

Dear Shareholders,

I am pleased to present the results of our financial performance for the first six months of 2017. Our Bank remains strong and profitable with most benchmarks above peer banks and growth in several key areas. Our 2017 six months net income of \$1.011 million is a slight increase over 2016 six months net income of \$972 thousand. Earnings per share rose slightly to \$0.93 and the Bank's Return on Average Assets was 0.85%. The Bank experienced growth in several key areas including loans, deposits, and stockholder's equity. Total assets as of the end of June 2017 grew to \$241 million, which was an increase of \$7.7 million or 3.30% compared to year end 2016.

Net interest income increased \$345 thousand during the first six months of 2017 resulting from a \$338 increase in interest income and a \$7.5 thousand decline in interest expense. The improvement in interest income came as a result of strong growth in loan balances. Loan balances grew \$9.09 million (6.65%) compared to year-end 2016, with growth primarily in the real estate and indirect dealer / consumer loan categories. The June 30, 2017 composite loan yield increased to 4.88% from 4.82% at June 30, 2016. