

**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 **June 30, 2025**

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)

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

**34-1469491**  
(IRS Employer  
Identification No.)

**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  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth 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

13,724,036  
Outstanding as of July 31, 2025

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

FARMERS & MERCHANTS BANCORP, INC.  
INDEX

<u>Form 10-Q Items</u>		Page
PART I.	<a href="#">FINANCIAL INFORMATION</a>	3
Item 1.	<a href="#">Financial Statements (Unaudited)</a>	3
	<a href="#">Condensed Consolidated Balance Sheets - June 30, 2025 and December 31, 2024</a>	3
	<a href="#">Condensed Consolidated Statements of Income - Three and Six Months Ended June 30, 2025 and June 30, 2024</a>	4
	<a href="#">Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2025 and June 30, 2024</a>	6
	<a href="#">Condensed Consolidated Statements of Changes to Stockholders' Equity - Three and Six Months Ended June 30, 2025 and June 30, 2024</a>	7
	<a href="#">Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2025 and June 30, 2024</a>	9
	<a href="#">Notes to Condensed Consolidated Financial Statements</a>	11
Item 2.	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	48
Item 3.	<a href="#">Qualitative and Quantitative Disclosures About Market Risk</a>	73
Item 4.	<a href="#">Controls and Procedures</a>	74
PART II.	<a href="#">OTHER INFORMATION</a>	74
Item 1.	<a href="#">Legal Proceedings</a>	74
Item 1A.	<a href="#">Risk Factors</a>	74
Item 2.	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	76
Item 3.	<a href="#">Defaults Upon Senior Securities</a>	76
Item 4.	<a href="#">Mine Safety Disclosures</a>	76
Item 5.	<a href="#">Other Information</a>	76
Item 6.	<a href="#">Exhibits</a>	77
	<a href="#">Signatures</a>	78
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. <sup>(1)</sup>	
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents. <sup>(1)</sup>	

<sup>(1)</sup> 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)	
	June 30, 2025 (Unaudited)	December 31, 2024
<b>Assets</b>		
Cash and due from banks	\$ 87,596	\$ 174,855
Federal funds sold	635	1,496
Total cash and cash equivalents	88,231	176,351
Interest-bearing time deposits	1,992	2,482
Securities - available-for-sale	431,102	426,556
Other securities, at cost	13,994	14,400
Loans held for sale	6,359	2,996
Loans, net of allowance for credit losses of \$26,977 and \$25,826	2,599,917	2,536,043
Premises and equipment	32,885	33,828
Goodwill	86,358	86,358
Loan servicing rights	5,810	5,656
Bank owned life insurance	35,355	34,872
Other assets	43,760	45,181
<b>Total Assets</b>	<b>\$ 3,345,763</b>	<b>\$ 3,364,723</b>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 497,804	\$ 516,904
Interest-bearing		
NOW accounts	899,602	850,462
Savings	691,468	671,818
Time	621,455	647,581
Total deposits	2,710,329	2,686,765
Securities sold under agreements to repurchase	27,562	27,218
Federal Home Loan Bank (FHLB) advances	188,445	246,056
Subordinated notes, net of unamortized issuance costs	34,875	34,818
Dividend payable	3,000	2,996
Accrued expenses and other liabilities	30,760	31,659
Total liabilities	2,994,971	3,029,512
<b>Commitments and Contingencies</b>		
<b>Stockholders' Equity</b>		
Common stock - No par value authorized 40,000,000 shares 6/30/25 and 20,000,000 shares 12/31/24; issued 14,564,425 shares 6/30/25 and 12/31/24; outstanding 13,725,998 shares 6/30/25 and 13,699,536 shares 12/31/24	135,805	135,565
Treasury stock - 838,427 shares 6/30/25 and 864,889 shares 12/31/24	(10,674)	(10,985)
Retained earnings	244,870	235,854
Accumulated other comprehensive loss	(19,209)	(25,223)
Total stockholders' equity	350,792	335,211
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 3,345,763</b>	<b>\$ 3,364,723</b>

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2024, Condensed Consolidated Balance Sheet has been derived from the audited 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)		(In Thousands, Except Per Share Data)	
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
<b>Interest Income</b>				
Loans, including fees	\$ 39,530	\$ 36,593	\$ 76,602	\$ 71,793
Debt securities:				
U.S. Treasury and government agencies	2,231	1,148	4,328	2,193
Municipalities	369	389	751	783
Dividends	311	327	649	660
Federal funds sold	-	7	-	14
Other	1,051	2,702	2,164	4,377
Total interest income	<u>43,492</u>	<u>41,166</u>	<u>84,494</u>	<u>79,820</u>
<b>Interest Expense</b>				
Deposits	14,813	16,488	28,801	31,767
Federal funds purchased and securities sold under agreements to repurchase	272	276	543	560
Borrowed funds	2,411	2,742	4,961	5,431
Subordinated notes	285	285	569	569
Total interest expense	<u>17,781</u>	<u>19,791</u>	<u>34,874</u>	<u>38,327</u>
<b>Net Interest Income - Before Provision for Credit Losses</b>	<u>25,711</u>	<u>21,375</u>	<u>49,620</u>	<u>41,493</u>
<b>Provision for Credit Losses - Loans</b>	661	605	1,472	316
<b>Provision for (Recovery of) Credit Losses - Off Balance Sheet Credit Exposures</b>	27	(18)	(233)	(284)
<b>Net Interest Income - After Provision for Credit Losses</b>	<u>25,023</u>	<u>20,788</u>	<u>48,381</u>	<u>41,461</u>
<b>Noninterest Income</b>				
Customer service fees	330	189	711	787
Other service charges and fees	1,206	1,085	2,330	2,142
Interchange income	1,259	1,330	2,680	2,759
Loan servicing income	629	513	1,391	1,052
Net gain on sale of loans	257	314	541	421
Increase in cash surrender value of bank owned life insurance	239	236	483	452
Gain (Loss) on sale of other assets owned	15	49	(39)	49
Total noninterest income	<u>3,935</u>	<u>3,716</u>	<u>8,097</u>	<u>7,662</u>
<b>Noninterest Expense</b>				
Salaries and wages	7,567	7,589	15,445	15,435
Employee benefits	2,265	2,112	4,669	4,283
Net occupancy expense	1,075	999	2,274	2,026
Furniture and equipment	1,414	1,407	2,692	2,760
Data processing	1,057	448	1,614	948
Franchise taxes	397	265	794	820
ATM expense	761	397	1,252	870
Advertising	356	519	859	1,049
FDIC assessment	448	507	913	1,087
Servicing rights amortization - net	234	187	361	355
Loan expense	328	251	556	480
Consulting fees	494	198	1,239	384
Professional fees	502	527	1,061	972
Intangible asset amortization	444	444	889	889
Other general and administrative	1,918	1,495	3,402	2,828
Total noninterest expense	<u>19,260</u>	<u>17,345</u>	<u>38,020</u>	<u>35,186</u>

(continued)

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

	(In Thousands, Except Per Share Data)		(In Thousands, Except Per Share Data)	
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
<b>Income Before Income Taxes</b>	9,698	7,159	18,458	13,937
<b>Income Taxes</b>	1,988	1,477	3,796	2,896
<b>Net Income</b>	\$ 7,710	\$ 5,682	\$ 14,662	\$ 11,041
<b>Basic Earnings Per Share</b>	\$ 0.56	\$ 0.42	\$ 1.07	\$ 0.81
<b>Diluted Earnings Per Share</b>	\$ 0.56	\$ 0.42	\$ 1.07	\$ 0.81
<b>Dividends Declared</b>	\$ 0.22125	\$ 0.22	\$ 0.44250	\$ 0.44

See Notes to Condensed Consolidated Unaudited Financial Statements

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

	(In Thousands)		(In Thousands)	
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
<b>Net Income</b>	\$ 7,710	\$ 5,682	\$ 14,662	\$ 11,041
<b>Other Comprehensive Income (Net of Tax):</b>				
Net unrealized gain on available-for-sale securities	1,149	2,531	7,613	536
Reclassification adjustment for realized (gain) loss on sale of available-for-sale securities	-	-	-	-
Net unrealized gain on available-for-sale securities	1,149	2,531	7,613	536
Tax expense	241	531	1,599	113
Other comprehensive income	908	2,000	6,014	423
<b>Comprehensive Income</b>	<u>\$ 8,618</u>	<u>\$ 7,682</u>	<u>\$ 20,676</u>	<u>\$ 11,464</u>

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 AND SIX MONTHS ENDED JUNE 30, 2025  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(Unaudited)

	Shares of				Accumulated Other Comprehensiv e Loss	Total Stockholders' Equity
	Common Stock	Common Stock	Treasury Stock	Retained Earnings		
<b>Balance - January 1, 2025</b>	13,699,536	\$ 135,565	\$ (10,985)	\$ 235,854	\$ (25,223)	\$ 335,211
Net income	-	-	-	6,952	-	6,952
Other comprehensive income	-	-	-	-	5,106	5,106
Purchase of treasury stock	(981)	-	(23)	-	-	(23)
Issuance of 20,731 shares of restricted stock (Net of forfeitures - 950)	19,781	(510)	240	270	-	-
Stock-based compensation expense	-	352	-	-	-	352
Cash dividends declared - \$0.22125 per share	-	-	-	(2,997)	-	(2,997)
<b>Balance - March 31, 2025</b>	13,718,336	\$ 135,407	\$ (10,768)	\$ 240,079	\$ (20,117)	\$ 344,601
Net income	-	-	-	7,710	-	7,710
Other comprehensive income	-	-	-	-	908	908
Forfeiture of 250 shares of restricted stock	(250)	6	(6)	-	-	-
Stock-based compensation expense	-	392	-	-	-	392
Director stock award	7,912	-	100	81	-	181
Cash dividends declared - \$0.22125 per share	-	-	-	(3,000)	-	(3,000)
<b>Balance - June 30, 2025</b>	<u>13,725,998</u>	<u>\$ 135,805</u>	<u>\$ (10,674)</u>	<u>\$ 244,870</u>	<u>\$ (19,209)</u>	<u>\$ 350,792</u>

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 AND SIX MONTHS ENDED JUNE 30, 2024  
(IN THOUSANDS, EXCEPT PER SHARE DATA)  
(Unaudited)

	Shares of				Accumulated Other Comprehensiv e Loss	Total Stockholders' Equity
	Common Stock	Common Stock	Treasury Stock	Retained Earnings		
<b>Balance - January 1, 2024</b>	<u>13,664,641</u>	<u>\$ 135,515</u>	<u>\$ (11,040)</u>	<u>\$ 221,080</u>	<u>\$ (29,012)</u>	<u>\$ 316,543</u>
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)
<b>Balance - March 31, 2024</b>	<u>13,683,270</u>	<u>\$ 135,482</u>	<u>\$ (10,851)</u>	<u>\$ 223,648</u>	<u>\$ (30,589)</u>	<u>\$ 317,690</u>
Net income	-	-	-	5,682	-	5,682
Other comprehensive income	-	-	-	-	2,000	2,000
Purchase of treasury stock	(11,000)	-	(239)	-	-	(239)
Forfeiture of 1,200 shares of restricted stock	(1,200)	27	(26)	(1)	-	-
Stock-based compensation expense	-	320	-	-	-	320
Director stock award	8,874	-	110	76	-	186
Cash dividends declared - \$0.22 per share	-	-	-	(2,975)	-	(2,975)
<b>Balance - June 30, 2024</b>	<u>13,679,944</u>	<u>\$ 135,829</u>	<u>\$ (11,006)</u>	<u>\$ 226,430</u>	<u>\$ (28,589)</u>	<u>\$ 322,664</u>

See Notes to Condensed Consolidated Unaudited Financial Statements

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

	(In Thousands)	
	Six Months Ended	
	June 30, 2025	June 30, 2024
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 14,662	\$ 11,041
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,971	1,979
Amortization of premiums on available-for-sale securities, net	113	628
Capitalized additions to servicing rights	(515)	(211)
Servicing rights amortization and impairment	361	355
Amortization of core deposit intangible	828	828
Amortization of customer list intangible	61	61
Net accretion of fair value adjustments	(1,177)	(1,354)
Amortization of subordinated note issuance costs	57	57
Stock-based compensation expense	744	754
Director stock awards	181	186
Provision for credit losses - loans	1,472	316
Recovery of credit losses - off balance sheet credit exposures	(233)	(284)
Gain on sale of loans held for sale	(541)	(421)
Originations of loans held for sale	(30,158)	(23,376)
Proceeds from sale of loans held for sale	27,336	23,745
Loss on derivatives	(22)	(5)
Loss (Gain) on sale of other assets owned	39	(49)
Increase in cash surrender value of bank owned life insurance	(483)	(452)
Change in other assets and other liabilities, net	(2,583)	(2,597)
Net cash provided by operating activities	<u>12,113</u>	<u>11,201</u>
<b>Cash Flows from Investing Activities</b>		
Activity in available-for-sale securities:		
Maturities, prepayments and calls	32,785	13,700
Purchases	(29,831)	(20,523)
Activity in other securities, at cost:		
Purchases of FHLB stock	(472)	(1,138)
Proceeds from redemption of FHLB stock	878	1,174
Change in interest-bearing time deposits	490	(481)
Proceeds from sale of other assets owned	15	85
Additions to premises and equipment	(1,105)	(785)
Net (increase) decrease on loan originations and principal collections	(63,268)	20,914
Net cash (used in) provided by investing activities	<u>(60,508)</u>	<u>12,946</u>
<b>Cash Flows from Financing Activities</b>		
Net change in deposits	23,564	33,627
Net change in federal funds purchased and securities sold under agreements to repurchase	344	(1,000)
Proceeds from FHLB advances	-	15,000
Repayment of FHLB advances	(57,617)	(14,625)
Purchase of treasury stock	(23)	(333)
Cash dividends paid on common stock	(5,993)	(5,949)
Net cash (used in) provided by financing activities	<u>(39,725)</u>	<u>26,720</u>
<b>Net (Decrease) Increase in Cash and Cash Equivalents</b>	<u>(88,120)</u>	<u>50,867</u>
<b>Cash and Cash Equivalents - Beginning of year</b>	<u>176,351</u>	<u>142,201</u>
<b>Cash and Cash Equivalents - End of period</b>	<u>\$ 88,231</u>	<u>\$ 193,068</u>

(continued)

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

	(In Thousands)	
	Six Months Ended	
	June 30, 2025	June 30, 2024
<b>Supplemental Information</b>		
Supplemental cash flow information:		
Interest paid	\$ 34,859	\$ 37,332
Income taxes paid	4,587	300
Supplemental noncash disclosures:		
Cash dividends declared not paid	3,000	2,975

See 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 six months ended June 30, 2025 are not necessarily indicative of the results that are expected for the year ended December 31, 2025. The condensed consolidated balance sheet of the Company as of December 31, 2024, 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, 2024.

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 was deductible for tax purposes.

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

	(In Thousands)		(In Thousands)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ 277	\$ 508	\$ 335	\$ 566
Additions	-	-	-	-
Accretion	(58)	(58)	(116)	(116)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	-	-	-
Ending Balance	<u>\$ 219</u>	<u>\$ 450</u>	<u>\$ 219</u>	<u>\$ 450</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)		(In Thousands)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ 1,117	\$ 2,460	\$ 1,453	\$ 2,795
Additions	-	-	-	-
Accretion	(335)	(336)	(671)	(671)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	-	-	-
Ending Balance	<u>\$ 782</u>	<u>\$ 2,124</u>	<u>\$ 782</u>	<u>\$ 2,124</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)		(In Thousands)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ 67	\$ 250	\$ 107	\$ 294
Additions	-	-	-	-
Accretion	(39)	(44)	(79)	(88)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	(1)	-	(1)	-
Ending Balance	<u>\$ 27</u>	<u>\$ 206</u>	<u>\$ 27</u>	<u>\$ 206</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)		(In Thousands)	
	Three Months	Three Months	Six Months	Six Months
	Ended	Ended	Ended	Ended
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ -	\$ 254	\$ -	\$ 363
Additions	-	-	-	-
Accretion	-	(109)	-	(218)
Reclassification from nonaccretable difference	-	1	-	1
Disposals	-	-	-	-
Ending Balance	<u>\$ -</u>	<u>\$ 146</u>	<u>\$ -</u>	<u>\$ 146</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 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 six months ended June 30, 2024 was \$828 thousand. Of the approximately \$1.7 million to be expensed in 2025, \$828 thousand has been expensed for the six months ended June 30, 2025. 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
2025	\$ 560	\$ 140	\$ 95	\$ 861	\$ 1,656
2026	-	140	95	861	1,096
2027	-	140	95	861	1,096
2028	-	47	73	861	981
2029	-	-	-	646	646
	<u>\$ 560</u>	<u>\$ 467</u>	<u>\$ 358</u>	<u>\$ 4,090</u>	<u>5,475</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 six months ended June 30, 2024 was \$61 thousand. Of the \$123 thousand to be expensed in 2025, \$61 thousand has been expensed for the six months ended June 30, 2025. Annual amortization expense of customer list intangible is as follows:

	(In Thousands)	
	Adams County Financial Resources	
2025	\$	123
2026		123
2027		48
	<u>\$</u>	<u>294</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 June 30, 2025 and December 31, 2024, are as follows:

	(In Thousands)			
	June 30, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>				
U.S. Treasury	\$ 99,030	\$ 28	\$ (3,668)	\$ 95,390
U.S. Government agencies	144,382	20	(6,736)	137,666
Mortgage-backed securities	147,570	39	(10,656)	136,953
State and local governments	64,435	28	(3,370)	61,093
Total available-for-sale securities	<u>\$ 455,417</u>	<u>\$ 115</u>	<u>\$ (24,430)</u>	<u>\$ 431,102</u>

	(In Thousands)			
	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<b>Available-for-Sale:</b>				
U.S. Treasury	\$ 111,397	\$ 17	\$ (5,415)	\$ 105,999
U.S. Government agencies	144,660	-	(9,494)	135,166
Mortgage-backed securities	133,268	17	(12,654)	120,631
State and local governments	69,159	28	(4,427)	64,760
Total available-for-sale securities	<u>\$ 458,484</u>	<u>\$ 62</u>	<u>\$ (31,990)</u>	<u>\$ 426,556</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. With the exception of the fourth factor, 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. This situation would require an immediate write down to fair value.

