

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 the quarterly period March 31, 2024

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from ____ to
Commission File Number 001-38084

FARMERS & MERCHANTS BANCORP, INC.

(Exact name of registrant as specified in its charter)

OHIO

(State or other jurisdiction of
incorporation or organization)

34-1469491

(IRS Employer
Identification No.)

307 North Defiance Street, Archbold, Ohio
(Address of principal executive offices)

43502

(Zip Code)

(419) 446-2501

Registrant's telephone number, including area code

(Former name, former address and former fiscal year, if changed since last report.)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of Each Exchange
Common Stock, No Par Value	FMAO	NASDAQ Capital Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or Section 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period 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 smaller reporting company or an emerging growth company. See the definitions 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 of each of the issuers' classes of common stock, as of the latest practicable date:

Common Stock, No Par Value
Class

13,682,070
Outstanding as of May 3, 2024

SECURITIES AND EXCHANGE COMMISSION
 Washington, D.C. 20549
 FORM 10Q

FARMERS & MERCHANTS BANCORP, INC.
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101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. ⁽¹⁾	
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents. ⁽¹⁾	

(1)Pursuant to Rule 406T of Regulation S-T, the interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

PART 1 - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

	(In Thousands)	
	March 31, 2024 (Unaudited)	December 31, 2023
Assets		
Cash and due from banks	\$ 186,541	\$ 140,917
Federal funds sold	1,241	1,284
Total cash and cash equivalents	187,782	142,201
Interest-bearing time deposits	2,735	2,740
Securities - available-for-sale	347,516	358,478
Other securities, at cost	14,744	17,138
Loans held for sale	2,410	1,576
Loans, net of allowance for credit losses of \$24,680 and \$25,024	2,516,687	2,556,167
Premises and equipment	35,007	35,790
Construction in progress	9	8
Goodwill	86,358	86,358
Loan servicing rights	5,555	5,648
Bank owned life insurance	34,123	33,907
Other assets	54,628	43,218
Total Assets	\$ 3,287,554	\$ 3,283,229
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	\$ 510,731	\$ 528,465
Interest-bearing		
NOW accounts	829,236	816,790
Savings	635,430	599,191
Time	645,985	663,017
Total deposits	2,621,382	2,607,463
Securities sold under agreements to repurchase	28,218	28,218
Federal Home Loan Bank (FHLB) advances	256,628	265,750
Subordinated notes, net of unamortized issuance costs	34,731	34,702
Dividend payable	2,975	2,974
Accrued expenses and other liabilities	25,930	27,579
Total liabilities	2,969,864	2,966,686
Commitments and Contingencies		
Stockholders' Equity		
Common stock - No par value 20,000,000 shares authorized; issued and outstanding		
14,564,425 shares 3/31/24 and 12/31/23	135,482	135,515
Treasury stock - 881,155 shares 3/31/24, 899,784 shares 12/31/23	(10,851)	(11,040)
Retained earnings	223,648	221,080
Accumulated other comprehensive loss	(30,589)	(29,012)
Total stockholders' equity	317,690	316,543
Total Liabilities and Stockholders' Equity	\$ 3,287,554	\$ 3,283,229

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2023, Condensed Consolidated Balance Sheet has been derived from the audited Condensed Consolidated Balance Sheet as of that date.

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

(In Thousands, Except Per Share Data)

Three Months Ended

March 31, 2024

March 31, 2023

		March 31, 2024	March 31, 2023
Interest Income			
Loans, including fees	\$	35,200	\$ 29,703
Debt securities:			
U.S. Treasury and government agencies		1,045	1,068
Municipalities		394	408
Dividends		333	123
Federal funds sold		7	21
Other		1,675	479
Total interest income		38,654	31,802
Interest Expense			
Deposits		15,279	8,151
Federal funds purchased and securities sold under agreements to repurchase		284	405
Borrowed funds		2,689	1,280
Subordinated notes		284	284
Total interest expense		18,536	10,120
Net Interest Income - Before Provision for Credit Losses		20,118	21,682
Provision for Credit Losses - Loans		(289)	817
Provision for Credit Losses - Off Balance Sheet Credit Exposures		(266)	62
Net Interest Income After Provision for Credit Losses		20,673	20,803
Noninterest Income			
Customer service fees		2,782	2,447
Other service charges and fees		1,057	2,554
Net gain on sale of loans		107	67
Net loss on sale of available-for-sale securities		-	(891)
Total noninterest income		3,946	4,177
Noninterest Expense			
Salaries and wages		7,846	6,657
Employee benefits		2,171	2,165
Net occupancy expense		1,027	856
Furniture and equipment		1,353	1,252
Data processing		500	726
Franchise taxes		555	366
ATM expense		473	623
Advertising		530	514
FDIC assessment		580	306
Servicing rights amortization - net		168	159
Consulting fees		186	230
Other general and administrative		2,452	3,077
Total noninterest expense		17,841	16,931
Income Before Income Taxes		6,778	8,049
Income Taxes		1,419	1,583
Net Income	\$	5,359	\$ 6,466
Basic Earnings Per Share	\$	0.39	\$ 0.47
Diluted Earnings Per Share	\$	0.39	\$ 0.47
Dividends Declared	\$	0.22	\$ 0.21

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
 (Unaudited)

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Net Income	\$ 5,359	\$ 6,466
Other Comprehensive Income (Loss) (Net of Tax):		
Net unrealized gain (loss) on available-for-sale securities	(1,995)	8,030
Reclassification adjustment for realized loss on sale of available-for-sale securities	-	891
Net unrealized gain (loss) on available-for-sale securities	(1,995)	8,921
Tax expense (benefit)	(418)	1,874
Other comprehensive income (loss)	(1,577)	7,047
Comprehensive Income	\$ 3,782	\$ 13,513

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES TO STOCKHOLDERS' EQUITY
 FOR THE THREE MONTHS ENDED MARCH 31, 2024
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (Unaudited)

	Shares of				Retained Earnings	Other Comprehensive Loss	Accumulated Comprehensive Loss	Total Stockholder's Equity
	Common Stock	Common Stock	Treasury Stock					
Balance - January 1, 2024	13,664,641	\$ 135,515	\$ (11,040)	\$ 221,080	\$ (29,012)		\$ 316,543	
Net income	-	-	-	5,359	-		-	5,359
Other comprehensive loss	-	-	-	-	-	(1,577)	(1,577)	
Purchase of treasury stock	(4,490)	-	(94)	-	-	-	-	(94)
Issuance of 23,369 shares of restricted stock (Net of forfeitures - 250)	23,119	(467)	283	184	-	-	-	-
Stock-based compensation expense	-	434	-	-	-	-	-	434
Cash dividends declared - \$0.22 per share	-	-	-	(2,975)	-	-	-	(2,975)
Balance - March 31, 2024	13,683,270	\$ 135,482	\$ (10,851)	\$ 223,648	\$ (30,589)			\$ 317,690

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CHANGES TO STOCKHOLDERS' EQUITY
 FOR THE THREE MONTHS ENDED MARCH 31, 2023
 (IN THOUSANDS, EXCEPT PER SHARE DATA)
 (Unaudited)

	Shares of				Accumulated Other Comprehensiv e Loss	Total Stockholder s' Equity
	Common Stock	Common Stock	Treasury Stock	Retained Earnings		
Balance - January 1, 2023	13,608,422	\$ 135,497	\$ (11,573)	\$ 212,449	\$ (38,233)	\$ 298,140
Cumulative effect of change in accounting principle (ASU 2016-13)	-	-	-	(3,371)	-	(3,371)
Balance - January 1, 2023 as adjusted for change in accounting principle	13,608,422	135,497	(11,573)	209,078	(38,233)	294,769
Net income	-	-	-	6,466	-	6,466
Other comprehensive income	-	-	-	-	7,047	7,047
Issuance of 21,700 shares of restricted stock	21,700	(562)	263	299	-	-
Stock-based compensation expense	-	306	-	-	-	306
Cash dividends declared - \$0.21 per share	-	-	-	(2,831)	-	(2,831)
Balance - March 31, 2023	<u>13,630,122</u>	<u>\$ 135,241</u>	<u>\$ (11,310)</u>	<u>\$ 213,012</u>	<u>\$ (31,186)</u>	<u>\$ 305,757</u>

See Notes to Condensed Consolidated Unaudited Financial Statements

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

		(In Thousands)	
		Three Months Ended	
		March 31, 2024	March 31, 2023
Cash Flows from Operating Activities			
Net income	\$	5,359	\$ 6,466
Adjustments to reconcile net income to net cash from operating activities:			
Depreciation		990	834
Amortization of premiums on available-for-sale securities, net		321	397
Capitalized additions to servicing rights		(75)	(1,595)
Servicing rights amortization and impairment		168	159
Amortization of core deposit intangible		414	414
Amortization of customer list intangible		31	31
Net accretion of fair value adjustments		(681)	(1,133)
Amortization of subordinated note issuance costs		29	29
Stock-based compensation expense		434	306
Provision for credit losses - loans		(289)	817
Provision for credit losses - off balance sheet credit exposures		(266)	62
Gain on sale of loans held for sale		(107)	(67)
Originations of loans held for sale		(7,559)	(6,534)
Proceeds from sale of loans held for sale		6,832	6,477
Loss on derivatives		14	-
Loss on sales of securities available-for-sale		-	891
Increase in cash surrender value of bank owned life insurance		(216)	(196)
Change in other assets and other liabilities, net		(3,916)	(4,283)
Net cash provided by (used in) operating activities		1,483	3,075
Cash Flows from Investing Activities			
Activity in available-for-sale securities:			
Maturities, prepayments and calls		3,909	3,483
Sales		-	21,963
Purchases		(316)	-
Activity in other securities, at cost:			
Sales		-	399
Purchases		(535)	(2,143)
Proceeds from redemption of FHLB stock		548	-
Change in interest-bearing time deposits		5	7
Additions to premises and equipment		(219)	(2,431)
Loan originations and principal collections, net		38,960	(89,520)
Net cash provided by (used in) investing activities		42,352	(68,242)
Cash Flows from Financing Activities			
Net change in deposits		13,919	44,764
Net change in federal funds purchased and securities sold under agreements to repurchase		-	(23,710)
Proceeds from FHLB advances		-	129,000
Repayment of FHLB advances		(9,105)	(92,140)
Repayment of other borrowings		-	(10,000)
Purchase of treasury stock		(94)	-
Cash dividends paid on common stock		(2,974)	(2,831)
Net cash provided by financing activities		1,746	45,083
Net Increase (Decrease) in Cash and Cash Equivalents		45,581	(20,084)
Cash and Cash Equivalents - Beginning of year		142,201	84,409
Cash and Cash Equivalents - End of period	\$ 187,782	\$ 64,325	

(continued)

FARMERS & MERCHANTS BANCORP, INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Continued)

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Supplemental Information		
Supplemental cash flow information:		
Interest paid	\$ 18,554	\$ 9,272
Income taxes paid	-	44
Supplemental noncash disclosures:		
Matured security proceeds not received	5,053	-
Cash dividends declared not paid	2,975	2,831

See Notes to Condensed Consolidated Unaudited Financial Statements

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS

NOTE 1 BASIS OF PRESENTATION AND OTHER

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions for Form 10-Q and Rule 10-01 of Regulation S-X; accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, consisting of normal recurring accruals, considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2024 are not necessarily indicative of the results that are expected for the year ended December 31, 2024. The condensed consolidated balance sheet of the Company as of December 31, 2023, has been derived from the audited consolidated balance sheet of the Company as of that date. These condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and footnotes thereto included in the Farmers & Merchants Bancorp, Inc. (the "Company")'s Annual Report on Form 10-K for the year ended December 31, 2023.

The Company recognizes revenues as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The Company's principal source of revenue is interest income from loans and investment securities. The Company also earns noninterest income from various banking and financial services offered primarily through Farmers & Merchants State Bank (the "Bank"). Interest income is primarily recognized on an accrual basis according to nondiscretionary formulas written in contracts, such as loan agreements or investment security contracts. The Company also earns noninterest income from various banking and financial services provided to business and consumer clients such as deposit account, debit card, and mortgage banking services. Revenue is recorded for noninterest income based on the contractual terms for the service or transaction performed.

NOTE 2 BUSINESS COMBINATION AND ASSET PURCHASE

On October 1, 2022, the Company acquired Peoples-Sidney Financial Corporation (PPSF), the bank holding company for Peoples Federal Savings and Loan Association, a community bank with three full-service offices in Sidney, Anna and Jackson Center, Ohio, in addition to a separate drive-thru location in Sidney, Ohio. PPSF shareholders had the opportunity to elect to receive either 0.6597 shares of Farmers & Merchants Bancorp, Inc. (FMAO) stock or \$24.00 per share in cash for each PPSF share owned, subject to a requirement under the Merger Agreement that the minimum number of PPSF shares exchanged for FMAO shares in the merger was no less than 758,566. Fractional shares of FMAO common stock were not issued in respect of fractional interests arising from the merger but were paid in cash pursuant to the merger agreement. PPSF had 1,167,025 shares outstanding on October 1, 2022. The share price of FMAO stock on October 1, 2022 was \$26.87. Total consideration for the acquisition was approximately \$23.2 million of which \$9.8 million was in cash and \$13.4 million in stock. As a result of the acquisition, the Company increased its deposit base in Sidney and the greater Shelby County and reduced transaction costs. The Company has reduced costs through economies of scale.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of \$23.2 million, \$6.0 million has been allocated to core deposit intangible included in other assets and is being amortized over seven years on a straight line basis. Goodwill of \$5.9 million, which resulted from the acquisition, consists largely of the synergies and economies of scale expected from combining the operations of the Company and Peoples Federal Savings and Loan Association. Of that total amount, none of the purchase price is deductible for tax purposes. The following table summarizes the consideration paid for Peoples Federal Savings and Loan Association and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair Value of Consideration Transferred

	(In Thousands)
Cash	\$ 9,806
Common Shares	13,446
Treasury stock repurchased (125 shares)	(3)
Total	<u>23,249</u>

Recognized amounts of identifiable assets acquired and liabilities assumed**Assets**

Cash and cash equivalents	\$ 18,881
Other securities, at cost	1,271
Loans, net	101,755
Premises and equipment	1,906
Goodwill	5,924
Other assets	12,081
Total Assets Purchased	<u>\$ 141,818</u>

Liabilities

Deposits	
Noninterest bearing	\$ 7,139
Interest bearing	104,719
Total deposits	111,858
Federal Home Loan Bank (FHLB) advances	896
Accrued expenses and other liabilities	5,815
Total Liabilities Assumed	<u>\$ 118,569</u>

The fair value of the assets acquired included loans with a fair value of \$101.8 million. The gross principal and contractual interest due under the contracts was \$116.1 million of which none was expected to be uncollectible. The loans have a weighted average life of 44.4 months.

The fair value of buildings and land included in premises and equipment was written up \$581 thousand with \$597 thousand attributable to the buildings and is being amortized over the remaining life of each building. The combined average remaining life of the buildings is 12.8 years.

The fair value for certificates of deposit incorporated a valuation amount of \$662 thousand which was amortized over 1.1 years. The fair value of Federal Home Loan Bank (FHLB) advances included a valuation amount of \$69 thousand which is being amortized over 5.2 years.

Changes in accretable yield, or income expected to be collected, are as follows:

	(In Thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Beginning Balance	\$ 566	\$ 798	
Additions	-	1	
Accretion	(58)	(58)	
Reclassification from nonaccretable difference	-	-	
Disposals	-	-	
Ending Balance	<u>\$ 508</u>	<u>\$ 741</u>	

On October 1, 2021, the Company acquired Perpetual Federal Savings Bank, (PFSB), a community bank with one full-service office in Urbana, Ohio. Shareholders of PFSB elected to receive either 1.7766 shares of FMAO stock or \$41.20 per share in cash for each PFSB share owned, subject to adjustment based upon 1,833,999 shares of FMAO to be issued in the merger. PFSB had 2,470,032 shares outstanding on October 1, 2021. The share price of Farmers & Merchants Bancorp, Inc. (FMAO) stock on October 1, 2021 was \$22.40. Total consideration for the acquisition was approximately \$100.3 million consisting of \$59.2 million in cash and \$41.1 million in stock.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of \$100.3 million, \$668 thousand has been allocated to core deposit intangible included in other assets and is being amortized over seven years on a straight line basis. Goodwill of \$25.2 million, which resulted from the acquisition, consists largely of the synergies and economies of scale expected from combining the operations of the Company and Perpetual Federal Savings Bank. Of that total amount, none of the purchase price was deductible for tax purposes.

Changes in accretable yield, or income expected to be collected, are as follows:

	(In Thousands)	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Beginning Balance	\$ 2,795	\$ 4,236	
Additions	-	14	
Accretion	(335)	(344)	
Reclassification from nonaccretable difference	-	-	
Disposals	-	-	
Ending Balance	<u>\$ 2,460</u>	<u>\$ 3,906</u>	

On April 30, 2021, the Company acquired Ossian Financial Services, Inc., (OFSI), the bank holding company for Ossian State Bank, a community bank based in Ossian, Indiana. Ossian State Bank operated two full-service offices in the northeast Indiana communities of Ossian and Bluffton. Shareholders of OFSI received \$67.71 in cash for each share. OFSI had 295,388 shares outstanding on April 30, 2021. Total consideration for the acquisition was approximately \$20.0 million in cash.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of \$20.0 million, \$980.2 thousand has been allocated to core deposit intangible included in other assets and will be amortized over seven years on a straight line basis. Goodwill of \$7.9 million, which resulted from the acquisition, consists largely of the synergies and economies of scale expected from combining the operations of the Company and Ossian State Bank and is deductible for tax purposes over 15 years.

Changes in accretable yield, or income expected to be collected, are as follows:

	(In Thousands)	Three Months Ended	Three Months Ended
		March 31, 2024	March 31, 2023
Beginning Balance	\$ 294	\$ 470	
Additions	-	-	
Accretion	(44)	(44)	
Reclassification from nonaccretable difference	-	-	
Disposals	-	-	
Ending Balance	<u>\$ 250</u>	<u>\$ 426</u>	

On January 1, 2019, the Company acquired Limberlost Bancshares, Inc. ("Limberlost"), the bank holding company for Bank of Geneva, a community bank based in Geneva, Indiana. Bank of Geneva operated six full-service offices in the northeast Indiana communities of Geneva, Berne, Decatur, Monroe, Portland and Monroeville. Shareholders of Limberlost received 1,830 shares of FMAO common stock and \$8,465.00 in cash for each share. Limberlost had 1,000 shares outstanding on January 1, 2019. The share price of FMAO stock on January 1, 2019 was \$38.49. Total consideration for the acquisition was approximately \$78.9 million consisting of \$8.5 million in cash and \$70.4 million in stock.

Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of \$78.9 million, \$3.9 million has been allocated to core deposit intangible included in other assets and is being amortized over seven years on a straight line basis. Goodwill of \$43.3 million, which resulted from the acquisition, consists largely of the synergies and economies of scale expected from combining the operations of the Company and Bank of Geneva. Of that total amount, none of the purchase price was deductible for tax purposes.

