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 September 30, 2023

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	**34-1469491**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
307 North Defiance Street, Archbold, Ohio	**43502**
(Address of principal executive offices)	**(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	13,666,182
Class	Outstanding as of October 27, 2023

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

FARMERS & MERCHANTS BANCORP, INC.
INDEX

101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. [(1)]
101.SCH	Inline XBRL Taxonomy Extension Schema Document [(1)]
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document [(1)]
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document [(1)]
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document [(1)]
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document [(1)]

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

PART 1 - FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

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

	(in thousands of dollars)	
	September 30, 2023	December 31, 2022
	(Unaudited)	
Assets		
Cash and due from banks	$ 151,711	$ 83,085
Federal funds sold	1,471	1,324
Total cash and cash equivalents	153,182	84,409
Interest-bearing time deposits	2,989	4,442
Securities - available-for-sale	348,255	390,789
Other securities, at cost	16,995	9,799
Loans held for sale	1,039	827
Loans, net	2,504,329	2,336,074
Premises and equipment	31,723	28,381
Construction in progress	3,044	278
Goodwill	86,358	86,358
Loan servicing rights	5,687	3,549
Bank owned life insurance	33,691	33,073
Other assets	47,388	37,372
Total Assets	$ 3,234,680	$ 3,015,351
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 505,358	$ 532,794
Interest-bearing		
NOW accounts	778,133	750,887
Savings	591,344	627,203
Time	700,445	557,980
Total deposits	2,575,280	2,468,864
Federal funds purchased and securities sold under agreements to repurchase	30,527	54,206
Federal Home Loan Bank (FHLB) advances	266,286	127,485
Other borrowings	-	10,000
Subordinated notes, net of unamortized issuance costs	34,673	34,586
Dividend payable	2,838	2,832
Accrued expenses and other liabilities	21,892	19,238
Total liabilities	2,931,496	2,717,211
Commitments and Contingencies		
Stockholders' Equity		
Common stock - No par value 20,000,000 shares authorized; issued and outstanding 14,564,425 shares 9/30/23 and 12/31/22	135,171	135,497
Treasury stock - 898,843 shares 9/30/23, 956,003 shares 12/31/22	(11,008)	(11,573)
Retained earnings	218,510	212,449
Accumulated other comprehensive loss	(39,489)	(38,233)
Total stockholders' equity	303,184	298,140
Total Liabilities and Stockholders' Equity	$ 3,234,680	$ 3,015,351

See Notes to Condensed Consolidated Unaudited Financial Statements.

Note: The December 31, 2022, Condensed Consolidated Balance Sheet has been derived from the audited Condensed Consolidated Balance Sheet as of that date.

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

	(in thousands of dollars, except per share data) Three Months Ended		(in thousands of dollars, except per share data) Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Interest Income				
Loans, including fees	$ 33,783	$ 24,119	$ 94,851	$ 66,962
Debt securities:				
U.S. Treasury and government agencies	1,005	1,049	3,103	3,107
Municipalities	392	373	1,201	995
Dividends	246	93	517	192
Federal funds sold	6	-	36	19
Other	927	213	1,830	382
Total interest income	36,359	25,847	101,538	71,657
Interest Expense				
Deposits	13,323	2,166	31,908	4,905
Federal funds purchased and securities sold under agreements to repurchase	349	416	1,181	734
Borrowed funds	2,741	398	6,134	951
Subordinated notes	284	284	853	837
Total interest expense	16,697	3,264	40,076	7,427
Net Interest Income - Before Provision for Credit Losses*	19,662	22,583	61,462	64,230
Provision for Credit Losses - Loans*	460	1,637	1,420	3,845
Provision for Credit Losses - Off Balance Sheet Credit Exposures*	(76)	-	(143)	-
Net Interest Income After Provision for Credit Losses*	19,278	20,946	60,185	60,385
Noninterest Income				
Customer service fees	2,208	2,300	7,016	7,096
Other service charges and fees	1,162	1,105	5,519	3,111
Net gain on sale of loans	294	327	469	1,188
Net loss on sale of available-for-sale securities	-	-	(891)	-
Total noninterest income	3,664	3,732	12,113	11,395
Noninterest Expense				
Salaries and wages	6,777	5,479	19,934	16,347
Employee benefits	2,066	1,392	6,302	4,992
Net occupancy expense	950	693	2,646	1,813
Furniture and equipment	1,189	1,047	3,652	3,111
Data processing	840	781	2,362	2,039
Franchise taxes	434	254	1,179	1,429
ATM expense	640	580	1,946	1,656
Advertising	865	578	2,209	1,115
Net (gain) loss on sale of other assets owned	49	-	49	(271)
FDIC assessment	586	271	1,388	655
Servicing rights amortization - net	106	(50)	429	35
Consulting fees	179	254	640	665
Other general and administrative	2,363	2,192	8,083	6,613
Total noninterest expense	17,044	13,471	50,819	40,199
Income Before Income Taxes	5,898	11,207	21,479	31,581
Income Taxes	1,121	2,253	4,235	6,254
Net Income	$ 4,777	$ 8,954	$ 17,244	$ 25,327
Basic Earnings Per Share	$ 0.35	$ 0.68	$ 1.26	$ 1.94
Diluted Earnings Per Share	$ 0.35	$ 0.68	$ 1.26	$ 1.94
Dividends Declared	$ 0.2100	$ 0.2100	$ 0.6300	$ 0.6025

See Notes to Condensed Consolidated Unaudited Financial Statements
*ASU 2016-13 adopted during the first quarter of 2023; therefore, September 30, 2022 provision amount reflects the incurred loss method.

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

	(in thousands of dollars) Three Months Ended		(in thousands of dollars) Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Net Income	$ 4,777	$ 8,954	$ 17,244	$ 25,327
Other Comprehensive Loss (Net of Tax):				
Net unrealized loss on available-for-sale securities	(4,514)	(8,197)	(2,480)	(43,738)
Reclassification adjustment for realized loss on sale of available-for-sale securities	-	-	891	-
Net unrealized loss on available-for-sale securities	(4,514)	(8,197)	(1,589)	(43,738)
Tax benefit	(947)	(1,721)	(333)	(9,185)
Other comprehensive loss	(3,567)	(6,476)	(1,256)	(34,553)
Comprehensive Income (Loss)	$ 1,210	$ 2,478	$ 15,988	$ (9,226)

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 NINE MONTHS ENDED SEPTEMBER 30, 2023
(000'S OMITTED, EXCEPT PER SHARE DATA)
(Unaudited)

	Shares of Common Stock	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance - January 1, 2023	13,608,422	$ 135,497	$ (11,573)	$ 212,449	$ (38,233)	$ 298,140
Cumulative effect of change in accounting principle (ASU 2016-13)	-	-	-	(3,371)	-	(3,371)
Balance - January 1, 2023 as adjusted for change in accounting principle	13,608,422	135,497	(11,573)	209,078	(38,233)	294,769
Net income	-	-	-	6,466	-	6,466
Other comprehensive income	-	-	-	-	7,047	7,047
Issuance of 21,700 shares of restricted stock	21,700	(562)	263	299	-	-
Stock-based compensation expense	-	306	-	-	-	306
Cash dividends declared - $0.21 per share	-	-	-	(2,831)	-	(2,831)
Balance - March 31, 2023	13,630,122	135,241	(11,310)	213,012	(31,186)	305,757
Net income	-	-	-	6,001	-	6,001
Other comprehensive loss	-	-	-	-	(4,736)	(4,736)
Purchase of treasury stock	(208)	-	(5)	-	-	(5)
Forfeiture of 4,050 shares of restricted stock	(4,050)	106	(93)	(13)	-	-
Stock-based compensation expense	-	300	-	-	-	300
Director stock award	9,048	-	110	70	-	180
Cash dividends declared - $0.21 per share	-	-	-	(2,834)	-	(2,834)
Balance - June 30, 2023	13,634,912	135,647	(11,298)	216,236	(35,922)	304,663
Net income	-	-	-	4,777	-	4,777
Other comprehensive loss	-	-	-	-	(3,567)	(3,567)
Purchase of treasury stock	(9,605)	-	(194)	-	-	(194)
Issuance of 41,225 shares of restricted stock (Net of forfeitures - 950)	40,275	(819)	484	335	-	-
Stock-based compensation expense	-	343	-	-	-	343
Cash dividends declared - $0.21 per share	-	-	-	(2,838)	-	(2,838)
Balance - September 30, 2023	13,665,582	$ 135,171	$ (11,008)	$ 218,510	$ (39,489)	$ 303,184

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 NINE MONTHS ENDED SEPTEMBER 30, 2022
(000'S OMITTED, EXCEPT PER SHARE DATA)
(Unaudited)

	Shares of Common Stock	Common Stock	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance - January 1, 2022	13,066,233	$ 122,674	$ (11,724)	$ 189,401	$ (3,184)	$ 297,167
Net income	-	-	-	8,102	-	8,102
Other comprehensive loss	-	-	-	-	(16,542)	(16,542)
Issuance of 500 shares of restricted stock (Net of forfeitures - 650)	(150)	(1)	(15)	16	-	-
Stock-based compensation expense	-	213	-	-	-	213
Cash dividends declared - $0.19 per share	-	-	-	(2,462)	-	(2,462)
Balance - March 31, 2022	13,066,083	122,886	(11,739)	195,057	(19,726)	286,478
Net income	-	-	-	8,271	-	8,271
Other comprehensive loss	-	-	-	-	(11,535)	(11,535)
Purchase of treasury stock	(1,388)	-	(54)	-	-	(54)
Forfeiture of 1,750 shares of restricted stock	(1,750)	40	(63)	23	-	-
Stock-based compensation expense	-	219	-	-	-	219
Director stock award	2,880	-	34	86	-	120
Cash dividends declared - $0.2025 per share	-	-	-	(2,626)	-	(2,626)
Balance - June 30, 2022	13,065,825	123,145	(11,822)	200,811	(31,261)	280,873
Net income	-	-	-	8,954	-	8,954
Other comprehensive loss	-	-	-	-	(6,476)	(6,476)
Purchase of treasury stock	(8,100)	-	(254)	-	-	(254)
Issuance of 53,375 shares of restricted stock (Net of forfeitures - 3,600)	49,775	(1,542)	529	1,013	-	-
Stock-based compensation expense	-	208	-	-	-	208
Cash dividends declared - $0.21 per share	-	-	-	(2,727)	-	(2,727)
Balance - September 30, 2022	13,107,500	$ 121,811	$ (11,547)	$ 208,051	$ (37,737)	$ 280,578

See Notes to Condensed Consolidated Unaudited Financial Statements

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

	(in thousands of dollars) Nine Months Ended	
	September 30, 2023	September 30, 2022
Cash Flows from Operating Activities		
Net income	$ 17,244	$ 25,327
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	2,587	2,148
Amortization of premiums on available-for-sale securities, net	1,150	1,632
Capitalized additions to servicing rights	(2,567)	(461)
Servicing rights amortization and impairment	429	35
Amortization of core deposit intangible	1,242	597
Amortization of customer list intangible	92	92
Net accretion of fair value adjustments	(2,909)	(3,392)
Amortization of subordinated note issuance costs	87	86
Stock-based compensation expense	949	640
Director stock award	180	120
Provision for credit losses - loans	1,420	3,845
Provision for credit losses - off balance sheet credit exposures	(143)	-
Gain on sale of loans held for sale	(469)	(1,188)
Originations of loans held for sale	(26,337)	(61,285)
Proceeds from sale of loans held for sale	26,594	68,005
(Gain) Loss on sale of other assets owned	49	(271)
Loss on sales of securities available-for-sale	891	-
Increase in cash surrender value of bank owned life insurance	(618)	(493)
Change in other assets and other liabilities, net	(8,307)	(13,468)
Net cash provided by operating activities	11,564	21,969
Cash Flows from Investing Activities		
Activity in available-for-sale securities:		
Maturities, prepayments and calls	16,940	25,061
Sales	21,963	-
Purchases	-	(35,986)
Activity in other securities, at cost:		
Sales	1,573	-
Purchases	(8,769)	(65)
Change in interest-bearing time deposits	1,453	5,726
Proceeds from sale of other assets owned	216	430
Additions to premises and equipment	(8,995)	(1,706)
Loan originations and principal collections, net	(170,471)	(283,836)
Net cash used in investing activities	(146,090)	(290,376)
Cash Flows from Financing Activities		
Net change in deposits	106,820	91,432
Net change in federal funds purchased and securities sold under agreements to repurchase	(23,679)	26,534
Proceeds from FHLB advances	345,000	100,000
Repayment of FHLB advances	(206,146)	(21,855)
Repayment of other borrowings	(10,000)	(30,000)
Purchase of treasury stock	(199)	(308)
Cash dividends paid on common stock	(8,497)	(7,549)
Net cash provided by financing activities	203,299	158,254
Net Increase (Decrease) in Cash and Cash Equivalents	68,773	(110,153)
Cash and Cash Equivalents - Beginning of year	84,409	180,823
Cash and Cash Equivalents - End of period	**$ 153,182**	**$ 70,670**

(continued)

	(in thousands of dollars) Nine Months Ended	
	September 30, 2023	September 30, 2022
Supplemental Information		
Supplemental cash flow information:		
Interest paid	$ 37,055	$ 7,765
Income taxes paid	5,000	5,700
Supplemental noncash disclosures:		
Cash dividends declared not paid	2,838	2,627

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 nine months ended September 30, 2023 are not necessarily indicative of the results that are expected for the year ended December 31, 2023. The Condensed Consolidated Balance Sheet of the Company as of December 31, 2022, has been derived from the audited Condensed 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, 2022.

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. The following table summarizes the consideration paid for Peoples Federal Savings and Loan Association and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair Value of Consideration Transferred

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

Recognized amounts of identifiable assets acquired and liabilities assumed

Assets		
Cash and cash equivalents	$	18,881
Other securities, at cost		1,271
Loans, net		101,755
Premises and equipment		1,906
Goodwill		5,924
Other assets		12,081
Total Assets Purchased	$	141,818
Liabilities		
Deposits		
Noninterest bearing	$	7,139
Interest bearing		104,719
Total deposits		111,858
Federal Home Loan Bank (FHLB) advances		896
Accrued expenses and other liabilities		5,815
Total Liabilities Assumed	$	118,569

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

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

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

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

	Three Months Ended September 30, 2023 (In Thousands)	Three Months Ended September 30, 2022 (In Thousands)	Nine Months Ended September 30, 2023 (In Thousands)	Nine Months Ended September 30, 2022 (In Thousands)
Beginning Balance	$ 680	$ -	$ 798	$ -
Additions	2	-	6	-
Accretion	(58)	-	(174)	-
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	-	(6)	-
Ending Balance	$ 624	$ -	$ 624	$ -

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. As a result of the acquisition, the Company has had an opportunity to increase its deposit base and reduce transaction costs. In addition, 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 $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. The following table summarizes the consideration paid for Perpetual Federal Savings Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair Value of Consideration Transferred

	(In Thousands)
Cash	$ 59,234
Common Shares	41,078
Total	$ 100,312

Recognized amounts of identifiable assets acquired and liabilities assumed

Assets	
Cash and cash equivalents	$ 44,975
Federal funds sold	1,672
Interest-bearing time deposits	6,250
Other securities, at cost	2,794
Loans, net	334,661
Premises and equipment	615
Goodwill	25,220
Other assets	3,975
Total Assets Purchased	$ 420,162
Liabilities	
Deposits	
Noninterest bearing	$ 2,018
Interest bearing	309,090
Total deposits	311,108
Federal Home Loan Bank (FHLB) advances	6,218
Accrued expenses and other liabilities	2,524
Total Liabilities Assumed	$ 319,850

The fair value of the assets acquired included loans with a fair value of $334.7 million. The gross principal and contractual interest due under the contracts was $403.3 million, of which $5.6 million was expected to be uncollectible. The loans have a weighted average life of 52 months.

The fair value of building and land included in premises and equipment was written down by $4 thousand with $297 thousand attributable to the buildings and is being amortized over the useful life of 16.2 years.

The fair value for certificates of deposit incorporated a valuation amount of $3.9 million which was accreted over 1.6 years. The fair value of Federal Home Loan Bank (FHLB) advances included a valuation amount of $218 thousand which is being accreted over 2.6 years.

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

	Three Months Ended September 30, 2023 (In Thousands)	Three Months Ended September 30, 2022 (In Thousands)	Nine Months Ended September 30, 2023 (In Thousands)	Nine Months Ended September 30, 2022 (In Thousands)
Beginning Balance	$ 3,572	$ 4,710	$ 4,236	$ 5,262
Additions	14	28	39	125
Accretion	(456)	(330)	(1,145)	(979)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	(2)	-	(2)
Ending Balance	$ 3,130	$ 4,406	$ 3,130	$ 4,406

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. As a result of the acquisition, the Company has increased its deposit base and reduced transaction costs. The Company has also 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 $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. The following table summarizes the consideration paid for Ossian State Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date.