If the unrealized loss is determined to be the result of credit quality factors, 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 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 June 30, 2025 and December 31, 2024, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	(In Thousands)					
	June 30, 2025					
	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	\$ (133)	\$ 27,970	\$ (3,535)	\$ 63,088	\$ (3,668)	\$ 91,058
U.S. Government agencies	(19)	7,726	(6,717)	126,054	(6,736)	133,780
Mortgage-backed securities	(683)	63,251	(9,973)	63,996	(10,656)	127,247
State and local governments	(107)	5,753	(3,263)	51,195	(3,370)	56,948
<b>Total available-for-sale securities</b>	<b>\$ (942)</b>	<b>\$ 104,700</b>	<b>\$ (23,488)</b>	<b>\$ 304,333</b>	<b>\$ (24,430)</b>	<b>\$ 409,033</b>

	(In Thousands)					
	December 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	\$ (467)	\$ 31,533	\$ (4,948)	\$ 62,151	\$ (5,415)	\$ 93,684
U.S. Government agencies	-	-	(9,494)	131,335	(9,494)	131,335
Mortgage-backed securities	(668)	51,236	(11,986)	66,877	(12,654)	118,113
State and local governments	(224)	8,631	(4,203)	53,091	(4,427)	61,722
<b>Total available-for-sale securities</b>	<b>\$ (1,359)</b>	<b>\$ 91,400</b>	<b>\$ (30,631)</b>	<b>\$ 313,454</b>	<b>\$ (31,990)</b>	<b>\$ 404,854</b>

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.

There were no gross realized gains or losses for the three and six months ended June 30, 2025 and June 30, 2024.

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

The amortized cost and fair value of debt securities at June 30, 2025, 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	\$ 63,149	\$ 62,185
After one year through five years	224,876	212,978
After five years through ten years	19,822	18,986
After ten years	-	-
<b>Total</b>	<b>\$ 307,847</b>	<b>\$ 294,149</b>
Mortgage-backed securities	147,570	136,953
<b>Total</b>	<b>\$ 455,417</b>	<b>\$ 431,102</b>

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

Investments with a carrying value of \$239.1 million and \$221.9 million at June 30, 2025 and December 31, 2024, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. Investments with a carrying value of \$29.0 million and \$29.9 million were pledged to the Federal Reserve's Discount Window to provide additional borrowing capacity at June 30, 2025 and December 31, 2024, respectively.

Other securities include Federal Home Loan Bank of Cincinnati and Indianapolis stock in the amount of \$14.0 million as of June 30, 2025 and \$14.4 million as of December 31, 2024.

## NOTE 4 LOANS

Loan balances as of June 30, 2025 and December 31, 2024 are summarized below:

Loans:	(In Thousands)	
	June 30, 2025	December 31, 2024
Consumer Real Estate	\$ 523,781	\$ 520,114
Agricultural Real Estate	221,004	216,401
Agricultural	157,870	152,080
Commercial Real Estate	1,345,953	1,310,811
Commercial and Industrial	293,826	275,152
Consumer	59,348	63,009
Other	24,653	24,978
	2,626,435	2,562,545
Less: Net deferred loan fees and costs	(1,488)	(1,750)
	2,624,947	2,560,795
Less: Allowance for credit losses	(26,977)	(25,826)
Plus: Basis adjustment related to fair value hedges	1,947	1,074
Loans - Net	\$ 2,599,917	\$ 2,536,043

The break out of fixed rate loans and variable rate loans by portfolio segment is as follows as of June 30, 2025 and December 31, 2024:

	(In Thousands)			
	June 30, 2025		December 31, 2024	
	Fixed	Variable	Fixed	Variable
Consumer Real Estate	\$ 281,802	\$ 241,979	\$ 305,062	\$ 215,052
Agricultural Real Estate	111,837	109,167	118,808	97,593
Agricultural	47,253	110,617	54,099	97,981
Commercial Real Estate	873,725	472,228	934,197	376,614
Commercial and Industrial	122,192	171,634	148,542	126,610
Consumer	59,319	29	62,977	32
Other	15,098	9,555	15,270	9,708

Variable rate loans that have reached ceiling or floor limits are reported as fixed rate loans until such time as their rates adjust away from those limits.

As of June 30, 2025 and December 31, 2024 one to four family residential mortgage loans amounting to \$183.5 million and \$190.1 million, respectively, and HELOC loans amounting to \$13.1 million and \$11.9 million, respectively, have been pledged as security for future loans and existing loans the Bank has received from the Federal Home Loan Bank "FHLB". The Bank has also pledged eligible commercial real estate loans of \$236.5 million and \$369.5 million as of June 30, 2025 and December 31, 2024, respectively, to the FHLB. During the second quarter of 2024, the Bank began pledging eligible multi-family real estate loans to the FHLB which amounted to \$38.1 million and \$47.7 million as of June 30, 2025 and December 31, 2024, respectively.

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

The following table represents the contractual aging at amortized cost in past due loans by portfolio segment as of June 30, 2025 and December 31, 2024:

(In Thousands)

June 30, 2025	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
Consumer Real Estate	\$ 2,487	\$ 449	\$ 656	\$ 3,592	\$ 520,614	\$ 524,206
Agricultural Real Estate	251	6	125	382	220,378	220,760
Agricultural	60	-	50	110	158,131	158,241
Commercial Real Estate	-	-	141	141	1,343,429	1,343,570
Commercial and Industrial	50	144	-	194	293,350	293,544
Consumer	109	18	31	158	59,815	59,973
Other	-	-	-	-	24,653	24,653
Total	<u>\$ 2,957</u>	<u>\$ 617</u>	<u>\$ 1,003</u>	<u>\$ 4,577</u>	<u>\$ 2,620,370</u>	<u>\$ 2,624,947</u>

(In Thousands)

December 31, 2024	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables
Consumer Real Estate	\$ 2,533	\$ 547	\$ 559	\$ 3,639	\$ 516,753	\$ 520,392
Agricultural Real Estate	651	-	-	651	215,486	216,137
Agricultural	44	-	79	123	152,258	152,381
Commercial Real Estate	54	141	360	555	1,307,906	1,308,461
Commercial and Industrial	122	5	57	184	274,635	274,819
Consumer	365	19	62	446	63,181	63,627
Other	-	-	-	-	24,978	24,978
Total	<u>\$ 3,769</u>	<u>\$ 712</u>	<u>\$ 1,117</u>	<u>\$ 5,598</u>	<u>\$ 2,555,197</u>	<u>\$ 2,560,795</u>

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

The following tables present the amortized cost of nonaccrual loans by portfolio segment as of June 30, 2025 and as of December 31, 2024:

	(In Thousands)		
	June 30, 2025		
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Consumer Real Estate	\$ 2,556	\$ 3,049	\$ -
Agricultural Real Estate	461	461	-
Agricultural	60	60	-
Commercial Real Estate	141	141	-
Commercial & Industrial	-	-	-
Consumer	34	34	-
Total	<u>\$ 3,252</u>	<u>\$ 3,745</u>	<u>\$ -</u>

	(In Thousands)		
	December 31, 2024		
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Consumer Real Estate	\$ 1,637	\$ 2,369	\$ -
Agricultural Real Estate	130	130	-
Agricultural	90	90	-
Commercial Real Estate	360	360	-
Commercial & Industrial	57	57	-
Consumer	118	118	-
Total	<u>\$ 2,392</u>	<u>\$ 3,124</u>	<u>\$ -</u>

The Company recognized interest income of \$31 thousand and \$52 thousand for the three and six months ended June 30, 2025 on nonaccrual loans. The Company recognized interest income of \$19 thousand and \$41 thousand on nonaccrual loans for the three and six months ending June 30, 2024.

Loans are placed on nonaccrual status in the event that the loan is in past due status for more than 90 days or payment in full of principal and interest is not expected.

Following are the characteristics and underwriting criteria for each portfolio segment 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 other factors.

**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 at amortized cost, by portfolio segment and year of origination, based on the most recent analysis performed as of June 30, 2025 and December 31, 2024:

(In Thousands)										
June 30, 2025										
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvi ng Loans Amortiz ed Cost Basis	Revolvi ng Loans Convert ed to Term	Grand Total
	2025	2024	2023	2022	2021	Prior				
<b>Consumer Real Estate</b>										
<b>Risk Rating</b>										
						166,67	447,83			519,54
Pass (1-4)	\$ 28,019	\$ 35,476	\$ 56,179	\$ 74,924	\$ 86,557	\$ 6	\$ 1	\$ 71,216	\$ 499	\$ 6
Special Mention (5)	-	-	-	35	133	115	283	19	-	302
Substandard (6)	-	143	534	582	1,184	1,762	4,205	147	6	4,358
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
Total Consumer Real Estate	\$ 28,019	\$ 35,619	\$ 56,713	\$ 75,541	\$ 87,874	\$ 3	\$ 9	\$ 71,382	\$ 505	\$ 6
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Agricultural Real Estate</b>										
<b>Risk Rating</b>										
							213,41			213,50
Pass (1-4)	\$ 16,486	\$ 22,099	\$ 26,433	\$ 32,788	\$ 21,107	\$ 94,504	\$ 7	\$ 88	\$ -	\$ 5
Special Mention (5)	-	-	-	32	-	12	44	-	-	44
Substandard (6)	-	5,668	-	371	1,082	90	7,211	-	-	7,211
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
Total Agricultural Real Estate	\$ 16,486	\$ 27,767	\$ 26,433	\$ 33,191	\$ 22,189	\$ 94,606	\$ 2	\$ 88	\$ -	\$ 0
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Agricultural</b>										
<b>Risk Rating</b>										
								104,03		155,52
Pass (1-4)	\$ 12,542	\$ 10,268	\$ 8,193	\$ 10,336	\$ 4,296	\$ 5,860	\$ 51,495	\$ 1	\$ -	\$ 6
Special Mention (5)	57	-	-	305	23	-	385	336	-	721
Substandard (6)	243	-	110	-	-	-	353	1,641	-	1,994
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
Total Agricultural	\$ 12,842	\$ 10,268	\$ 8,303	\$ 10,641	\$ 4,319	\$ 5,860	\$ 52,233	\$ 8	\$ -	\$ 1
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

(In Thousands)										
June 30, 2025										
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvi ng Loans Amortiz ed Cost Basis	Revolvi ng Loans Convert ed to Term	Grand Total
	2025	2024	2023	2022	2021	Prior				
<b>Commercial Real Estate</b>										
<b>Risk Rating</b>										
Pass (1-4)	103,23	145,10	190,27	392,32	208,42	225,40	1,264,			1,264,
Special Mention (5)	\$ 2	\$ 6	\$ 6	\$ 6	\$ 9	\$ 0	\$ 769	\$ -	\$ -	\$ 769
Substandard (6)	1,350	-	15,380	18,306	3,835	1,924	40,795	-	-	40,795
Doubtful (7)	1,744	-	34,089	-	-	2,173	38,006	-	-	38,006
Total Commercial Real Estate	106,32	145,10	239,74	410,63	212,26	229,49	1,343,			1,343,
Gross charge-offs YTD	\$ 6	\$ 6	\$ 5	\$ 2	\$ 4	\$ 7	\$ 570	\$ -	\$ -	\$ 570
	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial &amp; Industrial</b>										
<b>Risk Rating</b>										
Pass (1-4)							150,04	138,30		288,42
Special Mention (5)	\$ 22,324	\$ 27,351	\$ 44,450	\$ 33,460	\$ 12,801	\$ 9,655	\$ 1	\$ 1	\$ 78	\$ 0
Substandard (6)	-	-	117	-	177	362	656	550	-	1,206
Doubtful (7)	-	36	304	-	32	-	372	3,546	-	3,918
Total Commercial & Industrial	-	-	-	-	-	-	-	-	-	-
Gross charge-offs YTD	\$ 22,324	\$ 27,387	\$ 44,871	\$ 33,460	\$ 13,010	\$ 10,017	\$ 9	\$ 7	\$ 78	\$ 4
	\$ -	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ 25	\$ -	\$ -	\$ 25
<b>Other</b>										
<b>Risk Rating</b>										
Pass (1-4)	\$ 600	\$ -	\$ -	\$ -	\$ 15,666	\$ 8,387	\$ 24,653	\$ -	\$ -	\$ 24,653
Special Mention (5)	-	-	-	-	-	-	-	-	-	-
Substandard (6)	-	-	-	-	-	-	-	-	-	-
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
Total Other	\$ 600	\$ -	\$ -	\$ -	\$ 15,666	\$ 8,387	\$ 24,653	\$ -	\$ -	\$ 24,653
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

(In Thousands)										
December 31, 2024										
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvi ng Loans Amortiz ed Cost Basis	Revolvi ng Loans Convert ed to Term	Grand Total
	2024	2023	2022	2021	2020	Prior				
<b>Consumer Real Estate</b>										
<b>Risk Rating</b>										
						106,00	454,87			516,21
Pass (1-4)	\$ 40,257	\$ 64,316	\$ 79,503	\$ 89,800	\$ 74,996	\$ 7	\$ 9	\$ 61,097	\$ 237	\$ 3
Special Mention (5)	-	-	37	551	-	119	707	19	-	726
Substandard (6)	143	239	529	786	465	1,040	3,202	236	15	3,453
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Consumer Real Estate</b>	<b>\$ 40,400</b>	<b>\$ 64,555</b>	<b>\$ 80,069</b>	<b>\$ 91,137</b>	<b>\$ 75,461</b>	<b>\$ 6</b>	<b>\$ 8</b>	<b>\$ 61,352</b>	<b>\$ 252</b>	<b>\$ 2</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 13	\$ -	\$ -	\$ 13
<b>Agricultural Real Estate</b>										
<b>Risk Rating</b>										
							209,96			210,05
Pass (1-4)	\$ 23,817	\$ 28,088	\$ 34,469	\$ 22,983	\$ 23,639	\$ 76,964	\$ 0	\$ 92	\$ -	\$ 2
Special Mention (5)	-	-	-	-	-	13	13	-	-	13
Substandard (6)	5,696	-	371	-	-	5	6,072	-	-	6,072
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Agricultural Real Estate</b>	<b>\$ 29,513</b>	<b>\$ 28,088</b>	<b>\$ 34,840</b>	<b>\$ 22,983</b>	<b>\$ 23,639</b>	<b>\$ 76,982</b>	<b>\$ 5</b>	<b>\$ 92</b>	<b>\$ -</b>	<b>\$ 7</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Agricultural</b>										
<b>Risk Rating</b>										
										150,81
Pass (1-4)	\$ 14,915	\$ 10,500	\$ 14,381	\$ 5,616	\$ 3,204	\$ 3,911	\$ 52,527	\$ 98,283	\$ -	\$ 0
Special Mention (5)	-	13	-	8	-	-	21	30	-	51
Substandard (6)	-	21	-	-	29	-	50	1,470	-	1,520
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Agricultural</b>	<b>\$ 14,915</b>	<b>\$ 10,534</b>	<b>\$ 14,381</b>	<b>\$ 5,624</b>	<b>\$ 3,233</b>	<b>\$ 3,911</b>	<b>\$ 52,598</b>	<b>\$ 99,783</b>	<b>\$ -</b>	<b>\$ 1</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

(In Thousands)										
December 31, 2024										
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvi ng Loans Amortiz ed Cost Basis	Revolvi ng Loans Convert ed to Term	Grand Total
	2024	2023	2022	2021	2020	Prior				
<b>Commercial Real Estate</b>										
<b>Risk Rating</b>										
Pass (1-4)	128,608	200,192	413,106	218,309	110,435	188,239	1,258,889	\$ -	\$ -	\$ 889
Special Mention (5)	-	-	12,590	-	1,352	753	14,695	-	-	14,695
Substandard (6)	-	34,299	-	-	-	578	34,877	-	-	34,877
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Commercial Real Estate</b>	<b>128,608</b>	<b>234,491</b>	<b>425,696</b>	<b>218,309</b>	<b>111,787</b>	<b>189,570</b>	<b>1,308,461</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 461</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15	\$ 15	\$ -	\$ -	\$ 15
<b>Commercial &amp; Industrial</b>										
<b>Risk Rating</b>										
Pass (1-4)	\$ 31,933	\$ 54,581	\$ 39,665	\$ 15,047	\$ 13,480	\$ 1,294	\$ 156,000	\$ 113,446	\$ 222	\$ 269,668
Special Mention (5)	-	137	-	188	26	416	767	459	-	1,226
Substandard (6)	39	348	29	-	-	28	444	3,481	-	3,925
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Commercial &amp; Industrial</b>	<b>\$ 31,972</b>	<b>\$ 55,066</b>	<b>\$ 39,694</b>	<b>\$ 15,235</b>	<b>\$ 13,506</b>	<b>\$ 1,738</b>	<b>\$ 157,211</b>	<b>\$ 117,386</b>	<b>\$ 222</b>	<b>\$ 274,819</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ 101	\$ -	\$ 101	\$ -	\$ 5	\$ 106
<b>Other</b>										
<b>Risk Rating</b>										
Pass (1-4)	\$ -	\$ -	\$ -	\$ 15,829	\$ 5,068	\$ 4,081	\$ 24,978	\$ -	\$ -	\$ 24,978
Special Mention (5)	-	-	-	-	-	-	-	-	-	-
Substandard (6)	-	-	-	-	-	-	-	-	-	-
Doubtful (7)	-	-	-	-	-	-	-	-	-	-
<b>Total Other</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 15,829</b>	<b>\$ 5,068</b>	<b>\$ 4,081</b>	<b>\$ 24,978</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 24,978</b>
Gross charge-offs YTD	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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

For consumer, the Company also evaluates credit quality based on the aging status of the loan, as was previously stated, and by payment performance. Consumer loans are placed on nonperforming status in the event that the loan is in past due status for more than 90 days or payment in full of principal and interest is not expected. The following tables present the amortized cost based on payment performance as of June 30, 2025 and December 31, 2024 by year of origination.

(In Thousands)									
June 30, 2025									
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvin g Loans Amortize d Cost Basis	Grand Total
	2025	2024	2023	2022	2021	Prior			
<b>Consumer</b>									
<b>Payment Performance</b>									
Performing	\$ 12,148	\$ 10,836	\$ 10,385	\$ 20,640	\$ 4,077	\$ 1,586	\$ 59,672	\$ 266	\$ 59,938
Nonperforming	-	-	5	19	8	3	35	-	35
<b>Total Consumer</b>	<b>\$ 12,148</b>	<b>\$ 10,836</b>	<b>\$ 10,390</b>	<b>\$ 20,659</b>	<b>\$ 4,085</b>	<b>\$ 1,589</b>	<b>\$ 59,707</b>	<b>\$ 266</b>	<b>\$ 59,973</b>
Gross charge-offs YTD	\$ 88	\$ 45	\$ 95	\$ 162	\$ 52	\$ -	\$ 442	\$ -	\$ 442

(In Thousands)									
December 31, 2024									
	Term Loans Amortized Cost Basis by Origination Year						Term Total	Revolvin g Loans Amortize d Cost Basis	Grand Total
	2024	2023	2022	2021	2020	Prior			
<b>Consumer</b>									
<b>Payment Performance</b>									
Performing	\$ 13,437	\$ 13,521	\$ 27,264	\$ 5,917	\$ 2,310	\$ 582	\$ 63,031	\$ 477	\$ 63,508
Nonperforming	40	-	40	35	4	-	119	-	119
<b>Total Consumer</b>	<b>\$ 13,477</b>	<b>\$ 13,521</b>	<b>\$ 27,304</b>	<b>\$ 5,952</b>	<b>\$ 2,314</b>	<b>\$ 582</b>	<b>\$ 63,150</b>	<b>\$ 477</b>	<b>\$ 63,627</b>
Gross charge-offs YTD	\$ 201	\$ 69	\$ 62	\$ 14	\$ -	\$ -	\$ 346	\$ -	\$ 346

The following tables present collateral-dependent loans grouped by collateral as of June 30, 2025 and December 31, 2024:

	(In Thousands)	
	June 30, 2025	
	Collateral Dependent Loans	
Consumer Real Estate	\$	3,018
Agricultural Real Estate		371
Agricultural		50
Commercial Real Estate		140
Commercial & Industrial		-
Consumer		18
<b>Total</b>	<b>\$</b>	<b>3,597</b>

	(In Thousands)	
	December 31, 2024	
	Collateral Dependent Loans	
Consumer Real Estate	\$	2,384
Agricultural Real Estate		125
Agricultural		50
Commercial Real Estate		360
Commercial & Industrial		28
Consumer		41
<b>Total</b>	<b>\$</b>	<b>2,988</b>

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 and six months ended June 30, 2025 and 2024, there were no new loan modifications to borrowers experiencing financial difficulty.

For the three and six months ended June 30, 2025 and 2024, there were no modifications to borrowers experiencing financial difficulty that subsequently defaulted after modification.

The Bank periodically evaluates collateral asset values for collateral dependent loans to determine fair value and to measure any anticipated shortfall. 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 June 30, 2025, the Company had no foreclosed residential real estate property obtained by physical possession and \$925 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 obtained by physical possession and \$1.3 million 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, 2024. As of June 30, 2024, the Company had no foreclosed residential real estate property obtained by physical possession and \$795 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process according to local jurisdictions.

The Company accounts for the allowance for credit losses in accordance with Accounting Standards Update ("ASU") No. 2016-13 - "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and uses the current expected credit losses accounting standard. As a result, in 2023, the Company recorded a one-time adjustment from equity into the allowance for credit losses on loans and unfunded commitments in the amount of \$4.5 million, or \$3.4 million, net of tax.

The 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 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 \$1.0 million and \$1.9 million as of June 30, 2025 and December 31, 2024, respectively, related to the acquisitions of 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 present the activity within the ACL for each portfolio segment 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 and six months ended June 30, 2025 and June 30, 2024 in addition to the activity within the ACL for each portfolio segment and ending balances as of and for the year ended December 31, 2024:

(In Thousands)

	Consumer Real Estate	Agricultura l Real Estate	Agricultura l	Commercia l Real Estate	Commerci al and Industrial	Consumer	Other	Total
<b>Three Months Ended June 30, 2025</b>								
<b>ALLOWANCE FOR CREDIT LOSSES</b>								
Beginning balance	\$ 3,683	\$ 771	\$ 306	\$ 16,907	\$ 3,165	\$ 952	\$ 568	\$ 26,352
Provision for (recovery of) credit losses - loans	(31)	(33)	27	431	205	53	9	661
Charge-offs	-	-	-	-	-	(132)	-	(132)
Recoveries	1	-	1	16	6	72	-	96
Ending Balance	\$ 3,653	\$ 738	\$ 334	\$ 17,354	\$ 3,376	\$ 945	\$ 577	\$ 26,977

(In Thousands)

	Consumer Real Estate	Agricultura l Real Estate	Agricultura l	Commercia l Real Estate	Commerci al and Industrial	Consumer	Other	Total
<b>Six Months Ended June 30, 2025</b>								
<b>ALLOWANCE FOR CREDIT LOSSES</b>								
Beginning balance	\$ 3,543	\$ 895	\$ 285	\$ 16,560	\$ 2,969	\$ 1,012	\$ 562	\$ 25,826
Provision for (recovery of) credit losses-loans	108	(157)	39	775	420	272	15	1,472
Charge-offs	-	-	-	-	(25)	(442)	-	(467)
Recoveries	2	-	10	19	12	103	-	146
Ending Balance	\$ 3,653	\$ 738	\$ 334	\$ 17,354	\$ 3,376	\$ 945	\$ 577	\$ 26,977

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

(In Thousands)

	Consumer Real Estate	Agricultura l Real Estate	Agricultura l	Commercia l Real Estate	Commerci al and Industrial	Consumer	Other	Total
<b>Three Months Ended June 30, 2024</b>								
<b>ALLOWANCE FOR CREDIT LOSSES</b>								
Beginning balance	\$ 3,285	\$ 1,171	\$ 377	\$ 15,953	\$ 2,248	\$ 1,162	\$ 484	\$ 24,680
Provision for (recovery of) credit losses - loans	(82)	(245)	(92)	365	514	63	82	605
Charge-offs	(3)	-	-	-	-	(82)	-	(85)
Recoveries	1	-	-	1	39	29	-	70
Ending Balance	<u>\$ 3,201</u>	<u>\$ 926</u>	<u>\$ 285</u>	<u>\$ 16,319</u>	<u>\$ 2,801</u>	<u>\$ 1,172</u>	<u>\$ 566</u>	<u>\$ 25,270</u>

(In Thousands)

	Consumer Real Estate	Agricultura l Real Estate	Agricultura l	Commercia l Real Estate	Commerci al and Industrial	Consumer	Other	Total
<b>Six Months Ended June 30, 2024</b>								
<b>ALLOWANCE FOR CREDIT LOSSES</b>								
Beginning balance	\$ 3,581	\$ 312	\$ 336	\$ 17,400	\$ 1,766	\$ 1,302	\$ 327	\$ 25,024
Provision for (recovery of) credit losses - loans	(372)	614	(51)	(1,085)	1,031	(60)	239	316
Charge-offs	(13)	-	-	-	(101)	(163)	-	(277)
Recoveries	5	-	-	4	105	93	-	207
Ending Balance	<u>\$ 3,201</u>	<u>\$ 926</u>	<u>\$ 285</u>	<u>\$ 16,319</u>	<u>\$ 2,801</u>	<u>\$ 1,172</u>	<u>\$ 566</u>	<u>\$ 25,270</u>

(In Thousands)

	Consumer Real Estate	Agricultura l Real Estate	Agricultura l	Commercia l Real Estate	Commerci al and Industrial	Consumer	Other	Total
<b>Year Ended December 31, 2024</b>								
<b>ALLOWANCE FOR CREDIT LOSSES</b>								
Beginning balance	\$ 3,581	\$ 312	\$ 336	\$ 17,400	\$ 1,766	\$ 1,302	\$ 327	\$ 25,024
Provision for (recovery of) credit losses - loans	(31)	583	(52)	(834)	1,176	(133)	235	944
Charge-offs	(13)	-	-	(15)	(106)	(346)	-	(480)
Recoveries	6	-	1	9	133	189	-	338
Ending Balance	<u>\$ 3,543</u>	<u>\$ 895</u>	<u>\$ 285</u>	<u>\$ 16,560</u>	<u>\$ 2,969</u>	<u>\$ 1,012</u>	<u>\$ 562</u>	<u>\$ 25,826</u>

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

The following tables present the activity in the AULC for the three and six months ended June 30, 2025 and June 30, 2024 in addition to the activity in the AULC and ending balances as of and for the year ended December 31, 2024:

	(In Thousands)	
	Unfunded Loan Commitment & Letters of Credit	
<b>Three Months Ended June 30, 2025</b>		
<b>ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT</b>		
Beginning balance	\$	1,281
Provision for credit losses - off balance sheet credit exposures		27
Charge-offs		-
Recoveries		-
Ending Balance	\$	1,308

	(In Thousands)	
	Unfunded Loan Commitment & Letters of Credit	
<b>Six Months Ended June 30, 2025</b>		
<b>ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT</b>		
Beginning balance	\$	1,541
Recovery of credit losses-off balance sheet credit exposures		(233)
Charge-offs		-
Recoveries		-
Ending Balance	\$	1,308

	(In Thousands)
	Unfunded Loan Commitment & Letters of Credit
<b>Three Months Ended June 30, 2024</b>	
<b>ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT</b>	
Beginning balance	\$ 1,946
Recovery of credit losses - off balance sheet credit exposures	(18)
Charge-offs	-
Recoveries	-
Ending Balance	<u>\$ 1,928</u>

	(In Thousands)
	Unfunded Loan Commitment & Letters of Credit
<b>Six Months Ended June 30, 2024</b>	
<b>ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT</b>	
Beginning balance	\$ 2,212
Recovery of credit losses-off balance sheet credit exposures	(284)
Charge-offs	-
Recoveries	-
Ending Balance	<u>\$ 1,928</u>

	<u>(In Thousands)</u>	
	Unfunded Loan Commitment & Letters of Credit	
<b>Year Ended December 31, 2024</b>		
<b>ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT</b>		
Beginning balance	\$	2,212
Recovery of credit losses-off balance sheet credit exposures		(671)
Charge-offs		-
Recoveries		-
Ending Balance	\$	<u>1,541</u>

## NOTE 5 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 \$362.8, \$363.4 and \$364.3 million at June 30, 2025 and 2024 and at December 31, 2024, respectively. Unpaid principal balances of agricultural real estate loans serviced for others were \$146.8, \$138.5 and \$141.9 million at June 30, 2025 and 2024 and at December 31, 2024, respectively.

The balance of capitalized servicing rights included in assets at June 30, 2025 and 2024 and at December 31, 2024 for 1-4 family real estate loans, was \$3.5 million for all three periods. Agricultural real estate loan servicing rights were \$2.3, \$2.0 and \$2.1 million at June 30, 2025 and 2024 and at December 31, 2024, respectively. The capitalized addition of servicing rights is included in loan servicing income 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 June 30, 2025 and 2024 was \$4.7 million and \$5.3 million, respectively, and at December 31, 2024 was \$4.8 million. Capitalized servicing rights for agricultural real estate loans had a fair value of \$2.3 million and \$2.6 million as of June 30, 2025 and 2024, respectively, and was \$2.7 million at December 31, 2024. 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 7.7% and 6.1% were utilized at June 30, 2025 and 2024, respectively, and 8.1% at December 31, 2024. Agricultural real estate loans utilize an average constant prepayment rate based on the Bank's last twelve months of data. The average constant prepayment rate was 0.447% and 0.215% for fixed rate agricultural real estate loans at June 30, 2025 and 2024, respectively, compared to 0.184% at December 31, 2024. At June 30, 2025, two 1-4 family real estate strata, which included 77 of the total 3,629 loans, were slightly below the carrying value using a discount yield of 5.52% which resulted in the need to establish a \$3 thousand valuation allowance. At June 30, 2025, the carrying value of twelve agricultural real estate strata, which included 147 of the total 643 loans, using an approximate discount rate of 8.37% were lower than fair value requiring an \$84 thousand valuation allowance to be established.

The following table presents the activity in the mortgage servicing rights for the three and six months ended June 30, 2025 and 2024.

	(In Thousands)		(In Thousands)	
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ 5,853	\$ 5,562	\$ 5,753	\$ 5,655
Capitalized Additions	239	136	515	211
Amortization	(195)	(187)	(371)	(355)
Ending Balance, June 30,	5,897	5,511	5,897	5,511
Valuation Allowance	(87)	(7)	(87)	(7)
Servicing Rights net, June 30,	<u>\$ 5,810</u>	<u>\$ 5,504</u>	<u>\$ 5,810</u>	<u>\$ 5,504</u>

## NOTE 6 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 in June of 2020 and thereafter on the first Thursday of June. 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 prior day closing price. On June 5, 2025, ten directors each received \$17,496 which equated to 762 shares and one director received \$6,704 which equated to 292 shares. On June 6, 2024, twelve directors each received \$15,007 which equated to 716 shares and one director received \$5,911 which equated to 282 shares. On December 5, 2024, one new Director received 54 prorated shares worth approximately \$1,730. 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 officers receiving any awards in August. On March 1, 2025, senior management received stock awards of 19,767 shares worth \$508,012. On March 1, 2024, senior management received stock awards of 23,369 shares worth \$472,054 while other officers received stock awards of 36,800 shares worth \$979,616 during third quarter 2024.

	(In Thousands, Except Per Share Data)			
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
<b>Earnings per share</b>				
Net income	\$ 7,710	\$ 5,682	\$ 14,662	\$ 11,041
Less: distributed earnings allocated to participating securities	(38)	(36)	(77)	(72)
Less: undistributed earnings allocated to participating securities	(59)	(32)	(103)	(57)
Net earnings available to common shareholders	<u>\$ 7,613</u>	<u>\$ 5,614</u>	<u>\$ 14,482</u>	<u>\$ 10,912</u>
Weighted average common shares outstanding including participating securities	13,720,339	13,681,501	13,713,211	13,676,333
Less: average unvested restricted shares	(172,894)	(164,228)	(168,549)	(160,367)
Weighted average common shares outstanding	<u>13,547,445</u>	<u>13,517,273</u>	<u>13,544,662</u>	<u>13,515,966</u>
Basic and diluted earnings per share	<u>\$ 0.56</u>	<u>\$ 0.42</u>	<u>\$ 1.07</u>	<u>\$ 0.81</u>

## NOTE 7 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 June 30, 2025 and December 31, 2024.

Line Item in the Consolidated Balance Sheets in which the Hedged Item is Included	(In Thousands)			
	June 30, 2025		December 31, 2024	
	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	\$ 236,783	\$ 1,947	\$ 249,127	\$ 1,074

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 June 30, 2025 and December 31, 2024, identified by the underlying interest rate-sensitive instruments.

Instruments Associated With	Notional Value (In Thousands)	Weighted Average Remaining Maturity (In Years)	Fair Value (In Thousands)	Weighted Average Rate	
				Receive	Pay
Loans	\$ 100,000	2.1	\$ (1,826)	USD-SOFR-OIS	4.47%
Total swap portfolio at June 30, 2025	\$ 100,000	2.1	\$ (1,826)	USD-SOFR-OIS	4.47%

Instruments Associated With	Notional Value (In Thousands)	Weighted Average Remaining Maturity (In Years)	Fair Value (In Thousands)	Weighted Average Rate	
				Receive	Pay
Loans	\$ 100,000	2.6	\$ (976)	USD-SOFR-OIS	4.47%
Total swap portfolio at December 31, 2024	\$ 100,000	2.6	\$ (976)	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 \$2.3 million of cash collateral to counterparties as security for its obligations related to these interest rate swap transactions at both June 30, 2025 and December 31, 2024. 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 June 30, 2025 and December 31, 2024.

	(In Thousands)			
	June 30, 2025		December 31, 2024	
	Notional Amount	Fair Value	Notional Amount	Fair Value
<b>Asset Derivatives</b>				
Derivatives designated as hedging instruments				
Interest rate swaps associated with loans	\$ -	\$ -	\$ -	\$ -
Total contracts	\$ -	\$ -	\$ -	\$ -
<b>Liability Derivatives</b>				
Derivatives designated as hedging instruments				
Interest rate swaps associated with loans	\$ 100,000	\$ (1,826)	\$ 100,000	\$ (976)
Total contracts	\$ 100,000	\$ (1,826)	\$ 100,000	\$ (976)

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 and six months ended June 30, 2025 and June 30, 2024.

Line Item in the Consolidated Statements of Income	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
<b>Interest Income</b>				
Loans, including fees	\$ (21)	\$ 19	\$ (45)	\$ 5
Other	25	216	50	427
Total interest income	\$ 4	\$ 235	\$ 5	\$ 432

NOTE 8 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 June 30, 2025 and December 31, 2024, the balance of the Company's investments in qualified affordable housing projects was \$3.4 million and \$3.6 million, respectively. This balance is reflected in the other assets line on the condensed consolidated balance sheets. The unfunded commitments related to the investments in qualified housing projects totaled \$446 and \$880 thousand at June 30, 2025 and December 31, 2024, respectively. These balances are reflected in the accrued expense and other liabilities line on the condensed consolidated balance sheets.

The funded balance in qualified affordable housing projects was \$3.6 million and \$3.1 million at June 30, 2025 and December 31, 2024, respectively, out of a total of \$4.0 million committed.

The Company did not incur any impairment losses related to its investments in qualified affordable housing projects in 2025 or 2024.

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

The following tables present the Company's investments in qualified affordable housing projects as of June 30, 2025 and December 31, 2024 along with the related expenses and tax credits recognized for the three and six months ended June 30, 2025 and June 30, 2024.

	(In Thousands)	
	June 30, 2025	December 31, 2024
Low-income-housing tax credit investments	\$ 4,000	\$ 4,000
Unfunded commitments	(446)	(880)
Net funded low-income-housing tax credit investments	\$ 3,554	\$ 3,120

	(In Thousands)			
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Amortization expense	\$ 112	\$ 110	\$ 224	\$ 220
Tax credits recognized	111	110	223	218

NOTE 9 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, bank premises and 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, 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.

Interest rate swaps classified as Level 2 are valued using the prices obtained from an independent pricing service and not adjusted. The fair value of interest rate swaps with a positive fair value are reported as assets while interest rate swaps with a negative fair value are reported as liabilities.

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 three 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.

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

The following summarizes financial assets measured at fair value on a recurring basis as of June 30, 2025 and December 31, 2024, segregated by level within the fair value hierarchy utilized to measure fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	(In Thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
June 30, 2025			
Assets - (Securities Available-for-Sale)			
U.S. Treasury	\$ 95,390	\$ -	\$ -
U.S. Government agencies	20,078	117,588	-
Mortgage-backed securities	-	136,953	-
State and local governments	-	59,639	1,454
Total Securities Available-for-Sale	\$ 115,468	\$ 314,180	\$ 1,454
Interest rate swap liabilities	\$ -	\$ (1,826)	\$ -

	(In Thousands)		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024			
Assets - (Securities Available-for-Sale)			
U.S. Treasury	\$ 105,999	\$ -	\$ -
U.S. Government agencies	20,035	115,131	-
Mortgage-backed securities	-	120,631	-
State and local governments	-	63,133	1,627
Total Securities Available-for-Sale	\$ 126,034	\$ 298,895	\$ 1,627
Interest rate swaps liabilities	\$ -	\$ (976)	\$ -

The following tables represent the changes in the Level 3 fair-value category of which unobservable inputs are relied upon as of the three and six months ended June 30, 2025 and June 30, 2024.

	(In Thousands)		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at April 1, 2025	\$ 184	\$ 1,276	\$ 1,460
Change in Fair Value	-	(6)	(6)
Payments, Maturities & Calls	-	-	-
Balance at June 30, 2025	\$ 184	\$ 1,270	\$ 1,454

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

	(In Thousands)		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at January 1, 2025	\$ 353	\$ 1,274	\$ 1,627
Change in Fair Value	1	(4)	(3)
Payments, Maturities & Calls	(170)	-	(170)
Balance at June 30, 2025	<u>\$ 184</u>	<u>\$ 1,270</u>	<u>\$ 1,454</u>

	(In Thousands)		
	Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at April 1, 2024	\$ 521	\$ 1,274	\$ 1,795
Change in Fair Value	(1)	(8)	(9)
Payments, Maturities & Calls	-	-	-
Balance at June 30, 2024	<u>\$ 520</u>	<u>\$ 1,266</u>	<u>\$ 1,786</u>

	(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	(3)	(6)	(9)
Payments, Maturities & Calls	(665)	-	(665)
Balance at June 30, 2024	<u>\$ 520</u>	<u>\$ 1,266</u>	<u>\$ 1,786</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 June 30, 2025 and December 31, 2024, such assets consist of collateral dependent loans and loan servicing rights. Collateral dependent loans categorized as Level 3 assets consist of non-homogeneous loans that have expected credit losses. The Company may also estimate the fair value of certain nonperforming loans using a discounted cash flow method of 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 June 30, 2025 and December 31, 2024, fair value of collateral dependent loans categorized as Level 3 was \$3.6 million and \$3.0 million, respectively. The specific allocation for collateral dependent loans was \$91 thousand as of June 30, 2025 and \$52 thousand as of December 31, 2024. The specific allocations are accounted for in the allowance for credit losses (see Note 4).

