net provision of \$595 thousand. For the nine months ended September 30, 2024, provisions for credit losses on loans was \$44 thousand and a provision for held to maturity securities of \$1 thousand, offset by a recovery for unfunded loan commitments of \$45 thousand resulted in a net provision of \$0.

Allocation of the Allowance for Credit Losses on Loans At September 30, 2025 and December 31, 2024 (Dollars in thousands)

	2025		2024	
	Allocation	% of Total*	Allocation	% of Total*
Real estate:				
Commercial	\$ 2,282	68.58%	\$ 2,481	67.71%
Construction and land development	520	5.45%	478	4.65%
Residential	642	17.69%	751	19.03%
Commercial	762	8.26%	513	8.57%
Consumer	1	0.02%	4	0.00%
Unallocated	50	0.00%	33	0.03%
	<u>\$ 4,257</u>	100.00%	<u>\$ 4,260</u>	100.00%

* Percentage of loan type to the total loan portfolio.

	For the Nine Months Ended September 30,	
	2025	2024
	(Dollars in thousands)	
Balance at beginning of year	\$ 4,260	\$ 4,284
Charge-offs:		
Real Estate:		
Commercial	(646)	-
Commercial	-	(153)
Consumer	-	(3)
Total Charge-offs	<u>\$ (646)</u>	<u>\$ (156)</u>
Recoveries:		
Real Estate:		
Residential	\$ 21	\$ 19
Total Recoveries	<u>\$ 21</u>	<u>\$ 19</u>
Net (charge offs)/recoveries	\$ (625)	\$ (137)
Provision for credit losses - loans	622	44
Balance at end of period	<u>\$ 4,257</u>	<u>\$ 4,191</u>
	<u>At September 30, 2025</u>	<u>At December 31, 2024</u>
Ratios:		
ACL on loans to loans	0.68%	0.72%
Non performing loans to loans	0.20%	0.00%
Non accrual loans to loans	0.00%	0.41%
ACL on loans to non accrual loans	0.00%	174.59%

Noninterest Income

Noninterest income for the nine months ended September 30, 2025 was \$1.5 million compared to \$1.3 million for the same period of 2024, an increase of \$191 thousand, or 14.4%. The increase was due primarily to an increase of \$126 thousand for the gain on the settlement of a fair value hedge, a \$32 thousand increase in loss on sale of debt securities, a \$109 thousand increase in other fees and commissions, an \$85 thousand increase in mortgage banking income, and an increase of \$28 thousand in bank owned life insurance income, offset by a \$94 thousand decrease in service charges on deposits, and a decrease non-recurring of insurance proceeds of \$143 thousand from the storm damage to the Bank's Upperco, Maryland location recorded during the nine months ended September 30, 2024 versus \$73 related to the theft of the Company's ATM at its Owings Mills, Maryland location during the nine months ended September 30, 2025.

Noninterest Expense

Noninterest expense for the nine months ended September 30, 2025 totaled \$13.6 million compared to \$12.3 million for the same period of 2024, an increase of \$1.3 million, or 10.8%. The increase was due primarily to an increase in salaries and benefits of \$617 thousand due to higher staffing levels in 2025, an increase in Federal Deposit Insurance Corporation premiums of \$184 thousand, an increase in OREO expenses of \$41 thousand due to two loans being foreclosed and moved to OREO in 2025, and an increase of \$379 thousand in occupancy and furniture and equipment expense as a result of increased building repairs, office maintenance expenses, and increased rent expense.

Income Tax Expense

Income tax expense for the nine months ended September 30, 2025 was \$1.1 million compared to \$993 thousand for the same period of 2024. The effective tax rate was 20.6% for the nine months ended September 30, 2025 compared to 22.5% for the same period of 2024. The decrease in the effective tax rate was due to the reduction of a deferred tax liability in 2025.