Fair Value of Consideration Transferred

		(In Thousands)
Cash	$	20,001
Total	$	20,001

Recognized amounts of identifiable assets acquired and liabilities assumed

Assets		
Cash and cash equivalents	$	20,229
Interest-bearing time deposits		20,226
Securities - available-for-sale		30,243
Other securities, at cost		281
Loans, net		52,403
Premises and equipment		494
Goodwill		7,874
Other assets		5,308
Total Assets Purchased	$	137,058
Liabilities		
Deposits		
Noninterest bearing	$	34,509
Interest bearing		81,535
Total deposits		116,044
Accrued expenses and other liabilities		1,013
Total Liabilities Assumed	$	117,057

The fair value of the assets acquired included loans with a fair value of $52.4 million. The gross principal and contractual interest due under the contracts was $63.7 million, of which $1.1 million was expected to be uncollectible. The loans have a weighted average life of 52 months.

The fair value of building and land included in premises and equipment was written down by $596 thousand with $244 thousand attributable to buildings and will be accreted over the useful life of 39 years,

The fair value for certificates of deposit incorporated a valuation amount of $59 thousand which was accreted over 1.4 years.

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

	Three Months Ended September 30, 2023 (In Thousands)	Three Months Ended September 30, 2022 (In Thousands)	Nine Months Ended September 30, 2023 (In Thousands)	Nine Months Ended September 30, 2022 (In Thousands)
Beginning Balance	$ 382	$ 557	$ 470	$ 645
Additions	-	1	-	1
Accretion	(44)	(44)	(132)	(132)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	-	-	-
Ending Balance	$ 338	$ 514	$ 338	$ 514

The results of operations of Ossian State Bank, Perpetual Federal Savings Bank and Peoples Federal Savings and Loan Bank have been included in the Company's consolidated financial statements since the acquisition dates of April 30, 2021, October 1, 2021 and October 1, 2022, respectively. The following schedule includes pro-forma results for the three and nine months ended September 30, 2023 and 2022 as if the Peoples Federal Savings and Loan Bank acquisition had occurred as of the beginning of the comparable prior reporting period. The acquisitions of Ossian State Bank and Perpetual Federal Savings Bank are already included as they had occurred prior to that period.

	(in thousands of dollars, except per share data) Three Months Ended		(in thousands of dollars, except per share data) Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Summary of Operations				
Net Interest Income - Before Provision for Credit Losses	$ 19,662	$ 24,060	$ 61,462	$ 68,123
Provision for Credit Losses	384	1,637	1,215	3,758
Net Interest Income After Provision for Credit Losses	19,278	22,423	60,247	64,365
Noninterest Income	3,664	2,037	12,113	9,958
Noninterest Expense	17,044	14,235	50,697	43,074
Income Before Income Taxes	5,898	10,225	21,663	31,249
Income Taxes	1,121	1,942	4,272	6,035
Net Income	$ 4,777	$ 8,283	$ 17,391	$ 25,214
Basic and Diluted Earnings Per Share	$ 0.35	$ 0.61	$ 1.28	$ 1.86

The pro-forma information includes adjustments for interest income on loans, amortization of intangibles arising from the transactions, interest expense on deposits acquired, premises expense for the branches acquired and the related income tax effects. The pro-forma information for the three and nine months ended September 30, 2023 includes approximately $316 thousand and $1.0 million, net of tax, respectively, of operating revenue from Peoples Federal Savings and Loan Bank since January 1, 2023.

The pro-forma financial information is presented for informational purposes only and is not indicative of the results of operations that actually would have been achieved had the acquisitions been consummated as of that time, nor is it intended to be a projection of future results.

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. As a result of the acquisition, the

Company has had an opportunity to increase its deposit base and reduce transaction costs. The Company has also 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 $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:

	Three Months Ended September 30, 2023 (In Thousands)	Three Months Ended September 30, 2022 (In Thousands)	Nine Months Ended September 30, 2023 (In Thousands)	Nine Months Ended September 30, 2022 (In Thousands)
Beginning Balance	$ 575	$ 994	$ 785	$ 1,198
Additions	6	2	11	10
Accretion	(109)	(107)	(324)	(319)
Reclassification from nonaccretable difference	-	-	-	-
Disposals	-	-	-	-
Ending Balance	$ 472	$ 889	$ 472	$ 889

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

The amortization expense of the core deposit intangible for the nine months ended September 30, 2022 was $597 thousand. Of the approximately $1.7 million to be expensed in 2023, $1.2 million has been expensed for the nine months ended September 30, 2023. Annual amortization of core deposit intangible assets is as follows:

			(In Thousands)		
	Geneva	Ossian	Perpetual	Peoples	Total
2023	$ 560	$ 140	$ 95	$ 861	$ 1,656
2024	560	140	95	861	1,656
2025	560	140	95	861	1,656
2026	-	140	95	861	1,096
2027	-	140	95	861	1,096
Thereafter	-	47	74	1,506	1,627
	$ 1,680	$ 747	$ 549	$ 5,811	8,787

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.

ACFR was founded in 1994 by R. Lee Flueckiger and provided clients and their families with financial confidence through personalized investment planning and services. 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 nine months ended September 30, 2022 was $92 thousand. Of the $123 thousand to be expensed in 2023, $92 thousand has been expensed for the nine months ended September 30, 2023. Annual amortization expense of customer list intangible is as follows:

	(In Thousands)	
	Adams County Financial Resources	
2023	$	123
2024		123
2025		123
2026		123
2027		47
Thereafter		-
	$	539

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 September 30, 2023 and December 31, 2022, are as follows:

	(In Thousands) September 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury	$ 91,356	$ -	$ (9,378)	$ 81,978
U.S. Government agencies	140,993	-	(17,231)	123,762
Mortgage-backed securities	92,356	-	(15,876)	76,480
State and local governments	73,536	3	(7,504)	66,035
Total available-for-sale securities	$ 398,241	$ 3	$ (49,989)	$ 348,255

	(In Thousands) December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-Sale:				
U.S. Treasury	$ 104,507	$ -	$ (9,829)	$ 94,678
U.S. Government agencies	156,817	-	(17,050)	139,767
Mortgage-backed securities	101,068	-	(14,141)	86,927
State and local governments	76,794	69	(7,446)	69,417
Total available-for-sale securities	$ 439,186	$ 69	$ (48,466)	$ 390,789

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

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

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

Information pertaining to securities with gross unrealized losses at September 30, 2023 and December 31, 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	(In Thousands)					
	September 30, 2023					
	Less Than Twelve Months		Twelve Months & Over		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
U.S. Treasury	$ -	$ -	$ (9,378)	$ 81,978	$ (9,378)	$ 81,978
U.S. Government agencies	-	-	(17,231)	123,762	(17,231)	123,762
Mortgage-backed securities	-	-	(15,876)	76,480	(15,876)	76,480
State and local governments	(148)	5,677	(7,356)	59,105	(7,504)	64,782
Total available-for-sale securities	$ (148)	$ 5,677	$ (49,841)	$ 341,325	$ (49,989)	$ 347,002

	(In Thousands)					
	December 31, 2022					
	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	$ (207)	$ 9,121	$ (9,622)	$ 85,557	$ (9,829)	$ 94,678
U.S. Government agencies	(1,081)	24,560	(15,969)	114,906	(17,050)	139,466
Mortgage-backed securities	(2,454)	26,905	(11,687)	60,022	(14,141)	86,927
State and local governments	(3,223)	38,771	(4,223)	25,610	(7,446)	64,381
Total available-for-sale securities	$ (6,965)	$ 99,357	$ (41,501)	$ 286,095	$ (48,466)	$ 385,452

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

Below are the gross realized gains and losses for the three and nine months ended September 30, 2023 and September 30, 2022.

	Three Months (In Thousands)		Nine Months (In Thousands)	
	2023	2022	2023	2022
Gross realized gains	$ -	$ -	$ 12	$ -
Gross realized losses	-	-	(903)	-
Net realized losses	$ -	$ -	$ (891)	$ -
Tax benefit related to net realized losses	$ -	$ -	$ (187)	$ -

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

The amortized cost and fair value of debt securities at September 30, 2023, 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	$ 17,092	$ 16,708
After one year through five years	249,459	220,779
After five years through ten years	35,451	30,574
After ten years	3,883	3,714
Total	$ 305,885	$ 271,775
Mortgage-backed securities	92,356	76,480
Total	$ 398,241	$ 348,255

Investments with a carrying value of $185.0 million and $134.8 million at September 30, 2023 and December 31, 2022, respectively, were pledged to secure public deposits and securities sold under repurchase agreements. Investments with a carrying value of $60.5 million were pledged to the Federal Reserve's Bank Term Funding Program (BTFP) to secure additional borrowing capacity as of September 30, 2023.

Other securities include Federal Home Loan Bank of Cincinnati and Indianapolis stock in the amount of $14.8 million as of September 30, 2023 and $8.1 million as of December 31, 2022. Other securities also includes Ohio Equity Fund for Housing Limited Partnership funding of $2.1 million and $1.7 million out of a total of $4.0 million committed as of September 30, 2023 and December 31, 2022, respectively.

NOTE 4 LOANS

Loan balances as of September 30, 2023 and December 31, 2022 are summarized below:

	(In Thousands)	
Loans:	September 30, 2023	December 31, 2022
Consumer Real Estate	$ 512,973	$ 494,423
Agricultural Real Estate	225,672	220,819
Agricultural	123,735	128,733
Commercial Real Estate	1,304,118	1,152,603
Commercial and Industrial	250,891	242,360
Consumer	83,024	89,147
Other	31,083	29,818
	2,531,496	2,357,903
Less: Net deferred loan fees and costs	(1,890)	(1,516)
	2,529,606	2,356,387
Less: Allowance for credit losses	(25,277)	(20,313)
Loans - Net	$ 2,504,329	$ 2,336,074

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

The distribution of fixed rate loans and variable rate loans by major loan category is as follows as of September 30, 2023 and December 31, 2022:

	(In Thousands)			
	September 30, 2023		December 31, 2022	
	Fixed	Variable	Fixed	Variable
Consumer Real Estate	$ 330,689	$ 182,284	$ 354,420	$ 140,003
Agricultural Real Estate	128,681	96,991	144,702	76,117
Agricultural	57,301	66,434	52,867	75,866
Commercial Real Estate	1,013,000	291,118	941,927	210,676
Commercial and Industrial	141,010	109,881	130,513	111,847
Consumer	82,956	68	88,972	175
Other	21,499	9,584	20,029	9,789

As of September 30, 2023 and December 31, 2022 one to four family residential mortgage loans amounting to $213.0 million and $222.5 million, respectively, have been pledged as security for future loans and existing loans the Bank has received from the Federal Home Loan Bank. $11.2 million and $10.4 million of HELOCs were pledged as of September 30, 2023 and December 31, 2022 as well. During the second quarter of 2023 the Bank began pledging eligible commercial real estate to the FHLB. At September 30, 2023 the amount pledged was $161.2 million.

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

The following table represents the contractual aging of the recorded investment (in thousands) in past due loans by portfolio classification of loans as of September 30, 2023 and December 31, 2022, net of deferred loan fees and costs:

September 30, 2023	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Consumer Real Estate	$ 2,116	$ 559	$ 346	$ 3,021	$ 509,969	$ 512,990	$ -
Agricultural Real Estate	1,227	-	60	1,287	224,083	225,370	-
Agricultural	60	1,498	1,524	3,082	120,889	123,971	-
Commercial Real Estate	503	5	255	763	1,300,851	1,301,614	-
Commercial and Industrial	16	-	855	871	280,968	281,839	-
Consumer	104	67	7	178	83,644	83,822	-
Total	$ 4,026	$ 2,129	$ 3,047	$ 9,202	$ 2,520,404	$ 2,529,606	$ -

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Consumer Real Estate	$ 1,536	$ 635	$ 90	$ 2,261	$ 492,162	$ 494,423	$ -
Agricultural Real Estate	118	2	1,550	1,670	218,844	220,514	-
Agricultural	433	-	152	585	128,341	128,926	-
Commercial Real Estate	74	-	180	254	1,150,257	1,150,511	-
Commercial and Industrial	953	-	182	1,135	270,984	272,119	-
Consumer	83	37	-	120	89,774	89,894	-
Total	$ 3,197	$ 674	$ 2,154	$ 6,025	$ 2,350,362	$ 2,356,387	$ -

The following tables present the amortized cost of nonaccrual loans by class of loans as of September 30, 2023 and the recorded investment of nonaccrual loans by class of loans as of December 31, 2022:

	(In Thousands) September 30, 2023		
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Consumer Real Estate	$ 689	$ 689	$ -
Agricultural Real Estate	15,948	15,948	-
Agricultural	4,695	4,695	-
Commercial Real Estate	254	254	-
Commercial & Industrial	854	854	-
Consumer	7	7	-
Total	$ 22,447	$ 22,447	$ -

	(In Thousands) December 31, 2022
Consumer Real Estate	$ 612
Agricultural Real Estate	1,921
Agricultural	152
Commercial Real Estate	903
Commercial & Industrial	1,096
Consumer	5
Total	$ 4,689

Two borrower relationships resulted in a combined increase to nonaccrual totals of $15.6 million in the agricultural real estate portfolio and a combined increase of $4.5 million in the agricultural portfolio as compared to December 31, 2022. The Company recognized $74 thousand and $210 thousand of interest income on nonaccrual loans for the three and nine months ending September 30, 2023, respectively.

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

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

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

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

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.

The following table represents the risk category of loans by portfolio class, net of deferred fees and costs, based on the most recent analysis performed as of December 31, 2022:

	(In Thousands)				
	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Other
December 31, 2022					
1-2	$ 9,912	$ 5,857	$ 8,718	$ 780	$ -
3	47,405	33,671	370,035	67,506	10,921
4	146,143	88,992	737,745	167,291	18,897
5	10,389	228	9,751	3,592	-
6	6,665	178	24,262	3,132	-
7	-	-	-	-	-
8	-	-	-	-	-
Total	$220,514	$128,926	$ 1,150,511	$242,301	$ 29,818

For consumer residential real estate, and other, the Company also evaluates credit quality based on the aging status of the loan, as was previously stated, and by payment activity. The following tables present the recorded investment in those classes based on payment activity and assigned risk grading as of December 31, 2022.

	(In Thousands) Consumer Real Estate December 31, 2022
Grade	
Pass (1-4)	$ 492,575
Special Mention (5)	676
Substandard (6)	1,172
Doubtful (7)	-
Total	$ 494,423

	(In Thousands) Consumer December 31, 2022
Performing	$ 89,853
Nonperforming	41
Total	$ 89,894

The following table reflects loan balances as of September 30, 2023 based on year of origination:

	(In Thousands)							
	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	Prior	Term Total	Revolving Loans Amortized Cost Basis	Grand Total
Consumer Real Estate								
Risk Rating								
Pass (1-4)	$ 60,417	$ 92,081	$ 92,221	$ 84,478	$ 131,759	$ 460,956	$ 49,921	$ 510,877
Special Mention (5)	-	-	-	-	68	68	-	68
Substandard (6)	-	40	640	-	1,337	2,017	28	2,045
Doubtful (7)	-	-	-	-	-	-	-	-
Total Consumer Real Estate	$ 60,417	$ 92,121	$ 92,861	$ 84,478	$ 133,164	$ 463,041	$ 49,949	$ 512,990
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural Real Estate								
Risk Rating								
Pass (1-4)	$ 24,866	$ 39,508	$ 25,649	$ 26,348	$ 87,181	$ 203,552	$ 97	$ 203,649
Special Mention (5)	-	249	16	-	5,307	5,572	-	5,572
Substandard (6)	-	-	12,196	187	3,766	16,149	-	16,149
Doubtful (7)	-	-	-	-	-	-	-	-
Total Agricultural Real Estate	$ 24,866	$ 39,757	$ 37,861	$ 26,535	$ 96,254	$ 225,273	$ 97	$ 225,370
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Agricultural								
Risk Rating								
Pass (1-4)	$ 15,439	$ 22,361	$ 9,654	$ 4,977	$ 6,281	$ 58,712	$ 59,510	$ 118,222
Special Mention (5)	-	-	-	-	-	-	-	-
Substandard (6)	516	634	2,011	1,090	-	4,251	1,498	5,749
Doubtful (7)	-	-	-	-	-	-	-	-
Total Agricultural	$ 15,955	$ 22,995	$ 11,665	$ 6,067	$ 6,281	$ 62,963	$ 61,008	$ 123,971
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

	(In Thousands)							
	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	Prior	Term Total	Revolving Loans Amortized Cost Basis	Grand Total
Commercial Real Estate								
Risk Rating								
Pass (1-4)	$ 159,888	$ 448,961	$ 252,124	$ 127,752	$ 254,825	$ 1,243,550	$ -	$ 1,243,550
Special Mention (5)	33,926	-	-	10,944	11,392	56,262	-	56,262
Substandard (6)	92	-	-	75	1,635	1,802	-	1,802
Doubtful (7)	-	-	-	-	-	-	-	-
Total Commercial Real Estate	$ 193,906	$ 448,961	$ 252,124	$ 138,771	$ 267,852	$ 1,301,614	$ -	$ 1,301,614
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial & Industrial								
Risk Rating								
Pass (1-4)	$ 45,543	$ 54,615	$ 26,541	$ 21,958	$ 3,952	$ 152,609	$ 93,655	$ 246,264
Special Mention (5)	189	-	216	184	451	1,040	356	1,396
Substandard (6)	-	469	-	906	257	1,632	1,458	3,090
Doubtful (7)	-	-	-	-	-	-	-	-
Total Commercial & Industrial	$ 45,732	$ 55,084	$ 26,757	$ 23,048	$ 4,660	$ 155,281	$ 95,469	$ 250,750
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Other								
Risk Rating								
Pass (1-4)	$ 2,810	$ -	$ 17,360	$ 6,017	$ 4,902	$ 31,089	$ -	$ 31,089
Special Mention (5)	-	-	-	-	-	-	-	-
Substandard (6)	-	-	-	-	-	-	-	-
Doubtful (7)	-	-	-	-	-	-	-	-
Total Other	$ 2,810	$ -	$ 17,360	$ 6,017	$ 4,902	$ 31,089	$ -	$ 31,089
Gross charge-offs YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

The following table presents payment performance as of September 30, 2023 by year of origination:

	(In Thousands)							
	Term Loans Amortized Cost Basis by Origination Year							
	2023	2022	2021	2020	Prior	Term Total	Revolving Loans Amortized Cost Basis	Grand Total
Consumer								
Payment Performance								
Performing	$ 18,585	$ 44,435	$ 11,939	$ 5,811	$ 2,999	$ 83,769	$ 46	$ 83,815
Nonperforming	-	-	-	7	-	7	-	7
Total Consumer	$ 18,585	$ 44,435	$ 11,939	$ 5,818	$ 2,999	$ 83,776	$ 46	$ 83,822
Gross charge-offs YTD	$ 163	$ 41	$ 88	$ 38	$ -	$ 330	$ -	$ 330

The following table presents collateral-dependent loans grouped by collateral as of September 30, 2023:

	(In Thousands) Real Estate
Consumer Real Estate	$ -
Agricultural Real Estate	-
Agricultural	311
Commercial Real Estate	-
Commercial & Industrial	1
Consumer	-
Total	$ 312

Information about impaired loans as of December 31, 2022 and September 30, 2022 are presented for comparison purposes and are as follows:

	(In Thousands) December 31, 2022	September 30, 2022
Impaired loans without a valuation allowance	$ 4,194	$ 5,835
Impaired loans with a valuation allowance	4,663	4,918
Total impaired loans	$ 8,857	$ 10,753
Valuation allowance related to impaired loans	$ 1,996	$ 2,436
Total non-accrual loans	$ 4,689	$ 5,470
Total loans past-due ninety days or more and still accruing	$ -	$ -
Quarter ended average investment in impaired loans	$ 9,660	$ 10,662
Year to date average investment in impaired loans	$ 10,710	$ 11,059

The Bank had approximately $3.6 million of its impaired loans classified as troubled debt restructured (TDR) as of December 31, 2022 and $4.0 million as of September 30, 2022.