During 2025 and 2024, 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 \$87 thousand (\$3 thousand on 1-4 family real estate loans and \$84 thousand on agricultural real estate loans) at June 30, 2025 compared to \$97 thousand (\$2 thousand on 1-4 family real estate loans and \$95 thousand on agricultural real estate loans) at December 31, 2024.

The following table presents assets measured at fair value on a nonrecurring basis at June 30, 2025 and December 31, 2024:

		(In Thousands)			
		Assets Measured at Fair Value on a Nonrecurring Basis at June 30, 2025			
		Balance at June 30, 2025	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent					
loans	\$	3,597	\$ -	\$ -	\$ 3,597
Loan servicing rights		323	-	-	323
		(In Thousands)			
		Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2024			
		Balance at December 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	\$	2,988	\$ -	\$ -	\$ 2,988
Loan servicing rights		(4)	-	-	(4)

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

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

	(In Thousands) Fair Value at June 30, 2025	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	\$ 1,454	Discounted Cash Flow	Credit strength of underlying project or entity / discount rate	3.42-4.38% (4.26%)
Collateral dependent loans	3,597	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	20.00-20.00% (20.00%)
Loan servicing rights	323	Discounted Cash Flow	Constant prepayment rate and probability of default / discount rate	0.92-556.28% (21.22%)

	(In Thousands) Fair Value at December 31, 2024	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	\$ 1,627	Discounted Cash Flow	Credit strength of underlying project or entity / discount rate	-3.61-4.52% (4.33%)
Collateral dependent loans	2,988	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	20.00-30.00% (20.78%)
Loan servicing rights	(4)	Discounted Cash Flow	Constant prepayment rate and probability of default / discount rate	9.36-618.70% (107.90%)

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of June 30, 2025 and December 31, 2024 are reflected below. The aggregate fair values in the table below do not represent the total fair value of the Bank's assets and liabilities. The table excludes the following: available-for-sale securities, premises and equipment, derivatives (which are included in other assets or other liabilities), goodwill, loan servicing rights, bank owned life insurance, other assets, dividends payable, accrued expenses and other liabilities.

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

	(In Thousands)				
	June 30, 2025				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 88,231	\$ 88,231	\$ 88,231	\$ -	\$ -
Interest-bearing time deposits	1,992	1,996	-	1,996	-
Other securities	13,994	13,994	-	-	13,994
Loans held for sale	6,359	6,359	-	-	6,339
Loans, net	2,599,917	2,570,022	-	-	2,570,022
Interest receivable	13,789	13,789	-	-	13,789
<b>Financial Liabilities:</b>					
Non-interest bearing deposits	\$ 497,804	\$ 497,804	\$ 497,804	\$ -	\$ -
Interest bearing deposits	1,591,070	1,590,604	-	-	1,590,604
Time deposits	621,455	619,389	-	-	619,389
Total Deposits	2,710,329	2,707,797	497,804	-	2,209,993
<b>Federal funds purchased and securities sold under agreement to repurchase</b>					
	27,562	27,562	-	-	27,562
Federal Home Loan Bank advances	188,445	189,174	-	-	189,174
Subordinated notes, net of unamortized issuance costs	34,875	32,809	-	32,809	-
Interest payable	6,626	6,626	-	-	6,626

	(In Thousands)				
	December 31, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>					
Cash and cash equivalents	\$ 176,351	\$ 176,351	\$ 176,351	\$ -	\$ -
Interest-bearing time deposits	2,482	2,472	-	2,472	-
Other securities	14,400	14,400	-	-	14,400
Loans held for sale	2,996	2,996	-	-	2,996
Loans, net	2,536,043	2,485,297	-	-	2,485,297
Interest receivable	12,657	12,657	-	-	12,657
<b>Financial Liabilities:</b>					
Non-interest bearing deposits	\$ 516,904	\$ 516,904	\$ 516,904	\$ -	\$ -
Interest bearing deposits	1,522,280	1,521,097	-	-	1,521,097
Time deposits	647,581	644,849	-	-	644,849
Total Deposits	2,686,765	2,682,850	516,904	-	2,165,946
<b>Federal funds purchased and securities sold under agreement to repurchase</b>					
	27,218	27,218	-	-	27,218
Federal Home Loan Bank advances	246,056	245,373	-	-	245,373
Subordinated notes, net of unamortized issuance costs	34,818	31,983	-	31,983	-
Interest payable	6,618	6,618	-	-	6,618

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

NOTE 10 FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company had no federal funds purchased at June 30, 2025 or at December 31, 2024. Securities sold under agreement to repurchase were as follows at June 30, 2025 and December 31, 2024.

(In Thousands)					
June 30, 2025					
Remaining Contractual Maturity of the Agreements					
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements					
US Treasury & agency securities	\$ 344	\$ -	\$ -	\$ 27,218	\$ 27,562
<b>Total</b>	<b>\$ 344</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 27,218</b>	<b>\$ 27,562</b>

(In Thousands)					
December 31, 2024					
Remaining Contractual Maturity of the Agreements					
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Repurchase agreements					
US Treasury & agency securities	\$ -	\$ -	\$ -	\$ 27,218	\$ 27,218
<b>Total</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 27,218</b>	<b>\$ 27,218</b>

## NOTE 11 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. Beginning July 31, 2026, the Note amount that qualifies as Tier 2 capital is reduced in proportionate amounts until July 30, 2031.

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)	June 30, 2025		December 31, 2024	
	Principal	Unamortized Note Issuance Costs	Principal	Unamortized Note Issuance Costs
Subordinated Notes	\$ 35,000	\$ (125)	\$ 35,000	\$ (182)

## NOTE 12 - SEGMENT REPORTING

The Company has one reportable operating segment, commercial banking. While our chief operating decision makers (CODM) monitor revenue streams of various products and services, the identifiable segments' operations are managed, and financial performance is evaluated on a Company wide basis. The commercial banking segment provides a broad array of financial products and services including commercial, agricultural, and residential mortgage as well as consumer lending activities, commercial and consumer banking services, wealth advisory services and insurance to individual and business clients through most of its banking center locations in Ohio, Indiana, and Michigan.

The accounting policies of the commercial banking segment are the same as those described in management's discussion and analysis of the financial condition and results of operations of the Company. The CODM assess performance for the commercial banking segment and decide how to allocate resources based on net income which is also reported on the Consolidated Statements of Income as net income. The measure of segment assets is reported on the Consolidated Balance Sheets as total assets.

The CODM use net income to evaluate income generated from segment assets (return on average total assets) in deciding whether to reinvest profits into the commercial banking segment or to pay dividends or fund acquisitions. Net income is also used by the CODM to monitor budget versus actual results. Net income as well as other common company-wide financial performance and credit quality metrics such as return on average assets, return on average equity, earnings per common share, net interest margin, operating efficiency and nonaccrual loans to total loans, among others, are used for competitive analysis by benchmarking to the Company's competitors as well as used in assessing the performance of the segment and for establishing management's compensation. Loans, investments and deposits provide revenue in the banking operation. Interest expense, provisions for credit losses, salaries, wages and associated employee benefits, and data processing are the significant expenses in the banking operation.

The Company's CODM are the President and senior management team of the Company.

## NOTE 13 RECENT ACCOUNTING PRONOUNCEMENTS

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 to 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 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] 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.

In November 2024, the FASB issued ASU 2024-03 *Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40)*. The amendments in this Update require disclosure, in the notes to financial statements, of specified information about certain costs and expenses. The amendments require that at each interim and annual reporting period (1) the Company disclose the amounts of (a) employee compensation, (c) depreciation, and (d) intangible asset amortization included in each relevant expense caption. A relevant expense caption is an expense caption presented on the face of the income statement within continuing operations that contains any of the expense categories listed. (2) Include certain amounts that are already required to be disclosed under current generally accepted accounting principles (GAAP) in the same disclosure as the other disaggregation requirements. (3) Disclose a qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. (4) Disclose the total amount of selling expenses and, in annual reporting periods, the Company's definition of selling expenses. The amendments in this Update are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The amendments in this Update should be applied either (1) prospectively to financial statements issued for reporting periods after the effective date of this Update or (2) retrospectively to any or all prior periods presented in the financial statements. Management is currently 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.

**OVERVIEW**

The largest improvement in profitability of the second quarter of 2025 as compared to the same quarter last year is in the Company's net interest income generated from the highest net interest margin since third quarter 2022, when looking at individual quarters. Net interest income for the first six months of 2025 is up \$8.1 million over the same period last year. This represents a solid base from which to continue improvement for the remainder of 2025 as we expect loan repricing and continued growth in low-cost core deposits to increase the margin going forward. Net interest margin has improved for four consecutive quarters. Year to date net interest margin has increased 47 basis points over year to date last year. Second quarter 2025 net interest margin has improved by 19 basis points over first quarter 2025 and 38 basis points over fourth quarter 2024. The improvement compared to last quarter was driven by a 26 basis point increase in the yield on interest earning assets and a reduction of 7 basis points in the cost of funding. The pricing of existing loans and favorable yields on new production are contributing to the increase in yield on interest earning assets.

There were two primary reasons behind the decrease in the cost of funds for the quarter, the first being the lower repricing of higher cost certificate of deposits (CDs), combined with a balance sheet shift or reduction in CD balances. Some of the CDs that are repricing were specials offered last year that are now converting to standard rates. The second primary reason was a reduction in interest expense due to rate changes in the NOW and savings bucket which includes interest bearing checking, money market accounts and savings accounts. The Company experienced a full six months of the advantage of interest rate cuts implemented due to the Federal Reserve dropping rates over the last four months of 2024. In addition, all of our offices have now converted to deposit origination software that will simplify the origination process and provide additional efficiencies to the Company.

Decreased net charge-offs and lower provision related expense resulted in lower credit cost in the second quarter of 2025 as compared to the first quarter of 2025. The effect of loan growth was partially offset by improved asset quality metrics resulting in a decreased provision for credit losses for the quarter compared to last quarter. Provision for credit losses was \$661 thousand for the quarter and net charge-offs were \$36 thousand. First quarter 2025 saw a provision for credit losses of \$811 thousand and net charge-offs of \$285 thousand.

F&M Commercial Banking Division saw loan demand grow in late 2024, continue into first quarter 2025 and remain steady in second quarter 2025. Lending rates and terms remained consistent from fourth quarter 2024 into second quarter 2025. Commercial clients' primary concerns so far in 2025 remain inflation and any impact of potential tariffs to their business. Credit quality of the commercial portfolio remains strong and second quarter collateral values and auction values are still holding consistent with previous quarters. Past dues and delinquencies remained low for the F&M portfolio, but the team continues to monitor the portfolio closely for the impact from inflationary pressures, input costs and margin compression on the portfolio.

As we review the results of our farm and agribusiness clients from 2024, the performance of our customer base was steady. Yields were average with declined commodity prices making their net income less than prior years. Marketing and crop insurance coverage was and will continue to be important. Most of our customer base's financial position was sound as we enter a period where they anticipate they may have declining net income. Our anticipation is 2025 will be similar to 2024. Planting conditions in our market area varied, as some areas were able to plant early while others were delayed due to wet conditions. We have communicated regularly with our clients potentially affected by the bird flu outbreak and have developed options for individual clients. To date, this portion of our portfolio continues to perform as agreed. Our agribusiness clientele continue to perform well, but declined farm income will potentially affect certain sectors. Loan demand has ranged from steady to soft as our clientele has taken a more conservative approach with anticipated lower net income. Although agricultural usage has increased, borrowers have plenty of availability on lines of credit overall. Global political pressures continue to be monitored. The performance of our agricultural portfolio continues to be monitored but continues to perform well.

Although the housing market has softened, home loan activity has remained strong and steady in all areas. Inventory in our market areas has improved in the midrange values. The Bank participated in the "Welcome Home" program offered through the Federal Home Loan Bank of Cincinnati ("FHLB"). This program assists with grants for down payments. The funds are open to all members of FHLB and capped by overall funds available. The funds were depleted in a matter of hours so the Bank is pleased to have received approval for some of our customers.

Consumer loans decreased during the second quarter 2025 as compared to the first quarter. While other areas showed increases, we did experience a decrease in our auto loan portfolio segment. In response to that, the Bank offered an auto loan special in June that continued into July which has been received favorably.

Overall, asset quality metrics are still favorable. We continue to keep a watchful eye on the overall impact of pending tariffs, which may cause past dues and non-accruals to increase throughout the year. Our credit department continues to monitor all areas and complete stress testing to better prepare our responsiveness to market events.

Noninterest income was \$3.9 million for the quarter which was up \$219 thousand from second quarter 2024; however, down \$227 thousand from last quarter and \$64 thousand from fourth quarter 2024. Loan service income and interchange income both decreased as compared to first quarter 2025 and fourth quarter 2024.

Noninterest expense was higher in second quarter 2025 by \$1.9 million as compared to same quarter 2024 and \$3.2 million higher than fourth quarter 2024. Looking at the difference between the second quarter comparisons, increased employee benefits, specifically group medical insurance was up \$132 thousand in 2025 along with payroll taxes increasing by \$19 thousand. Consulting services increased by \$296 thousand. Most of the increase was related to the use of a consultant to negotiate our core processor services agreement and to explore additional ancillary products to the core banking system. While the base contract negotiation is complete, the consultant will continue to be used. The benefits of using the consultant have far outweighed the cost and will continue to be realized after our consultant services have ended. That being said, data processing and ATM expense increased a combined \$973 thousand. In comparing second quarter 2025 to fourth quarter 2024, \$664 thousand of the increase is attributable to salary and benefits expenses. Net occupancy and furniture and equipment expenses amounted to a \$385 thousand increase. Another \$1.6 million in the difference is due to data processing, ATM expense and consulting expenses. Fourth quarter 2024 included a much higher usage of flex credits that were provided in the renegotiation of which some may be used on a wider range of services than others that are product specific. Smaller levels of flex credit will be realized going forward along with lower consulting fee levels throughout 2025.

The Company is encouraged by the higher-than-expected improvement in the net interest margin in the three and six months ended June 30, 2025. Overall net income, which was \$2.0 million higher than second quarter 2024 and \$758 thousand higher than first quarter 2025, continues on the path for a more profitable 2025. As with every year, challenges will present opportunities and the Bank has additional projects in the works to improve revenue while keeping an eye on costs. The Company remains well-capitalized with sound liquidity levels and strong asset quality; the future appears bright.

## **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. The Bank includes F&M Insurance Agency, LLC, a subsidiary offering insurance products, which was formed in November of 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, Northeast Indiana and Southeast Michigan along with a drive-up facility in Archbold. The Bank also operates four Loan Production Offices (LPOs), two in Ohio, 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 agricultural 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 seven and ten year fixed rate mortgage and a seven year jumbo fixed rate mortgage after which the interest rate will adjust annually for all. 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. The Bank currently participates in three State of Ohio programs: Ag-Link, Grow Now and Home Saver Plus. What all three of these programs have in common, is the ability to provide the Bank an avenue to offer a product that saves both the Bank and the consumer savings over other traditional products. With the acquisition of Perpetual Federal Savings Bank in the fourth quarter of 2021 and the addition of Peoples Federal Savings in the fourth 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 began offering a low income home buyer mortgage program, currently Hometown Advantage Mortgage Program, in November of 2023.

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:
  - o Livestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%.
- Commercial:
  - o Maximum LTV of 50% on raw and finished goods.
- Floor plan:
  - o New/used vehicles to 100% of wholesale.
  - o New/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.

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 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 June 30, 2025, we had 488 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 Company and the Bank remain attentive to the current regulatory environment in light of the regulatory agencies' risk-based approach to examinations and the change in presidential administration. 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 ensure 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, amended the Ability to Repay/Qualified Mortgage Rules. The General QM Final Rule amended the definition of the QM category to offset the impact of the sunset of the temporary Government Sponsored Enterprise (GSE) QMs. The General QM loan definition amended and 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. For General QM status, applicable to first-lien mortgage loans offered by the Bank, a loan must still observe existing product features, underwriting requirements, and limits on points and fees. Since the Bank, on occasion, 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 Consumer Financial Protection Bureau (CFPB) issued final rules which amended 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 were required to collect and report data on covered credit applications involving small businesses, including those businesses owned by women or minorities. Small businesses were defined as those businesses (including agricultural businesses) which had gross annual revenue of \$5 million or less during its most recent fiscal year. Data collection included 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. Implementation of these final rules would involve significant changes to processes and procedures along with new software configurations to accommodate and capture required data points regarding applications and final action taken. Data would be reported to the CFPB which would then make aggregated information publicly available. These new final rules had a phased implementation period with the largest lenders being required to collect and report data first. A Lender, such as the Bank, that originated at least 500 covered small business loans annually, data collection would have originally commenced on April 1, 2025.

A lawsuit filed in April 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 was 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 was also based upon another pending lawsuit which awaited a hearing by the U.S. Supreme Court regarding CFPB's funding. On July 31, 2023, 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. On August 4, 2023, 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 U.S. Supreme Court issued its long-awaited decision on the challenge to the CFPB's funding mechanism in May 2024 ruling that the CFPB's funding does not violate the U.S. Constitution's Appropriations Clause. Subsequently, the CFPB issued an interim final rule on June 25, 2024, to make date related adjustments on a day for day basis based on recent court orders involving ongoing litigation. This extended compliance dates for beginning data collection by 290 days. As of February 7, 2025, an order issued by the New Orleans First Circuit Court of Appeals granted a stay pending appeal and deadlines for compliance were extended further.

Most recently, on June 18, 2025, in light of recent court orders and ongoing litigation, the CFPB published an interim final rule along with a request for public comment. The mandatory compliance dates for the Section 1071 rule were again extended, however, these new mandatory compliance dates do not override the Circuit Court's order that stayed the mandatory compliance dates indefinitely. The Bank, as a member of the American Bankers Association, remains impacted by the stay of the mandatory compliance dates. The CFPB has stated plans to begin new 1071 rulemaking with the issuance of a notice of proposed rulemaking. The Bank remains attentive to these recent developments.

A final rule to amend 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 were 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. On February 5, 2024, 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 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 joint regulatory agencies 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. A joint press release on March 28, 2025, announced the joint agencies intent to rescind the 2023 Community Reinvestment Act Final Rule and reinstate the CRA framework that existed prior to the October 2023 final rule. As a large bank examined for its CRA performance, the Bank remains attentive to the CRA framework in place prior to the October 2023 final rule.