Comparison of Operating Results for the Three Months Ended September 30, 2025 and 2024

General

Net income for the three months ended September 30, 2025 was \$1.7 million compared to \$1.1 million for the same period in 2024. Total interest income increased by \$1.1 million, from \$9.8 million for the three months ended September 30, 2024 to \$10.9 million for the three months ended September 30, 2025. Total interest expense decreased by \$156 thousand, from \$4.8 million for the three months ended September 30, 2024 to \$4.6 million for the three months ended September 30, 2025. The provision for credit losses for the three-month periods ended September 30, 2025 and September 30, 2024 was \$327 thousand and \$0, respectively. Noninterest income increased by \$100 thousand, from \$451 thousand for the three months ended September 30, 2024 to \$551 thousand for the three months ended September 30, 2025. Noninterest expense increased by \$338 thousand, from \$4.1 million for the three months ended September 30, 2024 to \$4.4 million for the three month ended September 30, 2025. Income tax expense increased by \$120 thousand, from \$342 thousand for the three months ended September 30, 2024 to \$462 thousand for the three months ended September 30, 2025.

Net Interest Income

Net interest income was \$6.4 million for the three months ended September 30, 2025 compared to \$5.1 million for the same period of 2024. The net yield on interest earning assets increased to 3.09% for the three months ended September 30, 2025 from 2.62% for the same period of 2024. Higher interest income on loans was the driving factor in the higher net interest income along with lower cost of funds.

Total interest income on loans for the three months ended September 30, 2025 increased by \$1.4 million when compared to the same period of 2024 due to a \$58.5 million higher average loan balance for the three months ended September 30, 2025 when compared to the same period of 2024 and a higher loan yield of 5.95% for the three months ended September 30, 2025 versus 5.58% for the same period of 2024. Investment income for the three months ended September 30, 2025 decreased by \$536 thousand, or 30.4%, when compared to the same period of 2024 due to a decrease in the fully-taxable equivalent yield to 3.04% for the three months ended September 30, 2025 compared to 3.60% for the same period of 2024, and a \$37.8 million lower average investment balance. The fully-taxable equivalent yield on total interest-earning assets increased 33 basis points to 5.38% for the three months ended September 30, 2025 from 5.05% for the same period of 2024. The average balance of total interest-earning assets increased by \$43.0 million to \$825.9 million for the three months ended September 30, 2025 compared to \$782.9 million for the same period of 2024.

Total interest expense for the three months ended September 30, 2025 was \$4.6 million compared to \$4.8 million for the same period of 2024, a decrease of \$156 thousand, or 3.3%. The decrease was due to the overall cost of funds dropping to 2.74% for the three months ended September 30, 2025 from 3.00% for the same period in 2024. Interest expense on time deposits decreased to 3.90% for the three months ended September 30, 2025 from 4.54% for the same period of 2024. The cost of advances from the FHLB increased to 4.43% for the three months ended September 30, 2025 from 2.99% for the same period of 2024.

Average noninterest-earning assets increased by \$6.9 million to \$31.4 million for the three months ended September 30, 2025 compared to \$24.6 million in the same period of 2024. Average noninterest-bearing deposits increased by \$10.5 million to \$117.2 million during the three months ended September 30, 2025 compared to \$106.7 million in the same period of 2024. The average balance in stockholders' equity increased by \$4.9 million for the three months ended September 30, 2025 when compared with the same period of 2024.

The following table sets forth information regarding the average balances of interest-earning assets and interest-bearing liabilities, the amount of interest income and interest expense and the resulting yields on average interest-earning assets and rates paid on average interest-bearing liabilities for the three-month periods ended September 30, 2025 and 2024. Average balances are also provided for noninterest-earning assets and noninterest-bearing liabilities.