Changes in accretable yield, or income expected to be collected, are as follows:

	(In Thousands)	Three Months Ended	Three Months Ended
		March 31, 2024	March 31, 2023
Beginning Balance	\$ 363	\$ 785	
Additions	-	3	
Accretion	(109)	(107)	
Reclassification from nonaccretable difference	-	-	
Disposals	-	-	
Ending Balance	<u>\$ 254</u>	<u>\$ 681</u>	

As mentioned previously, the acquisition of Bank of Geneva resulted in the recognition of \$3.9 million in core deposit intangible assets, the acquisition of Ossian State Bank resulted in the recognition of \$980.2 thousand in core deposit intangible assets, the acquisition of Perpetual Federal Savings Bank resulted in the recognition of \$668.0 thousand in core deposit intangible assets and the acquisition of Peoples Federal Savings and Loan resulted in the recognition of \$6.0 million in core deposit intangible assets which are all being amortized over its remaining economic useful life of 7 years on a straight line basis. Core deposit intangible is included in other assets on the condensed consolidated balance sheets.

The amortization expense of the core deposit intangible for the three months ended March 31, 2023 was \$414 thousand. Of the approximately \$1.7 million to be expensed in 2024, \$414 thousand has been expensed for the three months ended March 31, 2024. Annual amortization of core deposit intangible assets is as follows:

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

	(In Thousands)					
	Geneva	Ossian	Perpetual	Peoples	Total	
2024	\$ 560	\$ 140	\$ 95	\$ 861	\$ 1,656	
2025	560	140	95	861	1,656	
2026	-	140	95	861	1,096	
2027	-	140	95	861	1,096	
2028	-	47	73	861	981	
Thereafter	-	-	-	646	646	
	<u>\$ 1,120</u>	<u>\$ 607</u>	<u>\$ 453</u>	<u>\$ 4,951</u>	<u>7,131</u>	

On November 16, 2020, FM Investment Services, a division of the Bank, purchased the assets and clients of Adams County Financial Resources (ACFR), a full-service registered investment advisory firm located in Geneva, Indiana. As of November 30, 2020, ACFR had approximately \$83 million of assets under management and over 450 clients.

Total consideration for the purchase was \$825 thousand which consisted of 40,049 shares of stock. Under the acquisition method of accounting, the total purchase was allocated to net tangible and intangible assets based on their current estimated fair values on the date of acquisition. Of the total purchase price of \$825 thousand, \$800 thousand has been allocated to customer list intangible, included in other assets, to be amortized over 6.5 years on a straight line basis.

The amortization expense of the customer list intangible for the three months ended March 31, 2023 was \$31 thousand. Of the \$123 thousand to be expensed in 2024, \$31 thousand has been expensed for the three months ended March 31, 2024. Annual amortization expense of customer list intangible is as follows:

	(In Thousands)	
	Adams County Financial Resources	
2024	\$	123
2025		123
2026		123
2027		48
2028		-
Thereafter		-
	<u>\$</u>	<u>417</u>

NOTE 3 SECURITIES

Mortgage-backed securities, as shown in the following tables, are all government sponsored enterprises. The amortized cost and fair value of securities, with gross unrealized gains and losses at March 31, 2024 and December 31, 2023, are as follows:

	(In Thousands)				
	March 31, 2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Available-for-Sale:					
U.S. Treasury	\$ 81,842	\$ -	\$ (7,149)	\$ 74,693	
U.S. Government agencies	140,928	-	(13,190)	127,738	
Mortgage-backed securities	91,485	-	(13,081)	78,404	
State and local governments	71,981	87	(5,387)	66,681	
Total available-for-sale securities	<u>\$ 386,236</u>	<u>\$ 87</u>	<u>\$ (38,807)</u>	<u>\$ 347,516</u>	

	(In Thousands)				
	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	
Available-for-Sale:					
U.S. Treasury	\$ 87,182	\$ 1	\$ (6,913)	\$ 80,270	
U.S. Government agencies	140,960	-	(12,738)	128,222	
Mortgage-backed securities	94,061	-	(11,929)	82,132	
State and local governments	73,000	135	(5,281)	67,854	
Total available-for-sale securities	<u>\$ 395,203</u>	<u>\$ 136</u>	<u>\$ (36,861)</u>	<u>\$ 358,478</u>	

Investment securities will at times depreciate to an unrealized loss position. The Company utilizes the following criteria to assess whether the unrealized loss requires an allowance for credit losses on investment securities. No one item by itself will necessarily signal that an allowance for credit losses on investment securities should be established.

1. The fair value of the security has significantly declined from book value.
2. A downgrade has occurred that lowered the credit rating to below investment grade (below Baa3 by Moody and BBB – by Standard and Poors.)
3. Dividends have been reduced or eliminated or scheduled interest payments have not been made.
4. Management does not possess both the intent and ability to hold the security for a period of time sufficient to allow for any anticipated recovery in fair value.

If the unrealized loss is determined to be the result of a credit loss, the present value of the cash flows expected to be collected is compared to the amortized cost basis. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded, limited by the amount that the fair value is less than the amortized cost basis. Adjustments to the allowance are recorded in the Company's consolidated statement of income as a component of the provision for credit losses. The table below is presented by category of security and length of time in a continuous loss position. The Company did not record an allowance for credit losses on its investment securities available for sale as the unrealized losses were attributable to changes in interest rates, not credit quality.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

Information pertaining to securities with gross unrealized losses at March 31, 2024 and December 31, 2023, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	(In Thousands)					
	March 31, 2024					
	Less Than Twelve Months		Twelve Months & Over		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ (3)	\$ 561	\$ (7,146)	\$ 74,132	\$ (7,149)	\$ 74,693
U.S. Government agencies	-	-	(13,190)	127,738	(13,190)	127,738
Mortgage-backed securities	(33)	4,321	(13,048)	74,083	(13,081)	78,404
State and local governments	(38)	1,245	(5,349)	59,278	(5,387)	60,523
Total available-for-sale securities	\$ (74)	\$ 6,127	\$ (38,733)	\$ 335,231	\$ (38,807)	\$ 341,358

	(In Thousands)					
	December 31, 2023					
	Less Than Twelve Months		Twelve Months & Over		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	\$ (4)	\$ 494	\$ (6,909)	\$ 79,528	\$ (6,913)	\$ 80,022
U.S. Government agencies	-	-	(12,738)	128,222	(12,738)	128,222
Mortgage-backed securities	(20)	4,372	(11,909)	77,759	(11,929)	82,131
State and local governments	(2)	931	(5,279)	60,402	(5,281)	61,333
Total available-for-sale securities	\$ (26)	\$ 5,797	\$ (36,835)	\$ 345,911	\$ (36,861)	\$ 351,708

Unrealized losses on securities have not been recognized into income because the issuers' bonds are of high credit quality, values have only been impacted by changes in interest rates since the securities were purchased, and the Company has the intent and ability to hold the securities for the foreseeable future. The fair value is expected to recover as the bonds approach the maturity date.

Below are the gross realized gains and losses for the three months ended March 31, 2024 and March 31, 2023.

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Gross realized gains	\$ -	\$ 12
Gross realized losses	- -	(903)
Net realized losses	\$ - -	\$ (891)
Tax benefit related to net realized losses	\$ - -	\$ (187)

The net realized losses on sales and related tax benefit is a reclassification out of accumulated other comprehensive loss. The net realized losses are included in net loss on sale of available-for-sale securities and the related tax benefit is included in income taxes in the condensed consolidated statements of income and comprehensive income.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The amortized cost and fair value of debt securities at March 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	(In Thousands)	
	Amortized Cost	Fair Value
One year or less	\$ 21,574	\$ 20,988
After one year through five years	241,580	219,441
After five years through ten years	29,212	26,279
After ten years	2,385	2,404
Total	\$ 294,751	\$ 269,112
Mortgage-backed securities	91,485	78,404
Total	\$ 386,236	\$ 347,516

Investments with a carrying value of \$199.3 million and \$194.1 million at March 31, 2024 and December 31, 2023, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. Investments with a carrying value of \$58.8 million and \$61.7 million were pledged to the Federal Reserve's Bank Term Funding Program (BTFP) to secure additional borrowing capacity at March 31, 2024 and December 31, 2023.

Other securities include Federal Home Loan Bank of Cincinnati and Indianapolis stock in the amount of \$14.7 million as of March 31, 2024 and \$14.8 million as of December 31, 2023.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 4 LOANS

Loan balances as of March 31, 2024 and December 31, 2023 are summarized below:

Loans:	(In Thousands)	
	March 31, 2024	December 31, 2023
Consumer Real Estate	\$ 525,178	\$ 521,895
Agricultural Real Estate	227,455	223,791
Agricultural	127,670	132,560
Commercial Real Estate	1,304,400	1,337,766
Commercial and Industrial	256,051	254,935
Consumer	74,819	79,591
Other	26,776	30,136
	2,542,349	2,580,674
Less: Net deferred loan fees and costs and other*	(982)	517
	2,541,367	2,581,191
Less: Allowance for credit losses	(24,680)	(25,024)
Loans - Net	<u>\$ 2,516,687</u>	<u>\$ 2,556,167</u>

*This chart contains fair value adjustments to the basis of derivatives in the amount of \$969 thousand at March 31, 2024 and \$2.7 million at December 31, 2023.

Other loans primarily fund public improvements in the Bank's service area.

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of March 31, 2024 and December 31, 2023:

	(In Thousands)			
	March 31, 2024	Variable	December 31, 2023	
	Fixed	Variable	Fixed	Variable
Consumer Real Estate	\$ 331,050	\$ 194,128	\$ 329,142	\$ 192,753
Agricultural Real Estate	132,725	94,730	123,783	100,008
Agricultural	52,536	75,134	56,269	76,291
Commercial Real Estate	989,520	314,880	1,024,989	312,777
Commercial and Industrial	133,140	122,911	131,385	123,550
Consumer	74,757	62	79,526	65
Other	17,294	9,482	20,552	9,584

As of March 31, 2024 and December 31, 2023 one to four family residential mortgage loans amounting to \$204.8 million and \$210.9 million, respectively, and HELOC loans amounting to \$11.6 million and \$12.1 million, respectively, have been pledged as security for future loans and existing loans the Bank has received from the Federal Home Loan Bank. The Bank has also pledged eligible commercial real estate loans of \$364.2 million and \$158.9 million as of March 31, 2024 and December 31, 2023, respectively, to the FHLB.

Unless listed separately, Other loans are included in the Commercial and Industrial category for the remainder of the tables in this Note 4.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following table represents the contractual aging of the recorded investment in past due loans by portfolio classification of loans as of March 31, 2024 and December 31, 2023, net of deferred loan fees and costs:

	(In Thousands)							Recorded Investment t > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables		
March 31, 2024								
Consumer Real Estate	\$ 996	\$ 119	\$ 283	\$ 1,398	\$ 523,845	\$ 525,243	\$ -	
Agricultural Real Estate	-	-	12,254	12,254	214,896	227,150	-	
Agricultural	-	500	3,612	4,112	123,801	127,913	-	
Commercial Real Estate	66	-	180	246	1,301,73	1,301,98	1	-
Commercial and Industrial	653	-	60	713	281,860	282,573	-	
Consumer	131	49	27	207	75,331	75,538	-	
Total	<u>\$ 1,846</u>	<u>\$ 668</u>	<u>\$ 16,416</u>	<u>\$ 18,930</u>	<u>\$ 8</u>	<u>\$ 2,521,46</u>	<u>\$ 2,540,39</u>	<u>\$ -</u>

	(In Thousands)							Recorded Investment t > 90 Days and Accruing
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables		
December 31, 2023								
Consumer Real Estate	\$ 1,914	\$ 137	\$ 670	\$ 2,721	\$ 519,187	\$ 521,908	\$ -	
Agricultural Real Estate	-	3,429	55	3,484	219,995	223,479	-	
Agricultural	-	1,132	2,977	4,109	128,654	132,763	-	
Commercial Real Estate	380	-	255	635	1,334,44	1,335,07	5	-
Commercial and Industrial	145	-	199	344	284,550	284,894	-	
Consumer	218	37	26	281	80,072	80,353	-	
Total	<u>\$ 2,657</u>	<u>\$ 4,735</u>	<u>\$ 4,182</u>	<u>\$ 11,574</u>	<u>\$ 8</u>	<u>\$ 2,566,89</u>	<u>\$ 2,578,47</u>	<u>\$ -</u>

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following tables present the amortized cost of nonaccrual loans by class of loans as of March 31, 2024 and as of December 31, 2023:

	(In Thousands) March 31, 2024			
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual		Loans Past Due Over 89 Days Still Accruing
Consumer Real Estate	\$ 1,347	\$ 1,594	\$	-
Agricultural Real Estate	60	12,259		-
Agricultural	4,112	4,406		-
Commercial Real Estate	180	555		-
Commercial & Industrial	428	501		-
Consumer	76	76		-
Total	\$ 6,203	\$ 19,391	\$	-

	(In Thousands) December 31, 2023			
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual		Loans Past Due Over 89 Days Still Accruing
Consumer Real Estate	\$ 1,006	\$ 1,190	\$	-
Agricultural Real Estate	15,949	15,949		-
Agricultural	4,671	4,671		-
Commercial Real Estate	254	254		-
Commercial & Industrial	198	198		-
Consumer	91	91		-
Total	\$ 22,169	\$ 22,353	\$	-

One borrower relationship resulted in a decrease to nonaccrual totals of \$3.7 million in the agricultural real estate portfolio as compared to December 31, 2023. The Company recognized \$22 thousand and \$61 thousand of interest income on nonaccrual loans for the three months ending March 31, 2024 and March 31, 2023, respectively.

Following are the characteristics and underwriting criteria for each major type of loan the Bank offers:

Consumer Real Estate: Purchase, refinance, or equity financing of one to four family owner occupied dwelling. Success in repayment is subject to borrower's income, debt level, character in fulfilling payment obligations, employment, and others.

Agricultural Real Estate: Purchase of farm real estate or for permanent improvements to the farm real estate. Cash flow from the farm operation is the repayment source and is therefore subject to the financial success of the farm operation.

Agricultural: Loans for the production and housing of crops, fruits, vegetables, and livestock or to fund the purchase or re-finance of capital assets such as machinery and equipment and livestock. The production of crops and livestock is especially vulnerable to commodity prices and weather. The vulnerability to commodity prices is offset by the farmer's ability to hedge their position by the use of the future contracts. The risk related to weather is often mitigated by requiring crop insurance.

Commercial Real Estate: Construction, purchase, and refinance of business purpose real estate. Risks include potential construction delays and overruns, vacancies, collateral value subject to market value fluctuations, interest rate, market demands, borrower's ability to repay in orderly fashion, and others. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer's ability to repay in a changing rate environment before granting loan approval.

Commercial and Industrial: Loans to proprietorships, partnerships, or corporations to provide temporary working capital and seasonal loans as well as long term loans for capital asset acquisition. Risks include adequacy of cash flow, reasonableness of projections, financial leverage, economic trends, management ability and estimated capital expenditures during the fiscal year. The Bank does employ stress testing on higher balance loans to mitigate risk by ensuring the customer's ability to repay in a changing rate environment before granting loan approval.

Consumer: Funding for individual and family purposes. Success in repayment is subject to borrower's income, debt level, character in fulfilling payment obligations, employment, and other factors.

Other: Primarily funds public improvements in the Bank's service area. Repayment ability is based on the continuance of the taxation revenue as the source of repayment.

The Bank uses a nine tier risk rating system to grade its loans. The grade of a loan may change during the life of the loan.

The risk ratings are described as follows.

- 1.Zero (0) Unclassified. Any loan which has not been assigned a classification.
- 2.One (1) Excellent. Credit to premier customers having the highest credit rating based on an extremely strong financial condition, which compares favorably with industry standards (upper quartile of RMA ratios). Financial statements indicate a sound earnings and financial ratio trend for several years with satisfactory profit margins and excellent liquidity exhibited. Prime credits may also be borrowers with loans fully secured by highly liquid collateral such as traded stocks, bonds, certificates of deposit, savings account, etc. No credit or collateral exceptions exist, and the loan adheres to The Bank's loan policy in every respect. Financing alternatives would be readily available and would qualify for unsecured credit. This rate is summarized by high liquidity, minimum risk, strong ratios, and low handling costs.
- 3.Two (2) Good. Desirable loans of somewhat less stature than rate 1, but with strong financial statements. Loan supported by financial statements containing strong balance sheets and a history of profitability. Probability of serious financial deterioration is unlikely. Possessing a sound repayment source (and a secondary source), which would allow repayment in a reasonable period of time. Individual loans backed by liquid personal assets, established history and unquestionable character.
- 4.Three (3) Satisfactory. Satisfactory loans of average or slightly above average risk – having some deficiency or vulnerability to changing economic conditions, but still fully collectible. Projects should normally demonstrate acceptable debt service coverage. There may be some weakness but with offsetting features of other support readily available. Loans that are meeting the terms of repayment.

Loans may be rated 3 when there is no recent information on which to base a current risk evaluation and the following conditions apply:

- At inception, the loan was properly underwritten and did not possess an unwarranted level of credit risk;
- a.At inception, the loan was secured with collateral possessing a loan-to-value adequate to protect The Bank from loss;
- b.The loan exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance;
- c.During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the business is in an industry which is known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk rating is warranted.

- 5.Four (4) Satisfactory / Monitored. A "4" (Satisfactory/Monitored) risk rating may be established for a loan considered satisfactory but which is of average credit risk due to financial weakness or uncertainty. The loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in Satisfactory/Monitored classification is considered acceptable and within normal underwriting guidelines, so long as the loan is given management supervision.
- 6.Five (5) Special Mention. Loans that possess some credit deficiency or potential weakness which deserve close attention, but which do not yet warrant substandard classification. Such loans pose unwarranted financial risk that, if not corrected, could weaken the loan and increase risk in the future. The key distinctions of a 5 (Special Mention) classification are that (1) it is indicative of an unwarranted level of risk, and (2) weaknesses are considered "potential" versus "defined" impairments to the primary source of loan repayment and collateral.

7.Six (6) Substandard. One or more of the following characteristics may be exhibited in loans classified substandard:

- a.Loans which possess a defined credit weakness and the likelihood that a loan will be paid from the primary source are uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.
- b.Loans are inadequately protected by the current net worth and paying capacity of the borrower.
- c.The primary source of repayment is weakened, and The Bank is forced to rely on a secondary source of repayment such as collateral liquidation or guarantees.
- d.Loans are characterized by the distinct possibility that The Bank will sustain some loss if deficiencies are not corrected.
- e.Unusual courses of action are needed to maintain a high probability of repayment.
- f.The borrower is not generating enough cash flow to repay loan principal; however, continues to make interest payments.
- g.The lender is forced into a subordinate position or unsecured collateral position due to flaws in documentation.
- h.Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.
- i.The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- j.There is significant deterioration in the market conditions and the borrower is highly vulnerable to these conditions.

8.Seven (7) Doubtful. One or more of the following characteristics may be exhibited in loans classified Doubtful:

- a.Loans have all of the weaknesses of those classified as Substandard. Additionally, however, these weaknesses make collection or liquidation in full based on existing conditions improbable.
- b.The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- c.The possibility of loss is high, but, because of certain important pending factors which may strengthen the loan, loss classification is deferred until its exact status is known. A Doubtful classification is established deferring the realization of the loss.