In July 2025, the Basel Committee on Banking Supervision initiated the implementation of the final phase of the Basel III regulatory capital reforms, commonly referred to as the "Basel III Endgame." These reforms introduce more stringent capital requirements, revise standardized approaches for credit and operational risks, and eliminate the use of internal models for certain risk calculations. While these changes primarily impact large global banks with assets exceeding \$100 billion, the evolving regulatory environment underscores the importance of capital planning and risk management at all banking organizations. We continue to monitor developments to assess any indirect implications for our capital adequacy and regulatory compliance framework.

In July 2025, new federal legislation known as the GENIUS Act was enacted to establish a comprehensive regulatory framework for payment stablecoins issued by banking organizations and their subsidiaries. The GENIUS Act imposes requirements including asset reserve standards, enhanced reporting, independent audits, and supervisory oversight specific to payment stablecoin issuance. As a bank holding company, we are assessing the potential opportunities and compliance obligations under this new law, which could affect our strategic initiatives in digital asset and payment innovation. We continue to evaluate the operational, legal, and regulatory implications of the GENIUS Act as part of our ongoing digital asset strategy.

With regard to all regulatory matters, the Company and the Bank remain 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 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 Allowance for Credit Losses (ACL) as the accounting area that requires the most subjective or complex judgments, and as such could be the most subject to revision as new information becomes available.

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 \$11.9 million and \$10.7 million at June 30, 2025 and December 31, 2024, 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 of 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 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 annual 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, Commercial & Industrial, Agricultural Real Estate, Agricultural, Consumer Real Estate 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.

The Company is utilizing peer data from a peer group of banks in the region of Ohio, Michigan and Indiana with asset sizes less than \$5 billion as of June 30, 2025. 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 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 as a component of the ACL. 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 \$91 thousand at June 30, 2025 and \$52 thousand at December 31, 2024. 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.

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.

## MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

For 2025, the Company plans to have modest loan growth and to continue to focus on earnings improvement. Paydowns and payoffs will be used to fund originations to existing customers and to build relationships in our newer markets. Loan balances as of June 30, 2025, were \$63.9 million or 2.5% higher than December 31, 2024 balances and there remains \$96.4 million of funds committed to complete construction projects of commercial customers as of June 30, 2025.

The Company continues to focus on growth in the areas of core deposits and the expansion of contingency funding. Growing deposits has been a focus especially in our newer markets since 2024. Core deposits provide additional opportunities for noninterest income. 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 11.9%. As of June 30, 2025, total uninsured deposits of the Bank were \$322.7 million of \$2.7 billion total deposits. If the amount of coverage is adjusted for what is insured solely by FDIC, the percentage is 21.9% or \$592.3 million of uninsured deposits as of June 30, 2025. The underlying difference between these two percentages is the protection required for public funds for which the Bank pledges securities. A State insurance fund exists for public funds in Indiana. The state of Michigan also does not require the pledging of collateral for public funds, though some entities do request it.

Deposits have increased \$23.6 million as of June 30, 2025 since December 31, 2024, while cash and cash equivalents have decreased \$88.1 million over the same time period. Cash balances have been used to fund loan growth and to repay maturing FHLB advances. The \$88.2 million of cash holdings represents 2.6% of total assets and 3.3% of total deposits as of June 30, 2025. Even though we are currently below the Bank's internal guideline of 3.5% of cash holdings to total assets, management is comfortable with our position based on our cash forecast modeling. If differences would arise between actual cash and the forecast, the Bank has access to ample short term funding sources. Since June 30, 2024, deposits have increased \$69.2 million, or 2.6%, while cash and cash equivalents have decreased \$104.8 million or 54.3%. Management has continued to hold biweekly sub-ALCO meetings, of which liquidity is a topic of discussion, in order to be more responsive to opportunities and threats as they arise.

During the first six months of 2025, borrowings from the FHLB decreased \$57.6 million with \$56.5 million maturing in the second quarter and the remainder through normal paydowns. The Bank utilized four sources for brokered CDs in 2024 for a total of \$26.9 million. This was done to establish relationships to test the access of such funds and to 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 quarter with similar or slightly longer fixed interest rate periods. The Bank also tested all correspondent borrowing lines during the first quarter of 2025 to assure availability should the need arise. The availability for overnight borrowing on unsecured Federal Funds lines is \$163.0 million. Combining the available line of credit at the holding company level, the Company has \$178.0 million overnight borrowing availability.

In comparing to the same prior year period, the June 30, 2025 (at amortized cost) loan balances of \$2.6 billion accounted for \$65.8 million or 2.6% increase when compared to same period 2024. Individual growth was comprised of 9.4% in non-real estate commercial loans, 3.3% in commercial real estate loans and 10.5% in agricultural loans. Consumer real estate loans decreased by 0.4% while consumer loans decreased by 16.2%. Agricultural related loans increased 3.7% year over year. Individual growth was comprised of 10.5% in non-real estate agricultural loans partially offset by a decline of 0.7% in agricultural real estate loans. Other loans decreased by 6.8%. The Company's strong team of lenders remain focused on providing customers valuable localized services and thereby increasing our market share.

The chart below shows the breakdown by portfolio segment as of June 30, for the last three years, at amortized cost.

	(In Thousands)		
	June 30, 2025	June 30, 2024	June 30, 2023
Consumer Real Estate	\$ 524,206	\$ 526,054	\$ 506,842
Agricultural Real Estate	220,760	222,280	230,531
Agricultural	158,241	143,257	128,593
Commercial Real Estate	1,343,570	1,301,256	1,278,445
Commercial and Industrial	293,544	268,227	253,248
Consumer	59,973	71,603	89,138
Other	24,653	26,449	28,996
<b>Total Loans, amortized cost</b>	<b>\$ 2,624,947</b>	<b>\$ 2,559,126</b>	<b>\$ 2,515,793</b>

The Bank maintains a well-balanced, diverse and high performing commercial real estate loan portfolio. Gross commercial real estate loans, excluding deferred loan fees and costs, represented 51.25% of the Company's total gross loan portfolio as of June 30, 2025. The tables below present the commercial real estate (CRE) portfolio segment by category, location and loan grade.

CRE Category	Dollar Balance	Percent of CRE Portfolio	Percent of Total Loan Portfolio
Industrial	\$ 281,599	20.92%	10.72%
Retail	213,309	15.85%	8.12%
Multi-family	213,029	15.83%	8.11%
Hotels	172,026	12.78%	6.55%
Office	139,844	10.39%	5.33%
Gas Stations	77,527	5.76%	2.95%
Food Service	52,205	3.88%	1.99%
Senior Living	31,088	2.31%	1.18%
Development	28,565	2.12%	1.09%
Auto Dealers	26,744	1.99%	1.02%
Other	110,017	8.17%	4.19%
Total CRE	\$ 1,345,953	100.00%	51.25%

CRE Category <sup>(*)</sup>	Dollar Balance	Percent of CRE Portfolio
Owner occupied	\$ 572,846	42.56%
Non-owner occupied	531,513	39.49%
Multi-family	213,029	15.83%
Land & Development	28,565	2.12%
Total CRE	\$ 1,345,953	100.00%

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

Location	Dollar Balance	Percent of CRE Portfolio
Southeast Michigan	\$ 469,850	34.91%
Northwest Ohio	328,177	24.38%
Fort Wayne, Indiana	159,334	11.84%
Columbus, Ohio	143,294	10.65%
Greater Indianapolis, Indiana	77,124	5.73%
Dayton/Cincinnati, Ohio	53,047	3.94%
Other	115,127	8.55%
Total CRE	\$ 1,345,953	100.00%

CRE Grades	June 30, 2025	December 31, 2024	December 31, 2023
2	2.38%	0.53%	0.55%
3	46.34%	38.99%	36.33%
4	45.42%	56.69%	58.00%
5	3.03%	1.12%	5.07%
6	2.83%	2.67%	0.05%
	100.00%	100.00%	100.00%

The following is a contractual maturity schedule by portfolio segment at amortized cost excluding fair value adjustments related to acquisitions as of June 30, 2025.

	(In Thousands)			
	June 30, 2025			
	Within One Year	After One Year Within Five Years	After Five Years Within Fifteen Years	After Fifteen Years
Consumer Real Estate	\$ 13,549	\$ 24,600	\$ 172,843	\$ 314,468
Agricultural Real Estate	10,405	8,455	66,768	135,370
Agricultural	96,083	48,865	9,046	4,253
Commercial Real Estate	103,246	471,062	576,220	193,088
Commercial and Industrial	131,336	95,341	66,437	533
Consumer	2,454	45,154	12,433	35
Other	204	576	23,874	-

Management feels confident that liquidity needs can be met through additional maturities from the security portfolio, increased deposit generating efforts and additional borrowings. For short term needs, the Bank has the unsecured borrowing capacity through its correspondent banks mentioned above along with access to \$167.9 million through a Cash Management Advance with the FHLB as of June 30, 2025. The Bank's secured borrowing capacity limits at the FHLB would have allowed draws based on current collateral pledging of \$230.2 million on June 30, 2025.

While the security portfolio has been utilized to fund loan growth in previous periods, additional sources have been cultivated during 2024 and 2025. The security portfolio increased in the first six months of 2025 from year end 2024 due to purchases of \$29.8 million offset by maturities and paydowns of \$32.8 million, net amortization of \$0.1 million and a \$7.6 million decrease in unrealized losses. The amount of pledged investment securities increased by \$16.4 million as compared to year end and increased \$34.4 million as compared to June 30, 2024. As of June 30, 2025 pledged investment securities totaled \$268.1 million. The Company plans to make additional purchases of securities the remainder of the year for the purposes of increasing our investment holdings in Community Reinvestment Act (CRA) qualifying securities, liquidity and contingency planning and as a means of balance sheet gap management.

As mentioned previously, an additional \$230.2 million is also available to the Bank from the FHLB based on current amounts of pledged collateral. The Bank has pledged eligible 1-4 family, home equity, commercial real estate, multifamily real estate portfolios and specific securities. The CRE holdings may be adjusted quarterly to replace paydowns or increase availability of funds. Based on total asset capacity, the Bank would have nearly \$1.2 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 decreased 0.6% or \$19.0 million since year end 2024. The largest areas of growth occurred in the loan portfolio of \$63.9 million and in the security portfolio of \$4.5 million offset by a decrease in cash and cash equivalents of \$88.1 million, all of which were discussed above.

Total liabilities decreased \$34.5 million or 1.1% since year end 2024. The largest change was a decrease in the FHLB borrowings of \$57.6 million of which \$56.5 million was due to advances maturing in second quarter 2025. Offsetting the decreased borrowings was total deposits growth of \$23.6 million or 0.9%. The mix of deposits saw increases in interest bearing checking, savings and money market deposits offset by decreases in time deposit accounts and noninterest bearing accounts since December 31, 2024. The Bank has adjusted its checking product offerings to decrease the number of overall types and provide better service to our customers.

Shareholders' equity increased by \$15.6 million as of June 30, 2025 compared to year end 2024. Earnings exceeded dividend declarations during the six months ended June 30, 2025. Accumulated other comprehensive loss decreased in unrealized loss position by \$6.0 million from December 2024 to an unrealized loss of \$19.2 million on June 30, 2025. Dividends declared remained unchanged from the prior quarter at \$0.22125 per share and were 0.6% over second quarter 2024's \$0.22 per share. Compared to June 30, 2024, shareholders' equity increased 8.7% or \$28.1 million with \$9.4 million attributed to an improvement in accumulated other comprehensive loss. Net income was higher for the quarter ended June 2025 compared to

June 2024 by \$2.0 million and \$758 thousand higher than first quarter 2025. We are encouraged that net interest income has continued to improve quarter over quarter since third quarter 2023.

Basel III regulatory capital requirements include a capital conservation buffer of 2.5%. As of June 30, 2025, 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 \$3.35 million dividend during the second quarter of 2025.

The Bank continues to be well-capitalized at June 30, 2025 in accordance with Federal regulatory capital requirements as the capital ratios below show:

Tier I Leverage Ratio	9.16%
Risk Based Capital Tier I	11.39%
Total Risk Based Capital	12.43%
Stockholders' Equity/Total Assets	11.18%
Capital Conservation Buffer	4.43%

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 and \$843 thousand for 2025.

## **MATERIAL CHANGES IN RESULTS OF OPERATIONS**

### **Comparison of Results of Interest Earnings and Expenses for three month periods ended June 30, 2025 and 2024**

#### **Interest Income**

When comparing second quarter 2025 to second quarter 2024, average loan balances grew \$60.9 million which represented a 2.4% increase in a one-year time period. Interest income on loans increased \$2.9 million or 8.0% as compared to the quarter ended June 30, 2024. Loan interest income for second quarter 2025 included \$546 thousand of fee income related to interest rate swap transactions compared to \$20 thousand for second quarter 2024. The associated impact to loan yield and total asset yield for second quarter 2025 was 8 basis points and 7 basis points, respectively, whereas the impact to loan yield was only 1 basis point for second quarter 2024. During the second quarter 2024, the Company recognized loan interest income of slightly more than \$1.0 million related to the payoff of one nonaccrual relationship of which approximately \$185 thousand was earned in second quarter 2024. The Company's loan portfolio is 42.5% variable rate with 25.8% of total loans subject to repricing within the next three months.

The available-for-sale securities portfolio increased in average balances by \$63.6 million when comparing to the same quarter in 2024 with the income associated with the security portfolio increasing \$1.0 million over second quarter 2024. The increased balances were the result of increasing our holdings for liquidity and contingency planning purposes and to improve our investments in CRA qualifying securities. Federal funds sold and interest bearing deposits decreased in average balances by \$87.7 million as compared to the same quarter in 2024 with decreased income of approximately \$1.7 million for the current quarter. The decreased balances are the result of funding loan growth, purchases of available-for-sale securities and repayment of other borrowed money.

The overall total average balance of the Bank's earning assets increased by \$36.8 million and interest income for the quarter comparisons was higher for second quarter 2025 by 5.7% or \$2.3 million as compared to second quarter 2024. Rate changes between periods have contributed to approximately 104.6% of the growth.

Annualized yield, for the quarter ended June 30, 2025, was 5.45% as compared to 5.22% for the quarter ended June 30, 2024. The following charts demonstrate loan rate increases accounted for 70.3% of the increased loan interest income while increased loan balances accounted for the remaining 29.7%. 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 \$115 thousand for second quarter 2025 and 2024 which resulted in a federal tax savings of \$24 thousand.

	(In Thousands)		Annualized Yield/Rate	
	Quarter to Date Ended June 30, 2025		June 30, 2025	June 30, 2024
	Average Balance	Interest/Dividends		
Interest Earning Assets:				
Loans	\$ 2,617,278	\$ 39,530	6.04%	5.73%
Taxable investment securities	459,298	2,837	2.47%	1.82%
Tax-exempt investment securities	16,682	74	2.25%	1.99%
Fed funds sold & other	99,964	1,051	4.21%	5.77%
<b>Total Interest Earning Assets</b>	<b>\$ 3,193,222</b>	<b>\$ 43,492</b>	<b>5.45%</b>	<b>5.22%</b>

Change in Interest Income Quarter to Date June 30, 2025 Compared to June 30, 2024

	(In Thousands)		
	Total Change	Change Due to Volume	Change Due to Rate
Interest Earning Assets:			
Loans	\$ 2,937	\$ 871	\$ 2,066
Taxable investment securities	1,055	309	746
Tax-exempt investment securities	(8)	(21)	13
Fed funds sold & other	(1,658)	(1,266)	(392)
<b>Total Interest Earning Assets</b>	<b>\$ 2,326</b>	<b>\$ (107)</b>	<b>\$ 2,433</b>

### Interest Expense

Contributing to the increased net interest income for the quarter was a decrease in interest expense of \$2.0 million or 10.2% compared to second quarter 2024. Since 2024, average interest bearing deposit balances have increased \$63.7 million or 2.9% while the Company recognized \$1.7 million less in interest expense for the most recent quarter. During 2024, the Federal Reserve decreased the federal funds rate by 50 basis points in September and 25 basis points in November and December. Deposit rates have been adjusted numerous times with all the rate changes. The following charts demonstrate increased average interest bearing deposit balances accounted for 19.4% of additional interest bearing deposit expense while rate decreases accounted for decreased interest bearing deposit expense of 119.4%.

Interest expense on borrowed funds decreased \$331 thousand in the second quarter 2025 over the same time frame in 2024 due to the repayment of FHLB advances. During the current quarter, FHLB borrowings of \$57.0 million were repaid compared to new FHLB borrowings of \$15.0 million and repayment of \$5.5 million in second quarter 2024. Interest expense on fed funds purchased and securities sold under agreement to repurchase decreased \$4 thousand compared to second quarter 2024 due to the decrease of \$420 thousand in average balances. Cost of funds decreased even with growth in interest bearing deposit balances offset by decreased borrowings and decreased noninterest bearing deposits balances of \$4.9 million compared to second quarter 2024. The Bank continues to focus on capturing the full customer relationship; however, it has sometimes resulted in more expensive deposits being brought in. The average cost of funds decreased to 2.83% in second quarter 2025 compared to 3.18% in second quarter 2024. Refer to Note 11 for additional information on subordinated notes.

	(In Thousands)		Annualized Yield/Rate	
	Quarter to Date Ended June 30, 2025		June 30, 2025	June 30, 2024
	Average Balance	Interest		
Interest Bearing Liabilities:				
NOW accounts and savings deposits	\$ 1,599,067	\$ 9,479	2.37%	2.73%
Time deposits	626,036	5,334	3.41%	3.77%
Borrowed funds	228,708	2,411	4.22%	4.14%
Fed funds purchased & securities sold under agreement to repurchase	27,301	272	3.99%	3.98%
Subordinated notes	34,856	285	3.27%	3.28%
<b>Total Interest Bearing Liabilities</b>	<b>\$ 2,515,968</b>	<b>\$ 17,781</b>	<b>2.83%</b>	<b>3.18%</b>

Change in Interest Expense Quarter to Date June 30, 2025 Compared to June 30, 2024

	(In Thousands)		
	Total Change	Change Due to Volume	Change Due to Rate
Interest Bearing Liabilities:			
NOW accounts and savings deposits	\$ (714)	\$ 725	\$ (1,439)
Time deposits	(961)	(401)	(560)
Borrowed funds	(331)	(378)	47
Fed funds purchased & securities sold under agreement to repurchase	(4)	(4)	-
Subordinated notes	-	1	(1)
<b>Total Interest Bearing Liabilities</b>	<b>\$ (2,010)</b>	<b>\$ (57)</b>	<b>\$ (1,953)</b>

As the following chart indicates, the improvement in yields on interest earning assets of 23 basis points combined with the decreased cost of funds of 35 basis points equated to a 58 basis point improvement in net interest spread when comparing to the same period a year ago. Competition for deposits remains intense with most competitors offering special rates for specific terms.

	June 30, 2025	June 30, 2024	June 30, 2023
Interest/Dividend income/yield	5.45%	5.22%	4.53%
Interest Expense/cost	2.83%	3.18%	2.35%
<b>Net Interest Spread</b>	<b>2.62%</b>	<b>2.04%</b>	<b>2.18%</b>
Net Interest Margin	3.22%	2.71%	2.73%

**Net Interest Income**

Net interest income increased approximately \$4.3 million for the second quarter 2025 over the same time frame in 2024 due to the increase in interest income of \$2.3 million combined with the interest expense decrease of approximately \$2.0 million as previously mentioned. As the new loans added in 2024 and 2025 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 82.0% in second quarter 2025 compared to 81.0% in second quarter 2024. Loans to total assets increased to 77.7% in second quarter 2025 compared to 77.2% for the same period 2024. The percentage of earning assets to total assets decreased to 94.8% for the three months ended June 30, 2025 compared to 95.3% for the three months ended June 30, 2024. In terms of net interest margin, the Bank recognizes competition for deposits will continue; however, there is a greater opportunity for gradual improvement with loans repricing upwards in the next year and a likely continuing decrease in cost of funds.

## **Comparison of Noninterest Results of Operations for three month periods ended June 30, 2025 and 2024**

### **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.

Total provision for credit losses increased \$56 thousand for the three months ended June 30, 2025 as compared to the same period in 2024. 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 \$47 thousand higher during the three months ended June 30, 2025 than the same period in 2024 with all loan charge-offs for the current quarter in the consumer portfolio segment. Recoveries were \$26 thousand higher during the three months ended June 30, 2025 as compared to same period in 2024 with 75.0% of total current quarter recoveries in the consumer portfolio segment. Combined net charge-offs were \$21 thousand higher in the three months ended June 30, 2025 than the same time period 2024. All of the time periods in 2024 and 2025 had net charge-offs to total loans ratios of 0.01% or lower attesting to the strong asset quality of the Bank's loan portfolio.

Loans past due 30 or more days decreased \$681 thousand at June 30, 2025 as compared to June 30, 2024. The largest changes were attributed to the combined decrease of past due balances of \$810 thousand in the agricultural and commercial real estate portfolio segments. The agricultural real estate portfolio segment past due balances increased \$322 thousand for the same time period.

The following table breaks down the activity within the ACL for each portfolio segment 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 June 30, 2025, 2024, and 2023.

	(In Thousands)		
	Three Months Ended June 30, 2025	Three Months Ended June 30, 2024	Three Months Ended June 30, 2023
Loans, amortized cost	\$ 2,624,947	\$ 2,559,126	\$ 2,515,793
Daily average of outstanding loans	\$ 2,615,365	\$ 2,556,037	\$ 2,476,795
Nonaccrual loans	\$ 3,745	\$ 2,487	\$ 6,295
Nonperforming loans*	\$ 3,745	\$ 2,487	\$ 6,295
Allowance for Credit Losses - April 1,	\$ 26,352	\$ 24,680	\$ 24,634
Loans Charged off:			
Consumer Real Estate	-	3	-
Agriculture Real Estate	-	-	-
Agricultural	-	-	-
Commercial Real Estate	-	-	-
Commercial and Industrial	-	-	-
Consumer	132	82	60
	<u>132</u>	<u>85</u>	<u>60</u>
Loan Recoveries:			
Consumer Real Estate	1	1	6
Agriculture Real Estate	-	-	104
Agricultural	1	-	-
Commercial Real Estate	16	1	3
Commercial and Industrial	6	39	6
Consumer	72	29	74
	<u>96</u>	<u>70</u>	<u>193</u>
Net Charge Offs (Recoveries):			
Consumer Real Estate	(1)	2	(6)
Agriculture Real Estate	-	-	(104)
Agricultural	(1)	-	-
Commercial Real Estate	(16)	(1)	(3)
Commercial and Industrial	(6)	(39)	(6)
Consumer	60	53	(14)
	<u>36</u>	<u>15</u>	<u>(133)</u>
Provision for Credit Losses	661	605	143
Allowance for Credit Losses - June 30,	26,977	25,270	24,910
Allowance for Unfunded Loan Commitments & Letters of Credit - June 30,	1,308	1,928	2,099
Total Allowance for Credit Losses - June 30,	\$ 28,285	\$ 27,198	\$ 27,009
Ratio of Net Charge-offs to Average Outstanding Loans	0.00%	0.00%	-0.01%
Ratio of Nonaccrual Loans to Loans	0.14%	0.10%	0.25%
Ratio of the Allowance for Credit Losses to Loans	1.03%	0.99%	0.99%
Ratio of the Allowance for Credit Losses to Nonaccrual Loans	720.35%	1016.08%	395.71%
Ratio of the Allowance for Credit Losses to Nonperforming Loans*	720.35%	1016.08%	395.71%

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

The balance of loans, amortized cost at June 30, 2025 and June 30, 2024 within this chart does not include a fair value basis adjustment for derivatives of \$1.9 million and \$612 thousand, respectively, or a daily average outstanding balance of \$1.9 million and \$380 thousand, respectively. Refer to Note 7 for additional information related to derivative financial instruments.

Loans classified as nonaccrual were higher as of June 30, 2025 at \$3.7 million as compared to \$2.5 million as of June 30, 2024. The consumer real estate portfolio segment increased \$1.4 million, or 83.5%, as compared June 30, 2024. The agricultural real estate portfolio segment increased \$401 thousand, or 668.3%, as compared to June 30, 2024 while the agricultural portfolio segment only increased \$13 thousand compared to June 30, 2024. The commercial real estate portfolio segment decreased 74.6% or \$414 thousand compared to June 30, 2024. Nonaccrual loans in the commercial and industrial portfolio segment and the consumer portfolio segment also decreased \$46 and \$83 thousand, respectively, compared to June 30, 2024.

The commercial real estate portfolio segment along with the consumer portfolio segment accounted for the largest component of recoveries for the three months ended June 30, 2025 compared to the commercial and industrial portfolio segment and consumer portfolio segment which accounted for the largest components of recoveries for the three months ended June 30, 2024. The consumer portfolio segment accounted for the entirety of charge-offs for the three months ended June 30, 2025 while the consumer real estate portfolio segment and the consumer portfolio segment accounted for the largest components of charge-offs for the three months ended June 30, 2024.

The following table presents the balances for allowance for credit losses per portfolio segment in terms of dollars, as a percentage of ACL and as a percentage of loans by category at June 30, 2025 and June 30, 2024.

	June 30, 2025			June 30, 2024		
	Amount (In Thousands)	% of ACL	% of Loans	Amount (In Thousands)	% of ACL	% of Loans
Balance at End of Period Applicable To:						
Consumer Real Estate	\$ 3,653	13.54%	19.97%	\$ 3,201	12.67%	20.56%
Agricultural Real Estate	738	2.74%	8.41%	926	3.66%	8.68%
Agricultural	334	1.24%	6.03%	285	1.13%	5.60%
Commercial Real Estate	17,354	64.33%	51.19%	16,319	64.58%	50.85%
Commercial and Industrial	3,376	12.51%	11.18%	2,801	11.08%	10.48%
Consumer	945	3.50%	2.28%	1,172	4.64%	2.80%
Other	577	2.14%	0.94%	566	2.24%	1.03%
Allowance for Credit Losses	26,977	100.00%	100.00%	25,270	100.00%	100.00%
Off Balance Sheet Commitments	1,308			1,928		
Total Allowance for Credit Losses	<u>\$ 28,285</u>			<u>\$ 27,198</u>		

#### Noninterest Income

Noninterest income was up \$219 thousand, or 5.9%, for the three months ended June 30, 2025 over the same time frame in 2024. Customer service fees increased by \$141 thousand as compared to the three months ended June 30, 2024. Mortgage release fees and merchant services, which are included in customer service fees, increased \$110 and \$54 thousand, respectively, offset by a decrease in credit card fees of \$27 thousand over the same time period in 2024. Other service fees increased by \$121 thousand compared to the same period in 2024, which includes overdraft and returned check fees of \$37 thousand and combined service charges on DDA, savings accounts, ATM and miscellaneous of \$66 thousand. Servicing rights income for 1-4 family real estate and agricultural real estate loans increased \$103 thousand as compared to the same period in 2024 due to an increase in real estate loans sold as discussed below. Offsetting the increases above were reductions of \$71 and \$34 thousand for interchange income and gain on sale of assets, respectively, compared to the same period in 2024.

The Company has seen strong and steady mortgage production volume partially due to the improvement of housing inventory in many of our markets. Although the volume of total originations of loans held for sale increased, the gain on the sale of these loans was \$57 thousand lower for the three months ended June 30, 2025 over the same period in 2024. Total originations of loans held for sale for the three months ended June 30, 2025 were \$17.2 million with proceeds from sale at \$13.4 million for 2025 compared to 2024's activity of \$15.8 million in originations and \$16.9 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 June 30, 2025 and 2024, loan servicing rights caused a net \$44 thousand in income and \$51 thousand in expense, respectively. Capitalized additions of agricultural real estate loan servicing rights were \$76 thousand for the three months ended June 30, 2025 compared to no capitalized additions for the three months ended June 30, 2024. Amortization of agricultural real estate loan servicing rights were \$74 thousand and \$64 thousand for the three months ended June 30, 2025 and 2024, respectively. For 1-4 family real estate loans of 15 years and less, the market value of the loan servicing rights was 1.354% in the second quarter 2025 versus 1.147% in second quarter 2024. For 1-4 family real estate loans over 15 years, the value was 1.561% versus 1.318% for the same periods respectively. At June 30, 2025, the carrying value of certain strata were slightly below the market value thus requiring the establishment of a \$3 thousand valuation allowance for 1-4 family real estate and an \$84 thousand valuation allowance for agricultural real estate servicing rights.

	(In Thousands)		(In Thousands)	
	Three Months Ended		Six Months Ended	
	June 30, 2025	June 30, 2024	June 30, 2025	June 30, 2024
Beginning Balance	\$ 5,853	\$ 5,562	\$ 5,753	\$ 5,655
Capitalized Additions	239	136	515	211
Amortization	(195)	(187)	(371)	(355)
Ending Balance, June 30,	5,897	5,511	5,897	5,511
Valuation Allowance	(87)	(7)	(87)	(7)
Servicing Rights net, June 30,	\$ 5,810	\$ 5,504	\$ 5,810	\$ 5,504

### Noninterest Expense

For the three months ended June 30, 2025, noninterest expenses were \$1.9 million or 11.0% higher than for the same period in 2024. Salaries and wages, including normal merit increases, restricted stock expense and incentive payouts, decreased \$22 thousand in total. Deferred salary loans costs increased \$271 thousand from last year and restricted stock expense increased \$73 thousand which were offset by a decrease in incentive expense of \$365 thousand compared to 2024. Benefits increased over 2024 by \$153 thousand due to increased medical expense of \$132 thousand and combined taxes and workmen's compensation of \$19 thousand offset with reductions in pension of \$12 thousand. The additional cost of the offices is also evident in the increased expenses in net occupancy with additional lease expense of \$29 thousand and building depreciation of \$60 thousand. Furniture and equipment increased in total \$7 thousand which was comprised of increases in maintenance contracts and repairs of \$44 and \$37 thousand, respectively, and decreases in depreciation and small equipment purchases of \$54 and \$17 thousand, respectively.

Consulting fees, which increased \$296 thousand over the same period in 2024, included \$227 thousand for time spent on additional ancillary products related to our core banking operating system in the current quarter. Data processing expenses and ATM expense increased a combined \$973 thousand. Second quarter 2024 included a much higher usage of flex credits for data processing and ATM expenses that were provided in the renegotiation of the core processor contract. Some of the flex credits may be used on a wide range of services while others are product specific. General and administrative expense increased \$423 thousand. The items on this line of significance include an increase in debit card losses and NSF check losses of \$139 thousand combined, an increase in miscellaneous expenses of \$103 thousand and decreased Directors' fees of \$39 thousand.

### Income Taxes

Income tax expense was \$511 thousand higher for the three months ended June 30, 2025 compared to the same period in 2024 based mainly on higher earnings. Amortization of qualified affordable housing projects caused income tax expense to increase \$112 thousand and \$110 thousand for the three months ended June 30, 2025 and 2024, respectively, as presented in Note 8. Effective tax rates were 20.50% and 20.63% for 2025 and 2024, respectively. Excluding the additional \$112 and \$110 thousand of income tax expense, the effective tax rates would have been 19.34% and 19.09% for the three months ended June 30, 2025 and 2024, respectively.

### Net Income

Overall, net income in the three months ended June 30, 2025 was up \$2.0 million or 35.7% to \$7.7 million as compared to last year's \$5.7 million. The biggest contributor to the improvement was net interest income. Net interest income was up \$4.3 million or 20.3% due to both increased interest income and decreased interest expense. Provision for credit losses for loans and unfunded commitments increased \$101 thousand compared to 2024. Noninterest income increased \$219 thousand and noninterest expense increased \$1.9 million as described above. The Company remains strong, stable, and well capitalized and

has the capacity to continue to cover the increased costs of expansion. The Company is optimistic for continued improvement in profitability due to the opportunity for continued expansion in the net interest margin.

### **Comparison of Results of Interest Earnings and Expenses for six month periods ended June 30, 2025 and 2024**

#### **Interest Income**

When comparing the six months ended June 30, 2025 and June 30, 2024, average loan balances grew \$31.2 million which represented a 1.2% increase in a one-year time period. Interest income on loans increased \$4.8 million or 6.7% as compared to the six months ended June 30, 2024. Loan interest income for the six months ended June 30, 2025 included \$831 thousand of fee income related to interest rate swap transactions compared to \$117 thousand for the six months ended June 30, 2024. The associated impact to loan yield and total asset yield for the first six months of 2025 was 7 basis points and 5 basis points, respectively, whereas the impact to loan yield and total asset yield was only 1 basis point for both the first six months of 2024. During the second quarter 2024, the Company recognized loan interest income of slightly more than \$1.0 million related to the payoff of one nonaccrual relationship of which approximately \$379 thousand was earned in 2024. The Company's loan portfolio is 42.5% variable rate with 25.9% of total loans subject to repricing during the remainder of 2025 and 37.5% of total loans subject to repricing within the next twelve months.

The available-for-sale securities portfolio increased in average balances by \$67.0 million when comparing to the same time period in 2024 with the income associated with the security portfolio increasing \$2.1 million over the six months ended June 30, 2024. The increased balances were the result of increasing our holdings for liquidity and contingency planning purposes and to improve our investments in CRA qualifying securities. Federal funds sold and interest bearing deposits decreased in average balances by \$46.2 million as compared to the same six month period ended June 30, 2024 with decreased income of \$2.2 million for the current period. The decreased balances are the result of funding loan growth, purchases of available-for-sale securities and repayment of other borrowed money.

The overall total average balance of the Bank's earning assets increased by \$52.0 million and interest income for the period comparisons was higher for the six months ended June 30, 2025 by 5.9% or \$4.7 million as compared to the six month period ended June 30, 2024. Rate changes between periods have contributed to approximately 97.7% of the growth.

Annualized yield, for the six months ended June 30, 2025, was 5.32% as compared to 5.11% for the comparable period ended June 30, 2024. The following charts demonstrate loan rate increases accounted for 81.8% of the increased loan interest income while increased loan balances accounted for the remaining 18.2%. 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 \$230 and \$272 thousand for the six months ended June 2025 and 2024 which resulted in a federal tax savings of \$48 and \$57 thousand, respectively.

Interest Earning Assets:	(In Thousands)		Annualized Yield/Rate	
	Year to Date Ended June 30, 2025		June 30, 2025	June 30, 2024
	Average Balance	Interest/Dividends		
Loans	\$ 2,598,011	\$ 76,602	5.90%	5.60%
Taxable investment securities	458,903	5,576	2.43%	1.79%
Tax-exempt investment securities	17,501	152	2.20%	2.01%
Fed funds sold & other	102,851	2,164	4.21%	5.89%
<b>Total Interest Earning Assets</b>	<b>\$ 3,177,266</b>	<b>\$ 84,494</b>	<b>5.32%</b>	<b>5.11%</b>

#### **Change in Interest Income Year to Date June 30, 2025 Compared to June 30, 2024**

Interest Earning Assets:	(In Thousands)		
	Total Change	Change Due to Volume	Change Due to Rate
Loans	\$ 4,809	\$ 874	\$ 3,935
Taxable investment securities	2,108	631	1,477
Tax-exempt investment securities	(16)	(37)	21
Fed funds sold & other	(2,227)	(1,361)	(866)
<b>Total Interest Earning Assets</b>	<b>\$ 4,674</b>	<b>\$ 107</b>	<b>\$ 4,567</b>

## Interest Expense

Contributing to the increased net interest income for the first six months of 2025 was a decrease in interest expense of approximately \$3.5 million or 9.0% compared to the same period in 2024. Since 2024, average interest bearing deposit balances have increased \$24.5 million or 1.2% while the Company recognized \$3.0 million less in interest expense for the most recent six months. During 2024, the Federal Reserve decreased the federal funds rate by 50 basis points in September and 25 basis points in November and December. Deposit rates have been adjusted numerous times with all the rate changes. The following charts demonstrate increased average interest bearing deposit balances accounted for 5.4% of additional interest bearing deposit expense while rate decreases accounted for decreased interest bearing deposit expense of 105.4%.

Interest expense on borrowed funds decreased \$470 thousand in the six months ended June 30, 2025 over the same time frame in 2024 due to the repayment of FHLB advances. During the current six months, FHLB borrowings of \$57.6 million were repaid compared to new FHLB borrowings of \$15.0 million and repayments of \$14.6 million in 2024. Interest expense on fed funds purchased and securities sold under agreement to repurchase decreased \$17 thousand compared to the first six months of 2024 due to the decrease of \$698 thousand in average balances. Cost of funds decreased even with growth in interest bearing deposit balances offset by decreased borrowings compared to 2024. The Bank continues to focus on capturing the full customer relationship; however, it has sometimes resulted in more expensive deposits being brought in. The average cost of funds decreased to 2.84% for the six months ended June 30, 2025 compared to 3.12% for the six months ended June 30, 2024. Refer to Note 11 for additional information on subordinated notes.

Interest Bearing Liabilities:	(In Thousands)		Annualized Yield/Rate	
	Year to Date Ended June 30, 2025		June 30, 2025	June 30, 2024
	Average Balance	Interest		
NOW accounts and savings deposits	\$ 1,524,965	\$ 18,043	2.37%	2.67%
Time deposits	626,767	10,758	3.43%	3.69%
Borrowed funds	237,185	4,961	4.18%	4.11%
Fed funds purchased & securities sold under agreement to repurchase	27,391	543	3.96%	3.99%
Subordinated notes	34,842	569	3.27%	3.28%
<b>Total Interest Bearing Liabilities</b>	<b>\$ 2,451,150</b>	<b>\$ 34,874</b>	<b>2.84%</b>	<b>3.12%</b>

### Change in Interest Expense Year to Date June 30, 2025 Compared to June 30, 2024

Interest Bearing Liabilities:	(In Thousands)		
	Total Change	Change Due to Volume	Change Due to Rate
NOW accounts and savings deposits	\$ (1,557)	\$ 765	\$ (2,322)
Time deposits	(1,409)	(605)	(804)
Borrowed funds	(470)	(556)	86
Fed funds purchased & securities sold under agreement to repurchase	(17)	(14)	(3)
Subordinated notes	-	2	(2)
<b>Total Interest Bearing Liabilities</b>	<b>\$ (3,453)</b>	<b>\$ (408)</b>	<b>\$ (3,045)</b>

As the following chart indicates, the improvement in yields on interest earning assets of 21 basis points combined with the decreased cost of funds of 28 basis points equated to a 49 basis point improvement in net interest spread when comparing to the same period a year ago. Competition for deposits remains intense with most competitors offering special rates for specific terms.

