Q&A
April 12, 2022 Annual Shareholder Meeting

Q. Can you provide shareholders with an update on the Company's recent acquisitions?
– What is the expected contribution to profitability in 2022 of the Company's recent acquisitions?
– How are the acquisitions contributing to loan and revenue growth?

A. We have created a successful M&A platform, and our team has completed four acquisitions since January 2019.

The benefits of the two most recent acquisitions and the office realignment program, did not fully benefit our 2021 financial results, and we believe these actions will add approximately $0.30 to our annual EPS in 2022.

The acquisitions have contributed to our revenue growth. You can see it in our 4th quarter and 1st quarter results. In fact, there have been pleasant surprises with loan growth. Bluffton, IN has turned out to be a wonderful loan growth market. Perpetual had terrific loan growth in the Columbus market which we have been able to maintain. We have also experienced nice new loan growth in Champaign County as well as the Springfield market.

Q. Are there opportunities to make additional acquisitions?
– Do you think you'll make another acquisition in 2022?
– Does the Company have the capital to make a sizable acquisition?

A. We are focused on continuing to integrate and accelerate growth of the two acquisitions we completed in 2021 However, our team has gotten really good at successfully identifying, closing and integrating acquisitions. We have the capital to make additional acquisitions. The challenge is some acquisitions take a while and others happen quicker even if both banks have the same circumstances. Nonetheless, we are ready to undertake another acquisition.

Q. A lot of banks have experienced strong growth in digital banking solutions since the COVID-19 pandemic. How is the Company thinking about its digital offerings and expansion?

A. We define digital banking as online banking and mobile banking for both businesses and consumers. We have seen nice growth. We are particularly proud of our consumer mobile usage - it has grown over 20% in the last year! With this increase we have also seen a 47% increase in mobile deposits. As we move forward, we've put a digital transformation roadmap in place that encompasses the end-to-end customer experience. We're looking at everything from back-office processes to product offerings to how we reach our customers where they're at digitally to truly transform our bank.

FARMERS & MERCHANTS
BANCORP, INC.

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Q. F&M has started to grow in Michigan. Can you provide shareholders with additional information on the Company's Michigan expansion strategy?
A. Southeast Michigan has been a great new market for us. Our LPO has seen extremely strong lending growth. We hired an outside firm to help us identify our next ten best office locations. Four of the top five are in Southeast Michigan. We have two sites identified that should come to fruition in the next 18 months and then two more over the next 24 months after that. We are very excited about the opportunities to expand in Michigan.

Q. How is the Company positioned for a rising rate environment?
A. The short answer is favorable. An expanded response explains how that conclusion was drawn and at what levels of rising rates we expect that favorable outcome.

We do monthly rate shocks on our balance sheet to see what impact the change in rates will have and adjust accordingly. We shock in both a rising rate environment, flat and decreasing rate environment. At the end of February, those rate shocks showed a positive improvement to earnings in a rising rate environment. Net interest income showed improvement by 7 ½ % when a 100-basis point or 1% instant increase was applied over a 12-month period.

The 25-basis point increase to short term rates which the Federal Reserve Board announced in March is not a large enough move to make it profitable enough at just a 1.85% improvement. We have a great deal of our variable rate loans operating at floors and the rate increase either gets them to the floor or still below, real improvement won't come until we get over the 50-basis point shock.

So, the longer answer is for a rising rate environment to have a favorable response on our profitability – we need another 50-75 basis point increase to the prime rate.