Under ASC 310-40, TDRs were eliminated from being classified as such for 2023 and will no longer be reported as such. Modification programs focus on payment pattern changes and/or modified maturity dates with most receiving a combination of the two concessions. The modifications did not result in the contractual forgiveness of principal. During the three months ended September 30, 2023, there were no new modifications to borrowers experiencing financial difficulty. During the third quarter of 2022, three new loans were considered TDR as a result of the continuance of interest only payment modifications. These three loans stemmed from a single relationship with a borrower.

For the three months ended September 30, 2023 and 2022, there were no modifications to borrowers experiencing financial difficulty that subsequently defaulted after modification.

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

The Bank used the following guidelines as stated in policy to determine when to realize a charge-off, whether a partial or full loan balance. A charge-off in whole or in part was realized when unsecured consumer loans, credit card credits 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.

The following tables present loans individually evaluated for impairment by class of loans for the three and nine months ended September 30, 2022 and for the year ended December 31, 2022.

Three Months Ended September 30, 2022	(In Thousands) Recorded Investment	Unpaid Principal Balance	Related Allowance	QTD Average Recorded Investment	QTD Interest Income Recognized	QTD Interest Income Recognized Cash Basis
With no related allowance recorded:						
Consumer Real Estate	$ 624	$ 624	$ -	$ 352	$ 1	$ 5
Agricultural Real Estate	2,588	2,693	-	2,467	6	1
Agricultural	1,334	1,334	-	1,309	-	-
Commercial Real Estate	1,251	1,251	-	1,505	9	14
Commercial and Industrial	21	21	-	63	-	-
Consumer	17	17	-	17	-	-
With a specific allowance recorded:						
Consumer Real Estate	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	-	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	2,936	2,936	500	2,960	39	-
Commercial and Industrial	1,982	1,982	1,936	1,989	72	-
Consumer	-	-	-	-	-	-
Totals:						
Consumer Real Estate	$ 624	$ 624	$ -	$ 352	$ 1	$ 5
Agricultural Real Estate	$ 2,588	$ 2,693	$ -	$ 2,467	$ 6	$ 1
Agricultural	$ 1,334	$ 1,334	$ -	$ 1,309	$ -	$ -
Commercial Real Estate	$ 4,187	$ 4,187	$ 500	$ 4,465	$ 48	$ 14
Commercial and Industrial	$ 2,003	$ 2,003	$ 1,936	$ 2,052	$ 72	$ -
Consumer	$ 17	$ 17	$ -	$ 17	$ -	$ -

	(In Thousands)					
Nine Months Ended September 30, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	YTD Average Recorded Investment	YTD Interest Income Recognized	YTD Interest Income Recognized Cash Basis
With no related allowance recorded:						
Consumer Real Estate	$ 624	$ 624	$ -	$ 372	$ 3	$ 10
Agricultural Real Estate	2,588	2,693	-	1,953	19	6
Agricultural	1,334	1,334	-	591	-	2
Commercial Real Estate	1,251	1,251	-	1,162	20	33
Commercial and Industrial	21	21	-	175	2	10
Consumer	17	17	-	18	1	-
With a specific allowance recorded:						
Consumer Real Estate	-	-	-	-	-	-
Agricultural Real Estate	-	-	-	1,850	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	2,936	2,936	500	3,270	113	-
Commercial and Industrial	1,982	1,982	1,936	1,665	138	-
Consumer	-	-	-	3	-	-
Totals:						
Consumer Real Estate	$ 624	$ 624	$ -	$ 372	$ 3	$ 10
Agricultural Real Estate	$ 2,588	$ 2,693	$ -	$ 3,803	$ 19	$ 6
Agricultural	$ 1,334	$ 1,334	$ -	$ 591	$ -	$ 2
Commercial Real Estate	$ 4,187	$ 4,187	$ 500	$ 4,432	$ 133	$ 33
Commercial and Industrial	$ 2,003	$ 2,003	$ 1,936	$ 1,840	$ 140	$ 10
Consumer	$ 17	$ 17	$ -	$ 21	$ 1	$ -

	(In Thousands)					
Year Ended December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized	Interest Income Recognized Cash Basis
With no related allowance recorded:						
Consumer Real Estate	$ 509	$ 509	$ -	$ 355	$ 5	$ 12
Agricultural Real Estate	2,280	2,385	-	2,048	25	6
Agricultural	152	152	-	588	-	2
Commercial Real Estate	1,234	1,272	-	1,252	29	43
Commercial and Industrial	17	417	-	135	2	10
Consumer	2	2	-	15	1	-
With a specific allowance recorded:						
Consumer Real Estate	60	60	6	15	-	1
Agricultural Real Estate	-	-	-	1,388	-	-
Agricultural	-	-	-	-	-	-
Commercial Real Estate	2,874	2,874	438	3,176	150	-
Commercial and Industrial	1,564	1,564	1,551	1,736	149	23
Consumer	165	165	1	2	-	-
Totals:						
Consumer Real Estate	$ 569	$ 569	$ 6	$ 370	$ 5	$ 13
Agricultural Real Estate	$ 2,280	$ 2,385	$ -	$ 3,436	$ 25	$ 6
Agricultural	$ 152	$ 152	$ -	$ 588	$ -	$ 2
Commercial Real Estate	$ 4,108	$ 4,146	$ 438	$ 4,428	$ 179	$ 43
Commercial and Industrial	$ 1,581	$ 1,981	$ 1,551	$ 1,871	$ 151	$ 33
Consumer	$ 167	$ 167	$ 1	$ 17	$ 1	$ -

As of September 30, 2023, the Company had no foreclosed residential real estate property obtained by physical possession and $92 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 or consumer mortgage loans secured by residential real estate properties for which foreclosure proceeding were in process according to local jurisdictions as of December 31, 2022. As of September 30, 2022, the Company had no foreclosed residential real estate property obtained by physical possession and $211 thousand of consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings were in process according to local jurisdictions.

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

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

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

The allowance does not include an accretable yield of $4.6 million and $6.3 million as of September 30, 2023 and December 31, 2022, respectively, nor a nonaccretable yield of $138 thousand as of December 31, 2022, related to the acquisitions of Bank of Geneva in 2019 and Ossian State Bank and Perpetual Federal Savings Bank in 2021 and Peoples Federal Savings and Loan Bank in 2022 as previously discussed in Note 2.

The AULC is reported within other liabilities while the ACL portion associated with loans is netted within the loans, net asset line on the Company’s Condensed Consolidated Balance Sheets.

The following tables break down the activity within ACL for each loan portfolio classification and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs for the three and nine months ended September 30, 2023:

(In Thousands)

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Three Months Ended September 30, 2023							
ALLOWANCE FOR CREDIT LOSSES							
Beginning balance	$ 3,998	$ 237	$ 107	$ 16,681	$ 2,767	$ 1,120	$ 24,910
Provision for credit losses - loans	(170)	77	78	123	(65)	417	460
Charge-offs	-	-	-	-	-	(148)	(148)
Recoveries	14	1	-	1	6	33	55
Ending Balance	$ 3,842	$ 315	$ 185	$ 16,805	$ 2,708	$ 1,422	$ 25,277

(In Thousands)

	Consumer Real Estate		Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Total
Nine Months Ended September 30, 2023								
ALLOWANCE FOR CREDIT LOSSES								
Beginning balance	$ 998		$ 349	$ 751	$ 11,924	$ 5,382	$ 909	$ 20,313
Adoption of ASU 2016-13	2,874	-	(166)	(650)	3,501	(2,165)	170	3,564
Provision for credit losses-loans	(57)		27	84	1,374	(527)	519	1,420
Charge-offs	-		-	-	-	-	(330)	(330)
Recoveries	27		105	-	6	18	154	310
Ending Balance	$ 3,842		$ 315	$ 185	$ 16,805	$ 2,708	$ 1,422	$ 25,277

The following tables break down the activity in the AULC for the three and nine months ended September 30, 2023:

		(In Thousands) Unfunded Loan Commitment & Letters of Credit
Three Months Ended September 30, 2023		
ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT		
Beginning balance	$	2,099
Provision for credit losses - off balance sheet credit exposures		(76)
Charge-offs		-
Recoveries		-
Ending Balance	$	2,023

		(In Thousands) Unfunded Loan Commitment & Letters of Credit
Nine Months Ended September 30, 2023		
ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT		
Beginning balance	$	1,262
Adoption of ASU 2016-13		904
Provision for credit losses-off balance sheet credit exposures		(143)
Charge-offs		-
Recoveries		-
Ending Balance	$	2,023

Additional analysis, presented in thousands, related to the ALLL for the three and nine months ended September 30, 2022 in addition to the ending balances, presented in thousands, as of December 31, 2022 is as follows:

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
Three Months Ended September 30, 2022									
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 939	$ 346	$ 754	$ 10,427	$ 5,365	$ 567	$ 1,167	$ 26	$ 19,591
Charge Offs	-	-	-	-	-	(123)	-	-	(123)
Recoveries	6	-	1	2	8	35	-	-	52
Provision (Credit)	(19)	10	1	1,122	297	246	-	(20)	1,637
Other Non-interest expense related to unfunded	-	-	-	-	-	-	(49)	-	(49)
Ending Balance	$ 926	$ 356	$ 756	$ 11,551	$ 5,670	$ 725	$ 1,118	$ 6	$ 21,108
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ 500	$ 1,936	$ -	$ -	$ -	$ 2,436
Ending balance: collectively evaluated for impairment	$ 926	$ 356	$ 756	$ 11,051	$ 3,734	$ 725	$ 1,118	$ 6	$ 18,672
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FINANCING RECEIVABLES:									
Ending balance	$ 416,044	$ 204,787	$ 128,818	$ 1,061,904	$ 260,000	$ 71,063	$ -	$ -	$ 2,142,616
Ending balance: individually evaluated for impairment	$ 624	$ 2,588	$ 1,334	$ 4,187	$ 2,003	$ 17	$ -	$ -	$ 10,753
Ending balance: collectively evaluated for impairment	$ 414,951	$ 202,003	$ 127,484	$ 1,057,699	$ 257,948	$ 71,046	$ -	$ -	$ 2,131,131
Ending balance: loans acquired with deteriorated credit quality	$ 469	$ 196	$ -	$ 18	$ 49	$ -	$ -	$ -	$ 732

	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
Nine Months Ended September 30, 2022									
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 857	$ 1,040	$ 709	$ 9,130	$ 3,847	$ 625	$ 1,041	$ 34	$ 17,283
Charge Offs	-	-	-	-	(6)	(328)	-	-	(334)
Recoveries	15	-	1	7	82	132	-	-	237
Provision (Credit)	54	(684)	46	2,414	1,747	296	-	(28)	3,845
Other Non-interest expense related to unfunded	-	-	-	-	-	-	77	-	77
Ending Balance	$ 926	$ 356	$ 756	$ 11,551	$ 5,670	$ 725	$ 1,118	$ 6	$ 21,108
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ 500	$ 1,936	$ -	$ -	$ -	$ 2,436
Ending balance: collectively evaluated for impairment	$ 926	$ 356	$ 756	$ 11,051	$ 3,734	$ 725	$ 1,118	$ 6	$ 18,672
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FINANCING RECEIVABLES:									
Ending balance	$ 416,044	$ 204,787	$ 128,818	$ 1,061,904	$ 260,000	$ 71,063	$ -	$ -	$ 2,142,616
Ending balance: individually evaluated for impairment	$ 624	$ 2,588	$ 1,334	$ 4,187	$ 2,003	$ 17	$ -	$ -	$ 10,753
Ending balance: collectively evaluated for impairment	$ 414,951	$ 202,003	$ 127,484	$ 1,057,699	$ 257,948	$ 71,046	$ -	$ -	$ 2,131,131
Ending balance: loans acquired with deteriorated credit quality	$ 469	$ 196	$ -	$ 18	$ 49	$ -	$ -	$ -	$ 732

December 31, 2022	Consumer Real Estate	Agricultural Real Estate	Agricultural	Commercial Real Estate	Commercial and Industrial	Consumer	Unfunded Loan Commitment & Letters of Credit	Unallocated	Total
ALLOWANCE FOR CREDIT LOSSES:									
Beginning balance	$ 857	$ 1,040	$ 709	$ 9,130	$ 3,847	$ 625	$ 1,041	$ 34	$ 17,283
Charge Offs	-	-	-	-	(418)	(409)	-	-	(827)
Recoveries	20	-	7	9	93	169	-	-	298
Provision (Credit)	121	(691)	35	2,785	1,860	506	-	(16)	4,600
Other Non-interest expense related to unfunded	-	-	-	-	-	-	221	-	221
Ending Balance	$ 998	$ 349	$ 751	$ 11,924	$ 5,382	$ 891	$ 1,262	$ 18	$ 21,575
Ending balance: individually evaluated for impairment	$ 6	$ -	$ -	$ 438	$ 1,551	$ 1	$ -	$ -	$ 1,996
Ending balance: collectively evaluated for impairment	$ 992	$ 349	$ 751	$ 11,486	$ 3,831	$ 890	$ 1,262	$ 18	$ 19,579
Ending balance: loans acquired with deteriorated credit quality	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
FINANCING RECEIVABLES:									
Ending balance	$ 494,423	$ 220,514	$ 128,926	$ 1,150,511	$ 272,119	$ 89,894	$ -	$ -	$ 2,356,387
Ending balance: individually evaluated for impairment	$ 569	$ 2,280	$ 152	$ 4,108	$ 1,581	$ 167	$ -	$ -	$ 8,857
Ending balance: collectively evaluated for impairment	$ 493,449	$ 218,039	$ 128,774	$ 1,146,389	$ 270,493	$ 89,727	$ -	$ -	$ 2,346,871
Ending balance: loans acquired with deteriorated credit quality	$ 405	$ 195	$ -	$ 14	$ 45	$ -	$ -	$ -	$ 659

NOTE 5 EARNINGS PER SHARE

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

The Compensation Committee of the Company has determined that it is appropriate to award shares of the common stock of the Company to Outside Directors and Employees that are officers of the Company or the Bank who also serve as Directors of the Company and the Bank as a portion of their retainer for services rendered as Directors of the Company and the Bank. The Committee believes that it is appropriate to award the Directors shares equal to a specific dollar amount, rounded to the nearest whole share on an annual basis commencing on June 5, 2020 and thereafter on the first Friday of June in each year. Directors receive a prorated dollar value of shares for a partial year of service. The value for the shares is to be based upon the closing price for shares on June 4, 2020 and thereafter on the first Thursday in June in each year. On June 4, 2021, ten Directors received approximately $6,000 worth of shares which equated to 272 shares while four Directors received a prorated dollar value of shares. On October 1, 2021, a new Director was added as a result of the Perpetual Federal Savings Bank acquisition and received 68 prorated shares worth approximately $1,523. On June 3, 2022, twelve Directors each received $10,013 which equated to 240 shares. On June 2, 2023, twelve Directors each received $14,997 which equated to 754 shares. The use of stock for Directors’ retainer, does not have an effect on diluted earnings per share as it is immediately vested.