	June 30, 2025	June 30, 2024	June 30, 2023
Interest/Dividend income/yield	5.32%	5.11%	4.47%
Interest Expense/cost	2.84%	3.12%	2.10%
<b>Net Interest Spread</b>	<b>2.48%</b>	<b>1.99%</b>	<b>2.37%</b>
<b>Net Interest Margin</b>	<b>3.13%</b>	<b>2.66%</b>	<b>2.87%</b>

### **Net Interest Income**

Net interest income increased approximately \$8.1 million for the six months ended June 30, 2025 over the same time frame in 2024 due to the increase in interest income of \$4.7 million combined with the interest expense decrease of approximately \$3.5 million as previously mentioned. As the new loans added in 2024 and 2025 and loans repricing higher 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 decreased to 81.8% for the six months ended 2025 compared to 82.1% for the six months ended 2024. Loans to total assets decreased to 77.6% for the six months ended 2025 compared to 78.2% for the same period 2024. The percentage of earning assets to total assets decreased to 94.9% for the six months ended 2025 compared to 95.2% for the six months ended 2024. In terms of net interest margin, the Bank recognizes competition for deposits will continue; however, there is a greater opportunity for gradual improvement with loans repricing upwards in the next year and a likely continuing decrease in cost of funds.

## **Comparison of Noninterest Results of Operations for six month periods ended June 30, 2025 and 2024**

### **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.

Provision expense increased \$1.2 million for the six months ended June 30, 2025, compared to the same period in 2024. As discussed more thoroughly below, the increase was primarily driven by a combination of higher net charge-offs, a rise in nonaccrual loans, and adjustments to qualitative factors reflecting elevated credit risk in certain portfolio segments. Loan charge-offs were \$190 thousand higher during the six months ended June 30, 2025 than the same period in 2024. Recoveries were \$61 thousand lower during the six months ended June 30, 2025 as compared to same period in 2024. Net charge-offs increased \$251 thousand year-over-year, with the consumer loan segment accounting for the majority of losses. Nonaccrual loans increased by \$1.3 million, or 53.4%, from June 30, 2024, due largely to deterioration in the consumer real estate and agricultural real estate portfolios. Management also factored in the continuing impact of high interest rates and inflationary pressures on borrower repayment capacity, particularly in rate-sensitive consumer and agricultural portfolios. These trends resulted in a higher modeled loss rate and adjustments to qualitative reserves.

Loans past due 30 or more days decreased \$681 thousand at June 30, 2025 as compared to June 30, 2024. The largest changes were attributed to the combined decrease of past due balances of \$810 thousand in the agricultural and commercial real estate portfolio segments. The agricultural real estate portfolio segment past due balances increased \$322 thousand for the same time period.

The following table breaks down the activity within the ACL for each portfolio segment 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 six months ended June 30, 2025, 2024, and 2023.

(In Thousands)

	Six Months Ended June 30, 2025	Six Months Ended June 30, 2024	Six Months Ended June 30, 2023
Loans, amortized cost	\$ 2,624,947	\$ 2,559,126	\$ 2,515,793
Daily average of outstanding loans	\$ 2,596,431	\$ 2,565,566	\$ 2,437,148
Nonaccrual loans	\$ 3,745	\$ 2,487	\$ 6,295
Nonperforming loans*	\$ 3,745	\$ 2,487	\$ 6,295
Allowance for Credit Losses - January 1,	\$ 25,826	\$ 25,024	\$ 20,313
Adjustment for accounting change	-	-	3,564
Loans Charged off:			
Consumer Real Estate	-	13	-
Agriculture Real Estate	-	-	-
Agricultural	-	-	-
Commercial Real Estate	-	-	-
Commercial and Industrial	25	101	-
Consumer	442	163	182
	467	277	182
Loan Recoveries:			
Consumer Real Estate	2	5	13
Agriculture Real Estate	-	-	104
Agricultural	10	-	-
Commercial Real Estate	19	4	5
Commercial and Industrial	12	105	12
Consumer	103	93	121
	146	207	255
Net Charge Offs (Recoveries):			
Consumer Real Estate	(2)	8	(13)
Agriculture Real Estate	-	-	(104)
Agricultural	(10)	-	-
Commercial Real Estate	(19)	(4)	(5)
Commercial and Industrial	13	(4)	(12)
Consumer	339	70	61
	321	70	(73)
Provision for Credit Losses	1,472	316	960
Allowance for Credit Losses - June 30,	26,977	25,270	24,910
Allowance for Unfunded Loan Commitments & Letters of Credit - June 30,	1,308	1,928	2,099
Total Allowance for Credit Losses - June 30,	\$ 28,285	\$ 27,198	\$ 27,009
Ratio of Net Charge-offs to Average Outstanding Loans	0.01%	0.00%	0.00%
Ratio of Nonaccrual Loans to Loans	0.14%	0.10%	0.25%
Ratio of the Allowance for Credit Losses to Loans	1.03%	0.99%	0.99%
Ratio of the Allowance for Credit Losses to Nonaccrual Loans	720.35%	1016.08%	395.71%
Ratio of the Allowance for Credit Losses to Nonperforming Loans*	720.35%	1016.08%	395.71%

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

The balance of loans, amortized cost at June 30, 2025 and June 30, 2024 within this chart does not include a fair value basis adjustment for derivatives of \$1.9 million and \$612 thousand, respectively, or a daily average outstanding balance of \$1.6 million and \$1.2 million, respectively. Refer to Note 7 for additional information related to derivative financial instruments.

Loans classified as nonaccrual were higher as of June 30, 2025 at \$3.7 million as compared to \$2.5 million as of June 30, 2024. The consumer real estate portfolio segment increased \$1.4 million, or 83.5%, as compared June 30, 2024. The agricultural real estate portfolio segment increased \$401 thousand, or 668.3%, as compared to June 30, 2024 while the agricultural portfolio segment only increased \$13 thousand compared to June 30, 2024. The commercial real estate portfolio segment decreased 74.6% or \$414 thousand compared to June 30, 2024. Nonaccrual loans in the commercial and industrial portfolio segment and the consumer portfolio segment also decreased \$46 and \$83 thousand, respectively, compared to June 30, 2024.

The consumer portfolio segment accounted for the largest component of recoveries and of charge-offs for the six months ended June 30, 2025 versus the commercial and industrial portfolio segment and consumer portfolio segment which accounted for the largest components of recoveries and of charge-offs for the six months ended June 30, 2024.

### **Noninterest Income**

Noninterest income was up \$435 thousand, or 5.7%, for the six months ended June 30, 2025 over the same time frame in 2024. Other service fees increased by \$188 thousand as compared to the six months ended June 30, 2024 which includes increased overdraft and returned check charge fees of \$69 thousand and combined service charges on DDA, savings accounts, ATM and miscellaneous of \$86 thousand. Customer service fees decreased by \$76 thousand compared to the same period in 2024. Mortgage release fees, credit card fees and miscellaneous customer service fees, which are included in customer service fees, decreased \$38, \$62 and \$71 thousand, respectively, while merchant services increased \$95 thousand for the same time period in 2024. Servicing rights income for 1-4 family real estate and agricultural real estate loans increased \$304 thousand as compared to the same period in 2024 due to an increase in real estate loans sold as discussed below. Bank owned life insurance cash surrender value increased \$31 thousand while interchange income decreased by \$79 thousand as compared to 2024.

The Company has seen improvement in mortgage production volume partially due to the improvement of housing inventory in many of our markets. The gain on the sale of these loans was \$120 thousand higher for the six months ended June 30, 2025 over the same period in 2024. Total originations of loans held for sale for the six months ended June 30, 2025 were \$30.2 million with proceeds from sale at \$27.3 million for 2025 compared to 2024's activity of \$23.4 million in originations and \$23.7 million in sales. The mortgages sold were both 1-4 family real estate and agricultural real estate loans originated for sale.

The table showing the impact of loan servicing rights, both to income and expense, can be seen in the three month comparison section. The capitalization runs through noninterest income while the amortization thereof is included in noninterest expense. For the six months ended June 30, 2025 and 2024, loan servicing rights caused a net \$144 thousand in income and \$144 thousand in expense, respectively. Capitalized additions of agricultural real estate loan servicing rights were \$246 thousand for the six months ended June 30, 2025 compared to no capitalized additions for the six months ended June 30, 2024. Amortization of agricultural real estate loan servicing rights were \$139 thousand and \$124 thousand for the six months ended June 30, 2025 and 2024, respectively. At June 30, 2025, the carrying value of certain strata were slightly below the market value thus requiring the establishment of a \$3 thousand valuation allowance for 1-4 family real estate and an \$84 thousand valuation allowance for agricultural real estate servicing rights.

### **Noninterest Expense**

For the six months ended June 30, 2025, noninterest expenses were \$2.8 million or 8.1% higher than for the same period in 2024. Salaries and wages, including normal merit increases, restricted stock expense and incentive payouts, increased \$10 thousand in total. Salaries and deferred salary loan costs increased \$143 thousand from last year. Restricted stock expense decreased \$8 thousand while incentive expense decreased \$123 thousand from 2024. The increase in salaries was due to the investment in people for our strategic growth initiative and staffing of new offices. Benefits increased over 2024 with the increased medical expense of \$324 thousand and combined taxes and workmen's compensation of \$136 thousand offset with reductions in pension of \$100 thousand. The additional cost of the offices is also evident in the increased expenses in net occupancy with additional lease expense of \$82 thousand, building depreciation of \$120 thousand and building repairs and maintenance of \$85 thousand. Furniture and equipment decreased \$68 thousand.

Consulting fees increased \$855 thousand over the same period in 2024 of which the majority was for time spent to our core banking operating system for the base contract negotiation and additional ancillary products. Data processing expenses and ATM expense increased a combined \$1.0 million. The first six months of 2024 included a much higher usage of flex credits for data processing and ATM expenses that were provided in the renegotiation of the core processor contract. Some of the flex credits may be used on a wide range of services while others are product specific. General and administrative expense increased \$574 thousand. The items on this line of significance include increases in charitable giving expenses of \$51 thousand, combined debit card losses and NSF check losses of \$129 thousand and miscellaneous expenses of \$132 thousand over the same period in 2024.

## **Income Taxes**

Income tax expense was \$900 thousand higher for the six months ended June 30, 2025 compared to the same period in 2024 based mainly on higher earnings. Amortization of qualified affordable housing projects caused income tax expense to increase \$224 thousand and \$220 thousand for the six months ended June 30, 2025 and 2024, respectively, as presented in Note 8. Effective tax rates were 20.57% and 20.78% for 2025 and 2024, respectively. Excluding the additional \$ 224 and \$220 thousand of income tax expense, the effective tax rates would have been 19.35% and 19.20% for the six months ended June 30, 2025 and 2024, respectively.

## **Net Income**

Overall, net income in the six months ended June 30, 2025 was up \$3.6 million or 32.8% to \$14.7 million as compared to last year's \$11.0 million. The biggest contributor to the improvement was net interest income. Net interest income was up \$8.1 million or 19.6% with increased interest income accounting for the largest contribution and decreased interest expense contributed at a lower amount. Provision for credit losses for loans and unfunded commitments increased \$1.2 million compared to 2024. Noninterest income increased \$435 thousand and noninterest expense increased \$2.8 million as described above. The Company remains strong, stable, and well capitalized and has the capacity to continue to cover the increased costs of expansion. The Company is optimistic for continued improvement in profitability due to the opportunity for continued expansion in the net interest margin.

## 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 QUANTITATIVE AND QUALITATIVE 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 we are subject is interest rate risk. Much of our interest rate risk arises from the instruments, positions and transactions entered 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 reprice 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 effectively managed. If our asset/liability management strategies are unsuccessful, our profitability may be adversely affected. The Company employs a sensitivity analysis utilizing interest rate shocks to help in this analysis.

At June 30, 2025, the shocks presented assume an immediate change of rate in the percentages and directions shown:

<u>Interest Rate Shock on Net Interest Margin</u>				<u>Interest Rate Shock on Net Interest Income</u>		
Net Interest Margin (Ratio)	% Change to Flat Rate	Rate Direction	Rate Changes by	Cumulative Total (\$000)	% Change to Flat Rate	
3.39%	-5.82%	Rising	3.00%	100,252	-8.82%	
3.46%	-3.63%	Rising	2.00%	103,532	-5.83%	
3.63%	0.97%	Rising	1.00%	109,591	-0.32%	
3.59%	0.00%	Flat	0.00%	109,946	0.00%	
3.50%	-2.74%	Falling	-1.00%	108,187	-1.60%	
3.30%	-8.30%	Falling	-2.00%	103,487	-5.88%	
3.14%	-12.69%	Falling	-3.00%	100,364	-8.72%	

The Bank's static balance sheet shifted from slightly asset-sensitive in March to mostly neutral in June. This shift was aided by a material addition of floating-rate liabilities combined with a deeper inversion in market rates for the 2–5-year points on the curve. This inversion brought down repricing rate assumptions for significant asset categories. 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. 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 whereas savings and money market accounts are beneficial due to the variability of the interest in both rate and immediate option to reprice. CD pricing has been more cautious in response to growing market and geopolitical uncertainties.

The Bank was aggressive in dropping its non-maturity deposit rates in the last 4 months of 2024 while the Fed was cutting their rate. We will have some continued opportunity to be aggressive with future Fed rate cuts, particularly with our higher deposit rates. While net interest income drops in a falling interest rate environment, there are potential revenues and other factors that can insulate the Bank's overall income, such as prepayment penalty fees, mortgage fees, and rate floors. The Bank's monthly cost of funds increased slightly from 2.81% in March to 2.83% in June. Older loans and investments will continue to reprice higher, in aggregate, in the next twelve months based on current rates. The Bank continues to review and adjust its assumptions concerning decay rates, deposit betas, key rate ties, and loan prepayment speeds. Rates are modified as index rates change. Directional changes shown above 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. The Company must continue its trajectory of improved pricing discipline for its new loans and deposits.

## 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, 2024.

#### **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.

#### **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.

#### **Trade Policy Risk**

The ongoing trade policies and tariff initiatives being pursued by the U.S. government under the administration of President Trump could present potential risks unique to the markets within which we operate. Many of our commercial borrowers operate in agriculture, food processing, and manufacturing; industries that are particularly sensitive to changes in trade policy. The imposition of tariffs on imported goods, the added potential for retaliatory tariffs by foreign governments, or other similar restrictions on international trade could increase costs for domestic manufacturers and consumers alike, as well as reduce demand abroad for U.S. exports, and disrupt supply chains. Any prolonged trade tensions could negatively impact the broader economic environment in the Midwest where the Bank operates, potentially leading to reduced consumer spending, lower economic growth, and decreased demand for other banking products and services. If these factors lead to financial strain on our borrowers, we may experience increased credit risk, higher loan delinquencies, and a potential decline in loan demand.

As a result, our financial performance, including credit quality and loan growth, could be adversely affected by these policy changes. While we actively monitor these developments and work closely with our agricultural customers, there is no assurance

that we can fully mitigate the risks posed by tariff initiatives or other trade-related disruptions. These factors could materially affect our business, financial condition, and results of operations.

**Emerging financial technologies such as digital assets, stablecoins, and distributed ledger systems may reduce the demand for traditional banking services and create new competitive pressures that adversely affect our business.**

The rapid development and increasing regulatory acceptance of financial technologies such as digital assets (including cryptocurrencies and tokenized money), stablecoins, and distributed ledger technologies (DLT) could materially alter the landscape of financial services in the coming years. These technologies enable near-instantaneous value transfer, programmable money, and peer-to-peer settlement mechanisms, many of which may operate outside the traditional banking system.

Large technology companies, fintech platforms, and digital asset service providers—some of which are not subject to the same regulatory or capital constraints as depository institutions—are increasingly offering products that compete with core banking functions, such as payments, custody, lending, and liquidity management. The adoption of digital financial infrastructure by governments or central banks, such as central bank digital currencies (CBDCs), or by major corporate platforms could accelerate these shifts.

As a relatively small financial institution, we may be disproportionately impacted by these developments. Our ability to compete with larger institutions or well-capitalized technology entrants in developing or integrating such technologies is limited by our size, risk appetite, and regulatory obligations. A failure to adapt to or participate in these emerging ecosystems—either directly or through strategic partnerships—could erode our relevance in key banking functions, reduce our share of customer deposits and fee income, and adversely affect our long-term growth prospects and financial condition.

**Risks Related to Regulation of Payment Stablecoins and Digital Assets**

Recent federal legislation, including the GENIUS Act enacted in mid-2025, established new regulatory requirements for payment stablecoins issued by banking organizations and their subsidiaries. Compliance with these requirements involves maintaining adequate asset reserves, extensive reporting obligations, independent audits, and increased supervisory oversight. Our potential involvement in issuing or supporting payment stablecoins could expose us to regulatory compliance risks, increased operational costs, and evolving legal uncertainties. Additionally, rapid changes in digital asset regulation or adverse regulatory interpretations could adversely affect our business strategies and prospects in this emerging market, which could materially impact our financial condition and results of operations.

## ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Treasury stock repurchased the quarter ended June 30, 2025.

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 <sup>(1)</sup>	(d) Maximum Number of Shares that may yet be purchased under the Plans or Programs <sup>(1)</sup>
4/1/2025 to 4/30/2025	—	—	—	650,000
5/1/2025 to 5/31/2025	—	—	—	650,000
6/1/2025 to 6/30/2025	—	—	—	650,000
Total	—	—	—	650,000

(1) From time to time, the Company purchases shares in the market pursuant to a stock repurchase program publicly announced on January 28, 2025. On that date, the Board of Directors authorized the repurchase of 650,000 common shares between January 28, 2025 and December 31, 2025.

(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); 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)	<a href="#"><u>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).</u></a>
3.1(b)	<a href="#"><u>Amendment to Articles of Incorporation of the Registrant</u></a>
3.2	<a href="#"><u>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).</u></a>
4.1	<a href="#"><u>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).</u></a>
10.1	<a href="#"><u>Farmers &amp; Merchants Bancorp, Inc. 2025 Long-Term Incentive Plan</u></a>
31.1	<a href="#"><u>Rule 13-a-14(a) Certification - CEO</u></a>
31.2	<a href="#"><u>Rule 13-a-14(a) Certification - CFO</u></a>
32.1	<a href="#"><u>Section 1350 Certification - CEO</u></a>
32.2	<a href="#"><u>Section 1350 Certification - CFO</u></a>
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. <sup>(1)</sup>
101.SCH	Inline XBRL Taxonomy Extension Schema with Embedded Linkbase Documents. <sup>(1)</sup>
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2025, has been formatted in Inline XBRL.