9.Eight (8) Loss. Loans are considered uncollectable and of such little value that continuing to carry them as assets on the institution's financial statements is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following table represents the risk category of loans by portfolio class and year of origination, net of deferred fees and costs, based on the most recent analysis performed as of March 31, 2024 and December 31, 2023:

	(In Thousands) March 31, 2024						Revolving Loans	Grand Total
	Term Loans Amortized Cost Basis by Origination Year						Term	Amortized Cost Basis
	2024	2023	2022	2021	Prior	Total		
Consumer Real Estate								
Risk Rating								
Pass (1-4)	\$ 7,730	\$ 70,715	\$ 87,343	\$ 95,907	\$ 204,574	\$ 466,269	\$ 54,250	\$ 520,519
Special Mention (5)	-	1,221	39	419	265	1,944	131	2,075
Substandard (6)	-	-	256	688	1,705	2,649	-	2,649
Doubtful (7)	-	-	-	-	-	-	-	-
Total Consumer Real Estate	\$ 7,730	\$ 71,936	\$ 87,638	\$ 97,014	\$ 206,544	\$ 470,862	\$ 54,381	\$ 525,243
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ 10	\$ 10	\$ -	\$ 10
Agricultural Real Estate								
Risk Rating								
Pass (1-4)	\$ 12,965	\$ 29,399	\$ 36,136	\$ 24,112	\$ 109,568	\$ 212,180	\$ 92	\$ 212,272
Special Mention (5)	-	904	1,348	20	149	2,421	-	2,421
Substandard (6)	-	-	-	12,196	261	12,457	-	12,457
Doubtful (7)	-	-	-	-	-	-	-	-
Total Agricultural Real Estate	\$ 12,965	\$ 30,303	\$ 37,484	\$ 36,328	\$ 109,978	\$ 227,058	\$ 92	\$ 227,150
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Agricultural								
Risk Rating								
Pass (1-4)	\$ 2,374	\$ 14,989	\$ 16,672	\$ 7,781	\$ 9,122	\$ 50,938	\$ 71,052	\$ 121,990
Special Mention (5)	-	400	661	114	-	1,175	330	1,505
Substandard (6)	-	513	634	1,773	-	2,920	1,498	4,418
Doubtful (7)	-	-	-	-	-	-	-	-
Total Agricultural	\$ 2,374	\$ 15,902	\$ 17,967	\$ 9,668	\$ 9,122	\$ 55,033	\$ 72,880	\$ 127,913
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

(In Thousands)
March 31, 2024

	Term Loans Amortized Cost Basis by Origination Year						Term	Revolving Loans Amortized Cost Basis	Grand Total			
	2024	2023	2022	2021	Prior	Total						
Commercial Real Estate												
Risk Rating												
Pass (1-4)	\$ 11,583	\$ 208,713	\$ 431,087	\$ 231,103	\$ 362,013	\$ 1,244,499	\$ -	\$ -	\$ 1,244,499			
Special Mention (5)	-	34,856	8,978	1,594	10,646	56,074	-	-	56,074			
Substandard (6)	-	-	-	-	1,408	1,408	-	-	1,408			
Doubtful (7)	-	-	-	-	-	-	-	-	-			
Total Commercial Real Estate	<u>\$ 11,583</u>	<u>\$ 243,569</u>	<u>\$ 440,065</u>	<u>\$ 232,697</u>	<u>\$ 374,067</u>	<u>\$ 1,301,981</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,301,981</u>			
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Commercial & Industrial												
Risk Rating												
Pass (1-4)	\$ 9,116	\$ 55,315	\$ 48,352	\$ 19,655	\$ 21,103	\$ 153,541	\$ 94,389	\$ 247,930				
Special Mention (5)	533	941	109	205	736	2,524	4,423	6,947				
Substandard (6)	-	90	20	-	190	300	576	876				
Doubtful (7)	-	-	-	-	44	44	-	-	44			
Total Commercial & Industrial	<u>\$ 9,649</u>	<u>\$ 56,346</u>	<u>\$ 48,481</u>	<u>\$ 19,860</u>	<u>\$ 22,073</u>	<u>\$ 156,409</u>	<u>\$ 99,388</u>	<u>\$ 255,797</u>				
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ 101	\$ 101	\$ -	\$ -	\$ 101			
Other												
Risk Rating												
Pass (1-4)	\$ -	\$ -	\$ -	\$ 16,604	\$ 10,172	\$ 26,776	\$ -	\$ 26,776				
Special Mention (5)	-	-	-	-	-	-	-	-				
Substandard (6)	-	-	-	-	-	-	-	-				
Doubtful (7)	-	-	-	-	-	-	-	-				
Total Other	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16,604</u>	<u>\$ 10,172</u>	<u>\$ 26,776</u>	<u>\$ -</u>	<u>\$ 26,776</u>				
Gross charge-offs YTD	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>			

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

(In Thousands)
December 31, 2023

	Term Loans Amortized Cost Basis by Origination Year						Term	Revolving Loans Amortized Cost Basis	Grand Total			
	2023	2022	2021	2020	Prior	Total						
Consumer Real Estate												
Risk Rating												
Pass (1-4)	\$ 77,298	\$ 88,695	\$ 90,139	\$ 82,680	\$ 126,596	\$ 465,408	\$ 52,904	\$ 518,312				
Special Mention (5)	1,228	40	-	-	134	1,402	-	1,402				
Substandard (6)	-	261	558	163	1,198	2,180	14	2,194				
Doubtful (7)	-	-	-	-	-	-	-	-				
Total Consumer Real Estate	\$ 78,526	\$ 88,996	\$ 90,697	\$ 82,843	\$ 127,928	\$ 468,990	\$ 52,918	\$ 521,908				
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Agricultural Real Estate												
Risk Rating												
Pass (1-4)	\$ 30,504	\$ 37,199	\$ 25,168	\$ 25,874	\$ 87,107	\$ 205,852	\$ 97	\$ 205,949				
Special Mention (5)	-	861	14	-	508	1,383	-	1,383				
Substandard (6)	-	-	12,196	186	3,765	16,147	-	16,147				
Doubtful (7)	-	-	-	-	-	-	-	-				
Total Agricultural Real Estate	\$ 30,504	\$ 38,060	\$ 37,378	\$ 26,060	\$ 91,380	\$ 223,382	\$ 97	\$ 223,479				
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			
Agricultural												
Risk Rating												
Pass (1-4)	\$ 17,787	\$ 20,330	\$ 8,356	\$ 4,476	\$ 5,736	\$ 56,685	\$ 69,824	\$ 126,509				
Special Mention (5)	38	621	112	-	-	771	330	1,101				
Substandard (6)	514	634	2,009	498	-	3,655	1,498	5,153				
Doubtful (7)	-	-	-	-	-	-	-	-				
Total Agricultural	\$ 18,339	\$ 21,585	\$ 10,477	\$ 4,974	\$ 5,736	\$ 61,111	\$ 71,652	\$ 132,763				
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -			

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

(In Thousands) December 31, 2023												
	Term Loans Amortized Cost Basis by Origination Year						Term	Revolving Loans Amortized Cost Basis	Grand Total			
	2023	2022	2021	2020	Prior	Total						
Commercial Real Estate												
Risk Rating												
Pass (1-4)	\$ 224,232	\$ 438,716	\$ 245,273	\$ 122,656	\$ 235,603	\$ 1,266,480		\$ -	\$ 1,266,480			
Special Mention (5)	34,864	9,100	-	10,793	12,968	67,725		\$ -	67,725			
Substandard (6)	-	-	-	-	795	795		\$ -	795			
Doubtful (7)	-	-	-	75	-	75		\$ -	75			
Total Commercial Real Estate	<u>\$ 259,096</u>	<u>\$ 447,816</u>	<u>\$ 245,273</u>	<u>\$ 133,524</u>	<u>\$ 249,366</u>	<u>\$ 1,335,075</u>		\$ -	<u>\$ 1,335,075</u>			
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -			
Commercial & Industrial												
Risk Rating												
Pass (1-4)	\$ 56,224	\$ 51,663	\$ 24,876	\$ 20,071	\$ 3,074	\$ 155,908		\$ 90,018	\$ 245,926			
Special Mention (5)	716	69	211	146	794	1,936		6,016	7,952			
Substandard (6)	74	454	-	-	48	576		122	698			
Doubtful (7)	-	-	-	182	-	182		-	182			
Total Commercial & Industrial	<u>\$ 57,014</u>	<u>\$ 52,186</u>	<u>\$ 25,087</u>	<u>\$ 20,399</u>	<u>\$ 3,916</u>	<u>\$ 158,602</u>		<u>\$ 96,156</u>	<u>\$ 254,758</u>			
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ 565	\$ -	\$ 565		\$ -	\$ 565			
Other												
Risk Rating												
Pass (1-4)	\$ 2,810	\$ -	\$ 16,761	\$ 5,790	\$ 4,775	\$ 30,136		\$ -	\$ 30,136			
Special Mention (5)	-	-	-	-	-	-		-	-			
Substandard (6)	-	-	-	-	-	-		-	-			
Doubtful (7)	-	-	-	-	-	-		-	-			
Total Other	<u>\$ 2,810</u>	<u>\$ -</u>	<u>\$ 16,761</u>	<u>\$ 5,790</u>	<u>\$ 4,775</u>	<u>\$ 30,136</u>		<u>\$ -</u>	<u>\$ 30,136</u>			
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -		\$ -	\$ -			

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, as was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned risk grading as of March 31, 2024 and December 31, 2023 by year of origination.

(In Thousands)									
March 31, 2024									
	Term Loans Amortized Cost Basis by Origination Year						Term	Amortized Cost Basis	Grand Total
	2024	2023	2022	2021	Prior	Total			
Consumer									
Payment Performance									
Performing	\$ 3,480	\$ 19,510	\$ 37,299	\$ 9,130	\$ 6,003	\$ 75,422	\$ 39	\$ 75,461	
Nonperforming	-	-	70	-	7	77	-	77	
Total Consumer	<u>\$ 3,480</u>	<u>\$ 19,510</u>	<u>\$ 37,369</u>	<u>\$ 9,130</u>	<u>\$ 6,010</u>	<u>\$ 75,499</u>	<u>\$ 39</u>	<u>\$ 75,538</u>	
Gross charge-offs YTD	\$ 48	\$ 17	\$ 6	\$ 10	\$ -	\$ 81	\$ -	\$ 81	
(In Thousands)									
December 31, 2023									
	Term Loans Amortized Cost Basis by Origination Year						Term	Amortized Cost Basis	Grand Total
	2023	2022	2021	2020	Prior	Total			
Consumer									
Payment Performance									
Performing	\$ 21,511	\$ 40,729	\$ 10,666	\$ 5,006	\$ 2,305	\$ 80,217	\$ 44	\$ 80,261	
Nonperforming	26	58	-	6	2	92	-	92	
Total Consumer	<u>\$ 21,537</u>	<u>\$ 40,787</u>	<u>\$ 10,666</u>	<u>\$ 5,012</u>	<u>\$ 2,307</u>	<u>\$ 80,309</u>	<u>\$ 44</u>	<u>\$ 80,353</u>	
Gross charge-offs YTD	\$ 236	\$ 51	\$ 100	\$ 38	\$ -	\$ 425	\$ -	\$ 425	

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following tables present collateral-dependent loans grouped by collateral as of March 31, 2024 and December 31, 2023:

	(In Thousands)
	March 31, 2024
	Collateral
	Dependent Loans
Consumer Real Estate	\$ 1,949
Agricultural Real Estate	12,003
Agricultural	4,312
Commercial Real Estate	539
Commercial & Industrial	46
Consumer	-
Total	<u>18,849</u>

	(In Thousands)
	December 31, 2023
	Collateral
	Dependent Loans
Consumer Real Estate	\$ 1,518
Agricultural Real Estate	15,888
Agricultural	4,998
Commercial Real Estate	255
Commercial & Industrial	17
Consumer	-
Total	<u>22,676</u>

Modification programs focus on payment pattern changes and/or modified maturity dates with most receiving a combination of the two concessions. The modifications normally do not result in the contractual forgiveness of principal. During the three months ended March 31, 2024 and March 31, 2023, there were no new loan modifications to borrowers experiencing financial difficulty. One modified loan previous to 2024 was paid off during the first quarter of 2024. One modification completed prior to 2024 was paid off during the first quarter of 2024.

For the three months ended March 31, 2024 and 2023, there were no modifications to borrowers experiencing financial difficulty that subsequently defaulted after modification.

For the majority of the Bank's collateral dependent loans, the Bank applied the fair value of collateral or used a measurement incorporating the present value of expected future cash flows discounted at the loan's effective rate of interest. To determine fair value of collateral, collateral asset values securing a collateral dependent loan were periodically evaluated. Maximum time of re-evaluation was every 12 months for chattels and titled vehicles and every two years for real estate. In this process, third party evaluations were obtained. Until such time that updated appraisals were received, the Bank may have discounted the collateral value used.

The Bank used the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge-off in whole or in part was realized when unsecured consumer loans and overdraft lines of credit reached 90 days delinquency. At 90 days delinquent, secured consumer loans were charged down to the value of the collateral, if repossession of the collateral was assured and/or in the process of repossession. Consumer mortgage loan deficiencies were charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency. A broker's price opinion or appraisal was completed on all home loans in litigation and any deficiency was charged off before reaching 150 days delinquent. Commercial and agricultural credits were charged down/allocated at 120 days delinquency, unless an established and approved work-out plan was in place or litigation of the credit was likely to result in recovery of the loan balance. Upon notification of bankruptcy, unsecured debt was charged off. Additional charge-off was realized as further unsecured positions were recognized.

As of March 31, 2024, the Company had no foreclosed residential real estate property obtained by physical possession and \$270 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions. This compares to the Company having no foreclosed residential real estate property

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

obtained by physical possession and \$679 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceeding were in process according to local jurisdictions as of December 31, 2023. As of March 31, 2023, the Company had no foreclosed residential real estate property obtained by physical possession and \$52 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process according to local jurisdictions.

On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") No. 2016-13 - "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and implemented the current expected credit losses accounting standard. As a result, the Company recorded a one-time adjustment from equity into the allowance for credit losses for loan losses and unfunded commitment liability in the amount of \$4.5 million, or \$3.4 million, net of tax.

Allowance for Credit Losses (ACL) has a direct impact on the provision expense. An increase in the ACL is funded through recoveries and provision expense.

The Company segregates its allowance into two reserves: The Allowance for Credit Losses (ACL) and the Allowance for Unfunded Loan Commitments and Letters of Credit (AULC). When combined, these reserves constitute the total Current Expected Credit Losses (CECL).

The allowance does not include an accretable yield of \$3.5 million and \$4.0 million as of March 31, 2024 and December 31, 2023, respectively, related to the acquisitions of Bank of Geneva in 2019 and Ossian State Bank and Perpetual Federal Savings Bank in 2021 and Peoples Federal Savings and Loan Bank in 2022 as previously discussed in Note 2.

The AULC is reported within other liabilities while the ACL portion associated with loans is netted within the loans, net asset line on the condensed consolidated balance sheets.

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following tables break down the activity within ACL for each loan portfolio classification and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs for the three months ended March 31, 2024 and March 31, 2023 in addition to the ending balances as of December 31, 2023:

	(In Thousands)							
	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Total	
Three Months Ended March 31, 2024								
ALLOWANCE FOR CREDIT LOSSES								
Beginning balance	\$ 3,581	\$ 312	\$ 336	\$ 17,400	\$ 2,093	\$ 1,302	\$ 25,024	
Provision for credit losses - loans	(290)	859	41	(1,450)	674	(123)	(289)	
Charge-offs	(10)	-	-	-	(101)	(81)	(192)	
Recoveries	4	-	-	3	66	64	137	
Ending Balance	\$ 3,285	\$ 1,171	\$ 377	\$ 15,953	\$ 2,732	\$ 1,162	\$ 24,680	
Three Months Ended March 31, 2023								
ALLOWANCE FOR CREDIT LOSSES								
Beginning balance	\$ 998	\$ 349	\$ 751	\$ 11,924	\$ 5,382	\$ 909	\$ 20,313	
Adoption of ASU 2016-13	2,874	(166)	(650)	3,501	(2,165)	170	3,564	
Provision for credit losses - loans	(256)	26	(35)	661	191	230	817	
Charge-offs	-	-	-	-	-	(122)	(122)	
Recoveries	7	-	-	2	6	47	62	
Ending Balance	\$ 3,623	\$ 209	\$ 66	\$ 16,088	\$ 3,414	\$ 1,234	\$ 24,634	
Year Ended December 31, 2023								
ALLOWANCE FOR CREDIT LOSSES								
Beginning balance	\$ 998	\$ 349	\$ 751	\$ 11,924	\$ 5,382	\$ 909	\$ 20,313	
Adoption of ASU 2016-13	2,874	(166)	(650)	3,501	(2,165)	170	3,564	
Provision for credit losses - loans	(326)	24	225	1,967	(643)	451	1,698	
Charge-offs	-	-	-	-	(565)	(425)	(990)	
Recoveries	35	105	10	8	84	197	439	
Ending Balance	\$ 3,581	\$ 312	\$ 336	\$ 17,400	\$ 2,093	\$ 1,302	\$ 25,024	

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

The following tables break down the activity in the AULC for the three months ended March 31, 2024 and March 31, 2023 in addition to the ending balances as of December 31, 2023:

	(In Thousands)
	Unfunded Loan Commitment & Letters of Credit
Three Months Ended March 31, 2024	
ALLOWANCE FOR UNFUNDDED LOAN COMMITMENTS AND LETTERS OF CREDIT	
Beginning balance	\$ 2,212
Provision for credit losses - off balance sheet credit exposures	(266)
Charge-offs	-
Recoveries	-
Ending Balance	\$ 1,946
 Three Months Ended March 31, 2023	
ALLOWANCE FOR UNFUNDDED LOAN COMMITMENTS AND LETTERS OF CREDIT	
Beginning balance	\$ 1,262
Adoption of ASU 2016-13	904
Provision for credit losses - off balance sheet credit exposures	62
Charge-offs	-
Recoveries	-
Ending Balance	\$ 2,228

	(In Thousands)
	Unfunded Loan Commitment & Letters of Credit
Year Ended December 31, 2023	
ALLOWANCE FOR UNFUNDDED LOAN COMMITMENTS AND LETTERS OF CREDIT	
Beginning balance	\$ 1,262
Adoption of ASU 2016-13	904
Provision for credit losses - off balance sheet credit exposures	46
Charge-offs	-
Recoveries	-
Ending Balance	<u>\$ 2,212</u>

NOTE 5 LEASES

The Bank leases space for retail branches, Loan Production Offices (LPOs) and ATMs. Our leases have remaining lease terms of 1 year to 15 years, some of which may include options to renew the leases and some of which may include options to terminate the leases prior to the end date of the lease term. The Bank does receive rental income for the leasing of available space.

The below table provides information on the Bank's operating leases:

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Operating lease cost ⁽¹⁾	\$ 237	\$ 99
Operating cash flows ⁽²⁾	\$ 10	\$ 12

⁽¹⁾ Included in net occupancy expense on Company's consolidated statement of income

⁽²⁾ Included in customer service fees on Company's consolidated statement of income

NOTE 6 SERVICING

Loans serviced for others are not included in the accompanying Company's consolidated balance sheets. The unpaid principal balances of 1-4 family real estate loans serviced for others were \$363.6, \$370.2 and \$367.8 million at March 31, 2024 and 2023 and at December 31, 2023, respectively. Unpaid principal balances of agricultural real estate loans serviced for others were \$133.8, \$136.3 and \$135.8 million at March 31, 2024, 2023 and at December 31, 2023, respectively.

The balance of capitalized servicing rights included in assets at March 31, 2024 and December 31, 2023 for 1-4 family real estate loans, was \$3.4 million and \$3.5 million, respectively. Agricultural real estate loan servicing rights, established in 2023, were \$2.1 million and \$2.2 million at March 31, 2024 and December 31, 2023, respectively. The capitalized addition of servicing rights is included in net gain on sale of loans on the Company's consolidated statement of income.