Any stock awards to senior management are made in March with other members of management receiving any awards in August. On March 1, 2023, senior management received stock awards of 21,700 shares worth approximately $562,030. During the third quarter of 2023, other members of management received stock awards of 41,225 shares worth approximately $844,018.

	(In thousands of dollars, except per share data)			
	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Earnings per share				
Net income	$ 4,777	$ 8,954	$ 17,244	$ 25,327
Less: distributed earnings allocated to participating securities	(33)	(26)	(95)	(67)
Less: undistributed earnings allocated to participating securities	(20)	(42)	(90)	(148)
Net earnings available to common shareholders	$ 4,724	$ 8,886	$ 17,059	$ 25,112
Weighted average common shares outstanding including participating securities	13,650,823	13,083,145	13,633,101	13,071,859
Less: average unvested restricted shares	(152,127)	(99,838)	(146,184)	(111,209)
Weighted average common shares outstanding	13,498,696	12,983,307	13,486,917	12,960,650
Basic and diluted earnings per share	$ 0.35	$ 0.68	$ 1.26	$ 1.94

NOTE 6 FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value Measurements:

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

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

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

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

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

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

The following summarizes financial assets measured at fair value on a recurring basis as of September 30, 2023 and December 31, 2022, segregated by level or the valuation inputs within the fair value hierarchy utilized to measure fair value:

Assets and Liabilities Measured at Fair Value on a Recurring Basis

	(In Thousands)		
September 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - (Securities Available-for-Sale)			
U.S. Treasury	$ 81,978	$ -	$ -
U.S. Government agencies	-	123,762	-
Mortgage-backed securities	-	76,480	-
State and local governments	-	63,608	2,427
Total Securities Available-for-Sale	$ 81,978	$ 263,850	$ 2,427

	(In Thousands)		
December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets - (Securities Available-for-Sale)			
U.S. Treasury	$ 94,678	$ -	$ -
U.S. Government agencies	-	139,767	-
Mortgage-backed securities	-	86,927	-
State and local governments	-	66,072	3,345
Total Securities Available-for-Sale	$ 94,678	$ 292,766	$ 3,345

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 nine month periods ended September 30, 2023 and September 30, 2022. During the three month period ended March 31, 2022, there was one security transferred from Level 3 to Level 2.

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at July 1, 2023	$ 1,831	$ 1,278	$ 3,109
Change in Fair Value	-	(25)	(25)
Payments, Maturities & Calls	(657)	-	(657)
Reclassification & Adjustments	-	-	-
Balance at September 30, 2023	$ 1,174	$ 1,253	$ 2,427

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at July 1, 2022	$ 2,089	$ 1,325	$ 3,414
Change in Fair Value	(19)	(29)	(48)
Payments, Maturities & Calls	-	-	-
Reclassification & Adjustments	-	-	-
Balance at September 30, 2022	$ 2,070	$ 1,296	$ 3,366

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at January 1, 2023	$ 2,071	$ 1,274	$ 3,345
Change in Fair Value	5	(21)	(16)
Payments, Maturities & Calls	(902)	-	(902)
Reclassification & Adjustments	-	-	-
Balance at September 30, 2023	$ 1,174	$ 1,253	$ 2,427

	(In Thousands) Fair Value Measurements Using Significant Unobservable Inputs (Level 3) State and Local Governments		
	Tax-Exempt	Taxable	Total
Balance at January 1, 2022	$ 2,307	$ 2,466	$ 4,773
Change in Fair Value	(77)	(181)	(258)
Payments, Maturities & Calls	(160)	-	(160)
Reclassification & Adjustments	-	(989)	(989)
Balance at September 30, 2022	$ 2,070	$ 1,296	$ 3,366

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 September 30, 2023 and December 31, 2022, such assets consist primarily of collateral dependent loans. Collateral dependent loans categorized as Level 3 assets consist of non-homogeneous loans that have expected credit losses. The Company estimates the fair value of the loans based on the present value of expected future cash flows using management's best estimate of key assumptions. These assumptions include future payment ability, timing of payment streams, and estimated realizable values of available collateral (typically based on outside appraisals.)

At September 30, 2023 and December 31, 2022, fair value of collateral dependent loans categorized as Level 3 was $312 thousand and $2.7 million, respectively.

During 2023, impairment was recognized on real estate 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 real estate 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 $3 thousand at September 30, 2023. There was no impairment at December 31, 2022.

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

	(In Thousands) Fair Value at September 30, 2023		Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	$	2,427	Discounted Cash Flow	Credit strength of underlying project or entity / Discount rate	3.96-5.78% (5.18%)
Collateral dependent loans		312	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	25.00-50.00% (26.37%)
Real estate servicing rights		35	Discounted Cash Flow	Constant prepayment rate and probability of default / Discount rate	5.71-7.33% (7.29%)

	(In Thousands) Fair Value at December 31, 2022		Valuation Technique	Unobservable Inputs	Range (Weighted Average)
State and local government	$	3,345	Discounted Cash Flow	Credit strength of underlying project or entity / Discount rate	2.08-5.01% (4.38%)
Collateral dependent impaired loans		2,667	Collateral based measurements	Discount to reflect current market conditions and ultimate collectability	20.00-29.01% (24.13%)
Real estate servicing rights		-	Discounted Cash Flow	Constant prepayment rate and probability of default / Discount rate	— % (—)

The following table presents assets measured at fair value on a nonrecurring basis at September 30, 2023 and December 31, 2022:

	(In Thousands) Assets Measured at Fair Value on a Nonrecurring Basis at September 30, 2023			
	Balance at September 30, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 312	$ -	$ -	$ 312
Real estate servicing rights	35	-	-	35

	(In Thousands) Assets Measured at Fair Value on a Nonrecurring Basis at December 31, 2022			
	Balance at December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent impaired loans	$ 2,667	$ -	$ -	$ 2,667
Real estate servicing rights	-	-	-	-

The estimated fair values, and related carrying or notional amounts, for on and off-balance sheet financial instruments as of September 30, 2023 and December 31, 2022 are reflected below.

	(In Thousands) September 30, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 153,182	$ 153,182	$ 153,182	$ -	$ -
Interest-bearing time deposits	2,989	2,977	-	2,977	-
Securities - available-for-sale	348,255	348,255	81,978	263,850	2,427
Other securities	16,995	16,995	-	-	16,995
Loans held for sale	1,039	1,023	-	-	1,023
Loans, net	2,504,329	2,336,246	-	-	2,336,246
Interest receivable	12,902	12,902	-	-	12,902
Financial Liabilities:					
Interest bearing deposits	$ 1,369,477	$ 1,369,406	$ -	$ -	$ 1,369,406
Non-interest bearing deposits	505,358	505,358	505,358	-	-
Time deposits	700,445	691,341	-	-	691,341
Total Deposits	2,575,280	2,566,105	505,358	-	2,060,747
Federal funds purchased and securities sold under agreement to repurchase	30,527	30,527	-	-	30,527
Federal Home Loan Bank advances	266,286	260,871	-	-	260,871
Other borrowings	-	-	-	-	-
Subordinated notes, net of unamortized issuance costs	34,673	30,642	-	30,642	-
Interest payable	4,760	4,760	-	-	4,760

	(In Thousands)				
	December 31, 2022				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Cash and cash equivalents	$ 84,409	$ 84,409	$ 84,409	$ -	$ -
Interest-bearing time deposits	4,442	4,440	-	4,440	-
Securities - available-for-sale	390,789	390,789	94,678	292,766	3,345
Other securities	9,799	9,799	-	-	9,799
Loans held for sale	827	815	-	-	815
Loans, net	2,336,074	2,171,152	-	-	2,171,152
Interest receivable	10,440	10,440	-	-	10,440
Financial Liabilities:					
Interest bearing deposits	$ 1,378,090	$ 1,377,944	$ -	$ -	$ 1,377,944
Non-interest bearing deposits	532,794	532,794	532,794	-	-
Time deposits	557,980	543,737	-	-	543,737
Total Deposits	2,468,864	2,454,475	532,794	-	1,921,681
Federal funds purchased and securities sold under agreement to repurchase	54,206	54,206	-	-	54,206
Federal Home Loan Bank advances	127,485	125,761	-	-	125,761
Other borrowings	10,000	10,000	-	10,000	-
Subordinated notes, net of unamortized issuance costs	34,586	30,993	-	30,993	-
Interest payable	1,739	1,739	-	-	1,739

NOTE 7 FEDERAL FUNDS PURCHASED AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

The Company had no federal funds purchased as of September 30, 2023 and $22.6 million as of December 31, 2022. During the same time periods, the Company had $30.5 million and $31.6 million in securities sold under agreement to repurchase.

	September 30, 2023				
	Remaining Contractual Maturity of the Agreements (In Thousands)				
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Federal funds purchased	$ -	$ -	$ -	$ -	$ -
Repurchase agreements					
US Treasury & agency securities	$ 1,559	$ -	$ -	$ 28,968	$ 30,527
Total	$ 1,559	$ -	$ -	$ 28,968	$ 30,527

	December 31, 2022				
	Remaining Contractual Maturity of the Agreements (In Thousands)				
	Overnight & Continuous	Up to 30 days	30-90 days	Greater Than 90 days	Total
Federal funds purchased	$ 22,573	$ -	$ -	$ -	$ 22,573
Repurchase agreements					
US Treasury & agency securities	$ 1,115	$ -	$ -	$ 30,518	$ 31,633
Total	$ 23,688	$ -	$ -	$ 30,518	$ 54,206

NOTE 8 SUBORDINATED NOTES

On July 30, 2021, the Company announced the completion of 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. The Company used the net proceeds from the Offering for general corporate purposes, including financing acquisitions and organic growth.

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.

	September 30, 2023		December 31, 2022	
(In Thousands)	Principal	Unamortized Note Issuance Costs	Principal	Unamortized Note Issuance Costs
Subordinated Notes	$ 35,000	$ (327)	$ 35,000	$ (414)

NOTE 9 RECENT ACCOUNTING PRONOUNCEMENTS

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-13 "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." This ASU required the measurement of all expected credit losses for financial assets held at the reporting date to be based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations now use forward-looking information to better calculate their credit loss estimates. Many of the loss estimation techniques used prior to adoption of the ASU are still permitted, although the inputs to those techniques were changed to reflect the full amount of expected credit losses. Organizations continue to use judgment to determine which loss estimation method is appropriate for their circumstances. The ASU required enhanced disclosures to help investors and other financial statement users better understand significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. These disclosures included qualitative and quantitative requirements that provided additional information about the amounts recorded in the financial statements. In addition, the ASU amended the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration.

The ASU was effective for SEC filers for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019 (i.e., January 1, 2020, for calendar year entities). FASB subsequently approved a delay in adoption for Smaller Reporting Companies. The Company had completed an analysis to determine that it qualifies as a Smaller Reporting Company. As such, adoption was postponed until January 1, 2023.

The Current Expected Credit Losses ("CECL") methodology applies to loans held for investment, held to maturity debt securities, and off balance-sheet credit exposures. The ASU allows for several different methods of computing the ACL: closed pool, vintage, average charge-off, migration, probability of default / loss given default, discounted cash flow, and regression. Based on its analysis of observable data, the Company concluded the average charge-off method to be the most appropriate and statistically relevant. A 20-year lookback will be utilized as the historical loss period due to its inclusion of several economic cycles and relevance to real estate secured assets.

The Company began working with its third-party service provider to review parallel reports in June 2019. At the end of first quarter 2022, the Company evaluated and refined its methodology and produced a parallel report for the calculation of the ACL under the ASU guidance. The Company contracted with a third party to perform an independent validation of its processes and methodology. This validation has been completed and, at this time, is anticipated to be performed on an annual basis. As the Company conducts its own risk-based audits, the audit risk assessment will determine the scope and frequency of future model validations.

The qualitative impact of the new accounting standard will still be directed by many of the same factors that impacted the previous methodology for computing the allowance including, but not limited to, quality and experience of staff, changes in the value of collateral, concentrations of credit in loan types or industries and changes to lending policies. In addition to this, the Company will also use reasonable and supportable forecasts. Examples of this are regression analyses of data from the Federal Open Market Committee, quarterly economic projections for change in real GDP and of national unemployment.

The Company adopted ASU 2016-13 on January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the incurred loss accounting standards. The Company did not make any material changes to its business practices as a result of implementing the ASU.

The transition adjustment of the CECL adoption included an increase in the allowance for loan losses of $3.6 million, increase in the allowance for unfunded loan commitment and letters of credit of $0.9 million and a $3.4 million decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on our Condensed Consolidated Balance Sheets, with the $1.1 million tax impact portion being recorded as part of the deferred tax asset in other assets on our Condensed Consolidated Balance Sheets.

The following table illustrates the impact of adopting the ASU:

	January 1, 2023 (In Thousands)		
	As Reported Under ASU 2016-13	Pre-ASU 2016-13 Adoption	Impact of ASU 2016-13 Adoption
Consumer Real Estate	$ 3,872	$ 998	$ 2,874
Agricultural Real Estate	183	349	(166)
Agricultural	101	751	(650)
Commercial Real Estate	15,425	11,924	3,501
Commercial & Industrial	3,217	5,382	(2,165)
Consumer	1,079	909	170
Unfunded Loan Commitment & Letters of Credit	2,166	1,262	904
Current Expected Credit Losses	$ 26,043	$ 21,575	$ 4,468

In March 2022, the FASB issued ASU 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures." This ASU eliminates the accounting guidance on troubled debt restructurings for creditors in ASC 310-40 and requires entities to evaluate all receivable modifications under ASC 310-20 to determine whether a modification made to a borrower results in a new loan or a continuation of the existing loan. The amended guidance adds enhanced disclosures for creditors with respect to loan refinancings and restructurings for borrowers experiencing financial difficulty. The amended guidance also requires disclosure of current period gross charge-offs by year of origination within the vintage disclosures required by ASC 326. The amended guidance was effective for the Company on January 1, 2023. The Company adopted ASU 2022-02 effective January 1, 2023. There was no financial impact as a result of adopting the standard.

In March 2022, the Sixth Circuit issued a ruling in CIC Services LLC v IRS vacating a previously referenced IRS Notice 2016-66. That ruling, as it stood, would remove the requirement of disclosure on Form 8886. However, on April 10, 2023, the IRS issued IR-2023-74 proposing regulations that classify Sec. 831(b) captives with less than a 65% claims loss ratio over a 10-year period as a "listed transaction." This provision would apply to only captives that have been in existence for at least 10 years. This is a change from Notice 2016-66 which classified Sec. 831(b) captives with less than a 70% claims loss ratio as a "transaction of interest." Final regulations are expected to be issued in Q4 2023. Management and its advisors are in the process of evaluating the impact of these proposed regulations.

OVERVIEW

By the end of the first quarter 2023, the focus of most financial institutions quickly changed to liquidity and deposit generation. For the Bank, a focus on deposit generation continued through the next two quarters. The Company has experienced great success with organic growth in deposits, growing over 4.3%, or $106.4 million since year end 2022, and liquidity was strengthened in the process. Cash and cash equivalents increased $68.8 million over the same time period. Uninsured deposits based on FDIC coverage as a percentage of total deposits was 18.84% as of September 30, 2023, and as of the same date, total uninsured deposits (includes public deposits with protection over FDIC) was 9.11%. The use of the financial network products, such as the Certificate of Deposit Account Registry "CDars" and an Insured Cash Sweep which makes FDIC coverage available to larger depositors, contributes to the low uninsured percentage. Competition for deposits remains high and it has caused the Bank's cost of funds to increase significantly and for the net interest margin to tighten. While interest income increased nearly $30 million over year-to-date September 30, 2022, interest expense increased more, just over $32.5 million over the comparable time period. The attractiveness to depositors for the Certificate of Deposit product is a large factor in the increased cost of funds, for new depositors and those moving funds from lower-yielding deposit account products.

During the quarter, the Bank opened two full-service locations – one located in Oxford, Ohio and the other in Downtown Toledo, Ohio. A loan production office was already providing a lending service in Oxford and the opening of the office enables us to deepen those relationships with deposit services. The Downtown Toledo office allows us to better service our Lucas County customers and reach more of the Toledo community. Since the end of the quarter, the Bank has opened two additional full-service locations – one located in Downtown Fort Wayne, Indiana and the other in Birmingham, Michigan. Birmingham represents our first Michigan full-service office, and we look forward to the additional deposits that will be opened and serviced there. We have long serviced Michigan customers with our Ohio offices, and this will broaden our reach, specifically with business customers where we have only had a loan relationship. The Downtown Fort Wayne office is a regional office, combining retail with a loan production office in one location. Due to various construction constraints and unexpected opportunities, these offices opened closer together, time wise, than we had originally expected. Deposit growth is anticipated for the next quarters. The Bank has already seen improvement in the monthly number of net new checking accounts being opened since the start of the year.

Another bright spot for the third quarter is the over 30 days past due loan percentage was the lowest of the year at 0.35% as of September 30, 2023. The Bank continues to monitor this ratio closely as one of the indicators for the strength of our credit portfolio. The increase in nonaccruals was due mainly to one agricultural relationship where the Bank is well collateralized and does not foresee a loss.

Loan demand on the Ag side has been relatively flat as our customer base's financial position has been strong and rising interest rates have created hesitation for new borrowings. Seasonal borrowings on operating lines of credit continue in a normal pattern. The performance of the Ag portfolio has been positive as grain, livestock and Agri-businesses have benefited from several profitable years. The growing conditions in 2023 for most of our market area have been favorable with average to above average yields anticipated. Commodity prices have provided opportunities to price 2023 production at profitable levels but have begun to decline. The overall performance of the Ag portfolio is expected to be stable in 2023.

