

·THE· FARMERS BANCORP

August 15, 2024

Dear The Farmers Bancorp Shareholder:

Our fiscal year end has come to a close with mixed results. While we surpassed our expected growth totals for the year in both loans and deposits, our net income declined due to several factors. The operating environment of high inflation, inverted yield curve, new accounting pronouncements and losses on loans were all factors in the declined earnings.

Our total assets increased to \$988 million as of June 30, 2024, an \$89 million growth in this fiscal year. This increase was primarily a result of \$78 million increase in net loans, or a 12.5 percent growth rate. The increase in assets was funded by a \$94 million growth in deposits, or a 14.2 percent growth rate. Our ability to grow deposits allows us to meet the current strong loan demand we continue to see in all the markets we serve.

The fourth quarter of our fiscal year provided to be more challenging than prior quarters. Increased loan charge-offs required a provision for loan losses of \$2.9 million, or a \$2.6 million increase over the same period last year. The charge-offs arose in the last fiscal quarter and appears to be isolated problem loans. Overall loan quality is still very strong compared to historical norms. The bank also sold a small portion of its investment portfolio at a \$681,000 loss in the current quarter and repositioned those proceeds at a higher yield to improve earnings out of the investment portfolio. For the fourth quarter of fiscal year 2024 there was a net loss of \$935,000 compared to net income of \$1.7 million in the fourth quarter of the prior fiscal year.

Net income for the year ended June 30, 2024, was \$4.7 million, or \$2.60 per common share compared to \$10.5 million, or \$5.77 per common share as of the year ended June 30, 2023. Net interest income was \$27.4 million for the fiscal year ended June 30, 2024, compared to \$26.7 million from the same period for fiscal 2023. While net interest income has increased, net interest margin declined 34 basis points which resulted in approximately \$3.2 million less in net interest income compared to the previous year. The decline in net interest margin is a result of increased funding costs exceeding the increased yields on our loans and investments. Provision for loan losses increased \$3.1 million this fiscal year due to a new accounting methodology for loan losses and increased net charge-offs as mentioned earlier. These same issues have created headwinds for the financial service industry over the last twelve months. Non-interest expense increased in fiscal 2024 by \$4.8 million as the higher level of expenses are a result of inflationary increase in costs and investments made to improve The Farmers Bank brand.

The Farmers Bank team will continue to work for the benefit of our communities, customers, employees, and shareholders. We desire to be the Community Bank of choice in every market we serve.

Sincerely,



Christopher D. Cook
President and CEO
The Farmers Bank

THE FARMERS BANCORP
CONSOLIDATED STATEMENTS OF CONDITION
(Dollars in Thousands)

ASSETS	June 30 2024	June 30 2023
Cash and cash equivalents	46,611	35,177
Interest-bearing time deposits	-	490
Available-for-sale securities	177,420	181,422
Loans held for sale	772	423
Loans net of allowance of \$9,368 and \$7,361	703,419	625,499
Premises and equipment - net	13,720	8,533
Right of use assets	2,739	1,084
Restricted stock, at cost	4,531	4,447
Cash value of life insurance	19,183	18,823
Accrued income and other assets	<u>19,342</u>	<u>22,605</u>
	<u>987,737</u>	<u>898,502</u>
LIABILITIES & SHAREHOLDERS' EQUITY		
Liabilities		
Demand Deposits	246,378	234,325
Savings, NOW and money market deposits	404,036	356,292
Time Deposits	<u>108,565</u>	<u>74,256</u>
Total deposits	758,979	664,874
Short-term borrowings	45,613	66,286
Federal Home Loan Bank advances	88,450	76,450
Lease Liability	2,739	1,084
Subordinated Debentures	14,729	14,690
Accrued expenses and other liabilities	<u>9,406</u>	<u>8,979</u>
	919,916	832,363
Shareholders' equity		
Common stock, (no par value- 4,800,000 shares authorized, 1,826,389 and 1,817,140 shares issued at June 30, 2024 and June 30, 2023, respectively	2,203	1,876
Additional paid-in capital	1	1
Retained earnings	87,212	86,749
Accumulated other comprehensive income (loss)	<u>(21,595)</u>	<u>(22,486)</u>
	67,821	66,139
	<u>987,737</u>	<u>898,502</u>

THE FARMERS BANCORP
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in Thousands except Per Share Amounts)

	Three Months Ended		Twelve Months Ended	
	June 2024	June 2023	June 2024	June 2023
Interest income				
Loans	\$11,350	\$8,914	\$41,959	\$31,626
Securities				
Taxable	874	695	3,161	2,786
Tax exempt	519	522	2,090	2,094
Other	<u>304</u>	<u>119</u>	<u>2,369</u>	<u>478</u>
Total Interest Income	13,047	10,250	49,578	36,984
Interest Expense				
Deposits	4,308	2,532	15,016	6,800
Short-term borrowings	920	472	3,301	860
Other borrowings	<u>774</u>	<u>884</u>	<u>3,830</u>	<u>2,623</u>
Total Interest Expense	6,003	3,887	22,147	10,283
Net Interest Income	7,044	6,363	27,431	26,702
Provision for loan losses	<u>2,910</u>	<u>355</u>	<u>2,869</u>	<u>(260)</u>
Net interest income after provision for loan losses	4,134	6,008	24,562	26,962
Other Operating Income				
Trust fees	421	377	2,133	1,396
Service charges and fees on deposit accounts	278	315	1,100	1,194
Gain on sale of loans	83	151	386	500
Gain(Loss) on available for sale securities	(681)	-	(681)	-
Increase in cash value of life insurance	100	87	381	348
Interchange income	457	465	1,804	1,792
Other	<u>119</u>	<u>164</u>	<u>743</u>	<u>1,545</u>
Total Other Income	778	1,560	5,866	6,775
Other Operating Expenses				
Salaries and employee benefits	3,730	3,614	15,584	13,513
Occupancy - net	180	287	1,223	1,199
Equipment	213	160	746	626
Data processing	763	643	2,905	2,368
Federal deposit insurance corporation	119	97	445	215
Other	<u>1,476</u>	<u>868</u>	<u>4,588</u>	<u>3,371</u>
Total Other Expense	6,482	5,669	25,491	21,293
Income Before Income Taxes	(1,570)	1,898	4,937	12,444
Income Tax Expense	<u>(635)</u>	<u>193</u>	<u>198</u>	<u>1,977</u>
Net Income	<u>(935)</u>	<u>1,705</u>	<u>4,739</u>	<u>10,467</u>
Per Share Data:				
Net income Per Share	(\$0.51)	\$0.94	\$2.60	\$5.77
Dividends Per Share	\$0.36	\$0.34	\$1.44	\$1.36