Average Balance Sheet, Interest and Yields

(Dollars in thousands)	Three Months Ended September 30, 2025			Three Months Ended September 30, 2024		
	Average Balance	Interest	Yield	Average Balance	Interest	Yield
Assets:						
Loans	\$ 625,431	\$ 9,307	5.95%	\$ 566,893	\$ 7,902	5.58%
Securities, taxable	142,995	1,071	3.00%	181,816	1,624	3.57%
Securities, tax exempt	19,125	163	3.41%	18,099	174	3.85%
Securities combined	162,120	1,234	3.04%	199,915	1,798	3.60%
Federal funds sold and other interest bearing deposits	38,390	453	4.72%	16,130	193	4.79%
Total interest-earning assets	825,941	\$ 10,994	5.32%	782,938	\$ 9,893	5.05%
Noninterest-earning assets	31,446			24,555		
Total assets	<u>\$ 857,387</u>			<u>\$ 807,493</u>		
Liabilities and Stockholders' Equity:						
NOW, savings, and money market	\$ 265,255	\$ 501	0.76%	\$ 260,437	\$ 547	0.84%
Certificates of deposit	379,267	3,843	4.06%	296,463	3,364	4.54%
Securities sold under repurchase agreements	4,014	13	1.30%	4,073	13	1.28%
Term Debt	10,736	120	4.47%	11,917	125	4.20%
FRB advances and other borrowings	-	-	0.00%	54,000	648	4.80%
FHLB advances	12,670	129	4.07%	8,652	65	2.99%
Total interest-bearing liabilities	671,942	4,606	2.74%	635,542	4,762	3.00%
Noninterest-bearing deposits	117,171			106,694		
Noninterest-bearing liabilities	7,523			9,438		
Total liabilities	796,636			751,674		
Stockholders' equity	60,751			55,819		
Total liabilities and stockholders' equity	<u>\$ 857,387</u>			<u>\$ 807,493</u>		
Net interest income		<u>\$ 6,388</u>			<u>\$ 5,131</u>	
Interest rate spread			2.58%			2.06%
Net yield on interest-earning assets			3.09%			2.62%
Ratio of average interest-earning assets to Average interest-bearing liabilities			122.92%			123.19%

Provision for Credit Losses

For the three months ended September 30, 2025, provisions for credit losses on loans totaled \$308 thousand, a provision for unfunded loan commitments of \$21 thousand, offset by a recovery of provision on held to maturity securities of \$2 thousand, resulted in a net provision of \$327 thousand. For the three months ended September 30, 2024, the provision for credit losses on loans was \$103 thousand, offset by a recovery of provision on held to maturity securities of \$90 thousand and unfunded loan commitments of \$13 thousand resulted in a net provision of \$0.

Noninterest Income

Noninterest income for the three months ended September 30, 2025 was \$551 thousand compared to \$451 thousand for the same period of 2024, an increase of \$100 thousand, or 22.2%. The increase was due primarily to a \$32 thousand increase in mortgage banking income, a non recurring insurance payment of \$73 thousand related to the theft of an ATM, an increase of \$2 thousand in bank owned life insurance income, and a \$25 thousand increase in other fees and commissions, offset by a decrease of \$24 thousand in service charges on deposits.

Noninterest Expense

Noninterest expense for the three months ended September 30, 2025 totaled \$4.4 million compared to \$4.1 million for the same period of 2024, an increase of \$338 thousand, or 8.3%. The increase was due primarily to an increase in Federal Deposit Insurance Corporation premiums of \$59 thousand, an increase in salaries and benefits of \$324 thousand due to higher staffing levels in 2025, and an increase of \$49 thousand in occupancy and furniture and equipment expense as a result of increased building repairs, office maintenance expenses, and increased rent expense.

Income Tax Expense

Income tax expense for the three months ended September 30, 2025 was \$462 thousand compared to \$342 thousand for the same period of 2024. The effective tax rate was 21.3% for the three months ended September 30, 2025 compared to 23.3% for the same period of 2024. The decrease in the effective tax rate was due to the reduction of a deferred tax liability in 2025.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Farmers and Merchants Bancshares, Inc. is a “smaller reporting company” as defined in Rule 12b-2 promulgated under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and, accordingly, is not required to include the information required by this item.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports filed under the Exchange Act with the SEC, such as this Quarterly Report, is recorded, processed, summarized and reported within the periods specified in those rules and forms, and that such information is accumulated and communicated to our management, including Farmers and Merchants Bancshares, Inc.’s principal executive officer (“PEO”) and the principal financial officer (“PFO”), as appropriate, to allow for timely decisions regarding required disclosure. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Over time, controls may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the effectiveness of these disclosure controls as of September 30, 2025 was carried out under the supervision and with the participation of management, including the PEO and the PFO. Based on that evaluation, management, including the PEO and the PFO, has concluded that our disclosure controls and procedures are, in fact, effective at the reasonable assurance level.