The Bank's Commercial banking division started the first half of 2023 with an active pipeline. With the rising rate environment, the third quarter was a flat loan growth period. 2022 and year-to-date 2023 client performance remains good; however, client concerns remain focused around inflation, raising interest rates, availability of workforce, interruptions and delays in the supply chain. Overall credit quality of the portfolio remains good, past dues and delinquencies remained low throughout 2023. 2023 fee income remains solid through the third quarter.

The Bank's Home Loan division is staying consistent in production even with the raising rate environment and low housing inventory throughout our regions in 2023. We have seen a decrease in refinance applications, but an increase in home equity requests. This is mainly due to borrowers not wanting to give up the low rate of their 1st mortgages but still wanting to use the equity in their homes for home improvement, debt consolidations, etc. Our preapproval requests are staying consistent, but many borrowers are still dealing with losing out on multiple offer situations and low inventory. Our team is focusing on building lasting relationships and educating our borrowers and communities. Our credit quality remains good and our delinquencies low for 2023.

The Company has made strides in our 3-year strategic plan as it relates to the investment in infrastructure and technology. The investment has resulted in the launch of new shared services group formation, marketing and human resource department restructures. Salary expenses are also higher due to the staffing of the new locations. Full time equivalent employee count increased from 431 as of December 31, 2022, to 465 as of September 30, 2023. The competition for talent is as fierce as it is for core deposits. A new Bank website was rolled out with more features and benefits. It includes an updated online banking experience along with the rollout of the new brand. While the cost of these investments has hampered short-term performance, the Company remains focused on the long-term benefits.

Time, without rate changes by the Federal Reserve, will be beneficial so the Bank’s 3/1 (3 year fixed/1 year variable), 5/1 and 7/1 commercial real estate loans of prior years can reach the repricing trigger to become variable and reprice at higher rates. The Bank continues to monitor and stress the portfolios to verify the customers have the ability to repay at a higher rate.

The Company remains well capitalized and is confident of our ability to manage through the unprecedented rapid interest rate increases. Our commitment to pay a consistent and ever-increasing dividend to our shareholders remains.

NATURE OF ACTIVITIES

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

Our executive offices are located at 307 North Defiance Street, Archbold, Ohio 43502, and our telephone number is (419) 446-2501. The Bank operates thirty-seven full-service banking offices throughout Northwest Ohio and Northeast Indiana and a drive-up facility in Archbold. These include a new office in downtown Toledo and in Oxford, Ohio which formerly was a successful LPO for the Bank. The Bank also operates three Loan Production Offices (LPOs), one each in Ohio, Indiana and Michigan.

The Farmers & Merchants State Bank engages in general commercial banking and savings business including commercial, agricultural and residential mortgage, consumer and credit card 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 and Northeast Indiana, a substantial amount of the loan portfolio is comprised of loans made to customers in the farming industry for such items as farmland, farm equipment and operating loans for seed, fertilizer, and feed. Other types of lending activities include loans for home improvements, and loans for the purchase of autos, trucks, recreational vehicles, motorcycles, and other consumer goods.

The Bank also provides checking account services, as well as savings and time deposit services such as certificates of deposits. In addition, Automated Teller Machines (ATMs) or Interactive Teller Machines (ITMs) are provided at most branch locations along with other independent locations in the market area. ITMs operate as an ATM with the addition of remote teller access to assist the user. The Bank has custodial services for Individual Retirement Accounts (IRAs) and Health Savings Accounts (HSAs). The Bank provides on-line banking access for consumer and business customers. For consumers, this includes bill-pay, on-line statement opportunities and mobile banking. For business customers, it provides the option of electronic transaction origination such as wire and Automated Clearing House (ACH) file transmittal. In addition, the Bank offers remote deposit capture or electronic deposit processing and merchant credit card services. Mobile banking was added in 2012 and has been widely accepted and used by consumers. Upgrades to our digital products and services continue to occur in both retail and business lines. The Bank continues to offer new suites of products as customer preferences change and the Bank adapts and adopts new technologies. The Bank continues to offer products that also meet the needs of our more traditional customers.

The Bank has established underwriting policies and procedures which facilitate operating in a safe and sound manner in accordance with supervisory and regulatory guidance. Within this sphere of safety and soundness, the Bank's practice has been to not promote innovative, unproven credit products which may not be in the best interest of the Bank or its customers. The Bank does offer a hybrid mortgage loan. Hybrid loans are loans that start out as a fixed rate mortgage but after a set number of years automatically adjust to an adjustable rate mortgage. The Bank offers a three year, a five year and a seven year fixed rate mortgage after which the interest rate will adjust annually. In order to offer longer term fixed rate mortgages, the Bank does participate in the Freddie Mac, Farmer Mac and Small Business Lending programs. The Bank also normally retains the servicing rights on these partially or 100% sold loans. In order for the customer to participate in these programs they must meet the requirements established by those agencies. In addition, the Bank does sell some of its longer term fixed rate agricultural mortgages into the secondary market with the aid of brokers. With the acquisition of Perpetual Federal Savings Bank in the 4th quarter of 2021 and the addition of Peoples Federal Savings in the 4th quarter of 2022, the Bank saw an increase in fixed rate, long-term mortgage loans to our portfolio from that banking service area.

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

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

Consumer Loans:

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

Commercial/Agriculture:

Accounts Receivable:

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

Inventory:

- Agriculture:
  - Livestock and grain up to 80% LTV, crops (insured) up to 75% and Warehouse Receipts up to 87%.
- Commercial:
  - Maximum LTV of 50% on raw and finished goods.
- Floor plan:
  - New/used vehicles to 100% of wholesale.
  - 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. Securities are offered through Raymond James Financial Services, Inc.

In December of 2014, the Company became a financial holding company within the meaning of the Bank Holding Company Act of 1956 as amended (the "Act"), in order to provide the flexibility to take advantage of the expanded powers available to a financial holding company under the Act. Our subsidiary bank is in turn regulated and examined by the Ohio Division of Financial Institutions and the Federal Deposit Insurance Corporation. The activities of our bank subsidiary are also subject to other federal and state laws and regulations. The Company also formed a captive insurance company (the "captive") in December 2014 which is located in Nevada and regulated by the State of Nevada 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. 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 September 30, 2023, we had 465 full time equivalent employees. The employees are not represented by a collective bargaining unit. We provide our employees with a comprehensive benefit program, some of which is contributory. We consider our employee relations to be good.

RECENT REGULATORY DEVELOPMENTS

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

The global spread of the Coronavirus (COVID-19) and resulting declaration of a world-wide pandemic have impacted the financial services industry and banking operations in the United States (US) and world-wide. The financial services sector is identified as a Critical Infrastructure Sector by the Department of Homeland Security during the COVID-19 response efforts. How basic business operations can be conducted has undergone a rapid and dramatic change. At the same time continuity of business operations involves promoting safety and security of customers and employees, providing a quality customer experience, and maintaining effective delivery systems and channels of communication. Regulatory guidance has been issued to manage and mitigate the unprecedented impact of the COVID-19 pandemic on business operations. Regulatory agencies promote prudent and practical efforts to assist customers and communities during this national emergency. Such assistance to alleviate the financial impact on affected customers involved modification of loan terms for existing borrowers, waiver of certain fees and charges, providing small dollar loans, and offering forbearance and payment deferrals on mortgage loan obligations due to financial hardship. Legislation enacted in March 2020 has provided the CARES Act. The CARES Act, among other matters, resulted in expansion of SBA Lending Programs; provided for a financial election to suspend GAAP principles and regulatory determinations for COVID-19 related loan modifications that would otherwise be deemed Troubled Debt Restructuring; gave the FDIC authority to establish a temporary Debt Guarantee Program for bank liabilities; delayed Current Expected Credit Losses (CECL) compliance; reduced the Community Bank Leverage Ratio to 8% to eliminate risk-based capital compliance for banks under $10 billion; required credit furnishers that agree to deferred loan payments, forbearance on a delinquent account, or any other relief during the national emergency to report accounts as current to Credit Reporting Agencies; and defined forbearance requirements and terms for single family and multi-family loans backed by federal government agencies or government sponsored entities due to COVID-19 financial hardship. Of immediate and significant importance was the rollout of the SBA Paycheck Protection Program (PPP). The PPP authorized lending of up to $350 billion in 100% guaranteed 7(a) loans to cover payroll costs, interest on mortgage payments, rent obligations, and utilities. The PPP provided a guaranteed loan for which a portion of the loan up to or equal to 8 weeks of covered payroll and specific operating expenses can be forgiven. The maximum loan size was capped at the lessor of 250% of the average monthly payroll costs or $10 million.

In April 2020, legislation known as the Paycheck Protection Program and Health Care Enhancement Act provided additional funding to replenish and supplement key programs under the CARES Act. Included in this legislation was the extension of the PPP with an additional $320 billion in funding. At least $60 billion of this funding was to be set aside for small and midsize banks and community lenders. Since April, the SBA has issued various Interim Final Rules to supplement and clarify matters involving the PPP. The Paycheck Protection Program Flexibility Act of 2020 (PPPFA) was enacted in early June 2020. This provided more flexibility to Borrowers regarding use of PPP loan funds. Certain provisions were retroactive to the date of the CARES Act and all PPP loans. Among these provisions were the extension of the covered period of the loan, extension of the forgiveness period, deferral of payments based on the loan forgiveness period, reduction in the minimum that must be spent for payroll costs, extended date by which employees must be rehired, and removal of restrictions on payroll tax deferral. The term for subsequent PPO loans made after enactment of the PPPFA was extended to five years from two. A primary focus is now directed to aiding PPP borrowers in navigating the loan forgiveness process.

Additionally, the PPP was reauthorized with passage of the Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues Act. It was originally intended to run through March 31, 2021 and was subsequently extended to May 31, 2021. Under the new legislation, $284 billion in funding for first and second-time PPP loan borrowers was provided to the SBA. Three categories of businesses were eligible to apply for PPP: 1) qualified business that did not receive a PPP loan during the first funding round; 2) previous PPP loan recipients who need a second loan and meet certain criteria; previous PPP loan recipients who returned all or a portion of their original loans and want to apply to additional funding. To be eligible, any business applying for PPP must have been in operation since at least February 15, 2020. Specific eligibility criteria applied to first-time PPP borrowers and previous PPP loan recipients. For 2021, PPP provides expanded coverage for expenditures in addition to covered payroll and specific operating expenses. For second-time loan recipients, the maximum loan amount was reduced from $10 million to $2 million. A loan recipient was eligible for full loan forgiveness if at least 60% of the loan amount is spent on payroll costs. Funds must be spent over a covered period of the loan recipients' choosing between eight and 24 weeks after loan origination to be eligible for forgiveness. Depending on the continued duration of COVID-19 spread, further legislation and regulatory guidance may continue due to the economic impact on customers, businesses, communities, and industry sectors.

The Coronavirus Response and Relief Supplemental Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act and affected the Company into 2021. Key banking provisions under this legislation include the following:

- Provided an additional $284.6 billion in Paycheck Protection Program (PPP) funding for loans to small businesses, including for borrowers who have previously received a PPP loan.
- A one-page simplified forgiveness process for PPP loans under $150,000.
- Clarification to various CARES Act provisions, the tax treatment of PPP expenses, lender responsibilities for agent fees, and lender "hold harmless" protections under the PPP and other laws.
- A further delay in Troubled Debt Restructuring (TDR) accounting until 60 days after the termination of the national emergency, or January 1, 2022. During third quarter 2021, there was one loan modification for $3.1 million that would have been previously treated as TDR under the guidance in ASC 310-40.
- A further optional delay in Current Expected Credit Loss (CECL) accounting until January 1, 2022 which was further delayed until January 1, 2023.
- A new round of Economic Impact Payments (EIPs) for consumers, with aggressive distribution timelines and new exemptions from garnishments.
- Significant added support for Community Development Financial Institutions (CDFIs) and Minority Depository Institutions (MDIs).
- Funding for agricultural support programs and for renter assistance programs.
- Termination of existing Federal Reserve emergency lending authority under the CARES Act, while preserving the Fed's general 13(3) emergency authority existing prior to that Act.

In December 2020, new Qualified Mortgage (QM) Definition rules were issued by the Consumer Financial Protection Bureau. One set of rules revised the General QM definition and another set added the definition of a Seasoned QM Loan. Both QM Loan rules originally had an effective date of March 1, 2021. The revised General QM rule replaced the General QM loans definition of a 43% debt-to-income (DTI) limit with a focus on the loan pricing and whether the Annual Percentage Rate exceeds the average prime offer rate by less than 2.25 percentage points. Compliance with the revised General QM Loan rule had a mandatory compliance date of July 1, 2021. The existing Temporary Government Sponsored Entity (GSE) QM option was set to expire as of the mandatory compliance date for the revised General QM Rule. Subsequently, the CFPB issued a final rule published in the Federal Register on April 30, 2021 which delayed and extended the mandatory compliance date for the revised General QM rule to October 1, 2022. The Company complies with the revised price-based new General QM Loan definition and its requirements. Since the Company sells fixed rate consumer mortgage loans to the Federal Home Loan Mortgage Corporation, it must remain attentive to their current loan underwriting requirements.

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

Lenders that originated at least 2,500 small business loans annually must begin data collection on October 1, 2024. Lenders that originated at least 500 small business loans annually will be required to begin data collection as of April 1, 2025. For those Lenders that originated at least 100 small business loans annually, data collection will be required to begin as of January 1, 2026. The Bank conducted a preliminary assessment based on the number of covered loans originated in 2022. Based on the preliminary assessment, the Bank would be subject to the data collection requirements as of April 1, 2025. Data collection and reporting of small business loans does not include nonprofit or government entities or businesses with gross annual revenues that exceed $5 million. Additionally, data collection involves demographic information collected from a loan applicant regarding that applicant's status as a minority-owned business, a women-owned business, and an LGBTQI+-owned business, as well as the applicant's principal owners' ethnicity, race, and sex. Applicants can refuse to provide demographic information. Implementation of these final rules will involve significant changes to processes and procedures in conjunction with new software configurations to accommodate and capture required data points regarding applications and final action taken. Presently, the Bank's compliance data for commencement of small business lending data collection is uncertain. A lawsuit filed in May 2023 by the Texas Bankers Association and Rio Bank based in McAllen, Texas in the Southern District of Texas challenged the CFPB's final rule implementing Section 1071 of the Dodd-Frank Act. Shortly thereafter, the American Bankers Association joined the lawsuit as a plaintiff. The argument is the final rule far exceeded the statutory scope of Section 1071, failed to take into consideration relevant industry comments, and did not conduct appropriate cost-benefit analysis. Additionally, the constitutionality of the CFPB was challenged based on its funding structure, and which is based upon another pending lawsuit which is awaiting a hearing by the U.S. Supreme Court regarding CFPB's funding. An injunction was granted by a federal judge in the Southern District of Texas banning the CFPB from requiring Rio Bank, and members of both the Texas Bankers Association and the American Bankers Association from complying with the final rules implementing Section 1071 of the Dodd-Frank Act until the Supreme Court of the United States rules on the CFPB's funding. As a member of the American Bankers Association, the Bank is presently impacted by the injunction on implementation of the Section 1071 final rule.

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

Agricultural Real Estate Servicing Rights are included in Servicing Rights. The Company has contracted with a third party to assist in the calculation of the valuation of the Agricultural Real Estate Servicing Rights.

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

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

The net income from operations of foreclosed real estate held for sale is reported either in noninterest income or noninterest expense depending upon whether the property is in a gain or loss position overall. At September 30, 2023, December 31, 2022, and September 30, 2022 there were no OREO property holdings.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs. Accrued interest receivable totaled $10.8 million at September 30, 2023 and was reported in Other Assets on the Condensed Consolidated Balance Sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipation repayments.

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

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

The ACL represents management’s estimate of probable credit losses inherent in the Bank’s loan portfolio, unfunded loan commitments, and letters of credit 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 Bank’s methodology provides an estimate of the probable credit losses either by calculating a specific loss per credit or by applying our methodology to groupings based on similar risk characteristics.

The loan portfolio was grouped based on loans with similar risk characteristics. The following groupings are utilized in the CECL calculation:

Multifamily	Farmland
Single Family HELOC	Acquired: Commercial & Industrial
Construction & Land	Impaired: Construction & Land
Commercial Real Estate	Impaired: Consumer
Consumer	Impaired: Commercial Real Estate
Single Family Sr Lien	Impaired: Single Family Sr Lien
Single Family Jr Lien	Impaired: Single Family Jr Lien
Commercial & Industrial	Impaired: Commercial & Industrial
Agriculture	Acquired: Agriculture
Commercial Real Estate: Construction & Land	Acquired: Single Family HELOC
Paycheck Protection Program - 100%: C&I	Acquired: Construction & Land
Acquired: Commercial Real Estate	Impaired: Farmland
Acquired: Single Family Sr Lien	Impaired: Single Family HELOC
Acquired: Single Family Jr Lien	Impaired: Agriculture
Acquired: Farmland	
Acquired: Consumer	
Acquired: Multifamily	

All groups use the average charge-off method for calculating the ACL.