The fair value of the capitalized servicing rights for 1-4 family real estate loans as of March 31, 2024 and 2023 was \$5.5 million and \$5.8 million, respectively, and at December 31, 2023 was \$5.5 million. Capitalized servicing rights for agricultural real estate loans had a fair value of \$2.1 million and \$1.5 million as of March 31, 2024 and 2023, respectively, and was \$2.2 million at December 31, 2023. As the Company continues to refine and enhance its process for valuing agricultural real estate loan servicing rights, it may be necessary to adjust their value in future periods. The valuations were completed by stratifying the loans into like groups based on loan type and term. Impairment was measured by estimating the fair value of each stratum, taking into consideration an estimated level of prepayment based upon current market conditions. An average constant prepayment rate for 1-4 family real estate loans of 5.4% and 5.7% were utilized at March 31, 2024 and 2023, respectively, and 6.3% at December 31, 2023. At March 31, 2024, two 1-4 family real estate strata, which included 92 of the total 3,705 loans, were slightly below the carrying value using a discount yield of 6.22% which resulted in the need to establish a \$2 thousand valuation allowance. The carrying value of eleven agricultural real estate strata, which included 38 of the total 588 loans, using an approximate discount rate of 9.17% were lower than market value requiring a \$5 thousand valuation allowance to be established.

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Beginning Balance	\$ 5,655	\$ 3,549
Capitalized Additions	75	1,595
Amortization	(168)	(159)
Ending Balance, March 31,	5,562	4,985
Valuation Allowance	(7)	-
Servicing Rights net, March 31,	<u>\$ 5,555</u>	<u>\$ 4,985</u>

NOTE 7 EARNINGS PER SHARE

Basic earnings per share are calculated using the two-class method. The two-class method is an earnings allocation formula under which earnings per share is calculated from common stock and participating securities according to dividends declared and participation rights in undistributed earnings. Under this method, all earnings distributed and undistributed, are allocated to participating securities and common shares based on their respective rights to receive dividends. Unvested share-based payment awards that contain non-forfeitable rights to dividends are considered participating securities (i.e. unvested restricted stock), not subject to performance based measures. Basic earnings per share is calculated by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Application of the two-class method for participating securities results in a more dilutive basic earnings per share as the participating securities are allocated the same amount of income as if they are outstanding for purposes of basic earnings per share. There is no additional potential dilution in calculating diluted earnings per share, therefore basic and diluted earnings per share are the same amounts. Other than the restricted stock plan, the Company has no other employee stock based compensation plans.

The Compensation Committee of the Company has determined that it is appropriate to award shares of the common stock of the Company to Outside Directors and Employees that are officers of the Company or the Bank who also serve as Directors of the Company and the Bank as a portion of their retainer for services rendered as Directors of the Company and the Bank. The Committee believes that it is appropriate to award the Directors shares equal to a specific dollar amount, rounded to the nearest whole share on an annual basis commencing on June 5, 2020 and thereafter on the first Friday of June in each year. Directors receive a prorated dollar value of shares for a partial year of service. The value for the shares is to be based upon the closing price for shares on June 4, 2020 and thereafter on the first Thursday in June in each year. On June 2, 2023, twelve Directors each received \$14,997 which equated to 754 shares. The use of stock for Directors' retainer, does not have an effect on diluted earnings per share as it is immediately vested.

Any stock awards to senior management are made in March with other members of management receiving any awards in August. On March 1, 2024, senior management received stock awards of 23,369 shares worth \$472,054. On March 1, 2023, senior management received stock awards of 21,700 shares worth \$562,030 while other members of management received stock awards of 41,225 shares worth \$844,018 during third quarter 2023.

(In Thousands, Except Per Share Data)			
Three Months Ended			
		March 31, 2024	March 31, 2023
Earnings per share			
Net income		\$ 5,359	\$ 6,466
Less: distributed earnings allocated to participating securities		(35)	(32)
Less: undistributed earnings allocated to participating securities		(26)	(33)
Net earnings available to common shareholders	<u><u>\$ 5,298</u></u>	<u><u>\$ 6,401</u></u>	
Weighted average common shares outstanding including participating securities		13,671,166	13,615,655
Less: average unvested restricted shares		(156,506)	(136,185)
Weighted average common shares outstanding	<u><u>13,514,660</u></u>	<u><u>13,479,470</u></u>	
Basic and diluted earnings per share	<u><u>\$ 0.39</u></u>	<u><u>\$ 0.47</u></u>	

NOTE 8 DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Bank enters into interest rate swap agreements as part of its asset/liability management strategy to help manage its interest rate risk position.

The Bank entered into three pay-fixed receive variable interest rate swap transactions, with a combined notional value of \$100 million, designated and qualifying as accounting hedges during the last quarter of 2023. Designating an interest rate swap as an accounting hedge allows the Company to recognize gains and losses, less any ineffectiveness, in the Company's consolidated statement of income within the same period that the hedged item affects earnings. The Company includes the gain or loss on the hedged items in the same line item as the offsetting loss or gain on the related interest rate swaps. The fair value of interest rate swaps with a positive fair value are reported in other assets in the Company's consolidated balance sheets while interest rate swaps with a negative fair value are reported in accrued expenses and other liabilities in the Company's consolidated balance sheets.

The following table presents amounts that were recorded on the Company's consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of March 31, 2024 and December 31, 2023.

Line Item in the Consolidated Balance Sheets in which the Hedged Item is Included	(In Thousands)					
	March 31, 2024			December 31, 2023		
	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the	Carrying Amount of the Hedged Assets	Carrying Amount of the Hedged Assets	Cumulative Amount of Fair Value Hedging Adjustment Included in the	Carrying Amount of the Hedged Assets
Loans	\$ 270,953	\$ 969	\$ 276,991	\$ 2,719		

The following tables present a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables used in the Bank's asset/liability management activities at March 31, 2024 and December 31, 2023, identified by the underlying interest rate-sensitive instruments.

Instruments Associated With	Notional Value (In Thousands)	Remaining Maturity (In Years)	Fair Value (In Thousands)	Weighted Average Rate	
				Receive	Pay
Loans	\$ 100,000	3.3	\$ 969	USD-SOFR-OIS	4.47%
Total swap portfolio at March 31, 2024	\$ 100,000	3.3	\$ 969	USD-SOFR-OIS	4.47%

Instruments Associated With	Notional Value (In Thousands)	Remaining Maturity (In Years)	Fair Value (In Thousands)	Weighted Average Rate	
				Receive	Pay
Loans	\$ 100,000	3.6	\$ 2,719	USD-SOFR-OIS	4.47%
Total swap portfolio at December 31, 2023	\$ 100,000	3.6	\$ 2,719	USD-SOFR-OIS	4.47%

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

These derivative financial instruments were entered into for the purpose of managing the interest rate risk of certain assets and liabilities. The Bank pledged \$2.8 million of cash collateral to counterparties as security for its obligations related to these interest rate swap transactions at March 31, 2024 and December 31, 2023. Collateral posted and received is dependent on the market valuation of the underlying hedges.

The following table presents the notional amount and fair value of interest rate swaps utilized by the Bank at March 31, 2024 and December 31, 2023.

	(In Thousands)			
	March 31, 2024		December 31, 2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Asset Derivatives				
Derivatives designated as hedging instruments				
Interest rate swaps associated with loans	\$ -	\$ -	\$ -	\$ -
Total contracts	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Liability Derivatives				
Derivatives designated as hedging instruments				
Interest rate swaps associated with loans	\$ 100,000	\$ (943)	\$ 100,000	\$ (2,679)
Total contracts	<u>\$ 100,000</u>	<u>\$ (943)</u>	<u>\$ 100,000</u>	<u>\$ (2,679)</u>

The following table presents the effects of the Bank's interest rate swap agreements on the Company's consolidated statement of income during the three month period ended March 31, 2024 and March 31, 2023. The \$2.8 million of cash collateral pledged to counterparties yielded \$211 thousand of other interest income for the three months ended March 31, 2024.

Line Item in the Consolidated Statements of Income	(In Thousands)	
	Three Months Ended	March 31, 2024
Interest Income		March 31, 2023
Loans, including fees	\$ (14)	\$ -
Other	211	-
Total interest income	<u>\$ 197</u>	<u>\$ -</u>

NOTE 9 QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Company invests in certain qualified affordable housing projects. The Company has elected to account for its investment in qualified affordable housing projects using the proportional amortization method described in FASB ASU 2014-01, "Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Low-Income housing Tax Credit Projects (A Consensus of the FASB Emerging Issues Task Force)", which was updated in March 2023 and released as FASB ASU 2023-02. Under the proportional amortization method, an investor amortizes the initial cost of the investment to income tax expense in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the income statement as a component of income tax expense.

At March 31, 2024, the balance of the Company's investments in qualified affordable housing projects was \$3.9 million. This balance is reflected in the Other assets line on the condensed consolidated balance sheets. The unfunded commitments related to the investments in qualified affordable housing projects totaled \$1.4 million at March 31, 2024. This balance is reflected in the accrued expense and other liabilities line on the condensed consolidated balance sheets.

The funded balance in qualified affordable housing projects was \$2.4 million out of a total of \$4.0 million committed at December 31, 2023.

During the three months ended March 31, 2024, the Company recognized amortization expense with respect to its investments in qualified affordable housing projects of \$110 thousand, partially offset by tax credits and other benefits from its investments in affordable housing tax credits of \$108 thousand. During the three month period ended March 31, 2024, the Company did not incur any impairment losses related to its investments in qualified affordable housing projects.

NOTE 10 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair values of financial instruments are management's estimate of the values at which the instruments could be exchanged in a transaction between willing parties. These estimates are subjective and may vary significantly from amounts that would be realized in actual transactions. In addition, other significant assets are not considered financial assets including deferred tax assets, premises, equipment and intangibles. Further, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on the fair value estimates and have not been considered in any of the estimates.

Fair Value Measurements:

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities in active markets that the Company has the ability to access.

Available-for-sale securities, when quoted prices are available in an active market, securities are valued using the quoted price and are classified as Level 1.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Available-for-sale securities classified as Level 2 are valued using the prices obtained from an independent pricing service. The prices are not adjusted. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. The Bank holds some local municipals that the Bank evaluates based on the credit strength of the underlying project. The fair value is determined by valuing similar credit payment streams at similar rates.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

The following summarizes financial assets measured at fair value on a recurring basis as of March 31, 2024 and December 31, 2023, segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

	Assets and Liabilities Measured at Fair Value on a Recurring Basis		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
March 31, 2024			
Assets - (Securities Available-for-Sale)			
U.S. Treasury	\$ 74,693	\$ -	\$ -
U.S. Government agencies	19,525	108,213	-
Mortgage-backed securities	-	78,404	-
State and local governments	-	64,886	1,795
Total Securities Available-for-Sale	\$ 94,218	\$ 251,503	\$ 1,795

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

	(In Thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2023			
Assets - (Securities Available-for-Sale)			
U.S. Treasury	\$ 80,270	\$ -	\$ -
U.S. Government agencies	19,630	108,592	-
Mortgage-backed securities	-	82,132	-
State and local governments	-	65,394	2,460
Total Securities Available-for-Sale	\$ 99,900	\$ 256,118	\$ 2,460

The following tables represent the changes in the Level 3 fair-value category of which unobservable inputs are relied upon as of the three periods ended March 31, 2024 and March 31, 2023.

	(In Thousands)		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at January 1, 2024	\$ 1,188	\$ 1,272	\$ 2,460
Change in Fair Value	(2)	2	-
Payments, Maturities & Calls	(665)	-	(665)
Balance at March 31, 2024	<u>\$ 521</u>	<u>\$ 1,274</u>	<u>\$ 1,795</u>

	(In Thousands)		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at January 1, 2023	\$ 2,071	\$ 1,274	\$ 3,345
Change in Fair Value	9	31	40
Payments, Maturities & Calls	(245)	-	(245)
Balance at March 31, 2023	<u>\$ 1,835</u>	<u>\$ 1,305</u>	<u>\$ 3,140</u>

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

Most of the Company's available-for-sale securities, including any bonds issued by local municipalities, have CUSIP numbers or have similar characteristics of those in the municipal markets, making them marketable and comparable as Level 2.

The Company also has assets that, under certain conditions, are subject to measurement at fair value on a non-recurring basis. At March 31, 2024 and December 31, 2023, such assets consist primarily of collateral dependent loans. Collateral dependent loans categorized as Level 3 assets consist of non-homogeneous loans that have expected credit losses. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals.)

At March 31, 2024 and December 31, 2023, fair value of collateral dependent loans categorized as Level 3 was \$18.8 million and \$22.7 million, respectively.

During 2023, impairment was recognized on loan servicing rights based upon the independent third party's quarterly valuation. A valuation allowance was established by strata to quantify the likely impairment of the value of the loan servicing rights to the Company. If the carrying amount of an individual strata exceeds the fair value, impairment was recorded on that strata so the servicing asset was carried at fair value. Impairment was \$7 thousand at December 31, 2023.

The following table presents assets measured at fair value on a nonrecurring basis at March 31, 2024 and December 31, 2023:

Assets Measured at Fair Value on a Nonrecurring Basis at March 31, 2024						
	Balance at March 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Collateral dependent loans	\$ 18,849	\$ -	\$ -	\$ 18,849		
Loan servicing rights	54	- -	- -	54		

Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2023						
	Balance at December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)		
Collateral dependent loans	\$ 22,676	\$ -	\$ -	\$ 22,676		
Loan servicing rights	58	- -	- -	58		

The following table presents quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements:

	Fair Value at March 31, 2024	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	\$ 1,795	Discounted Cash Flow	Credit strength of underlying project or entity / discount rate	3.47-4.80% (4.49%)
Collateral dependent loans	18,849	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	0.00-50.00% (33.79%)
Loan servicing rights	54	Discounted Cash Flow	Constant prepayment rate and probability of default / discount rate	7.64-22.80% (11.86%)

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

	(In Thousands)				Range (Weighted Average)
	Fair Value at December 31, 2023	Valuation Technique	Unobservable Inputs		
State and local government	\$ 2,460	Discounted Cash Flow	Credit strength of underlying project or entity / discount rate		-0.17-4.92% (3.49%)
Collateral dependent loans	22,676	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability		0.00-50.00% (0.41%)
Loan servicing rights	58	Discounted Cash Flow	Constant prepayment rate and probability of default / discount rate		5.11-22.80% (10.87%)

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of March 31, 2024 and December 31, 2023 are reflected below.

	(In Thousands) March 31, 2024					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial Assets:						
Cash and cash equivalents	\$ 187,782	\$ 187,782	\$ 187,782	\$ -	\$ -	
Interest-bearing time deposits	2,735	2,718	-	2,718	-	
Securities - available-for-sale	347,516	347,516	94,218	251,503	1,795	
Other securities	14,744	14,744	-	-	14,744	
Loans held for sale	2,410	2,374	-	-	2,374	
Loans, net	2,516,687	2,435,500	-	-	2,435,500	
Interest receivable	12,981	12,981	-	-	12,981	
Financial Liabilities:						
Interest bearing deposits	\$ 1,464,666	\$ 1,464,184	\$ -	\$ -	\$ 1,464,184	
Non-interest bearing deposits	510,731	510,731	510,731	-	-	
Time deposits	645,985	639,751	-	-	639,751	
Total Deposits	2,621,382	2,614,666	510,731	-	2,103,935	
Federal funds purchased and securities sold under agreement to repurchase	28,218	28,218	-	-	28,218	
Federal Home Loan Bank advances	256,628	254,906	-	-	254,906	
Subordinated notes, net of unamortized issuance costs	34,731	29,810	-	29,810	-	
Interest payable	5,595	5,595	-	-	5,595	

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

	(In Thousands) December 31, 2023					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3	
Financial Assets:						
Cash and cash equivalents	\$ 142,201	\$ 142,201	\$ 142,201	\$ -	\$ -	\$ -
Interest-bearing time deposits	2,740	2,725	-	2,725	-	-
Securities - available-for-sale	358,478	358,478	99,900	256,118	2,460	-
Other securities	17,138	17,138	-	-	17,138	-
Loans held for sale	1,576	1,552	-	-	1,552	-
Loans, net	2,556,167	2,396,540	-	-	2,396,540	-
Interest receivable	11,774	11,774	-	-	11,774	-
Financial Liabilities:						
Interest bearing deposits	\$ 1,415,981	\$ 1,416,007	\$ -	\$ -	\$ 1,416,007	\$ -
Non-interest bearing deposits	528,465	528,465	528,465	-	-	-
Time deposits	663,017	656,141	-	-	656,141	-
Total Deposits	2,607,463	2,600,613	528,465	-	2,072,148	-
Federal funds purchased and securities sold under agreement to repurchase	28,218	28,218	-	-	28,218	-
Federal Home Loan Bank advances	265,750	260,400	-	-	260,400	-
Subordinated notes, net of unamortized issuance costs	34,702	30,676	-	30,676	-	-
Interest payable	5,441	5,441	-	-	5,441	-

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 11 FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company had no federal funds purchased at March 31, 2024 or at December 31, 2023. Securities sold under agreement to repurchase were as follows at March 31, 2024 and December 31, 2023.

	(In Thousands)					Remaining Contractual Maturity of the Agreements	
	March 31, 2024						
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total		
Repurchase agreements							
US Treasury & agency securities	\$ -	\$ -	\$ -	\$ 28,218	\$ 28,218		
Total	\$ -	\$ -	\$ -	\$ 28,218	\$ 28,218		

	(In Thousands)					Remaining Contractual Maturity of the Agreements	
	December 31, 2023						
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total		
Repurchase agreements							
US Treasury & agency securities	\$ -	\$ -	\$ -	\$ 28,218	\$ 28,218		
Total	\$ -	\$ -	\$ -	\$ 28,218	\$ 28,218		

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

NOTE 12 SUBORDINATED NOTES

On July 30, 2021, the Company completed a private placement of \$35 million aggregate principal amount of its 3.25% fixed-to-floating rate subordinated notes due July 30, 2031 (the "Notes") to various accredited investors (the "Offering"). The price for the Notes was 100% of the principal amount of the Notes. The Notes qualify as Tier 2 capital for regulatory purposes in proportionate amounts until July 30, 2026.

Interest on the Notes accrues at a rate equal to (i) 3.25% per annum from the original issue date to, but excluding, the five-year anniversary, payable semi-annually in arrears, and (ii) a floating rate per annum equal to a benchmark rate, which is expected to be the Three-Month Term SOFR (as defined in the Notes), plus a spread of 263 basis points from and including the five-year anniversary until maturity, payable quarterly in arrears. Beginning on or after the fifth anniversary of the issue date through maturity, the Notes may be redeemed, at the Company's option, on any scheduled interest payment date. Any redemption will be at a redemption price equal to 100% of the principal amount of Notes being redeemed, plus accrued and unpaid interest.