<sup>(1)</sup> 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: August 4, 2025

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

Date: August 4, 2025

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

**Exhibit 3.1(b)**

**ATTACHMENT TO CERTIFICATE OF AMENDMENT TO THE  
AMENDED ARTICLES OF INCORPORATION OF  
FARMERS & MERCHANTS BANCORP, INC.**

WHEREAS, at a meeting duly convened and held on April 14, 2025, and in accordance with Chapter 1701 of the Ohio Revised Code and the Corporation's Articles of Incorporation, the Shareholders of Farmers & Merchants Bancorp, Inc., an Ohio corporation, adopted the following resolutions:

**RESOLVED**, that Article FOURTH of the Amended Articles of Incorporation, be and hereby is, amended in its entirety as follows:

**FOURTH:** The number of shares (collectively the "Shares") that the Corporation is authorized to have outstanding is Forty Million One Hundred Thousand (40,100,000), consisting of: (i) 40,000,000 common shares, without par value (the "Common Shares"); and (ii) 100,000 preferred shares, without par value (the "Preferred Shares"). The Shares shall have the following terms:

1. Common Shares:

The holders of the Common Shares are entitled at all times, except in the election of directors where the Common Shares may be voted cumulatively in accordance with Ohio law, to one (1) vote for each Common Share and to such dividends as the Board of Directors may in its discretion periodically declare, subject, however, to any voting and dividend rights of the holders of the Preferred Shares. In the event of any liquidation, dissolution or winding up of the Corporation, the remaining assets of the Corporation after the payment of all debts and necessary expenses shall be distributed among the holders of the Common Shares pro rata in accordance with their respective shareholdings, subject, however, to the rights of the holders of the Preferred Shares then outstanding. The Common Shares are subject to all of the terms and provisions of any Preferred Shares as established by the Board of Directors in accordance with this Article FOURTH.

2. Preferred Shares:

The Board of Directors is hereby expressly authorized in its discretion to adopt amendments to the Articles of Incorporation to provide for the issuance of one (1) or more series of Preferred Shares; to establish periodically the number of Preferred Shares to be included in each such series; and to fix the designation, powers, preferences, voting rights, dividend rights, conversion rights, and other rights of the Preferred Shares of each such series and any qualifications, limitations or restrictions thereof, to the fullest extent permitted by law. Preferred Shares redeemed or otherwise acquired by the Corporation shall become authorized but unissued Preferred Shares, shall be unclassified as to series, and may thereafter be reissued in the same manner as other authorized but unissued Preferred Shares.

3. No Preemptive Rights:

Unless specifically provided in connection with the authorization of a series of Preferred Shares, no holder of any Shares of any class of the Corporation shall be entitled to the preemptive right to subscribe for, purchase, or receive any part of any new or additional Shares of any class, whether now or hereafter authorized, or any securities exchangeable for or convertible into such Shares, or any warrants or other instruments evidencing rights or options to subscribe for, purchase or otherwise acquire such Shares.

**RESOLVED FURTHER**, that Lars B. Eller, as President of the Corporation is hereby authorized and directed to file a Certificate of Amendment with the Ohio Secretary of State regarding these amendments.

---

## Exhibit 10.1

### 2025 Long-Term Stock Incentive Plan

The Board of Directors of the Company has adopted the Farmers & Merchants Bancorp, Inc. 2025 Long-Term Stock Incentive Plan (the "Plan") upon the recommendation of the Company's Compensation Committee and recommends that shareholders approve the Plan at the Annual Meeting. The Plan is intended to replace the Company's 2015 Long-Term Stock Incentive Plan (the "2015 Plan"), which will expire by its terms on April 16, 2025, ten years after adoption of the 2015 Plan by the Company's shareholders. In connection with the proposed adoption of the Plan the Board of Directors has, subject to approval of the new plan, committed to reduce the total number of shares authorized under the new Plan by the number of shares granted under the 2015 Plan after December 31, 2024 and prior to the adoption of the new Plan by the shareholders of the Company. No further awards will be made under the 2015 Plan following the adoption of the new Plan.

The Board believes the Plan is an integral part of its compensation programs and strategies. It believes the Plan provides the Company and the Bank the flexibility to implement competitive compensation programs and will be an effective tool for recruiting, motivating, and retaining the quality of employees and directors key to the achievement of the success of the Bank and the Company.

The Plan permits the grant of incentive awards in the form of options, stock appreciation rights, restricted share and share unit awards, and performance share awards. Under the terms of the Plan a portion of a participant's compensation otherwise payable in cash may be paid in common shares of the Company. A summary of the principal provisions of the Plan appears below. The summary is qualified in its entirety by reference to the complete text of the Plan that is attached to this proxy statement as Exhibit A.

The Board believes that approval of the Plan will substantially further the interest of shareholders and that the Plan, like the 2015 Plan, contains a number of provisions that are consistent with sound corporate governance practices, including:

- Prohibition on stock option repricing. The Plan prohibits the cancellation of any outstanding option for the purpose of reissuing an option at a lower option price.
- No discount stock options. The Plan prohibits the grant of an option with an exercise price less than the fair market value of a share of common stock of the Company ("Common Share") on the date of grant.
- Administration. The Plan provides that it will be administered by a committee comprised of nonemployee directors who meet the definitions of the terms "independent director" set forth in The Nasdaq Stock Market rules, and "non-employee director" set forth in Rule 16b-3, or any successor definitions adopted by The Nasdaq Stock Market and Securities and Exchange Commission.
- No option reloads. The Plan does not permit option reloads, that is, the automatic grant of a replacement option upon the exercise of an option.
- No Annual "Evergreen" Provision. The Plan provides for a specific number of shares 2,000,000 available for awards.

#### SUMMARY OF THE PLAN

Administration: The Plan provides that it will be administered by a committee of the Board of Directors that is comprised of at least three non-employee Directors. The committee must be comprised of "Outside Directors" within the definitions of the terms "independent director" set forth in The Nasdaq Stock Market rules, and "non-employee director" set forth in Rule 16b-3, or any successor definitions adopted by The Nasdaq Stock Market and Securities and Exchange Commission, respectively, and similar requirements under any other applicable laws and

---

regulations. The Board's Compensation Committee (the "Committee"), which meets all the foregoing criteria, has been appointed to administer the Plan.

The Committee selects participants from among eligible persons and, subject to the terms of the Plan, determines the type, size and time of grant of stock incentive awards, determines the terms and conditions of awards and makes all other determinations necessary or advisable for the administration of the Plan. Each award under the Plan will be evidenced by a written award agreement approved by the Committee (the "Award Agreement").

Eligibility: The Committee may make awards to any person who is an officer, director or key employee of the Company or a subsidiary.

Shares Available for Awards: No more than 2,000,000 shares of the Company's common stock may be issued under the Plan. The shares that may be issued may be authorized but unissued shares or treasury shares. If there is a stock split, stock dividend or other relevant change affecting the common shares, the Committee will make appropriate adjustments in the maximum number of shares issuable under the Plan and subject to outstanding incentive awards. Shares that were subject to an incentive award under the Plan but were not issued for any reason and are no longer subject to award or were issued and reacquired by the Company because of a participant's failure to comply with the terms of an award are again available for award under the Plan.

Types of Awards and Annual Award Limits: Share incentives that may be issued under the Plan consist of options, shares appreciation rights, restricted share and share unit awards, and performance share awards. In addition, under the terms of the Plan, a portion of a participant's compensation otherwise payable in cash may be paid in common shares of the Company.

Options. A stock option provides for the purchase of shares in the future at an exercise price per share that may not be less than 100% of the fair market value of a share on the date the option is granted. Stock options may be either nonqualified options or incentive stock options, which meet the requirements of Section 422 of the Code. The term of an option may not exceed ten years. Subject to the provisions of the Plan and approval of the Committee, and in the case of incentive stock options the limitations imposed by the applicable provisions of the Code, the exercise price may be paid (i) in cash, (ii) shares of Company common stock, (iii) any combination of cash and shares of Company common stock, and (iv) by any other method permitted by law and affirmatively approved by the Committee which assures full and immediate payment or satisfaction of the exercise price, which may include broker-assisted cashless exercise.

Stock Appreciation Rights. Awards may be made of stock appreciation rights ("SAR") which may include awards that are settled solely in shares of the Company known as "stock only stock appreciation rights" ("SOSARs"). A SAR provides the right to receive a payment (or in the case of SOSARs, shares of the Company's common stock), at a future date with a value equal to the excess of the value of the common stock at that date over the exercise price of the SAR established at the time of the award. The exercise price of a SAR will never be less than the fair market value of the shares on the date of the award. Upon exercise, the holder of a SAR is entitled to receive shares or other property as set forth in the award.

Restricted Share and Share Unit Awards. A restricted share or share unit award is an award of shares (or in the case of share units convertible into shares) that may not be sold, pledged, or otherwise transferred until the restrictions established by the Committee at the time of grant are satisfied. The award agreement sets forth the restrictions applicable to an individual award and may include time vesting restrictions, noncompetition restrictions, and performance restrictions.

Performance Share Awards. The Committee may grant performance share awards under which payment is made, in the Committee's discretion, in shares upon the attainment of specified performance objectives selected by the Committee. At the time of grant of a Performance Share Award, the Committee will specify the performance objectives which, depending on the extent to which they are met, will determine the number of shares that will be distributed to the participant. The Committee may use such

---

performance objectives as it determines to be appropriate, including one or more of the following: earnings per share, total revenue, net interest income, non-interest income, net income, net income before tax, non-interest expense, efficiency ratio, return on equity, return on assets, economic profit added, loans, deposits, tangible equity, assets, net charge-offs, new market growth, product line developments, and nonperforming assets. The Committee may designate a single goal criterion or multiple goal criteria for performance measurement purposes. Performance measurement may be described in terms of objectives that are related to the performance by the Company, by any subsidiary, or by any employee or group of employees in connection with services performed by that employee or those employees for the Company, a subsidiary, or one or more subunits of the Company or of any subsidiary. The performance objectives may be made relative to the performance of other companies. The performance objectives and periods need not be the same for each participant or for each Award. The Committee may modify, amend, or otherwise adjust the performance objectives specified for outstanding Performance Share Awards if it determines that an adjustment would be consistent with the objectives of this Plan and taking into account the interests of the participants and the public shareholders of the Company. The types of events which could cause an adjustment in the performance objectives include, without limitation, accounting changes which substantially affect the determination of performance objectives, changes in applicable laws or regulations which affect the performance objectives, and divisive corporate reorganizations, including spin-offs and other distributions of property or stock.

Stock Awards. The Committee may grant eligible persons awards of shares of the Company's common stock for services in lieu of bonus or other cash compensation, or for any other valid purpose determined by the Committee. Stock awards are free of any restrictions on transfer and upon issuance of the shares, the holder has all the rights of a shareholder.

### **INCORPORATION OF THE COMPANY'S EXECUTIVE COMPENSATION CLAWBACK POLICY**

The Plan incorporates the Farmers & Merchants Bancorp, Inc. Executive Compensation Clawback Policy (the "Clawback Policy") and applies the provisions of that Clawback Policy to all awards under the Plan. The Clawback Policy applies to all persons who are officers for purposes of Section 16a-1 of the Exchange Act, which includes all named executive officers of the Company. Under the Clawback Policy if the Company is required to prepare restated financial statements due to material non-compliance with any financial reporting requirement, then the Board of Directors, or the Compensation Committee of the Board, will in appropriate cases require the officer who has received an award that constitutes "Incentive Compensation" under the Clawback Policy with respect to the affected fiscal year or years, to reimburse the Company or forfeit the awards granted with respect to those fiscal years (vested or unvested). Incentive Compensation under the Clawback Policy includes any award under the Plan that is granted, earned, or vested based wholly or in part on the attainment of a financial reporting measure.

### **CERTAIN FEDERAL INCOME TAX CONSEQUENCES**

The following is a summary of the principal United States Federal income tax consequences of awards under the Plan and is based on Federal income tax laws currently in effect.

Limitation on Corporate Deductions for Certain Executives' Compensation: Under Section 162(m) of the Code, the Company may not deduct compensation of more than \$1,000,000 that is paid to an individual who is either the Company's principal executive officer (PEO) or principal financial officer (PFO) at any time during the taxable year, or is among one of the three most highly-compensated officers, excluding the PEO and PFO, for that taxable year as reported in the Company's proxy statement ("Section 162(m) Persons"). As a result of the Tax Cuts and Jobs Act enacted by Congress in late 2017, there is no longer an exemption for stock options or other "performance-based compensation" of Section 162(m) Persons under Section 162(m) of the Code. Under the Plan, the Committee is still authorized to grant awards that become vested

---

or payable only if the Company satisfies specified performance objectives, even if these awards will not qualify for an exemption from Section 162(m) of the Code.

**Stock Options:** There are no Federal income tax consequences either to the optionee or the Company upon the grant of an incentive stock option or a nonqualified option. If shares are purchased under an incentive stock option (i.e., an incentive option is exercised) during employment or within three months thereafter, the optionee will not recognize any income and the Company will not be entitled to a deduction in respect of the option exercise. However, the excess of the fair market value of the shares on the date of such exercise over the purchase price of the shares under the option will be includible in the optionee's alternative minimum taxable income. Generally, if the optionee disposes of shares purchased under an incentive stock option within two years of the date of grant or one year of the date of exercise of the incentive stock option, the optionee will recognize ordinary income, and the Company will be entitled to a deduction, equal to the excess of the fair market value of the shares on the date of exercise (or, if less, the amount realized by the optionee on the disposition of the shares) over the purchase price of such shares. Any gain after the date on which the optionee purchased the shares will be treated as capital gain to the optionee and will not be deductible by the Company. If the shares are disposed of after the two-year and one-year periods mentioned above, the Company will not be entitled to any deduction, and the entire gain or loss realized by the optionee will be treated as capital gain or loss. When shares are purchased under a nonqualified option, the excess of the fair market value of the shares on the date of purchase over the purchase price of such shares under the option will generally be taxable to the optionee as ordinary income and deductible by the Company. The disposition of shares purchased under a nonqualified option will generally result in a capital gain or loss for the optionee but will have no tax consequences for the Company.

**Other Awards:** An employee who receives cash or shares of Company stock pursuant to an award other than an option will generally recognize ordinary income equal to the sum of the cash and the fair market value of the shares received when vested and no longer subject to a substantial risk of forfeiture and the Company will generally be entitled to a corresponding deduction from its income. A participant who receives an award of Company shares that is not yet vested may make a special election, in accordance with Section 83(b) of the Internal Revenue Code and applicable Treasury regulations, to be taxed (at ordinary income rates) on the fair market value of the shares at that time (with fair market value determined for this purpose without regard to any restrictions other than restrictions, if any, which by their terms will never lapse), in which case the Company would be entitled to a deduction at the same time equal to the amount of income realized by the employee but would not be entitled to deduct any dividends thereafter paid on the shares. Absent such an election, an employee who has been awarded such restricted stock will not recognize taxable income until the shares become transferable or cease to be subject to a substantial risk of forfeiture, at which time the recipient will recognize ordinary income and the Company will be entitled to a corresponding deduction equal to the excess of the fair market value of the shares at that time over the amount (if any) paid by the recipient for the shares. Dividends paid to the recipient on the restricted shares prior to that time will be ordinary compensation income to the recipient and deductible by the Company.

## **OTHER PROVISIONS**

**Vesting:** All awards are subject to such time and performance vesting conditions as the Committee may determine and are set forth in the Award Agreement. Unless otherwise set forth in the Award Agreement all Awards immediately vest upon (i) death, (ii) disability and (iii) following a Change in Control.

**Change in Control:** The Plan defines a "Change of Control" to mean and shall be deemed to have occurred on (i) the date upon which a Schedule 13D would be required to be filed pursuant to Section 13(d) of the Securities Exchange Act of 1934 indicating that a group or person, as defined in Rule 13d-3 under said Act, has become the beneficial owner of 35% or more of the outstanding voting shares; (ii) the date of a change in the composition of the Board such that individuals who were members of the Board on the date one year

---

prior to such change (or who were subsequently elected to fill a vacancy in the Board, or were subsequently nominated for election by the Company's shareholders, by the affirmative vote of a majority of the directors then still in office who were directors at the beginning of such one year period) no longer constitute a majority of the Board; (iii) the effective date of the closing of a merger or consolidation of the Company with any other corporation, other than a merger or consolidation which would result in the voting shares of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting shares of the surviving entity) at least 50% of the total voting power represented by the voting shares of the Company or such surviving entity outstanding immediately after such merger or consolidation; or (iv) the effective date of a sale or disposition by the Company of all or substantially all the Company's assets; However, no transaction or series of transactions constitutes a Change of Control unless it complies it constitutes a permitted change as defined by Section 409(a)(2)(A)(v) of the Code, Treasury Regulation 1.409A-3(i)(5) and any subsequent Treasury Regulations issued thereunder.

IRC 409A Compliance: Unless an Award Agreement approved by the Committee provides otherwise, each Award granted under the Plan is intended to meet the requirements for one or more exemptions from the restrictive requirements imposed on deferred compensation under Code Section 409A.

Plan Amendments: The Committee may amend, alter, or discontinue the Plan at any time, provided that no amendment, alteration, or discontinuance may be made that materially and adversely affects the rights of a participant under any award granted prior to the date such action is adopted by the Committee without the participant's written consent. In addition no amendment may be made without shareholder approval, if shareholder approval is required under applicable laws, regulations or exchange requirements (including Section 422 of the Code with respect to ISOs under Section 422 of the Code), unless the required to: (i) comply with any law; (ii) preserve any intended favorable tax effects for the Company, the Plan or participants; or (iii) avoid any unintended unfavorable tax effects for the Company, the Plan or participants. Notwithstanding the forgoing, the Committee may unilaterally amend any Award, whether or not such amendment results in a reduction in the benefits of any Award, and whether or not such Award is vested, if in the sole opinion of the Committee such amendment is necessary or desirable to make such Award exempt from Code Section 409A, or if applicable, to comply with any provision of Code Section 409A.

Term of the Plan: Unless earlier terminated by the Board, the Plan would terminate on the day immediately preceding the tenth anniversary date of its approval by shareholders of the Company. Termination of the Plan does not affect any outstanding awards granted prior to the termination of the Plan.

Forfeiture upon Termination for Cause: Subject to the provisions of the Award Agreement to which such award relates, upon the termination of employment of an employee for cause (as defined in the Plan) the employee forfeits all benefits associated with any award including all unexercised Options whether or not previously vested, all unexercised SARs whether or not previously vested and all Restricted Shares, Restricted Share Units and Performance Shares for which the delivery of Shares has not yet occurred.

---

**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: August 4, 2025

/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: August 4, 2025

/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 June 30, 2025, 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: August 4, 2025

/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 June 30, 2025, 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: August 4, 2025

/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.

---