Groups using the average charge-off method utilize a 20-year lookback historical loss period. This includes several economic cycles and is more appropriate for real estate secured assets. Due to the Company's loss history not being sufficient and relevant enough to predict future losses, the Company is utilizing peer data from a peer group of 327 banks in the region with asset sizes less than $5 billion. The Company will compare our loan loss reserves against peer to determine if we are in line with the group. The Company's loan portfolio has changed significantly as loan growth has occurred. Thus, we don't deem the Company's historical portfolio to be quite as indicative of the future portfolio and, subsequently, loss exposure.

The reserves are calculated at the loan level and based on the note characteristics, essentially balances times loss rate + Q-factors + forward look, with the forward looking forecast eliminated after 12 months. As a percentage, the reserves are the highest against construction and land loans due to the life of loan being down and several larger loans being converted to permanent financing and therefore coming out of the construction bucket during 2023 thus affecting the reserves. The second largest reserve pool is the CRE construction and land loan, as these are loans that will convert to normal CRE loans after construction with permanent financing already in place, typically based on some leases signed before construction starts to reduce the risk profile of the loan. CRE loans are naturally reserved higher than multifamily loans given the stability in the multifamily sector. Ag loans have a low overall reserve, but they also have the lowest loss rates. Commercial and industrial loans have a lower reserve than CRE considering the average life of loan is much less (i.e., shorter amortization and lines of credit). The other loan groups did not have material changes during the quarter. We expect the Construction groups to have the most variability in the reserve, though having those higher reserves is important during this environment of construction delays and overruns.

In order to provide a consistent and supportable forward looking forecast from period-to-period, management is performing a regression analysis of the (Bank's/State's) historical loss rates against the following Federal Open Market Committee (FOMC) quarterly economic projections for Change in real GDP and National Unemployment. Annual projections are broken down using a straight-line approach for quarterly changes. Accounting guidance indicates the forecast period should be reasonable and supportable. Management believes that a forecast period of 12 months is reasonable as one year corresponds to the expected change in Fed policy given the current spreads between 1- and 10-year T-bills, the Company has annual line of credit maturities on many credits which gives the Company the ability to reassess risk, and the economic forecast in general is usually only feasible out to one year.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. 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.

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

Inherent in most estimates is imprecision. Bank regulatory agencies and external auditors periodically review the Bank's methodology and adequacy of the ACL. Any required changes in the ACL or loan charge-offs by these agencies or auditors may have a material effect on the ACL. For more information regarding the estimates and calculations used to establish the ACL please see Note 4 to the consolidated financial statements provided herewith.

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 categories of off-balance sheet exposures are the same as the categories for the ACL presented prior. The construction funding assumptions for the first six months were based on a sample of loans in the portfolio and their weighted average draw percentages. The remaining amounts are assumed to be drawn during the second six months. For all term loan groupings that are solely term loans, (e.g., CRE, Single Family, Farmland and Consumer), we have assumed 50% funded months 0-6 and 100% thereafter. For HELOC, we forecast utilization will return to 2019's level of 46% (pre-pandemic), which would result in a 9% increase - we have straight-lined that over the next year. For Agriculture loans, we assume 17% funding in the next six months, 21% funding in the next twelve months and 25% funding after a year. For C&I loans, we assume 6% funding in the next six months, 8% funding in the next twelve months and 11% funding after a year. As the Company adjusted funding assumptions, it did not have material effects on the calculation. We have utilized internal data to make these assumptions, which we believe is representative of our portfolio.

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

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

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

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

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

The Bank's servicing rights relating to loans serviced for others represent an asset. This asset is initially capitalized and included on the Company's Condensed Consolidated Balance Sheets. The servicing rights are then amortized as noninterest expense in proportion to, and over the period of the estimated future net servicing income of the underlying servicing rights. There are a number of factors, however, that can affect the ultimate value of the servicing rights to the Bank. The expected and actual rates of ag loans and single 1-4 family loan prepayments are the most significant factors driving the potential for the impairment of the value of servicing assets. Increases in loan prepayments reduce estimated future net servicing cash flows because the life of the underlying loan is reduced, meaning that the present value of the servicing rights is less than the carrying value of those rights on the Bank's balance sheet.

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

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

The accuracy of these estimates and assumptions by management and its third party valuation specialist can be directly tied back to the fact that management has only been required to record minor valuation allowances through its income statement over time based upon the valuation of each stratum of servicing rights.

MATERIAL CHANGES IN FINANCIAL CONDITION, LIQUIDITY AND CAPITAL RESOURCES

The Company had begun to experience a slowdown in its growth mode last quarter and it slowed even further in the third quarter. It is partly due to a natural decrease in borrowers loan demand as higher interest rates have made projected capital outlays too costly. The Bank has also experienced a more challenging environment in which to raise lower cost core deposits. Therefore, we also chose to participate out a portion of our larger loans with other financial institutions, both new loans and some existing. The Bank has also maintained an emphasis on servicing existing clients and focus on prudent growth within our newer markets. The Bank is focused on funding the loan growth with the least expensive source of deposits or borrowings. While securities are generally considered as a source of cash, in the current environment, it is unlikely that they would be sold for such funding needs. Growing deposits will be a focus especially in our newer markets. The Bank offers the Insured Cash Sweep ("ICS") product accessed through the IntraFi network of financial institutions which helps to reduce the amount of pledged securities. This has provided more availability for runoff of securities by the Bank if warranted to fund loan growth.

As the competition for deposits has increased, the Company has increased emphasis on its liquidity position. The frequency of management liquidity meetings was increased to weekly in order to be more responsive to opportunities and threats as they arise. These have proven to be very beneficial and will continue throughout year end. Additional capacity has also been created through enrollment and pledging $60.5 million of securities, having a par value of $71.9 million, to the Federal Reserve's Bank Term Funding Program (BTFP). The BTFP collateral values are based on the par value of the securities rather than the fair values most other lenders utilize. Currently, par values are higher than fair value which results in a higher available balance for borrowings. As of September 30, 2023, the Company had not utilized any funding from the BTFP.

Liquidity in terms of cash and cash equivalents ended $68.8 million higher as of September 30, 2023 than it was at December 31, 2022. Cash and cash equivalents increased $82.0 million over June 30, 2023. Prior year's excess liquidity along with an increase of Federal Home Loan Bank advances of $138.8 million helped to fund the $168.3 million increase in net loans since year end 2022. All loan portfolios with the exception of the Agricultural portfolio and Consumer portfolio increased compared to December 31, 2022 with the largest increase in the commercial real estate portfolio.

In comparing to the same prior year period, the September 30, 2023 (net of deferred fees and cost) loan balances of $2.5 billion accounted for $387.0 million or 18.1% increase when compared to 2022's $2.1 billion. The year over year improvement was made up of a combined increase in commercial and industrial related loans of 20.2%. Individual growth was comprised of 22.6% in commercial real estate loans and 9.3% in non-real estate commercial loans. Consumer real estate loans increased by 23.3% and consumer loans by 18.0%. Agricultural related loans increased 4.7% year over year. Individual growth was comprised of 10.1% in agricultural real estate partially offset by a decrease of 3.8% in non-real estate agricultural loans. Other loans increased by 1.4%. The Company credits the growth to the strong team of lenders focused on providing customers valuable localized services and thereby increasing our market share. The acquisition of Peoples Federal Savings and Loan Association in the fourth quarter of 2022 brought $101.8 million of loans to the portfolio. See Note 2 to the consolidated financial statements.

The chart below shows the breakdown of the loan portfolio category as of September 30, for the last three years, net of deferred fees and costs.

	(In Thousands)		
	September 30, 2023 Amount	September 30, 2022 Amount	September 30, 2021 Amount
Consumer Real Estate	$ 512,990	$ 416,044	$ 202,370
Agricultural Real Estate	225,370	204,787	179,051
Agricultural	123,971	128,818	105,722
Commercial Real Estate	1,301,614	1,061,904	727,418
Commercial and Industrial	250,756	229,338	194,286
Consumer	83,822	71,063	55,619
Other	31,083	30,662	31,096
Total Loans, net of deferred fees and costs	$ 2,529,606	$ 2,142,616	$ 1,495,562

The following is a contractual maturity schedule by major category of loans excluding fair value adjustments as of September 30, 2023.

	(In Thousands)			
	Within One Year	After One Year Within Five Years	After Five Years Within Fifteen Years	After Fifteen Years
Consumer Real Estate	$ 10,911	$ 32,484	$ 152,335	$ 321,728
Agricultural Real Estate	432	4,911	66,767	154,302
Agricultural	54,943	43,568	21,907	3,352
Commercial Real Estate	58,782	409,025	604,326	232,164
Commercial and Industrial	92,537	107,615	50,437	839
Consumer	1,635	51,034	30,477	98
Other	2,844	1,527	17,134	9,584

Management feels confident that liquidity needs for future growth can be met through additional maturities from the security portfolio, increased deposits and additional borrowings. For short term needs, the Bank has $118 million and $73 million of unsecured borrowing capacity through its correspondent banks as of September 30, 2023 and December 31, 2022, respectively. The Bank also had access to $150.1 million and $130.4 million through a Cash Management Advance with the Federal Home Loan Bank as of September 30, 2023 and December 31, 2022, respectively. The Bank's borrowing capacity limits at the Federal Home Loan Bank would have allowed draws on the Cash Management Advance of $37.5 million and $2.0 million at September 30, 2023 and December 31, 2022, respectively. Additionally, the Bank had a borrowing capacity under the BTFP of $71.9 million at September 30, 2023.

While the security portfolio has been utilized to fund loan growth in previous periods, additional sources have been cultivated during 2021, 2022, and 2023. The security portfolio decreased $42.5 million in the first nine months of 2023 from year end 2022 due to the sale of $22.0 million of securities and a $1.6 million increase in unrealized losses. The security portfolio decreased $47.2 million from September 2022 due to an increase of gross unrealized losses of $2.2 million and the aforementioned sale. The amount of pledged investment securities increased by $110.7 million as compared to year end and $112.5 million as compared to September 30, 2022. As of September 30, 2023, pledged investment securities totaled $245.5 million.

An additional $37.5 million is also available to the Bank from the Federal Home Loan Bank based on current amounts of pledged collateral. At the present time, only 1-4 family, home equity, commercial real estate portfolios and specific securities are pledged.

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 increased 7.3% since year end 2022 and grew 16.2% since September 30, 2022. The largest growth in both periods was in the loan portfolios. Goodwill also increased $5.9 million compared to September 30, 2022. Refer to Note 2 for information on assets acquired from PPSF.

Federal Home Loan Bank advances accounted for the largest growth within liabilities, up 108.9% or $138.8 million since year end and 160.7% or $164.1 million over September 30, 2022 balances. Deposits increased, 4.3% or $106.4 million since year end 2022 and increased 12.8% or $292.2 million over September 30, 2022. The mix of deposits saw an increases in time deposits and NOW accounts since December 31, 2022. Noninterest-bearing accounts and savings accounts saw decreases from December 31, 2022. Refer to Note 2 for information on liabilities acquired from PPSF. As of September 30, 2023, total uninsured deposits of the Bank were $232.8 million, or 9.11% of total deposits. If the amount of coverage is adjusted for what is insured by FDIC alone, the percentage is 18.8%, or $481.7 million of uninsured deposits as of September 30, 2023. The underlying difference between these two percentages is the protection required for public funds which the Bank uses securities to pledge in Ohio and in Indiana, a state insurance fund exists.

On July 30, 2021, the Company announced the completion of 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. The Company used the net proceeds from the Offering for general corporate purposes, including financing acquisitions and organic growth.

Shareholders' equity increased by $5.0 million as of the third quarter of 2023 compared to year end 2022. Earnings exceeded dividend declarations during the nine months ended September 30, 2023. Accumulated other comprehensive loss increased in unrealized loss position by $1.3 million from December 2022 to an unrealized loss of $39.5 million on September 30, 2023. A portion of this decrease is attributable to the aforementioned sale of securities making the loss realized in the first quarter 2023. 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 is over $2.5 million. Dividends declared remained unchanged from the previous quarter at $0.21 per share. Compared to September 30, 2022, shareholders' equity increased 8.1% or $22.6 million. Profits were lower year to date September 2023 than year to date September 2022 by $8.1 million.

Basel III regulatory capital requirements include a capital conservation buffer of 2.5%. As of September 30, 2023, the Company and the Bank are both positioned well above the current requirement.

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

The Bank continues to be well-capitalized at September 30, 2023 in accordance with Federal regulatory capital requirements as the capital ratios below show:

Tier I Leverage Ratio	8.80 %
Risk Based Capital Tier I	10.87 %
Total Risk Based Capital	11.85 %
Stockholders' Equity/Total Assets	10.12 %
Capital Conservation Buffer	3.85 %

MATERIAL CHANGES IN RESULTS OF OPERATIONS

<u>Comparison of Results of Interest Earnings and Expenses for three month periods ended September 30, 2023 and 2022</u>

Interest Income

When comparing third quarter 2023 to third quarter 2022, average loan balances with the acquisitions of PPSF grew $454.4 million. This represented a 21.8% increase in a one-year time period. Interest income on loans increased $9.7 million as compared to the quarter ended September 30, 2022. During the current quarter, the Company reversed loan interest income from one relationship in the amount of approximately $492 thousand of which approximately $324 thousand was previously recognized in prior periods. The current quarter also included loan income of $594 thousand from the recovery of two acquired relationships that had been fully charged off prior to acquisition. The Company's loan portfolio is 29.9% variable with 13.3% of total loans repricing within the next three months.

The available-for-sale securities portfolio decreased in average balances by $29.5 million when comparing to the same quarter in 2022 while the income increased $128 thousand over third quarter 2022. Federal funds sold and interest-bearing deposits increased in average balances by $27.2 million as compared to the same quarter in 2022 with increased income of $720 thousand for the current quarter. The increased balances are the result of the focus on liquidity and deposit generation. Refer to Note 2 Business Combination and Asset Purchase for information on assets acquired from PPSF.

The overall total average balance of the Bank's earning assets increased by $452.1 million and interest income for the quarter comparisons was higher for third quarter 2023 by 40.7% or $10.5 million as compared to third quarter 2022. Increases in the prime lending rate between periods has contributed to approximately 49.9% of the growth.

Annualized yield, for the quarter ended September 30, 2023, was 4.79% as compared to 4.00% for the quarter ended September 30, 2022. The following charts demonstrate increased loan balances accounted for 54.5% of the increased loan interest income while rate increases accounted for the remaining 45.5%. 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 $133 and $158 thousand for the third quarter 2023 and 2022 which resulted in a federal tax savings of $28 and $33 thousand, respectively.

	(In Thousands)		Annualized Yield/Rate	
	Quarter to Date Ended September 30, 2023			
Interest Earning Assets:	Average Balance	Interest/Dividends	September 30, 2023	September 30, 2022
Loans	$ 2,536,885	$ 33,783	5.33 %	4.63 %
Taxable investment securities	393,910	1,559	1.58 %	1.35 %
Tax-exempt investment securities	23,986	84	1.77 %	1.79 %
Fed funds sold & other	85,515	933	4.36 %	1.46 %
Total Interest Earning Assets	$ 3,040,296	$ 36,359	4.79 %	4.00 %

Change in Interest Income Quarter to Date September 30, 2023 Compared to September 30, 2022

	(In Thousands)		
Interest Earning Assets:	Total Change	Change Due to Volume	Change Due to Rate
Loans	$ 9,664	$ 5,264	$ 4,400
Taxable investment securities	133	(96)	229
Tax-exempt investment securities	(5)	(5)	-
Fed funds sold & other	720	100	620
Total Interest Earning Assets	$ 10,512	$ 5,263	$ 5,249

Interest Expense

Outpacing the higher interest income improvement for the quarter was an increase in interest expense in 2023 of $13.4 million or 411.6% compared to third quarter 2022. Since 2022, average interest-bearing deposit balances have increased $283.0 million or 16.2% and the Company recognized $11.2 million more in interest expense for the most recent quarter. March 2022 saw the first rate change by the Federal Reserve since March of 2020 with an increase of 25 basis points which was followed by an increase of 50 basis points in May and four increases of 75 basis points in June, July, September and November with a final 50 basis point increase in December. To date in 2023, there have been four increases of 25 basis points in February, March, May and July. Deposit rates have been adjusted numerous times with all the rate increases. Interest expense on FHLB borrowings and other borrowings increased $2.3 million in the third quarter 2023 over the same time frame in 2022 due to borrowings taken on from the Peoples acquisition and new FHLB borrowings in 2022 and 2023 used to fund loan growth. Interest expense on fed funds purchased and securities sold under agreement to repurchase decreased $67 thousand compared to third quarter 2022 due to the decrease of $29.3 million in average balances which was partially offset by increased interest rates. Another factor in the increased cost of funds is the change in the mix of funding. More growth has occurred in interest bearing deposit balances supplemented with increased borrowings. The Bank continues to focus on capturing the full customer relationship; however, it has resulted in more expensive deposits being brought in. The average cost of funds increased to 2.82% in third quarter 2023 compared to 0.68% in third quarter 2022. Refer to Note 8 for additional information on subordinated notes. Liabilities assumed from PPSF can be seen in Note 2.