(In Thousands)	March 31, 2024			December 31, 2023		
	Principal	Unamortized Note Issuance Costs	Principal	Unamortized Note Issuance Costs		
Subordinated Notes	\$ 35,000	\$ (269)	\$ 35,000	\$ (298)		

NOTE 13 RECENT ACCOUNTING PRONOUNCEMENTS

In March 2022, the Sixth Circuit issued a ruling in CIC Services LLC v IRS vacating a previously referenced IRS Notice 2016-66. That ruling, as it stood, would remove the requirement of disclosure on Form 8886. However, on April 10, 2023, the IRS issued IR-2023-74 proposing regulations that classify Sec. 831(b) captives with less than a 65% claims loss ratio over a 10-year period as a "listed transaction." This provision would apply to only captives that have been in existence for at least 10 years. This is a change from Notice 2016-66 which classified Sec. 831(b) captives with less than a 70% claims loss ratio as a "transaction of interest." Final regulations are expected to be issued in Q1 2024. Management and its advisors are in the process of evaluating the impact of these proposed regulations. The Company dissolved its Captive insurance company, F&M Risk Management, in December 2023.

In March 2023, the FASB issued ASU 2023-02 *"Investments - Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method (a Consensus of the Emerging Issues Task Force)"*. The amendments in this Update expands the use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income-housing tax credit (LIHTC) programs. The ASU allows entities to elect the proportional amortization method, on a tax-credit-program-by-tax-credit-program basis, for all equity investments in tax credit programs meeting the eligibility criteria in Accounting Standards Codification (ASC) 323-74-25-1. While the ASU does not significantly alter the existing eligibility criteria, it does address existing interpretive issues. It also prescribes specific information reporting entities must disclose about tax credit investments each period. The ASU is effective for reporting periods beginning after December 15, 2023, for public business entities. Early adoption is permitted. Entities have the option of applying the ASU using either a modified retrospective or retrospective adoption approach. For some changes related to existing LIHTC investments, prospective application is permitted. The Company adopted ASU 2023-02 effective January 1, 2024 using the prospective approach. The financial impact was immaterial to the financial statements.

In October 2023, the FASB issued ASU 2023-06 *"Disclosure Improvements - Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative"*. The amendments in this Update are the result of the FASB's decision to incorporate into the Accounting Standards Codification certain disclosure requirements, referred by the SEC, that require incremental information to US GAAP. Topics in the ASU that have applicability to the Company are as follows:

- * *Statement of Cash Flows* - requires an accounting policy disclosure in annual periods of where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.
- * *Debt* - requires disclosure of amounts and terms of unused lines of credit and unfunded commitments and the weighted-average interest rate on outstanding short-term borrowings.
- * *Derivatives and Hedging* - adds cross-reference to disclosure requirements related to where cash flows associated with derivative instruments and their related gains and losses are presented in the statement of cash flows.

The effective date for each amendment will be the date on which the SEC's removal of that related disclosure from Regulation S-X or Regulation S-K becomes effective, with early adoption prohibited. If by June 30, 2027, the SEC has not removed the applicable requirement from Regulation S-X or Regulation S-K, the pending content of the related amendment will be removed from the Accounting Standards Codification and will not become effective for any entity. Management is reviewing the provisions of ASU 2023-06, and does not expect the adoption of the ASU to have a material effect on the Company's financial statements.

In November 2023, the FASB issued ASU 2023-07 *"Segment Reporting (Topic 280) - Improvements to Reportable Segment Disclosures"*. The amendments in this Update improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments in this Update primarily require that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker; require that a public entity disclose the title and position of the chief operating decision maker and an explanation of how the chief operating decision maker uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources; require that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this Update and all existing segment disclosures in Topic 280. The amendments in this Update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments in this Update retrospectively to all prior periods presented in the financial statements. Management is evaluating the Update and does not expect adoption of the Update to have a material effect on the Company's financial position or results of operations.

In December 2023, the FASB issued ASU 2023-09 *"Income Taxes (Topic 740) - Improvements to Income Tax Disclosures"*. The amendments in this Update require that public business entities on an annual basis (1) disclose specific categories in the rate reconciliation and (2) provide additional information for reconciling items that meet a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income [or loss]

ITEM 1 NOTES TO CONDENSED CONSOLIDATED UNAUDITED FINANCIAL STATEMENTS (Continued)

by the applicable statutory income tax rate). The amendments also require disclosure of the amount of income taxes paid (net of refunds received) disaggregated by federal (national) and state jurisdictions. For public business entities, the amendments in this Update are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The amendments in this Update should be applied on a prospective basis and retrospective application is permitted. Management is evaluating the Update and does not expect adoption of the Update to have a material effect on the Company's financial position or results of operations.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

"What a difference a year makes" is the thought that first comes to mind as we review the first quarter of 2024 in comparison to first quarter 2023. Liquidity concerns were paramount in 2023 and resolved by the end of 2023 though at a price of higher cost of funds. We experienced a shift in strategic thoughts and plans which have in turn, molded our path for 2024. This year we turn to a focus on profitability after a year of investment. Deposit generation remains an important part of our plan; the additional focus is on the mix and cost of funding. Deposits grew almost \$14 million since yearend 2023 with a decrease in time deposits and an increase in interest bearing checking accounts and savings which include money market accounts. The Bank is encouraged by the increase in net new checking accounts being opened, 243 more per quarter than a year ago. 80% of the increase in the cost of funds in first quarter 2024 as compared to first quarter 2023 was due to the increase in rates. Cost of funds was 3.06% for the quarter ended March 31, 2024 compared to 1.85% for the same time period 2023. Since year end 2023, the cost of funds increased 4 basis points while asset yield improved 7 basis points. An improvement of 3 basis points in this quarter over the prior quarter is in the profitability direction we are striving for - an \$83 thousand increase in net interest income in comparing March 31, 2024 to December 31, 2023 levels.

This quarter includes a decrease in nonaccruals whose balance is expected to decrease further in second quarter due to agricultural real estate sales involving two separate relationships. While both sales occurred in the first quarter, only one settled in the first quarter. The Bank expects to return to its lower historic levels of nonperforming balances by the end of the second quarter.

The growth in our loan portfolio has seen a slowing in new originations as compared to prior quarters and is intentional as a part of our 2024 strategy. We plan to replace run-off and predict a modest increase, if any, with originations focused in our newer markets.

The overall performance of our farm and agribusiness clients was solid in 2023 as yields and prices were favorable. We have seen most of our client's financial position being maintained or improved based on 2023 performance. Grain prices have declined from 2023 levels as production was strong with limited new demand. Based on current commodity prices projected income for our cash grain operations will be down in 2024. Demand for land and land values continues to be strong throughout the area we serve. Higher interest rates and lower projected 2024 income has slowed loan demand. The profits of the last several years has put our customer base in a solid financial position to withstand a potential down cycle that we do see in agriculture. Overall, the performance of our agricultural portfolio remains strong.

F&M Home Loan Team saw an increase in activity in our first quarter 2024 due to the Federal Home Loan Bank Welcome Home Grant offering. The production from this offering will be evident in 2nd quarter 2024 reports. Mortgage rates continue to remain steady while housing inventory remains low in many of our markets. The Home Loan Team continues to find the best mortgage solutions for all of our clients while looking for opportunities to help with housing initiatives in the underserved areas of our communities utilizing the F&M First Time Homebuyer program. This program was launched in November of 2023 and had its first loan closed in February 2024. Offering rates were lower at the beginning of the year and then stabilized out for the quarter.

F&M Commercial Banking Division saw loan demand soften beginning in the fourth quarter of 2023 and continued through the first quarter of 2024. Overall lending rates have increased in most markets and amortizations continue to stretch longer in select markets. Commercial clients are still concerned with the availability of workforce but are seeing some improvements in markets that have been affected by layoffs. Commercial clients have seen supply chain and material availability improve, but price increases remain a concern. Credit quality of the portfolio remains solid and first quarter 2024 collateral values are still holding consistent with previous quarters.

The Bank's consumer portfolio decreased by normal payment activity with limited new originations. Loan growth was focused elsewhere thus far in 2024, so no promotions were conducted in the retail installment space.

The Bank is pleased with the progress of our four full-service retail offices, in Ohio: Oxford and Downtown Toledo, Indiana: Downtown Fort Wayne and Michigan: Birmingham opened in 2023. The Bank has begun to help people live their best lives in those communities and the expansion of new relationships has begun.

In December 2023, the Company dissolved our subsidiary, Farmers & Merchants Risk Management, Inc. "captive". This was done to mitigate the risk of an IRS ruling which would have enacted taxation of our captive insurance company with a 3 year

look back period. The Company formed the captive for risk mitigation with insurance policies that provided pooled interests with other financial institutions along with less costly lower deductibles. In some instances, insurance coverage was put in place that was unavailable elsewhere when it was formed in 2014. The additional benefit of the captive on income tax calculations will be missed and noticed in the coming quarters with an increase on the tax basis of earnings in 2024. The Company may form a new captive in the future.

Noninterest income for the first quarter 2024 was consistent with the fourth quarter of 2023 and slightly down from first quarter 2023. Noninterest expense was higher for the first quarter of 2024 as compared to the previous quarter and same period a year ago. The largest increases were in the salary and wages and employee benefits. Two retirements of executive officers and accelerated restricted stock award benefits of over \$100 thousand impacted first quarter along with higher medical costs for a slightly larger employee base.

While the net income for first quarter 2024 as compared to same quarter 2023 and fourth quarter 2023 is lower, the Company is proud of the accomplishments and the groundwork that has been laid to improve profitability consistently in 2024. The improvement in net interest margin will occur throughout 2024 and is unfortunately a slow process. Credit quality remains strong and our team is prepared to adjust strategic focus in 2024, as necessary. The Company remains well capitalized and we continued our commitment to our shareholders by increasing our yearly declared dividends 4.76% over 2023's first quarter, with the first quarter 2024 declaration. With a committed team and strong corporate infrastructure, we believe we are positioned for success in 2024 and the years to follow.

NATURE OF ACTIVITIES

Farmers & Merchants Bancorp, Inc. (the "Company") is a financial holding company incorporated under the laws of Ohio in 1985. Our subsidiary is The Farmers & Merchants State Bank (the "Bank"), a local independent community bank that has been primarily serving Northwest Ohio, Northeast Indiana and Southeast Michigan since 1897. Farmers & Merchants Risk Management, Inc., a captive insurance company formed in December 2014 and located in Nevada was a subsidiary of the Company which was dissolved in December 2023. We report our financial condition and net income on a consolidated basis and we have only one segment.

Our executive offices are located at 307 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501. The Bank operates thirty-seven full-service banking offices throughout Northwest Ohio and Northeast Indiana and a drive-up facility in Archbold. The Bank also operates four Loan Production Offices (LPOs), two in Ohio with one in Indiana and one in Michigan.

The Farmers & Merchants State Bank engages in general commercial banking and savings business including commercial, agricultural and residential mortgage as well as consumer lending activities. The largest segment of the lending business relates to commercial, both real estate and non-real estate. The type of commercial business ranges from small business to multi-million dollar companies. The loans are a reflection of business located within the Banks' market area of Ohio, Indiana and Michigan. Because the Bank's offices are primarily located in Northwest Ohio, Northeast Indiana and Southeast Michigan, a substantial amount of the loan portfolio is comprised of loans made to customers in the farming industry for such items as farmland, farm equipment and operating loans for seed, fertilizer, and feed. Other types of lending activities include loans for home improvements, and loans for the purchase of autos, trucks, recreational vehicles, motorcycles, and other consumer goods.

The Bank also provides checking account services, as well as savings and time deposit services such as certificates of deposits. In addition, Automated Teller Machines (ATMs) or Interactive Teller Machines (ITMs) are provided at most branch locations along with other independent locations in the market area. ITMs operate as an ATM with the addition of remote teller access to assist the user. The Bank has custodial services for Individual Retirement Accounts (IRAs) and Health Savings Accounts (HSAs). The Bank provides on-line banking access for consumer and business customers. For consumers, this includes bill-pay, on-line statement opportunities and mobile banking. For business customers, it provides the option of electronic transaction origination such as wire and Automated Clearing House (ACH) file transmittal. In addition, the Bank offers remote deposit capture or electronic deposit processing. Mobile banking has been widely accepted and used by consumers. Upgrades to our digital products and services continue to occur in both retail and business lines. The Bank continues to offer new suites of products as customer preferences change and the Bank adapts and adopts new technologies. The Bank continues to offer products that also meet the needs of our more traditional customers.

The Bank has established underwriting policies and procedures which facilitate operating in a safe and sound manner in accordance with supervisory and regulatory guidance. Within this sphere of safety and soundness, the Bank's practice has been to not promote innovative, unproven credit products which may not be in the best interest of the Bank or its customers. The Bank does offer a hybrid mortgage loan. Hybrid loans are loans that start out as a fixed rate mortgage but after a set number of

years automatically adjust to an adjustable rate mortgage. The Bank offers a three year, a five year and a seven year fixed rate mortgage after which the interest rate will adjust annually. In order to offer longer term fixed rate mortgages, the Bank does participate in the Freddie Mac, Farmer Mac and Small Business Lending programs. The Bank also normally retains the servicing rights on these partially or 100% sold loans. In order for the customer to participate in these programs they must meet the requirements established by those agencies. In addition, the Bank does sell some of its longer term fixed rate agricultural mortgages into the secondary market with the aid of brokers. With the acquisition of Perpetual Federal Savings Bank in the 4th quarter of 2021 and the addition of Peoples Federal Savings in the 4th quarter of 2022, the Bank saw an increase in fixed rate, long-term mortgage loans to our portfolio from that banking service area.

The Bank does not have a program to fund sub-prime loans. Sub-prime loans are characterized as a lending program or strategy that targets borrowers who pose a significantly higher risk of default than traditional retail banking customers.

All loan requests are reviewed as to credit worthiness and are subject to the Bank's underwriting guidelines as to secured versus unsecured credit. Secured loans are in turn subject to loan to value (LTV) requirements based on collateral types as set forth in the Bank's Loan Policy. In addition, credit scores of those seeking consumer credit are reviewed and if they do not meet the Bank's Loan Policy guidelines, an additional officer approval is required.

Consumer Loans:

- Maximum loan to value (LTV) for cars, SUVs, and trucks is 110% depending on whether direct or indirect.
- Loans above 100% are generally the result of sales tax.
- Boats, campers, motorcycles, RV's and Motor Coaches range from 80%-90% based on age of vehicle.
- 1st or 2nd mortgages on 1-4 family homes maximum range from 80-85%.
- Raw land LTV maximum ranges from 65%-75% depending on whether or not the property has been improved.

Commercial/Agriculture:

Accounts Receivable:

- Up to 80% LTV less retainages and greater than 90 days.

Inventory:

•Agriculture:

- oLivestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%.

•Commercial:

- oMaximum LTV of 50% on raw and finished goods.

•Floor plan:

- oNew/used vehicles to 100% of wholesale.

- oNew/Used recreational vehicles and manufactured homes to 80% of wholesale.

Equipment:

- New, not to exceed (NTE) 80% of invoice, used NTE 50% of listed book or 75% of appraised value.
- Restaurant equipment up to 35% of market value.
- Heavy trucks, titled trailers NTE 75% LTV and aircraft up to 75% of appraised value.

Real Estate:

- Maximum LTVs range from 70%-80% depending on type.
- Maximum LTV on non-traditional loan up to 85%.

FM Investment Services, the brokerage department of the Bank, opened for business in April 1999. Securities are offered through Raymond James Financial Services, Inc. In November of 2020, FM Investment Services purchased the assets and clients of Adams County Financial Resources (ACFR) which is discussed in further detail in Note 2 to the Company's financial statements. Securities are offered through Raymond James Financial Services, Inc.

In December of 2014, the Company became a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended (the "Act"), in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. Our holding company is regulated and examined by the Federal Reserve. Our subsidiary bank is in turn regulated and examined by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation. The activities of our bank subsidiary are also subject to other federal and state laws and regulations. The Company also formed a captive insurance company (the "captive") in December 2014 and dissolved it in December 2023. The Captive was located in Nevada and regulated by the State of Nevada Division of Insurance.

The Bank formed an insurance agency, F&M Insurance Agency, LLC, in November 2023 to offer insurance products to our customers. The insurance agency is organized in Ohio and regulated by the State of Ohio, Division of Insurance.

The Bank's primary market includes communities located in the Ohio counties of Butler, Champaign, Defiance, Fulton, Hancock, Henry, Lucas, Shelby, Williams, Wood and in the Indiana counties of Adams, Allen, DeKalb, Jay, Steuben and Wells. The Michigan footprint includes Oakland County. In our banking activities, we compete directly with other commercial banks, credit unions, farm credit services, and savings and loan institutions in each of our operating localities. In a number of our locations, we compete against entities which are much larger than us. The primary factors in competing for loans and deposits are the rates charged as well as location and quality of the services provided.

At March 31, 2024, we had 465 full time equivalent employees. The employees are not represented by a collective bargaining unit. We provide our employees with a comprehensive benefit program, some of which is contributory. We consider our employee relations to be good.

RECENT REGULATORY DEVELOPMENTS

The Bank remains attentive to the current regulatory environment in light of the regulatory agencies' risk-based approach to examinations. Regulatory changes and the complexity of new and amended rules have resulted in challenges and uncertainties which could pose an increased risk of noncompliance. Various significant mortgage rules require monitoring by means of testing, validation of results, additional training, and further research or consultation to assist with ongoing compliance.

Under the Truth in Lending Act (TILA) Ability to Repay requirements, the Bank focuses on Qualified Mortgage (QM) status for mortgage loans originated as they provide certain presumptions of compliance under the Ability to Repay rules adopted under the Dodd-Frank Act. In satisfying QM requirements, any mortgage lender regardless of their size can make loans which are entitled to the QM presumption of compliance. New final rules, effective October 2022, amending the Ability to Repay/Qualified Mortgage Rules were implemented. The General QM Final Rule amended the definition of the QM category to offset the impact of the sunsetting of the temporary Government Sponsored Enterprise (GSE) QMs. Amended General QM loan definition removed the 43% debt-to-income limit, eliminated Appendix Q underwriting standards and any requirement to use them as a qualification for General QM status, and instead implemented price-based thresholds. The Company complies with the revised price-based new General QM Loan definition and its requirements. Since the Company sells fixed rate consumer mortgage loans to the Federal Home Loan Mortgage Corporation, it remains attentive to their current loan underwriting requirements. On occasion, the Bank does make Non-Qualified Mortgages. Approvals and originations of both Non-QM loans and Higher Priced Mortgage Loans are periodically reported to the Bank's Loan Committee.

On March 30, 2023, the CFPB issued final rules which amend Regulation B to implement changes to the Equal Credit Opportunity Act (ECOA) as made by Section 1071 of the Dodd-Frank Act. Covered financial institutions are required to collect and report data on covered credit applications involving small businesses, including those businesses owned by women or minorities. Small businesses are defined as those businesses (including agricultural businesses) which had gross annual revenue of \$5 million or less during its most recent fiscal year. Data would be reported to the CFPB which will then make aggregated information publicly available. These new final rules have a phased implementation period with the largest lenders being required to collect and report data first.

Lenders that originated at least 2,500 small business loans annually must begin data collection on October 1, 2024. Lenders that originated at least 500 small business loans annually will be required to begin data collection as of April 1, 2025. For those Lenders that originated at least 100 small business loans annually, data collection will be required to begin as of January 1, 2026. The Bank conducted a preliminary assessment based on the number of covered loans originated in 2022. Based on the preliminary assessment, the Bank would be subject to the data collection requirements as of April 1, 2025. Data collection and reporting of small business loans does not include nonprofit or government entities or businesses with gross annual revenues that exceed \$5 million. Additionally, data collection involves demographic information collected from a loan applicant regarding that applicant's status as a minority-owned business, a women-owned business, and an LGBTQI+-owned business, as well as the applicant's principal owners' ethnicity, race, and sex. Applicants can refuse to provide demographic information. Implementation of these final rules will involve significant changes to processes and procedures in conjunction with new software configurations to accommodate and capture required data points regarding applications and final action taken.