During the quarter ended September 30, 2025, there was no change in our internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

The risks and uncertainties to which our financial condition and operations are subject are discussed in detail in Item 1A of Part I of the Form 10-K. Management does not believe that any material changes in our risk factors have occurred since they were last disclosed.

Item 2. Unregistered Sales of Equity Securities, Use of Proceeds and Issuer Purchases of Equity Securities

None.

Item 3. Defaults upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not Applicable.

Item 5. Other Information

None of the directors or officers of the Company notified the Company that, during the quarter ended September 30, 2025, they adopted or terminated (i) any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) promulgated under the Exchange Act or (ii) any “non-Rule 10b5-1 trading arrangement” as defined in Item 408(c) of the SEC’s Regulation S-K.

Item 6. Exhibits

The exhibits filed or furnished with this quarterly report are listed in the following Exhibit Index:

<u>Exhibit</u>	<u>Description</u>
4.1	<u>Form of 7.875% Fixed to Floating Rate Subordinated Note due September 25, 2035 issued by and Farmers and Merchants Bancshares, Inc. (incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K filed on September 25, 2025)</u>
10.1	<u>Form of Subordinated Note Purchase Agreement, dated as of September 25, 2025, by and among Farmers and Merchants Bancshares, Inc. and the purchasers named therein (incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K filed on September 25, 2025)</u>
31.1	<u>Certifications of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)</u>
31.2	<u>Certifications of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act (filed herewith)</u>
32	<u>Certification of the Principal Executive Officer and the Principal Financial Office pursuant to Section 906 of the Sarbanes-Oxley Act (furnished herewith)</u>
101	Interactive Data Files pursuant to Rule 405 of Regulation S-T (filed herewith)
104	The cover page of Farmers and Merchants Bancshares, Inc.'s Quarterly Report on Form 10-Q for the quarter ended September 30, 2025 formatted in Inline XBRL, included within the Exhibit 101 attachments (filed herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FARMERS AND MERCHANTS BANCSHARES, INC.

Date: November 14, 2025

/s/ Gary A. Harris
Gary A. Harris
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2025

/s/ Paul B. Susie
Paul B. Susie
Treasurer and Chief Financial Officer
(Principal Financial Officer & Principal Accounting Officer)

Certifications of the Principal Executive Officer
Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Gary A. Harris, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Farmers and Merchants Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 14, 2025

/s/ Gary A. Harris

Gary A. Harris

Chief Executive Officer

(Principal Executive Officer)

**Certifications of the Principal Financial Officer
Pursuant to Securities Exchange Act Rules 13a-14 and 15d-14
As adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Paul B. Susie, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Farmers and Merchants Bancshares, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date November 14, 2025

/s/ Paul B. Susie

Paul B. Susie

Treasurer and Chief Financial Officer
(Principal Financial Officer)

Certification of Periodic Report
Pursuant to 18 U.S.C. § Section 1350
As adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

Pursuant to, and for purposes only of, 18 U.S.C. § 1350, each of the undersigned hereby certifies that (i) the Quarterly Report of Farmers and Merchants Bancshares, Inc. on Form 10-Q for the quarter ended September 30, 2025 filed with the Securities and Exchange Commission (the “Report”) fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers and Merchants Bancshares, Inc.

Date: November 14, 2025

/s/ Gary A. Harris

Gary A. Harris
Chief Executive Officer
(Principal Executive Officer)

Date: November 14, 2025

/s/ Paul B. Susie

Paul B. Susie
Treasurer and Chief Financial Officer
(Principal Financial Officer)