	(In Thousands)		Annualized Yield/Rate	
	Quarter to Date Ended September 30, 2023			
Interest Bearing Liabilities:	Average Balance	Interest	September 30, 2023	September 30, 2022
Savings deposits	$ 1,367,168	$ 7,673	2.24 %	0.48 %
Other time deposits	667,880	5,650	3.38 %	0.55 %
Other borrowed money	266,467	2,741	4.11 %	2.63 %
Fed funds purchased & securities sold under agreement to repurchase	34,128	349	4.09 %	2.63 %
Subordinated notes	34,654	284	3.28 %	3.29 %
Total Interest Bearing Liabilities	$ 2,370,297	$ 16,697	2.82 %	0.68 %

Change in Interest Expense Quarter to Date September 30, 2023 Compared to September 30, 2022

Interest Bearing Liabilities:	Total Change	Change Due to Volume (In Thousands)	Change Due to Rate
Savings deposits	$ 6,087	$ 46	$ 6,041
Other time deposits	5,070	334	4,736
Other borrowed money	2,343	1,356	987
Fed funds purchased & securities sold under agreement to repurchase	(67)	(192)	125
Subordinated notes	-	1	(1)
Total Interest Bearing Liabilities	$ 13,433	$ 1,545	$ 11,888

Overall, net interest spread for the third quarter 2023 was 135 basis points lower than last year. As the following chart indicates, the improvement in yields on interest earning assets did not offset the increased cost of funds when comparing to the same period a year ago. Competition for deposits is intense with most competitors offering special rates for specific terms.

	September 30, 2023	September 30, 2022	September 30, 2021
Interest/Dividend income/yield	4.79%	4.00%	3.85%
Interest Expense/cost	2.82%	0.68%	0.45%
Net Interest Spread	1.97%	3.32%	3.40%
Net Interest Margin	2.59%	3.49%	3.53%

Net Interest Income

Net interest income decreased $2.9 million for the third quarter 2023 over the same time frame in 2022 with the increase in interest income of $10.5 million offset by the higher interest expense of $13.4 million as previously mentioned. As the new loans added in 2022 and 2023 generate more income, management expects the benefits of the Company’s strategy of repositioning the balance sheet to increase interest income in the long run. Loans as a percentage of earning assets increased to 83.4% in third quarter 2023 compared to 80.5% in third quarter 2022. Loans to total assets increased to 78.8% in third quarter 2023 compared to 76.1% for the same period 2022. The percentage of earning assets to total assets decreased slightly to 94.4% in 2023 compared to 94.5% in 2022. In terms of net interest margin, the Bank recognizes competition for deposits continues to increase with higher interest rates putting pressure on the margin which may lead to a further tightening in the short term.

<u>Comparison of Noninterest Results of Operations for three month periods ended September 30, 2023 and 2022</u>

Provision Expense

The Allowance for Credit Losses (ACL) has a direct impact on the provision expense. The increase in the ACL is funded through recoveries and provision expense. The following tables both deal with the allowance for credit losses. The first table breaks down the activity within ACL for each loan portfolio class and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs. The second table discloses how much of the ACL is attributed to each class of the loan portfolio, as well as the percent that each particular class of the loan portfolio represents to the entire loan portfolio in the aggregate. The consumer loan portfolio accounted for the largest component of recoveries and charge-offs for three months ended September 30, 2023 and 2022. The commercial real estate portfolio is currently creating a large impact on the ACL due to the loan growth.

Total provision for credit losses was $1.2 million lower for the three months ended September 30, 2023 as compared to the same period in 2022. 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 $25 thousand higher during the three months ended September 30, 2023 than the same period in 2022. Recoveries were $3 thousand higher during the three months ended September 30, 2023 as compared to same period in 2022. Combined net charge-offs were $22 thousand higher in the three months ended September 30, 2023 than the same time period 2022.

Loans past due 30 or more days increased $3.9 million at September 30, 2023 as compared to September 30, 2022. The largest changes were attributed to the increase of past due balances in the agricultural portfolio and consumer real estate portfolio.

The following table breaks down the activity within the ACL for each loan portfolio class and shows the contribution provided by both recoveries and the provision, along with the reduction of the allowance caused by charge-offs. The time period covered is for the three months ended September 30, 2023 , 2022, and 2021.

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

	(In Thousands)		
	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Three Months Ended September 30, 2021
Loans, net of deferred fees and costs	$ 2,529,606	$ 2,142,616	$ 1,495,562
Daily average of outstanding loans	$ 2,536,885	$ 2,082,486	$ 1,490,988
Nonaccrual loans	$ 22,447	$ 5,470	$ 6,248
Nonperforming loans*	$ 22,447	$ 5,470	$ 6,248
Allowance for Credit Losses - July 1,	$ 24,910	$ 18,424	$ 15,087
Adjustment for accounting change	-	-	-
Loans Charged off:			
Consumer Real Estate	-	-	2
Agriculture Real Estate	-	-	-
Agricultural	-	-	1
Commercial Real Estate	-	-	-
Commercial and Industrial	-	-	5
Consumer	148	123	95
	148	123	103
Loan Recoveries:			
Consumer Real Estate	14	6	3
Agriculture Real Estate	1	-	-
Agricultural	-	1	1
Commercial Real Estate	1	2	3
Commercial and Industrial	6	8	9
Consumer	33	35	39
	55	52	55
Net Charge Offs (Recoveries):			
Consumer Real Estate	(14)	(6)	(1)
Agriculture Real Estate	(1)	-	-
Agricultural	-	(1)	-
Commercial Real Estate	(1)	(2)	(3)
Commercial and Industrial	(6)	(8)	(4)
Consumer	115	88	56
	93	71	48
Provision for Credit Losses	460	1,637	659
Allowance for Loan Losses - September 30,	25,277	19,990	15,698
Allowance for Unfunded Loan Commitments & Letters of Credit - September 30,	2,023	1,118	1,039
Total Allowance for Credit Losses - September 30,	$ 27,300	$ 21,108	$ 16,737
Ratio of Net Charge-offs to Average Outstanding Loans	0.00 %	0.00 %	0.00 %
Ratio of Nonaccrual Loans to Loans	0.89 %	0.26 %	0.42 %
Ratio of the Allowance for Loan Losses to Loans	1.00 %	0.93 %	1.05 %
Ratio of the Allowance for Loan Losses to Nonaccrual Loans	112.61 %	365.44 %	251.26 %
Ratio of the Allowance for Loan Losses to Nonperforming Loans*	112.61 %	365.44 %	251.26 %

Loans classified as nonaccrual were higher as of September 30, 2023 at $22.4 million as compared to $5.5 million as of September 30, 2022. The agricultural portfolio and agricultural real estate portfolios saw the largest increases while the commercial real estate portfolio decreased as compared to September 30, 2022. The increases in the agricultural portfolio and the agricultural real estate portfolio resulted from two borrower relationships where the Bank is well collateralized.

The following table presents the balances for allowance for credit losses by loan type at September 30, 2023 and September 30, 2022.

	(In Thousands) September 30, 2023		(In Thousands) September 30, 2022	
Balance at End of Period Applicable To:	Amount	% of Loan Category	Amount	% of Loan Category
Consumer Real Estate	$ 3,842	15.20 %	$ 926	19.42 %
Agricultural Real Estate	315	1.25 %	356	9.56 %
Agricultural	185	0.73 %	756	6.01 %
Commercial Real Estate	16,805	66.48 %	11,551	49.56 %
Commercial and Industrial	2,708	10.71 %	5,670	12.13 %
Consumer	1,422	5.63 %	725	3.32 %
Unallocated	-	0.00 %	6	0.00 %
Allowance for Loan Losses	25,277		19,990	
Off Balance Sheet Commitments	2,023		1,118	
Total Allowance for Credit Losses	$ 27,300		$ 21,108	

Noninterest Income

Noninterest income was down $68 thousand for the three months ended September 30, 2023 over the same time frame in 2022. Combined service fees decreased by $35 thousand as compared to the three months ended September 30, 2022. Servicing rights income for 1-4 family and agricultural real estate loans increased $103 thousand as compared to the same period in 2022. Debit card income increased by $48 thousand and bank owned life insurance cash surrender value increased $45 thousand. Overdraft and returned check charges increased $26 thousand compared to the three months ended September 30, 2022. Fee income from credit cards increased by $18 thousand as compared to 2022.

The Company has seen a decrease in its mortgage production volume due to the heightened borrowing costs and continued lack of housing inventory in many of our markets. The gain on the sale of these loans was $33 thousand lower for the three months ended September 30, 2023 over the same period in 2022. Loan originations on loans held for sale for the three months ended September 30, 2023 were $11.4 million with proceeds from sale at $12.1 million for 2023 compared to 2022's activity of $14.2 million in originations and $16.6 million in sales. The mortgages sold were both 1-4 family and agricultural real estate loans originated for sale.

The impact of servicing rights, both to income and expense, is shown in the following table which reconciles the value of servicing rights. The capitalization runs through noninterest income while the amortization thereof is included in noninterest expense. For the nine months ended September 30, 2023 and 2022, servicing rights caused a net $2.1 million in income and $13 thousand in income, respectively. The higher capitalized additions for 2023 are attributed to $2.3 million of rights related to agricultural loans. Amortization of agricultural loan servicing rights was $62 thousand for the first nine months of 2023. For loans of 15 years and less, the market value of the servicing rights was 1.057% in the third quarter 2023 versus 0.988% in third quarter 2022. For loans over 15 years, the value was 1.176% versus 1.299% for the same periods respectively. A valuation allowance of $414 thousand was established during 2021. During the first quarter of 2022, $134 thousand of the valuation allowance was reversed with an additional $91 thousand of the valuation reversed during second quarter 2022. In the third quarter of 2022, $188 thousand of the valuation was reversed. As of September 30, 2023, the carrying value of two strata were slightly below the market value requiring a $3 thousand valuation allowance to be established.

	Three Months (In Thousands)		Nine Months (In Thousands)	
	2023	2022	2023	2022
Beginning Balance	$ 5,637	$ 3,615	$ 3,549	$ 3,571
Capitalized Additions	158	107	2,567	461
Amortization	(105)	(138)	(426)	(448)
Ending Balance, September 30,	5,690	3,584	5,690	3,584
Valuation Allowance	(3)	(1)	(3)	(1)
Servicing Rights net, September 30,	$ 5,687	$ 3,583	$ 5,687	$ 3,583

Noninterest Expense

For the three months ended September 30, 2023, noninterest expenses were $3.6 million higher than for the same period in 2022. Salaries, wages, and employee benefits (includes normal merit increases, restricted stock expense, incentive payout and all employee benefits) increased $2.0 million in total. This was comprised of increased salaries of $1.3 million and increased benefits of $674 thousand of which $458 thousand is related to medical, $116 thousand to pension and $15 thousand for workers compensation. The increase was due to the investment in people for our strategic growth initiative and staffing of new offices. The additional cost of the offices is also evident in the increased expenses in net occupancy and furniture and equipment. Advertising and public relations expense increased $287 thousand. Data processing expenses increased $59 thousand. FDIC assessment expense increased $315 thousand.

Income Taxes

Income tax expense was $1.1 million lower for the three months ended September 30, 2023 compared to the same period in 2022 based mainly on lower earnings. Effective tax rates were 19.01% and 20.10% for 2023 and 2022 respectively.

Net Income

Results overall, net income in the three months ended September 30, 2023 was down $4.2 million as compared to the same period last year. The Company remains strong, stable, and well capitalized and has the capacity to continue to cover the increased costs of expansion.

<u>Comparison of Results of Interest Earnings and Expenses for nine month periods ended September 30, 2023 and 2022</u>

Interest Income

When comparing the nine months ended September 30, 2023 and September 30, 2022, average loan balances with the acquisitions of PPSF grew $473.7 million. This represented a 23.7% increase in a one-year time period. Interest income on loan balances increased $27.9 million as compared to the nine months ended September 30, 2022. This increase was partly the result of the growth in the year over year loan balances, 4.9% of which was directly attributable to the Company’s recent acquisition and 13.2% of which was due to organic loan growth within the Bank’s broader markets. During the current quarter, the Company reversed loan interest income from one relationship in the amount of approximately $492 thousand of which approximately $324 thousand was previously recognized in prior periods. The current quarter also included loan income of $594 thousand from the recovery of two acquired relationships that had been fully charged off prior to acquisition. In the second quarter of 2023, the Company reversed previously recognized loan interest income from one relationship in the amount of approximately $463 thousand. The Company's loan portfolio is 29.9% variable with 13.3% of total loans repricing during the remainder of 2023 and 22.3% of total loans repricing within the next twelve months.

The available-for-sale securities portfolio decreased in average balances by $24.9 million when comparing to the same period in 2022 while the income increased $527 thousand over the nine months ended September 30, 2022. Federal funds sold and interest-bearing deposits decreased in average balances by $34.1 million as compared to the same nine month period ended September 30, 2022 with increased income of $1.5 million for the current period. The decreased balances have been used to fund loan growth. During the first quarter of 2023, securities of $21.6 million with an annual yield of $274 thousand were swapped at a loss of $891 thousand with securities with an annual yield of $1.6 million. The loss will be recouped in 0.67 years.

The overall total average balance of the Bank's earning assets increased by $414.7 million and interest income for the period comparisons was higher for the nine months ended September 30, 2023 by 41.7% or $29.9 million as compared to the nine month period ended September 30, 2022. Increases in the prime lending rate between periods has contributed to approximately 48.0% of the growth. Acquisition balances also contributed to the increase in comparison. Refer to Note 2 Business Combination and Asset Purchase for information on assets acquired from PPSF.

Annualized yield, for the nine months ended September 30, 2023, was 4.57% as compared to 3.76% for the comparable period ended September 30, 2022. The following charts demonstrate the increased loan balances accounted for 57.0% of the increased loan interest income while rate increases accounted for the remaining 43.0%. 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 $425 and $445 thousand for the nine months ended September 2023 and 2022 which resulted in a federal tax savings of $89 and $93 thousand, respectively.

	(In Thousands) Year to Date Ended September 30, 2023		Annualized Yield/Rate	
Interest Earning Assets:	Average Balance	Interest/Dividends	September 30, 2023	September 30, 2022
Loans	$ 2,470,770	$ 94,851	5.12 %	4.47 %
Taxable investment securities	396,917	4,544	1.53 %	1.28 %
Tax-exempt investment securities	24,865	277	1.88 %	1.77 %
Fed funds sold & other	67,869	1,866	3.67 %	0.52 %
Total Interest Earning Assets	$ 2,960,421	$ 101,538	4.57 %	3.76 %

Change in Interest Income Year to Date September 30, 2023 Compared to September 30, 2022

	(In Thousands)		
Interest Earning Assets:	Total Change	Change Due to Volume	Change Due to Rate
Loans	$ 27,889	$ 15,893	$ 11,996
Taxable investment securities	479	(268)	747
Tax-exempt investment securities	48	41	7
Fed funds sold & other	1,465	(134)	1,599
Total Interest Earning Assets	$ 29,881	$ 15,532	$ 14,349

Interest Expense

Offsetting the higher interest income for the nine months ended September 30, 2023 was an increase in interest expense of $32.6 million or 439.6% compared to the same period in 2022. Since 2022, average interest-bearing deposit balances have increased $237.9 million or 13.6% and the Company recognized $27.0 million more in interest expense for the most recent nine months. March 2022 saw the first rate change by the Federal Reserve since March of 2020 with an increase of 25 basis points which was followed by an increase of 50 basis points in May and four increases of 75 basis points in June, July, September and November with a final 50 basis point increase in December. To date in 2023, there have been four increases of 25 basis points in February, March, May and July. Deposit rates have been adjusted numerous times with all of the rate increases. Interest expense on FHLB borrowings and other borrowings increased $5.2 million in the nine months ended September 30, 2023 over the same time frame in 2022 due to borrowings taken on from the Peoples acquisition and new FHLB borrowings in 2022 and 2023 used to fund loan growth. Interest expense on fed funds purchased and securities sold under agreement to repurchase increased $447 thousand compared to 2022. The average cost of funds increased to 2.35% for the nine months ended September 2023 compared to 0.53% for the nine months ended September 2022. Liabilities assumed from PPSF can be seen in Note 2.

	(In Thousands) Year to Date Ended September 30, 2023		Annualized Yield/Rate	
Interest Bearing Liabilities:	Average Balance	Interest	September 30, 2023	September 30, 2022
Savings deposits	$ 1,373,110	$ 18,854	1.83 %	0.30 %
Other time deposits	620,071	13,054	2.81 %	0.59 %
Other borrowed money	204,927	6,134	3.99 %	2.34 %
Fed funds purchased & securities sold under agreement to repurchase	37,649	1,181	4.18 %	2.30 %
Subordinated notes	34,625	853	3.28 %	3.23 %
Total Interest Bearing Liabilities	$ 2,270,382	$ 40,076	2.35 %	0.53 %

Change in Interest Expense Year to Date September 30, 2023 Compared to September 30, 2022

	(In Thousands)		
Interest Bearing Liabilities:	Total Change	Change Due to Volume	Change Due to Rate
Savings deposits	$ 15,903	$ 129	$ 15,774
Other time deposits	11,100	803	10,297
Other borrowed money	5,183	2,646	2,537
Fed funds purchased & securities sold under agreement to repurchase	447	(85)	532
Subordinated notes	16	3	13
Total Interest Bearing Liabilities	$ 32,649	$ 3,496	$ 29,153

Overall, net interest spread for the nine months ended September 30, 2023 was 101 basis points lower than last year. As the following chart indicates, the improvement in yields on interest earning assets did not offset the increased cost of funds when comparing to the same period a year ago. Competition for deposits is intense with most competitors offering special rates for specific terms.