Presently, the Bank's compliance date for commencement of small business lending data collection is uncertain. A lawsuit filed in May 2023 by the Texas Bankers Association and Rio Bank based in McAllen, Texas in the U.S. District Court for the Southern District of Texas challenged the CFPB's final rule implementing Section 1071 of the Dodd-Frank Act. Shortly thereafter, the American Bankers Association joined the lawsuit as a plaintiff. The argument is the final rule far exceeded the statutory scope of Section 1071, failed to take into consideration relevant industry comments, and did not conduct appropriate cost-benefit analysis. Additionally, the constitutionality of the CFPB was challenged based on its funding structure, and which is based upon another pending lawsuit which is awaiting a hearing by the U.S. Supreme Court regarding CFPB's funding. An injunction was granted by a federal judge in the Southern District of Texas banning the CFPB from requiring Rio Bank, and

members of both the Texas Bankers Association and the American Bankers Association from complying with the final rules implementing Section 1071 of the Dodd-Frank Act until the Supreme Court of the United States rules on the CFPB's funding. Subsequently, a motion was filed by the Independent Community Bankers of America, the Independent Bankers Association of Texas, and Texas First Bank in the U.S. District Court for the Southern District of Texas requesting expansion of the injunction previously granted. In late October 2023, the federal judge granted the expansion of the injunctive relief to provide a nationwide injunction to all community banks and covered financial institutions thus ensuring relief was not limited by trade association membership. The Bank is presently impacted by the injunction on implementation of the Section 1071 final rule.

A final rule with amendments to the Community Reinvestment Act (CRA) was jointly released by the Federal Reserve, the FDIC, and Office of the Comptroller of the Currency on October 24, 2023. These amendments are intended to update how CRA activities qualify for consideration, where CRA activities are considered, and how CRA activities are evaluated. The final rule was effective on April 1, 2024, with certain amendments effective April 1, 2024, through January 1, 2031, and other amendments in the final rule were delayed indefinitely. The final CRA rules were published in the *Federal Register* on February 1, 2024. Shortly thereafter, the American Bankers Association, the U.S. Chamber of Commerce, the Independent Community Bankers of America, along with four state associations jointly sued the Federal Reserve, FDIC, and Office of Comptroller of the Currency for exceeding their statutory authority. The lawsuit filed in the U.S. District Court for the Northern District of Texas requested the three regulatory agencies vacate the rule and sought a preliminary injunction pausing the new rules while the court decided the merits of the case. On March 21, 2024, the Federal Reserve, FDIC, and Office of Comptroller of the Currency issued an interim final rule and a technical corrections final rule related to the CRA final rule both effective on April 1, 2024. The Agencies also requested comments on the interim final rule for a period of 45 days after publication in the *Federal Register*. The interim final rule extended two provisions of the CRA final rule from April 1, 2024, to January 1, 2026. Then on March 29, 2024, the district court judge granted a temporary injunction to pause the implementation of CRA final rule while the case moves forward. The injunction extended implementation dates on a day for day basis for each day the injunction remains in place. As a large bank examined for its CRA performance, the Bank remains attentive to the impact of the injunction granted, the outcome of the lawsuit, and significant amendments made by the final CRA rules.

With regard to all regulatory matters, the Bank remains committed in making good faith efforts to comply with technical requirements of the laws, rules, regulations, and guidance from both federal and state agencies which govern its activities.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, and the Company follows general practices within the financial services industry in which it operates. At times the application of these principles requires management to make assumptions, estimates and judgments that affect the amounts reported in the financial statements and accompanying notes.

These assumptions, estimates and judgments are based on information available as of the date of the financial statements. As this information changes, the financial statements could reflect different assumptions, estimates and judgments. Certain policies inherently have a greater reliance on assumptions, estimates and judgments and as such have a greater possibility of producing results that could be materially different than originally reported. Examples of critical assumptions, estimates and judgments are when assets and liabilities are required to be recorded at fair value, when a decline in the value of an asset not required to be recorded at fair value warrants an impairment write-down or valuation reserve to be established, or when an asset or liability must be recorded contingent upon a future event. These policies, along with the disclosures presented in the notes to the condensed consolidated financial statements and in the management's discussion and analysis of the financial condition and results of operations, provide information on how significant assets and liabilities are valued and how those values are determined for the financial statements. Based on the valuation techniques used and the sensitivity of financial statement amounts to assumptions, estimates, and judgments underlying those amounts, management has identified the determination of the ACL, the valuation of its Loan Servicing Rights (LSR), the valuation of real estate acquired through or in lieu of loan foreclosures ("OREO Property") and goodwill as the accounting areas that require the most subjective or complex judgments, and as such could be the most subject to revision as new information becomes available.

OREO Property held for sale is initially recorded at fair value at the date of foreclosure. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell.

Costs of holding foreclosed real estate are charged to expense in the current period, except for significant property improvements, which are capitalized. Valuations are periodically performed by management and a write-down is recorded by a charge to non-interest expense if the carrying value exceeds the fair value minus estimated costs to sell.

The net income from operations of foreclosed real estate held for sale is reported either in noninterest income or noninterest expense depending upon whether the property is in a gain or loss position overall. At March 31, 2024, December 31, 2023, and March 31, 2023 there were no OREO property holdings.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Accrued interest receivable totaled \$10.9 million and \$10.1 million at March 31, 2024 and December 31, 2023, respectively, and was reported in Other Assets on the condensed consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipation repayments.

Interest income on mortgage and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer and credit card loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The ACL represents management's estimate of expected credit losses inherent in the Bank's loan portfolio and unfunded loan commitments at the report date. The ACL methodology is regularly reviewed for its appropriateness and is approved annually by the Board of Directors. This written methodology is consistent with Generally Accepted Accounting Principles which provides for a consistently applied analysis.

The ACL is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. The ACL reflects the Company's estimated credit losses over the life of the loan. Management assesses changes in prepayment assumptions, interest rates, collateral values, portfolio composition, trends in non-performing loans, and other economic factors. In addition to an extensive internal loan monitoring process, the Company also aims to have an external, independent loan review of approximately 35% of its commercial and agricultural loan portfolio. Management in turn assesses the results from the reviews to make changes in internal risk ratings of loans and the related ACL.

The Bank's methodology provides an estimate of the expected credit losses either by calculating a reserve per credit or by applying our methodology to groupings based on similar risk characteristics. The loan portfolio was grouped based on loans of similar type, including acquired loans. The loan groupings for the CECL calculation consist of Commercial Real Estate, Construction & Land Development, Multi-family real estate, Commercial & Industrial, Farmland, Agriculture, Single Family real estate, Home Equity Lines of Credit, and Consumer. All groups use the average charge-off method for calculating the ACL. This incorporates a historical loss period from March 2000, since Call Report data became more granular regarding loan groupings, and includes several economic cycles. As a percentage, the reserves are the highest against construction and development loans, while farmland loans have the lowest overall reserve due to having such low loss rates.

Due to the Company's loss history not being sufficient enough to predict future losses, the Company is utilizing peer data from a peer group of 307 banks in the region with asset sizes less than \$5 billion. The reserves are calculated at the loan level and based on the note characteristics, essentially balances times loss rate + qualitative factors + forward look, with the forward looking forecast eliminated after 12 months. In order to provide a reasonable and supportable forward looking forecast, a regression analysis of the bank's historical loss rates against the Federal Open Market Committee (FOMC) quarterly economic projections for Change in real GDP and National Unemployment is completed. Annual projections are broken down using a straight-line approach for quarterly changes.

In addition to this quantitative analysis, management also utilizes qualitative analysis each quarter to assess the general reserve on the loan portfolio. The qualitative factors include nine categories: ability of staff, changes in collateral values, changes in loan concentration levels, economic conditions, external factors such as regulatory, level and trends in non-accrual or adversely classified loans, loan review results, nature and volume of the portfolio and loan terms, and changes in lending policies and procedures. The methodology allows for additional qualitative factors as other risks emerge. Items within these categories are

ranked as baseline, low, medium, or high levels of risk, and the related risk level per categories dictates the level of qualitative factor that is used depending on the standard deviation level from historical loss.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation; reserves for expected credit losses for collateral-dependent loans are based on the expected shortfall of the loan based on the discounted collateral value. This specific reserve portion of the ACL was \$0.4 million at December 31, 2023, and \$2.0 million at December 31, 2022. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. At 90 days delinquent, secured consumer loans are charged down to the value of the collateral, if repossession of the collateral is assured and/or in the process of repossession. Consumer mortgage loan deficiencies are charged down upon the sale of the collateral or sooner upon the recognition of collateral deficiency.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a modification to a borrower experiencing financial difficulty will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Inherent in most estimates is imprecision. Bank regulatory agencies and external auditors periodically review the Bank's methodology and adequacy of the ACL. Any required changes in the ACL or loan charge-offs by these agencies or auditors may have a material effect on the ACL.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The loan categories of off-balance sheet exposures are the same as the loan categories for the ACL. The funding assumptions are updated each quarter based on expected utilization percentages.

For more information regarding the actual composition and classification of loans involved in the establishment of the allowance for credit loss, please see Note 4 provided with the notes to consolidated financial statements.

The Bank is also required to estimate the value of its servicing rights. These rights are composed of servicing rights for single-family mortgage loans and agricultural real estate loans. The Bank's servicing rights relating to fixed rate single-family mortgage loans and agricultural real estate loans that it has sold without recourse but services for others for a fee represent an asset on the Bank's balance sheet. The valuations are completed by independent third parties.

During the second quarter of 2023, the Company engaged an independent third party with expertise in the valuation of agricultural real estate servicing rights. The independent third party's valuation of the agricultural real estate servicing rights is based on relevant characteristics of the Company's agricultural real estate loan servicing portfolio, such as loan terms, interest rates and recent national prepayment experience, as well as current national market interest rate levels, market forecasts and other economic conditions. Management, with the advice from its third party valuation firm, reviewed the assumptions related to prepayment speeds, discount rates, and capitalized loan servicing income.

While the process is similar to the process for valuing single family real estate servicing rights, the ag servicing valuation utilizes different strata, prepayment speeds and other assumptions in order to account for the differences in behavior between ag loans and single 1-4 family mortgages. USDA rate indications, SBA market indications and Farmer Mac 3-month Cost of Funds Index adjustments are utilized in the quarterly valuation process.

As a result of this refined analysis, representing a change in accounting estimate, management recognized an additional \$712 thousand of agricultural loan servicing rights during the quarter ended June 30, 2023. This change in estimate took place during the quarter ended June 30, 2023 and had no effect on past periods. Management intends to continue to obtain the appraisal of the agricultural real estate loan servicing rights from the independent third party specialist on a quarterly basis and work to refine the valuation methodology and model inputs.

The expected and actual rates of mortgage loan prepayments are the most significant factors driving the potential for the impairment of the value of servicing assets. Increases in mortgage loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced.

The Bank's servicing rights relating to loans serviced for others represent an asset. This asset is initially capitalized and included on the condensed consolidated balance sheets. The servicing rights are then amortized as noninterest expense in proportion to,

and over the period of the estimated future net servicing income of the underlying servicing rights. There are a number of factors, however, that can affect the ultimate value of the servicing rights to the Bank. The expected and actual rates of ag loans and single 1-4 family loan prepayments are the most significant factors driving the potential for the impairment of the value of servicing assets. Increases in loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced, meaning that the present value of the servicing rights is less than the carrying value of those rights on the Bank's balance sheet.

Therefore, in an attempt to reflect an accurate expected value to the Bank of the servicing rights, the Bank receives a valuation of its servicing rights from an independent third party. The independent third party's valuation of the servicing rights is based on relevant characteristics of the Bank's loan servicing portfolio, such as loan terms, interest rates and recent national prepayment experience, as well as current national market interest rate levels, market forecasts and other economic conditions.

For purposes of determining impairment, the real estate servicing assets are stratified into like groups based on loan type, term, new versus seasoned and interest rate. Management, with the advice from its third-party valuation firm, reviews the assumptions related to prepayment speeds, discount rates, and capitalized loan servicing income on a quarterly basis. Changes are reflected in the following quarter's analysis related to the loan servicing asset. In addition, based upon the independent third party's valuation of the Bank's servicing rights, management then establishes a valuation allowance by each stratum, if necessary, to quantify the likely impairment of the value of the servicing rights to the Bank. The estimates of prepayment speeds and discount rates are inherently uncertain, and different estimates could have a material impact on the Bank's net income and results of operations. The valuation allowance is evaluated and adjusted quarterly by management to reflect changes in the fair value of the underlying servicing rights based on market conditions.

The accuracy of these estimates and assumptions by management and its third party valuation specialist can be directly tied back to the fact that management has only been required to record minor valuation allowances through its income statement over time based upon the valuation of each stratum of servicing rights in the single family real estate. The valuation of the agricultural real estate rights continues to be evaluated for the most reasonable and representative values as the market for these is not as widely known and accepted as the single family.

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed for impairment at least annually. If possible impairment is likely, the Bank will utilize the assistance of an independent third party for an appraisal and any such impairment is recognized in the period identified. The goodwill impairment analysis was performed as of September 30, 2023 by an independent third party. The goodwill impairment analysis consisted of a first step goodwill impairment test which was used to identify potential impairment by comparing the fair value of the relevant reporting entity with its carrying value, including goodwill. The analysis was performed under guidance of FASB ASC 350. As of September 30, 2023, the excess fair value of capital was \$8.8 million or 2.7% over the carrying value and was slightly over 0.1 times the value of goodwill being carried.

MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had begun to experience a slowdown in its growth mode in the last half of the year of 2023. For the first quarter of 2024, the Company intentionally slowed even further. The outlook for 2024 is to have little to no loan growth. Therefore, we also chose to participate out a portion of our larger loans with other financial institutions, both new loans and some existing. Paydowns and payoffs will be used to fund originations to existing customers and to build relationships in our newer markets. Loan balances as of March 31, 2024, were \$38.3 million lower than December 31, 2023, balances though there remain \$98.0 million of funds committed to complete construction projects of business customers.

Where the Company continues to focus on growth is in the areas of core deposits and the expansion of contingency funding. Growing deposits will be a focus especially in our newer markets throughout 2024. The Bank has increased the number of team members in our Treasury Management area and has continued to offer specials in our deposit offerings. The Bank offers the Insured Cash Sweep (ICS) product and CDARS, a certificate of deposit registry, accessed through the IntraFi network of financial institutions which helps to reduce the amount of pledged securities needed. The Bank's uninsured deposit ratio remains low at 11.8%. As of March 31, 2024, total uninsured deposits of the Bank were \$308.8 million of \$2.6 billion total deposits. If the amount of coverage is adjusted for what is insured by FDIC alone, the percentage is 21.1% or \$552.3 million of uninsured deposits as of March 31, 2024. The underlying difference between these two percentages is the protection required for public funds which the Bank uses securities to pledge in Ohio and in Indiana, a state insurance fund exists. The state of Michigan also does not require the pledging of collateral for public funds though some entities do request it.

Deposits have increased \$13.9 million as of March 31, 2024, since December 31, 2023, and cash and cash equivalents have increased \$45.6 million over the same time period. The nearly \$187.8 million of cash holdings represents 5.7% of total assets and 7.2% of total deposits as of March 31, 2024. The Bank is comfortable with operating at this level as 5% is the desired base level for the total asset's percentage. The management liquidity meetings had increased in frequency in 2023 to weekly and additional reports and analysis were built throughout the year in order to be more responsive to opportunities and threats as they arose. Reaching many of the guidelines, such as the cash ratio mentioned, has enabled those meetings to be lowered to a biweekly frequency. Additional capacity had also been created through enrollment and the pledging of \$60.5 million of securities, having a par value of \$71.9 million, to the Federal Reserve's Bank Term Funding Program (BTFP). The BTFP collateral values were based on the par value of the securities rather than the fair values most other lenders utilize. Currently, par values are higher than fair value which results in a higher available balance for borrowings. This program ended in March of this year and the Bank plans to release approximately half of the securities and move the pledging of the other half to the Federal Reserve Discount Window program. The Company had not utilized any funding from the BTFP.

During the first quarter 2024, borrowings from the Federal Home Loan Bank "FHLB" decreased \$9.1 million through normal paydowns and the Bank engaged in the use of brokered CDs utilizing two fresh sources in the amount of \$16.6 million. This was done to establish relationships to test the access of such funds and decrease the cost of funds going forward. To assure a proper net interest margin over the 3- and 4-year time period of these CDs, the Bank internally looked at loan originations in the first quarter with similar or slightly longer fixed interest rate periods. The Bank does plan to tap the brokered CD market for an additional \$10 million early in the second quarter to complete this strategy. The Bank also tested all correspondent borrowing lines during the quarter to assure availability should the need arise. The availability for overnight borrowing on unsecured Federal Funds lines is \$103 million. Combining the available line of credit at the holding company level, the Company has \$118 million overnight borrowing availability.

In comparing to the same prior year period, the March 31, 2024 (net of deferred fees and cost) loan balances of \$2.5 billion accounted for \$93.7 million or 3.8% increase when compared to 2023's \$2.4 billion. The year over year improvement was made up of a combined increase in commercial and industrial related loans of 6.4%. Individual growth was comprised of 6.4% in commercial real estate loans and 5.9% in non-real estate commercial loans. Consumer real estate loans increased by 4.4% while consumer loans decreased by 16.4%. Agricultural related loans decreased 1.2% year over year. Individual decline was comprised of 0.2% in agricultural real estate loans and 2.9% in non-real estate agricultural loans. Other loans decreased by 8.7%. The Company credits the growth to the strong team of lenders focused on providing customers valuable localized services and thereby increasing our market share. The acquisition of Peoples Federal Savings and Loan Association in the fourth quarter of 2022 brought \$101.8 million of loans to the portfolio. See Note 2 to the consolidated financial statements.

The chart below shows the breakdown of the loan portfolio category as of March 31, for the last three years, net of deferred fees and costs.

	(In Thousands)		
	March 31, 2024 Amount	March 31, 2023 Amount	March 31, 2022 Amount
Consumer Real Estate	\$ 525,243	\$ 502,968	\$ 410,064
Agricultural Real Estate	227,150	227,599	195,901
Agricultural	127,913	131,677	140,847
Commercial Real Estate	1,301,981	1,223,163	909,408
Commercial and Industrial	255,797	241,541	216,789
Consumer	75,538	90,388	57,638
Other	26,776	29,316	31,573
 Total Loans, net of deferred fees and costs	 \$ 2,540,398	 \$ 2,446,652	 \$ 1,962,220

The Bank maintains a well-balanced, diverse and high performing commercial real estate loan portfolio. Commercial real estate loans, excluding deferred loan fees and other costs, represented 51.31% of the Company's total gross loan portfolio as of March 31, 2024. The below charts break out the commercial real estate portfolio by category, location and loan grade.

CRE Category	Dollar Balance	Percent of CRE Portfolio	Percent of Total Loan Portfolio
Industrial	\$ 259,191	19.87%	10.19%
Multi-family	221,884	17.01%	8.73%
Retail	220,755	16.92%	8.68%
Office	139,021	10.66%	5.47%
Hotels	128,313	9.84%	5.05%
Gas Stations	63,202	4.85%	2.49%
Food Service	47,304	3.63%	1.86%
Senior Living	34,534	2.65%	1.36%
Development	33,961	2.60%	1.34%
Auto Dealers	31,856	2.44%	1.25%
Other	124,379	9.53%	4.89%
Total CRE	\$ 1,304,400	100.00%	51.31%

CRE Category ^(*)	Dollar Balance	Percent of CRE Portfolio
Non-owner	\$ 538,232	41.26%
Owner	510,323	39.12%
Multi-family	221,884	17.01%
Land & Development	33,961	2.61%
Total CRE	\$ 1,304,400	100.00%

* Categories assume construction loans converted to either owner or non-owner occupied.

Location	Dollar Balance	Percent of CRE Portfolio
Southeast Michigan	\$ 448,465	34.38%
Northwest Ohio	345,927	26.52%
Columbus, Ohio	159,855	12.26%
Fort Wayne, Indiana	146,249	11.21%
Dayton/Cincinnati, Ohio	68,984	5.29%
Greater Indianapolis, Indiana	47,974	3.68%
Other	86,946	6.66%
Total CRE	\$ 1,304,400	100.00%

CRE Grades	March 31, 2024	December 31, 2023	December 31, 2022
2	0.53%	0.55%	0.80%
3	36.34%	36.33%	32.10%
4	58.71%	58.00%	64.20%
5	4.31%	5.07%	0.80%
6	0.11%	0.05%	2.10%
	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>

The following is a contractual maturity schedule by major category of loans excluding fair value adjustments as of March 31, 2024.

	(In Thousands)				
	March 31, 2024				
	Within		After One Year Within	After Five Years Within	After Fifteen Years
	One Year	Five Years	Fifteen Years		
Consumer Real Estate	\$ 12,627	\$ 32,294	\$ 159,315	\$ 324,471	
Agricultural Real Estate	603	5,863	64,429	157,070	
Agricultural	60,806	50,111	13,528	3,256	
Commercial Real Estate	123,771	362,812	601,876	216,067	
Commercial and Industrial	102,498	91,727	61,485	812	
Consumer	2,363	57,363	15,212	92	
Other	10	1,286	16,003	9,482	

Management feels confident that liquidity needs can be met through additional maturities from the security portfolio, increased deposits and additional borrowings. For short term needs, the Bank has the unsecured borrowing capacity through its correspondent banks mentioned above along with access to \$150.1 million through a Cash Management Advance with the Federal Home Loan Bank as of March 31, 2024. The Bank's secured borrowing capacity limits at the Federal Home Loan Bank would have allowed draws on the Cash Management Advance of \$44.2 million on March 31, 2024.

While the security portfolio has been utilized to fund loan growth in previous periods, additional sources have been cultivated during 2022, 2023, and 2024. The security portfolio decreased in the first three months of 2024 from year end 2023 due to the maturity of \$9.0 million of securities, offset by a purchase of \$0.3 million and a \$2.0 million decrease in unrealized losses. The amount of pledged investment securities increased by \$2.3 million as compared to year end and \$94.1 million as compared to March 31, 2023. As of March 31, 2024, pledged investment securities totaled \$258.1 million. The Company does plan to do additional purchases of securities the remainder of the year for the dual purpose of increasing the holdings for liquidity and contingency planning and with a focus on improving our investments in Community Reinvestment Act qualifying securities.

An additional \$44.2 million is also available to the Bank from the Federal Home Loan Bank based on current amounts of pledged collateral. At the present time, only 1-4 family, home equity, commercial real estate portfolios and specific securities are pledged. The Bank did designate additional commercial real estate holdings as pledges to increase the availability going forward. The Bank will also add multifamily real estate to our pledged assets to FHLB in the future. With additional pledging, the Bank would have nearly \$1.1 billion available to borrow.

With the exception of FHLB stocks, carried at cost, which is shown as other securities, all of the Company's security portfolio is categorized as "available-for-sale" and as such is recorded at fair value.

Overall total assets remained relatively flat, increasing only 0.13% or \$4.3 million since year end 2023. The intended and largest growth in cash holdings was discussed above.

Total deposits accounted for the largest growth within liabilities. The mix of deposits saw increases in interest bearing checking, savings and money market deposits since December 31, 2023. Noninterest-bearing accounts and time deposit accounts saw decreases from December 31, 2023.

Shareholders' equity increased by \$1.1 million as of the first quarter of 2024 compared to year end 2023. Earnings exceeded dividend declarations during the three months ended March 31, 2024. Accumulated other comprehensive loss increased in

unrealized loss position by \$1.6 million from December 2023 to an unrealized loss of \$30.6 million on March 31, 2024. The implementation of ASU 2016-13 (CECL) resulted in an entry which reduced retained earnings \$3.4 million on January 1, 2023. This adjustment is permitted to be spread over three years when calculating regulatory capital, which for 2023 was over \$2.5 million. This adjustment decreased to \$1.7 million for 2024. Dividends declared remained unchanged from the prior quarter at \$0.22 per share and were 4.76% over first quarter 2023's \$0.21 per share. Compared to March 31, 2023, shareholders' equity increased 3.9% or \$11.9 million. Net income was lower for the quarter ended March 2024 compared to March 2023 by \$1.1 million and \$1.75 thousand lower than fourth quarter 2023. Encouraging is the main income driver of net interest income was higher for first quarter 2024 than for the prior quarter.

Basel III regulatory capital requirements include a capital conservation buffer of 2.5%. As of March 31, 2024, the Company and the Bank are both positioned well above the current requirement.

While the Holding Company generally has sufficient liquidity to maintain its dividend policy without relying on the upstreaming of dividends from the Bank, the Bank declared a \$3.0 million dividend during the first quarter of 2024.

The Bank continues to be well-capitalized at March 31, 2024 in accordance with Federal regulatory capital requirements as the capital ratios below show:

Tier I Leverage Ratio	8.75%
Risk Based Capital Tier I	10.95%
Total Risk Based Capital	11.93%
Stockholders' Equity/Total Assets	10.37%
Capital Conservation Buffer	3.93%

MATERIAL CHANGES IN RESULTS OF OPERATIONS

Comparison of Results of Interest Earnings and Expenses for three month periods ended March 31, 2024 and 2023

Interest Income

When comparing first quarter 2024 to first quarter 2023, average loan balances grew \$180.1 million which represented a 7.5% increase in a one-year time period. Interest income on loans increased \$5.5 million as compared to the quarter ended March 31, 2023. The Company's loan portfolio is 31.9% variable with 14.2% of total loans repricing within the next three months and 25.7% repricing within the next twelve months.

The available-for-sale securities portfolio decreased in average balances by \$17.8 million when comparing to the same quarter in 2023 while the income associated with the security portfolio increased \$173 thousand over first quarter 2023. Federal funds sold and interest-bearing deposits increased in average balances by \$41.8 million as compared to the same quarter in 2023 with increased income of \$1.2 million for the current quarter. The increased balances are the result of the focus on liquidity and deposit generation.

The overall total average balance of the Bank's earning assets increased by \$204.1 million and interest income for the quarter comparisons was higher for first quarter 2024 by 21.5% or \$6.9 million as compared to first quarter 2023. Increases in the prime lending rate between periods has contributed to approximately 64.0% of the growth.

Annualized yield, for the quarter ended March 31, 2024, was 5.00% as compared to 4.41% for the quarter ended March 31, 2023. The following charts demonstrate increased loan balances accounted for 40.6% of the increased loan interest income while rate increases accounted for the remaining 59.4%. The yields on tax-exempt securities and the portion of the tax-exempt IDB loans included in loans have been tax adjusted based on a 21% tax rate in the charts to follow. The tax-exempt interest income was \$157 and \$153 thousand for the first quarter 2024 and 2023 which resulted in a federal tax savings of \$33 and \$32 thousand, respectively.

Interest Earning Assets:	(In Thousands)			Annualized Yield/Rate	
	Quarter to Date Ended March 31, 2024		Interest/Dividends	March 31, 2024	March 31, 2023
	Average Balance				
Loans	\$ 2,577,114	\$ 35,200		5.46%	4.96%
Taxable investment securities	384,928	1,686		1.75%	1.51%
Tax-exempt investment securities	21,109	86		2.06%	1.92%
Fed funds sold & other	110,388	1,682		6.09%	2.92%
Total Interest Earning Assets	\$ 3,093,539	\$ 38,654		5.00%	4.41%

Change in Interest Income Quarter to Date March 31, 2024 Compared to March 31, 2023

Interest Earning Assets:	Total Change	(In Thousands)		Change Due to Rate
		Change Due to Volume		
Loans	\$ 5,497	\$ 2,231	\$ 3,266	
Taxable investment securities	187	(47)	234	
Tax-exempt investment securities	(14)	(25)	11	
Fed funds sold & other	1,182	305	877	
Total Interest Earning Assets	\$ 6,852	\$ 2,464	\$ 4,388	

Interest Expense

Outpacing the higher interest income improvement for the quarter was an increase in interest expense in 2024 of \$8.4 million or 83.2% compared to first quarter 2023. Since 2023, average interest-bearing deposit balances have increased \$113.9 million or 5.8% and the Company recognized \$7.1 million more in interest expense for the most recent quarter. During 2023, there were four increases of 25 basis points in February, March, May and July. Deposit rates have been adjusted numerous times with all the rate increases. Interest expense on FHLB borrowings and other borrowings increased \$1.4 million in the first quarter 2024 over the same time frame in 2023 due to new FHLB borrowings in 2023 used to fund loan growth. Interest expense on fed funds purchased and securities sold under agreement to repurchase decreased \$121 thousand compared to first quarter 2023 due to the decrease of \$10.4 million in average balances. Another factor in the increased cost of funds is the change in the mix of funding. Growth has occurred in interest bearing deposit balances supplemented with increased borrowings while noninterest bearing deposits balances decreased compared to first quarter 2023. The Bank continues to focus on capturing the full customer relationship; however, it has resulted in more expensive deposits being brought in. The average cost of funds increased to 3.06% in first quarter 2024 compared to 1.85% in first quarter 2023. Refer to Note 12 for additional information on subordinated notes.

Interest Bearing Liabilities:	Average Balance	Interest	(In Thousands)		Annualized Yield/Rate March 31, 2024	March 31, 2023
			Quarter to Date Ended March 31, 2024	March 31, 2024		
Savings deposits	\$ 1,443,530	\$ 9,407		2.61 %	2.61 %	1.41 %
Other time deposits	650,580	5,872		3.61 %	3.61 %	2.21 %
Other borrowed money	263,280	2,689		4.09 %	4.09 %	3.86 %
Fed funds purchased & securities sold under agreement to repurchase	28,458	284		3.99 %	3.99 %	4.17 %
Subordinated notes	34,712	284		3.27 %	3.27 %	3.28 %
Total Interest Bearing Liabilities	\$ 2,420,560	\$ 18,536		3.06 %	3.06 %	1.85 %

Change in Interest Expense Quarter to Date March 31, 2024 Compared to March 31, 2023

Interest Bearing Liabilities:	Total Change	(In Thousands)		Change Due to Rate
		Change Due to Volume		
Savings deposits	\$ 4,464	\$ 151	\$ 4,313	
Other time deposits	2,664	394	2,270	
Other borrowed money	1,409	1,263	146	
Fed funds purchased & securities sold under agreement to repurchase	(121)	(108)	(13)	
Subordinated notes	-	1	(1)	
Total Interest Bearing Liabilities	\$ 8,416	\$ 1,701	\$ 6,715	

Overall, net interest spread for the first quarter 2024 was 62 basis points lower than same period last year. As the following chart indicates, the improvement in yields on interest earning assets only partially offset the increased cost of funds when comparing to the same period a year ago. Competition for deposits remains intense with most competitors offering special rates for specific terms.

	March 31, 2024	March 31, 2023	March 31, 2022
Interest/Dividend income/yield	5.00 %	4.41 %	3.47 %
Interest Expense/cost	3.06 %	1.85 %	0.45 %
Net Interest Spread	1.94 %	2.56 %	3.02 %
Net Interest Margin	2.60 %	3.01 %	3.14 %

Net Interest Income

Net interest income decreased approximately \$1.6 million for the first quarter 2024 over the same time frame in 2023 with the increase in interest income of \$6.9 million offset by the higher interest expense of \$8.4 million as previously mentioned. As the new loans added in 2023 and 2024 generate more income, management expects the benefits of the Company's strategy of repositioning the balance sheet to increase interest income in the long run. Loans as a percentage of earning assets increased to 83.3% in first quarter 2024 compared to 83.0% in first quarter 2023. Loans to total assets increased to 79.2% in first quarter 2024 compared to 78.1% for the same period 2023. The percentage of earning assets to total assets increased to 95.1% in 2024 compared to 94.1% in 2023. In terms of net interest margin, the Bank recognizes competition for deposits continues to increase with higher interest rates putting pressure on the margin which may lead to a further tightening in the short term.

Comparison of Noninterest Results of Operations for three month periods ended March 31, 2024 and 2023

Provision Expense

The Allowance for Credit Losses (ACL) has a direct impact on the provision expense. The increase in the ACL is funded through recoveries and provision expense. The following tables both deal with the allowance for credit losses. The first table breaks down the activity within ACL for each loan portfolio class and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs. The second table discloses how much of the ACL is attributed to each class of the loan portfolio, as well as the percent that each particular class of the loan portfolio represents to the entire loan portfolio in the aggregate. The commercial and industrial loan portfolio along with the consumer loan portfolio accounted for the largest component of recoveries and charge-offs for three months ended March 31, 2024 while the consumer loan portfolio accounted for the largest component of recoveries and charge-offs for the three months ended March 31, 2023. The commercial real estate portfolio is currently creating a large impact on the ACL due to the loan growth.

Total provision for credit losses was \$1.1 million lower for the three months ended March 31, 2024 as compared to the same period in 2023. Management continues to monitor asset quality, making adjustments to the provision as necessary. The impact of higher interest rates and inflation are taken into consideration when reviewing qualitative factors. Loan charge-offs were \$70 thousand higher during the three months ended March 31, 2024 than the same period in 2023. Recoveries were \$75 thousand higher during the three months ended March 31, 2024 as compared to same period in 2023. Combined net charge-offs were \$5 thousand lower in the three months ended March 31, 2024 than the same time period 2023. The decline in loan balances quarter over quarter was the main factor in the negative provision for first quarter 2024.

Loans past due 30 or more days increased \$5.9 million at March 31, 2024 as compared to March 31, 2023. The largest changes were attributed to the combined increase of past due balances of \$14.3 million in the agricultural loan portfolio and agricultural real estate loan portfolio. The commercial real estate loan portfolio past due balances decreased \$8.4 million for the same time period.

The following table breaks down the activity within the ACL for each loan portfolio class and shows the contribution provided by both recoveries and the provision, along with the reduction of the allowance caused by charge-offs. The time period covered is for the three months ended March 31, 2024, 2023, and 2022.

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023	Three Months Ended March 31, 2022	(In Thousands)
Loans, net of deferred fees and costs	\$ 2,540,398	\$ 2,446,652	\$ 1,962,220	
Daily average of outstanding loans	<u>\$ 2,575,096</u>	<u>\$ 2,397,061</u>	<u>\$ 1,907,478</u>	
Nonaccrual loans	\$ 19,391	\$ 7,713	\$ 8,581	
Nonperforming loans*	<u>\$ 19,391</u>	<u>\$ 7,713</u>	<u>\$ 8,581</u>	
Allowance for Credit Losses - January 1,	\$ 25,024	\$ 20,313	\$ 16,242	
Adjustment for accounting change	- -	3,564	- -	
Loans Charged off:				
Consumer Real Estate	10	- -	- -	
Agriculture Real Estate	- -	- -	- -	
Agricultural	- -	- -	- -	
Commercial Real Estate	- -	- -	- -	
Commercial and Industrial	101	- -	6	
Consumer	81	122	88	
	192	122	94	
Loan Recoveries:				
Consumer Real Estate	4	7	5	
Agriculture Real Estate	- -	- -	- -	
Agricultural	- -	- -	- -	
Commercial Real Estate	3	2	2	
Commercial and Industrial	66	6	9	
Consumer	64	47	27	
	137	62	43	
Net Charge Offs (Recoveries):				
Consumer Real Estate	6	(7)	(5)	
Agriculture Real Estate	- -	- -	- -	
Agricultural	- -	- -	- -	
Commercial Real Estate	(3)	(2)	(2)	
Commercial and Industrial	35	(6)	(3)	
Consumer	17	75	61	
	55	60	51	
Provision for Credit Losses	(289)	817	580	
Allowance for Credit Losses - March 31,	24,680	24,634	16,771	
Allowance for Unfunded Loan Commitments & Letters of Credit - March 31,	1,946	2,228	1,076	
Total Allowance for Credit Losses - March 31,	<u>\$ 26,626</u>	<u>\$ 26,862</u>	<u>\$ 17,847</u>	
Ratio of Net Charge-offs to Average Outstanding Loans	0.00 %	0.00 %	0.00 %	
Ratio of Nonaccrual Loans to Loans	0.76 %	0.32 %	0.44 %	
Ratio of the Allowance for Credit Losses to Loans	0.97 %	1.01 %	0.85 %	
Ratio of the Allowance for Credit Losses to Nonaccrual Loans	127.28 %	319.38 %	198.29 %	
Ratio of the Allowance for Credit Losses to Nonperforming Loans*	127.28 %	319.38 %	198.29 %	

*Nonperforming loans are defined as all loans on nonaccrual, plus any loans past due 90 days not on nonaccrual.

The balance of loans, net of deferred fees and costs at March 31, 2024 within this chart does not include a fair value basis adjustment for derivatives of \$969 thousand or a daily average outstanding balance of \$2.0 million.

ASU 2016-13 was adopted during the first quarter of 2023; therefore, 2022 provision amounts reflect the incurred loss method.

Loans classified as nonaccrual were higher as of March 31, 2024 at \$19.4 million as compared to \$7.7 million as of March 31, 2023. The agricultural portfolio and agricultural real estate portfolios accounted for 95.1% of the increase as compared to March 31, 2023. The increases in the agricultural portfolio and the agricultural real estate portfolio resulted from one borrower relationship where the Bank is well collateralized.

The following table presents the balances for allowance for credit losses per loan category in terms of dollars, as a percentage of ACL and as a percentage of loans at March 31, 2024 and March 31, 2023.

Balance at End of Period Applicable To:	March 31, 2024			March 31, 2023		
	Amount (In Thousands)	% of ACL	% of Loan Category	Amount (In Thousands)	% of ACL	% of Loan Category
Consumer Real Estate	\$ 3,285	13.31%	20.68%	\$ 3,623	14.70%	20.56%
Agricultural Real Estate	1,171	4.74%	8.94%	209	0.84%	9.30%
Agricultural	377	1.53%	5.04%	66	0.27%	5.38%
Commercial Real Estate	15,953	64.64%	51.25%	16,088	65.31%	50.00%
Commercial and Industrial	2,732	11.07%	11.12%	3,414	13.86%	11.07%
Consumer	1,162	4.71%	2.97%	1,234	5.02%	3.69%
Allowance for Credit Losses	24,680	100.00%	100.00%	24,634	100.00%	100.00%
Off Balance Sheet Commitments	1,946			2,228		
Total Allowance for Credit Losses	\$ 26,626			\$ 26,862		

Noninterest Income

Noninterest income was down \$231 thousand or 5.5% for the three months ended March 31, 2024 over the same time frame in 2023. Combined service fees decreased by \$1.2 million as compared to the three months ended March 31, 2023. Servicing rights income for 1-4 family real estate and agricultural real estate loans decreased \$1.5 million as compared to the same period in 2023 with the establishment of agricultural real estate loan servicing rights in the first quarter 2023 of \$1.5 million. Mortgage release fees increased \$234 thousand over the same time period in 2023. Miscellaneous customer service charges increased by \$53 thousand and bank owned life insurance cash surrender value increased \$21 thousand. Overdraft and returned check charges increased \$21 thousand compared to the three months ended March 31, 2023. Profit on checks decreased \$15 thousand compared to 2023.