	September 30, 2023	September 30, 2022	September 30, 2021
Interest/Dividend income/yield	4.57 %	3.76 %	3.70 %
Interest Expense/cost	2.35 %	0.53 %	0.47 %
Net Interest Spread	2.22 %	3.23 %	3.23 %
Net Interest Margin	2.77 %	3.37 %	3.36 %

Net Interest Income

Net interest income decreased approximately $2.8 million for the nine months ended September 30, 2023 over the same time frame in 2022 with the increase in interest income of $29.9 million offset by the higher interest expense of $32.6 million as previously mentioned. As the new loans added in 2022 and 2023 generate more income, management expects the benefits of the Company’s strategy of repositioning the balance sheet to continue to increase interest income in the long run. Loans as a percentage of earning assets increased to 83.5% for the nine months ended 2023 compared to 78.4% for the nine months ended September 2022. Loans to total assets increased to 78.8% for the nine months ended 2023 compared to 73.9% for the same time period 2022. The percentage of earning assets to total assets increased to 94.4% in 2023 compared to 94.1% in 2022. In terms of net interest margin, the Bank recognizes competition for deposits continues to increase with higher interest rates putting pressure on the margin which may lead to a further tightening in the short term.

Comparison of Noninterest Results of Operations for nine month periods ended September 30, 2023 and 2022

Provision Expense

The Allowance for Credit Losses (ACL) has a direct impact on the provision expense. The increase in the ACL is funded through recoveries and provision expense. The following tables both deal with the allowance for credit losses. The first table breaks down the activity within ACL for each loan portfolio class and shows the contribution provided by both the recoveries and the provision along with the reduction of the allowance caused by charge-offs. The second table discloses how much of the ACL is attributed to each class of the loan portfolio, as well as the percent that each particular class of the loan portfolio represents to the entire loan portfolio in the aggregate. The consumer loan portfolio accounted for the largest component of charge-offs and recoveries for nine months ended September 30, 2023 and 2022. The commercial real estate portfolio is currently creating a large impact on the ACL due to the loan growth.

Total provision for credit losses was $2.4 million lower for the nine months ended September 30, 2023 as compared to the same period in 2022. 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 $4 thousand lower for the nine months ended September 30, 2023 than the same period in 2022. Recoveries were $73 thousand higher in the nine months ended September 30, 2023 as compared to 2022. Combined net charge-offs were $20 thousand higher for the nine months ended September 30, 2023 than for the same time period in 2022. This continues to highlight the strong credit quality of the loan portfolio.

Loans past due 30 days or more increased $3.9 million at September 30, 2023 as compared to September 30, 2022. The largest changes were attributed to the increase of past due balances in the agricultural portfolio and consumer real estate portfolio.

The following table breaks down the activity within the ACL for each loan portfolio class and shows the contribution provided by both recoveries and the provision, along with the reduction of the allowance caused by charge-offs. The time period covered is for nine months ended September 30, 2023, 2022, and 2021.

	(In Thousands)		
	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022	Nine Months Ended September 30, 2021
Loans, net of deferred fees and costs	$ 2,529,606	$ 2,142,616	$ 1,495,562
Daily average of outstanding loans	$ 2,470,770	$ 1,997,081	$ 1,413,625
Nonaccrual loans	$ 22,447	$ 5,470	$ 6,248
Nonperforming loans*	$ 22,447	$ 5,470	$ 6,248
Allowance for Credit Losses - January 1,	$ 20,313	$ 16,242	$ 13,672
Adjustment for accounting change	3,564	-	-
Loans Charged off:			
Consumer Real Estate	-	-	2
Agriculture Real Estate	-	-	-
Agricultural	-	-	143
Commercial Real Estate	-	-	-
Commercial and Industrial	-	6	814
Consumer	330	328	195
	330	334	1,154
Loan Recoveries:			
Consumer Real Estate	27	15	9
Agriculture Real Estate	105	-	-
Agricultural	-	1	7
Commercial Real Estate	6	7	8
Commercial and Industrial	18	82	19
Consumer	154	132	137
	310	237	180
Net Charge Offs (Recoveries):			
Consumer Real Estate	(27)	(15)	(7)
Agriculture Real Estate	(105)	-	-
Agricultural	-	(1)	136
Commercial Real Estate	(6)	(7)	(8)
Commercial and Industrial	(18)	(76)	795
Consumer	176	196	58
	20	97	974
Provision for credit loss	1,420	3,845	3,000
Allowance for Loan Losses - September 30,	25,277	19,990	15,698
Allowance for Unfunded Loan Commitments & Letters of Credit - September 30,	2,023	1,118	1,039
Total Allowance for Credit Losses - September 30,	$ 27,300	$ 21,108	$ 16,737
Ratio of Net Charge-offs to Average Outstanding Loans	0.00 %	0.00 %	0.07 %
Ratio of Nonaccrual Loans to Loans	0.89 %	0.26 %	0.42 %
Ratio of the Allowance for Loan Losses to Loans	1.00 %	0.93 %	1.05 %
Ratio of the Allowance for Loan Losses to Nonaccrual Loans	112.61 %	365.44 %	251.26 %
Ratio of the Allowance for Loan Losses to Nonperforming Loans*	112.61 %	365.44 %	251.26 %

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

Loans classified as nonaccrual were higher as of September 30, 2023 at $22.4 million as compared to $5.5 million as of September 30, 2022. The agricultural portfolio and agricultural real estate portfolio saw the largest increases while the commercial real estate portfolio decreased as compared to September 30, 2022.

Noninterest Income

Noninterest income was up $718 thousand for the nine months ended September 30, 2023 over the same time frame in 2022. Servicing rights income for 1-4 family and agricultural real estate loans increased $2.1 million. This was due to the establishment of agricultural real estate servicing rights of $1.5 million in the first quarter and a change in the accounting estimate of $712 thousand in the second quarter. Combined service fees increased by $2.3 million as compared to the nine months ended September 30, 2022. $2.1 million of this increase was due to the aforementioned servicing rights income. Debit card income increased by $230 thousand and bank owned life insurance cash surrender value increased $125 thousand. Also contributing was overdraft and returned check charges which increased $142 thousand compared to the nine months ended September 30, 2022. Fee income from credit cards decreased by $136 thousand as compared to the nine months ended September 30, 2022.

The Company has seen a decrease in its mortgage production volume and the gain on the sale of these loans was $719 thousand lower for the nine months ended September 30, 2023 over the same period in 2022. Loan originations on loans held for sale for the nine months ended September 30, 2023 were $26.3 million with proceeds from sale at $26.6 million for 2023 compared to 2022's activity of $61.3 million in originations and $68.0 million in sales. The Bank was able to improve the percentage of gain on sale per loan through an adjustment in processing during the third quarter 2023. Loan originations driven by refinance activity have drastically decreased with the higher interest rates in 2023. Inventory in many of our markets remain low. The mortgages sold were both 1-4 family and agricultural real estate loans originated for sale.

Noninterest Expense

For the nine months ended September 30, 2023, noninterest expenses were $10.6 million higher than for the same period in 2022. Salaries, wages, and employee benefits (includes normal merit increases, restricted stock expense, incentive payout and all employee benefits) increased $4.9 million in total. This was comprised of increased salaries of $3.6 million and increased benefits of $1.3 million. The increase was due to the investment in people for our strategic growth initiative. Advertising and public relations expense increased $1.1 million. This was due, in part, to our new logo launch. Data processing expenses increased $323 thousand. Credit card expense increased $109 thousand related to the conversion of our credit card platform in the first quarter. The conversion expense also included a scorecard conversion expense of $108 thousand in the first quarter. This represented awards earned by customers that the Company paid to honor rather than allowing them to be lost in the conversion. FDIC assessment expense increased $733 thousand.

Income Taxes

Income tax expense was $2.0 million lower for the nine months ended September 30, 2023 compared to the same period in 2022, due to lower earnings. Effective tax rates were 19.72% and 19.80% for nine months ended September 30, 2023 and 2022 respectively.

Net Income

Results overall, net income for the nine months ended September 30, 2023 was down $8.1 million as compared to the same period last year. As mentioned prior, the Company incurred a one-time expense in the first quarter of $541 thousand related to our credit card platform. A loss of $891 thousand arising from the sale of $21.6 million of investments was also recognized in the first quarter with the payback period being neutral in the third quarter and then becoming a benefit. The Company has done an exceptional job of growing loans while keeping past dues low. The increased cost of funding is impacting the bottom line as it is adjusting faster than our earning assets. The Company remains strong, stable, and well capitalized and has the capacity to continue to cover the increased costs of expansion.

FORWARD LOOKING STATEMENTS

Statements contained in this portion of the Company's report may be forward-looking statements, as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements may be identified by the use of words such as "intend," "believe," "expect," "anticipate," "should," "planned," "estimated," and "potential." Such forward-looking statements are based on current expectations, but actual results may differ materially from those currently anticipated due to a number of factors, which include, but are not limited to, factors discussed in documents filed by the Company with the Securities and Exchange Commission from time to time. Other factors which could have a material adverse effect on the operations of the Company and its subsidiaries include, but are not limited to, changes in interest rates, general economic conditions, legislative and regulatory changes, monetary and fiscal policies of the U.S. Government, including policies of the U.S. Treasury and the Federal Reserve Board, the quality and composition of the loan or investment portfolios, demand for loan products, deposit flows, competition, demand for financial services in the Bank's market area, changes in relevant accounting principles and guidelines and other factors over which management has no control, including, but not limited to, the ongoing impact of the COVID-19 pandemic. 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.

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

Interest rate risk is managed within an overall asset/liability framework. The principal objectives of asset/liability management are to manage sensitivity of net interest spreads and net income to potential changes in interest rates.

Funding positions are kept within predetermined limits designed to ensure that risk-taking is not excessive and that liquidity is properly managed. In the event that our asset/liabilities management strategies are unsuccessful, our profitability may be adversely affected. The Company employs sensitivity testing utilizing interest rate shocks to help in this analysis.

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

Interest Rate Shock on Net Interest Margin				Interest Rate Shock on Net Interest Income	
Net Interest Margin (Ratio)	% Change to Flat Rate	Rate Direction	Rate Changes by	Cumulative Total ($000)	% Change to Flat Rate
3.08%	5.38%	Rising	3.00%	91,108	4.49%
3.08%	5.49%	Rising	2.00%	91,308	4.72%
3.06%	4.67%	Rising	1.00%	90,787	4.12%
2.92%	0.00%	Flat	0.00%	87,196	0.00%
2.67%	-8.54%	Falling	-1.00%	80,398	-7.80%
2.46%	-15.71%	Falling	-2.00%	74,763	-14.26%
2.27%	-22.17%	Falling	-3.00%	69,690	-20.08%

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

The shock chart currently shows a slight widening in net interest margin over the next twelve months in a rising rate environment up to a 2.00% increase and a tightening as it moves from 2.00% towards the 3.00% increase as well as in the falling rate environments. The 1.00% and 2.00% rising rate scenarios are predicted to expand the net interest margin and produce a higher level of net interest income. Increased funding costs have caused a decrease in the flat rate scenario net interest margin to 2.92% at September 30, 2023 as compared to 3.36% at June 30, 2023. Cost of funds are at 2.35% for the year so the falling shock of 200 basis points is where the Bank can take partial advantage and reprice some funds to match the level of shock. However, there are certificates of deposit and FHLB term advances whose ability to reprice are outside of the twelve month term. Once the shocks are falling over 200 basis points, there are limited funds to reprice lower and the loss on net interest income continues to build. The average duration of the majority of the assets is outside the 12 month shock period. The majority of the newer loans added to the commercial real estate portfolio begin with an initial fixed rate period of three to five years whose variable adjustment is outside of the current shock time frame. The Bank continues to adjust its assumptions by including decay rates and key rate ties on certain deposit accounts and continues to review and modify those rates as the index rates change. All shocks are within risk exposure guidelines at all levels. The effect of the rate shocks may be mitigated to the extent that not all lines of business are directly tied to an external index and actual balance sheet composition may differ from prediction.

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

ITEM 4 CONTROLS AND PROCEDURES

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

PART II OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

None

ITEM 1A RISK FACTORS

Except as indicated below, there have been no material changes in the Company’s risk factors from those disclosed in the Company’s Annual Report on Form 10-K for the year ended December 31, 2022.

Liquidity Risk

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

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

As a result of inflationary pressures and the resulting rapid increases in interest rates over the prior two fiscal years, the trading value of previously issued government and other fixed income securities has declined significantly. These securities make up a majority of the securities portfolio of most banks in the U.S., including the Company’s, resulting in unrealized losses embedded in the held-to-maturity portion of U.S. banks’ securities portfolios. While the Company does not currently intend to sell these securities, if the Company were required to sell such securities to meet liquidity needs, it may incur losses, which could impair the Company’s capital, financial condition, and results of operations and require the Company to raise additional capital on unfavorable terms, thereby negatively impacting its profitability. While the Company has taken actions to maximize its funding sources, there is no guarantee that such actions will be successful or sufficient in the event of sudden liquidity needs. Furthermore, while the Federal Reserve Board has announced a Bank Term Funding Program available to eligible depository institutions secured by U.S. treasuries, agency debt and mortgage-backed securities, and other qualifying assets as collateral at par, to mitigate the risk of potential losses on the sale of such instruments, there is no guarantee that such programs will be effective in addressing liquidity needs as they arise.

Uninsured Deposit Risk

Uninsured deposits based on FDIC coverage as a percentage of total deposits was 18.84% as of September 30, 2023, and as of the same date, total uninsured deposits (includes public deposits with protection over FDIC) was 9.11%. The use of the financial network products, such as the Certificate of Deposit Account Registry “CDars” and an Insured Cash Sweep which makes FDIC coverage available to larger depositors, contributes to the low uninsured percentage. Uninsured deposits historically have been viewed by the FDIC as less stable than insured deposits. According to statements made by the FDIC staff and the leadership of the federal banking agencies, customers with larger uninsured deposit account balances often are small- and mid-sized businesses that rely upon deposit funds for payment of operational expenses and, as a result, are more likely to closely monitor the financial condition and performance of their depository institutions. As a result, in the event of financial distress, uninsured depositors historically have been more likely to withdraw their deposits. If a significant portion of our deposits were to be withdrawn within a short period of time such that additional sources of funding would be required to meet withdrawal demands, we may be unable to obtain funding at favorable terms, which may have an adverse effect on our net interest margin. Obtaining adequate funding to meet our deposit obligations may be more challenging during periods of elevated prevailing interest rates, such as the present, and our ability to attract depositors during a time of actual or perceived distress or instability in the marketplace may be limited. Further, interest rates paid for non-deposit borrowings generally exceed the interest rates paid on deposits, and this spread may be exacerbated by higher prevailing interest rates.

Recent Events Impacting the Financial Services Industry

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

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

Inflation Risk

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

Climate Change Risk

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

Quantitative Modeling Risk

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

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

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Treasury stock repurchased the quarter ended September 30, 2023.

Period	(a) Total Number of Shares Purchased		(b) Average Price Paid per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs [1]	(d) Maximum Number of Shares that may yet be purchased under the Plans or Programs
7/1/2023 to 7/31/2023	357	(2)	22.41	—	650,000
8/1/2023 to 8/31/2023	8,952	(2)	20.20	—	650,000
9/1/2023 to 9/30/2023	296	(2)	17.93	—	650,000
Total	9,605		20.21	—	650,000

(1) From time to time, the Company purchases shares in the market pursuant to a stock repurchase program publicly announced on January 24, 2023. On that date, the Board of Directors authorized the repurchase of 650,000 common shares between January 24, 2023 and December 31, 2023.

(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

None

ITEM 6 EXHIBITS

3.1	Amended Articles of Incorporation of the Registrant (incorporated by reference to Exhibit 3.1 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on October 25, 2017).
3.2	Amended and Restated Code of Regulations of the Registrant (incorporated by reference to Exhibit 3.2 to Registrant's Quarterly Report on Form 10-Q filed with the Commission on July 26, 2017).
4.1	Description of Registrant's Common Stock (incorporated by reference to Exhibit 4.1 to Registrant's Annual Report on Form 10-K filed with the Commission on February 26, 2020).
31.1	Rule 13-a-14(a) Certification - CEO
31.2	Rule 13-a-14(a) Certification - CFO
32.1	Section 1350 Certification - CEO
32.2	Section 1350 Certification - CFO
101.INS	Inline XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. (1)
101.SCH	Inline XBRL Taxonomy Extension Schema Document (1)
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase Document (1)
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase Document (1)
101.LAB	Inline XBRL Taxonomy Extension Label Linkbase Document (1)
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase Document (1)
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2023, has been formatted in Inline XBRL.

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

SIGNATURES

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:	November 1, 2023	By:	/s/ Lars B. Eller
			Lars B. Eller President and Chief Executive Officer
Date:	November 1, 2023	By:	/s/ Barbara J. Britenriker
			Barbara J. Britenriker Executive Vice-President and Chief Financial Officer

Exhibit 31.1

CERTIFICATIONS

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

1. I have reviewed this quarterly report on Form 10-Q of Farmers & Merchants Bancorp, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in the Exchange Acts Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal controls over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:	November 1, 2023	/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:	November 1, 2023	/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 September 30, 2023, 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:	November 1, 2023	/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 September 30, 2023, 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:	November 1, 2023	/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.