The Company has seen relatively flat mortgage production volume due to the heightened borrowing costs and continued lack of housing inventory in many of our markets. The gain on the sale of these loans was \$40 thousand higher for the three months ended March 31, 2024 over the same period in 2023. Loan originations on loans held for sale for the three months ended March 31, 2024 were \$7.6 million with proceeds from sale at \$6.8 million for 2024 compared to 2023's activity of \$6.5 million in originations and \$6.5 million in sales. The mortgages sold were both 1-4 family real estate and agricultural real estate loans originated for sale.

The impact of loan servicing rights, both to income and expense, is shown in the following table which reconciles the value of loan servicing rights. The capitalization runs through noninterest income while the amortization thereof is included in noninterest expense. For the three months ended March 31, 2024 and 2023, loan servicing rights caused a net \$93 thousand in expense and \$1.4 million in income, respectively. The higher capitalized additions for 2023 are attributed to \$1.5 million of rights related to agricultural real estate loans. Amortization of agricultural real estate loan servicing rights were \$60 thousand and \$36 thousand for the first three months of 2024 and the first three months of 2023, respectively. As the Company continues to refine and enhance its process for valuing agricultural real estate loan servicing rights, it may be necessary to adjust their value in future periods. For 1-4 family real estate loans of 15 years and less, the market value of the loan servicing rights was 1.177% in the first quarter 2024 versus 1.040% in first quarter 2023. For 1-4 family real estate loans over 15 years, the value was 1.354% versus 1.330% for the same periods respectively. A valuation allowance of \$7 thousand was established during fourth quarter 2023.

	(In Thousands)	
	Three Months Ended	
	March 31, 2024	March 31, 2023
Beginning Balance	\$ 5,655	\$ 3,549
Capitalized Additions	75	1,595
Amortization	(168)	(159)
Ending Balance, March 31,	5,562	4,985
Valuation Allowance	(7)	-
Servicing Rights net, March 31,	<u>\$ 5,555</u>	<u>\$ 4,985</u>

Noninterest Expense

For the three months ended March 31, 2024, noninterest expenses were \$848 thousand or 5.0% higher than for the same period in 2023. Salaries and wages (includes normal merit increases, restricted stock expense and incentive payout) increased \$1.2 million in total. This was comprised of increased salaries of \$888 thousand which included one-time special payments of \$388 thousand, restricted stock award expense of \$128 thousand which was primarily attributed to the acceleration of stock awards and incentive of \$65 thousand. The increase was due to the investment in people for our strategic growth initiative and staffing of new offices. Benefits in total remained flat over 2023 with the increased medical expense of \$135 thousand offset with reductions in pension of \$58 thousand, miscellaneous personnel expense of \$45 thousand and taxes of \$41 thousand. The additional cost of the offices is also evident in the increased expenses in net occupancy with additional lease expense of \$138 thousand and building depreciation of \$115 thousand offset with reduced general insurance expense of \$41 thousand and increased building rent generated by FM Investments of \$57 thousand. Furniture and equipment increased with additional maintenance contract expense of \$74 thousand and furniture and equipment depreciation of \$30 thousand.

Data processing expenses and ATM expense decreased a combined \$376 thousand as a result of the new 60 month contract signed in December 2023. FDIC assessment expense increased \$274 thousand with the increased assessment base. General and administrative expense decreased \$687 thousand as 2023 included \$469 thousand related to the conversion of the credit card platform and \$108 thousand of scorecard conversion expense that represented awards to customers that the Company paid to honor rather than allowing them to be lost in the conversion. The other items on this line of significance include the reduction in loan and collection expenses of \$96 thousand and check and other losses of \$48 thousand.

Income Taxes

Income tax expense was \$164 thousand lower for the three months ended March 31, 2024 compared to the same period in 2023 based mainly on lower earnings. 2024 included an additional \$110 thousand of income tax expense related to the adoption of ASU 2023-02 LIHTC as presented in Note 9 and Note 13. Effective tax rates were 20.94% and 19.67% for 2024 and 2023, respectively. Excluding the additional \$110 thousand of income tax expense, the effective tax rate would have been 19.31%.

Net Income

Results overall, net income in the three months ended March 31, 2024 was down \$1.9 million or 25.8% to \$5.4 million as compared to last year's \$7.2 million. Net interest margin was down \$1.6 million or 7.2% as the increased interest expense exceeded the increased interest income. Provision for credit losses for loans and unfunded decreased \$1.4 million compared to 2023. Noninterest income decreased \$231 thousand and noninterest expense increased \$848 thousand as described above. The Company remains strong, stable, and well capitalized and has the capacity to continue to cover the increased costs of expansion.

FORWARD LOOKING STATEMENTS

Statements contained in this portion of the Company's report may be forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "intend," "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Such forward-looking statements are based on current expectations, but actual results may differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time. Other factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in relevant accounting principles and guidelines and other factors over which management has no control. The forward-looking statements are made as of the date of this report, and the Company assumes no obligation to update the forward-looking statements or to update the reasons why actual results differ from those projected in the forward-looking statements.

ITEM 3 QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the exposure to loss resulting from changes in interest rates and equity prices. The primary market risk to which the Company is subject is interest rate risk. The majority of our interest rate risk arises from the instruments, positions and transactions entered into for purposes other than trading such as loans, available for sale securities, interest bearing deposits, short term borrowings and long term borrowings. Interest rate risk occurs when interest bearing assets and liabilities re-price at different times as market interest rates change. For example, if fixed rate assets are funded with variable rate debt, the spread between asset and liability rates will decline or turn negative if rates increase.

Interest rate risk is managed within an overall asset/liability framework. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net income to potential changes in interest rates. Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. In the event that our asset/liabilities management strategies are unsuccessful, our profitability may be adversely affected. The Company employs sensitivity testing utilizing interest rate shocks to help in this analysis.

The shocks presented below assume an immediate change of rate in the percentages and directions shown covering a twelve month period:

Interest Rate Shock on Net Interest Margin		Interest Rate Shock on Net Interest Income			
Net Interest Margin (Ratio)	% Change to Flat Rate	Rate Direction	Rate Changes by	Cumulative Total (\$000)	% Change to Flat Rate
2.91%	1.28%	Rising	3.00%	81,881	-2.41%
2.92%	1.44%	Rising	2.00%	82,755	-1.37%
2.99%	3.99%	Rising	1.00%	85,825	2.29%
2.88%	0.00%	Flat	0.00%	83,904	0.00%
2.75%	-4.48%	Falling	-1.00%	81,545	-2.81%
2.61%	-9.11%	Falling	-2.00%	78,839	-6.04%
2.46%	-14.61%	Falling	-3.00%	75,543	-9.97%

The net interest margin represents the forecasted twelve month margin. The Company also reviews shocks with a 4.00% fluctuation and over a 24 month time frame. It also shows the effect rate changes will have on both the margin and net interest income. The goal of the Company is to gather more core deposits, such as checking and savings accounts. Checking accounts are preferable for the lower cost of funds and the opportunity to garner noninterest revenue from additional services provided. Savings and money market accounts are beneficial due to the variability of the interest in both rate and immediate option to reprice. Certificate of deposit pricing is more favorable in shorter terms with the future rate movement unknown at this time.

The shock chart currently shows a slight widening in net interest margin over the next twelve months in a rising rate environment up to a 1.00% increase and a tightening compared to 1.00% as it moves from 1.00% towards the 3.00% increase as well as in the falling rate environments. This is indicative of what the Company experienced over the previous 18 months when rates increased quickly. A benefit in the initial 100 basis point rise was overshadowed by the higher spread increase in the cost of funds as the rates continued to rise. The 1.00% rising rate scenario is predicted to expand the net interest margin and produce a higher level of net interest income. Cost of funds are at 3.06% for the year so the falling shock of 300 basis points is where the Bank can take partial advantage and reprice some funds to match the level of shock. However, there are certificates of deposit and FHLB term advances whose ability to reprice are outside of the twelve month term. Much of the legacy nonmaturity deposit rates are also lower than the percentage of shock. This is why the negative percentage increases as the rate decrease rises. Once the shocks are falling over 100 basis points, there are limited funds to reprice lower and the loss on net interest income continues to build. The average duration of the majority of the assets is outside the 12 month shock period. The majority of the newer loans added to the commercial real estate portfolio begin with an initial fixed rate period of three to five years whose variable adjustment is outside of the current shock time frame. The Bank continues to review and uses external assistance to monitor and adjust our assumptions concerning decay rates, key rate ties on certain deposit accounts and prepayment speeds on loans. Rates are modified as index rates change. Both directional changes are within the Bank's risk tolerance. The effect of the rate shocks may be mitigated to the extent that not all lines of business are directly tied to an external index and actual balance sheet composition may differ from prediction.

Overall, the Company must concentrate on increasing loan spreads on variable loans and limit the increase on cost of funds where possible.

ITEM 4 CONTROLS AND PROCEDURES

As of the end of the period covered by this quarterly report on Form 10-Q, an evaluation was performed under the supervision and with the participation of the Company's management including the CEO and CFO, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based on that evaluation, the Company's management, including the CEO and CFO, concluded that the Company's disclosure controls and procedures were effective as of the end of the period covered by this report. There have been no changes in the Company's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 1A RISK FACTORS

Except as indicated below, there have been no material changes in the Company's risk factors from those disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023.

Liquidity Risk

Liquidity measures the ability to meet current and future cash flow needs as they become due. The liquidity of a financial institution reflects its ability to meet loan requests, to accommodate possible outflows in deposits, and to take advantage of interest rate market opportunities. The ability of a financial institution to meet its current financial obligations is a function of its balance sheet structure, its ability to liquidate assets, and its access to alternative sources of funds. The bank failures in 2023 exemplify the potentially catastrophic results of the unexpected inability of insured depository institutions to obtain needed liquidity to satisfy deposit withdrawal requests, including how quickly such requests can accelerate once uninsured depositors lose confidence in an institution's ability to satisfy its obligations to depositors. We continually strive to ensure our funding needs are met by maintaining a level of liquidity through asset and liability management. If we become unable to obtain funds when needed, it could have a material adverse effect on our business, financial condition, and results of operations.

Interest Rate Risk with Respect to the Value of Our Securities Portfolio

As a result of inflationary pressures and the resulting rapid increases in interest rates over the prior two fiscal years, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including the Company's, resulting in unrealized losses embedded in the held-to-maturity portion of U.S. banks' securities portfolios. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company's capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs.

Uninsured Deposit Risk

Uninsured deposits based on FDIC coverage as a percentage of total deposits was 21.1% as of March 31, 2024, and as of the same date, total uninsured deposits (includes public deposits with protection over FDIC) was 11.8%. The use of the financial network products, such as the Certificate of Deposit Account Registry (CDARS) and an Insured Cash Sweep which makes FDIC coverage available to larger depositors, contributes to the low uninsured percentage. Uninsured deposits historically have been viewed by the FDIC as less stable than insured deposits. According to statements made by the FDIC staff and the leadership of the federal banking agencies, customers with larger uninsured deposit account balances often are small- and mid-sized businesses that rely upon deposit funds for payment of operational expenses and, as a result, are more likely to closely monitor the financial condition and performance of their depository institutions. As a result, in the event of financial distress, uninsured depositors historically have been more likely to withdraw their deposits. If a significant portion of our deposits were to be withdrawn within a short period of time such that additional sources of funding would be required to meet withdrawal demands, we may be unable to obtain funding at favorable terms, which may have an adverse effect on our net interest margin. Obtaining adequate funding to meet our deposit obligations may be more challenging during periods of elevated prevailing interest rates, such as the present, and our ability to attract depositors during a time of actual or perceived distress or instability in the marketplace may be limited. Further, interest rates paid for non-deposit borrowings generally exceed the interest rates paid on deposits, and this spread may be exacerbated by higher prevailing interest rates.

Recent Events Impacting the Financial Services Industry

Recent events impacting the financial services industry, including the failures of Silicon Valley Bank and Signature Bank, have resulted in decreased confidence in banks among consumer and commercial depositors, other counterparties and investors, as well as significant disruption, volatility and reduced valuations of equity and other securities of banks in the capital markets. These events occurred during a period of rapidly rising interest rates which, among other things, has resulted in unrealized losses in longer duration securities and loans held by banks, more competition for bank deposits and may increase the risk of a potential recession. These recent events have, and could continue to, adversely impact the market price and volatility of the Company's common stock.

These recent events may also result in potentially adverse changes to laws or regulations governing banks and bank holding companies or result in the impositions of restrictions through supervisory or enforcement activities, including higher capital requirements, which could have a material impact on our business. Inability to access short-term funding or the loss of client deposits could increase our cost of funding, limit access to capital markets or negatively impact our overall liquidity or capitalization. Moreover, we may be impacted by concerns regarding the soundness or creditworthiness of other financial institutions, which can cause substantial and cascading disruption within the financial markets and increased expenses. In addition, the cost of resolving the recent bank failures may prompt the FDIC to increase its premiums above the recently increased levels or to issue additional special assessments.

Inflation Risk

Periods of inflation may impact our profitability by negatively impacting our fixed costs and expenses, including increasing funding costs and expense related to talent acquisition and retention. Additionally, inflation may lead to a decrease in our customers' purchasing power and negatively affect the need or demand for our products and services. If significant inflation continues, our business could also be negatively affected by, among other things, increased default rates leading to credit losses which could decrease our appetite for new credit extensions.

Climate Change Risk

There is an increasing concern over the risks of climate change and related environmental sustainability matters. The physical risks of climate change include discrete events, such as flooding and wildfires, and longer-term shifts in climate patterns, such as extreme heat, sea level rise, and more frequent and prolonged drought. Under medium or longer-term scenarios, such events, if uninterrupted or unaddressed, could disrupt our operations or those of our customers or third parties on which we rely, including through direct damage to assets and indirect impacts from supply chain disruption and market volatility. While the timing and severity of climate change may not be entirely predictable and our risk management processes may not be effective in mitigating climate risk exposure, we continue to build capabilities to identify, assess, and manage climate risks.

Quantitative Modeling Risk

We rely on quantitative modeling to measure risks and to estimate certain financial values. Quantitative models may be used to help manage certain aspects of our business and to assist with certain business decisions, including estimating expected lifetime credit losses, measuring the fair value of financial instruments when reliable market prices are unavailable, estimating the effects of changing interest rates and other market measures on our financial condition and results of operations, managing risk, and for capital planning purposes. All models have certain limitations. For instance, these methodologies inherently rely on assumptions, historical analyses, and correlations which may not capture or fully incorporate all relevant conditions and circumstances. As a consequence, such limitations may result in losses, particularly in times of market distress. Additionally, as businesses and markets continue to rapidly evolve, our measurements may not accurately reflect this evolution. Even if the underlying assumptions and historical correlations used in our models are adequate, our models may be deficient due to errors in computer code, inaccurate data, misuse of data, or the use of a model for a purpose outside the scope of the model's design.

Reliance on such models presents the risk that our resulting business decisions will be adversely affected due to incorrect, missing, or misleading information. If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management, capital planning, or other business or financial decisions. Strategies that we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable. Also, information that we provide to the public or regulators based on poorly designed models could be inaccurate or misleading.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Treasury stock repurchased the quarter ended March 31, 2024.

Period	(a) Total Number of Shares Purchased	(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs ⁽¹⁾	(d) Maximum Number of Shares that may yet be purchased under the Plans or Programs
1/1/2024 to 1/31/2024	296 ⁽²⁾	22.48	—	650,000
2/1/2024 to 2/29/2024	—	—	—	650,000
3/1/2024 to 3/1/2024	4,194 ⁽²⁾	20.76	—	650,000
Total	4,490	20.87	—	650,000

(1)From time to time, the Company purchases shares in the market pursuant to a stock repurchase program publicly announced on January 16, 2024. On that date, the Board of Directors authorized the repurchase of 650,000 common shares between January 16, 2024 and December 31, 2024.

(2)Shares which are returned to account for tax payable on vested stock awards are outside of the Company's stock repurchase program.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable

ITEM 5 OTHER INFORMATION

During the most recently completed fiscal quarter, no director or officer of the Company adopted or terminated:

(1)Any contract, instruction or written plan for the purchase or sale of securities of the registrant intended to satisfy the affirmative defense conditions of SEC Rule 10b5-1(c) (a "Rule 10b5-1 trading arrangement"); or
 (2)Any "non-Rule 10b5-1 trading arrangement" as defined in paragraph (c) of Item 408 of SEC Regulation S-K.

ITEM 6 EXHIBITS

3.1(a)	Amended Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on October 25, 2017).
3.1(b)	Amendment to Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1(b) to Registrant's Annual Report on Form 10-K filed with the Commission on February 27, 2024).
3.2	Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on July 26, 2017).
4.1	Description of Registrant's Common Stock (incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K filed with the Commission on February 26, 2020).
31.1	Rule 13-a-14(a) Certification - CEO
31.2	Rule 13-a-14(a) Certification - CFO
32.1	Section 1350 Certification - CEO
32.2	Section 1350 Certification - CFO
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. ⁽¹⁾
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents. ⁽¹⁾
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, has been formatted in Inline XBRL.

⁽¹⁾ Pursuant to Rule 406T of Regulation S-T, the interactive Data Files in Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.

SIGNATURES

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 & Merchants Bancorp, Inc.,

Date: May 8, 2024

By: /s/ Lars B. Eller
Lars B. Eller
President and Chief Executive Officer

Date: May 8, 2024

By: /s/ Barbara J. Britenriker
Barbara J. Britenriker
Executive Vice-President and
Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

I, Lars B. Eller, President and CEO of Farmers & Merchants Bancorp, Inc., certify that:

- 1.I have reviewed this quarterly report on Form 10-Q of Farmers & Merchants Bancorp, 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 quarterly 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(s) 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 the Exchange Acts 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(s) 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 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 controls 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: May 8, 2024

/s/ Lars B. Eller
Lars B. Eller
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATIONS

I, Barbara J. Britenriker, Executive Vice President and CFO of Farmers & Merchants Bancorp, Inc., certify that:

- 1.I have reviewed this quarterly report on Form 10-Q of Farmers & Merchants Bancorp, 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 quarterly 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(s) 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 the Exchange Acts 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(s) 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 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 controls 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:

May 8, 2024

/s/ Barbara J. Britenriker
Barbara J. Britenriker
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission ("the report"), I, Lars B. Eller, President and Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers & Merchants Bancorp, Inc. as of the dates and for the periods expressed in the Report.

Date: May 8, 2024

/s/ Lars B. Eller
Lars B. Eller
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to Farmers & Merchants Bancorp, Inc. and will be retained by Farmers & Merchants Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.2

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report of Farmers & Merchants Bancorp, Inc. on Form 10-Q for the period ending March 31, 2024, as filed with the Securities and Exchange Commission ("the report"), I, Barbara J. Britenriker, Executive Vice President and Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of Farmers & Merchants Bancorp, Inc. as of the dates and for the periods expressed in the Report.

Date: May 8, 2024

/s/ Barbara J. Britenriker
Barbara J. Britenriker
Executive Vice President and
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Farmers & Merchants Bancorp, Inc. and will be retained by Farmers & Merchants Bancorp, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.
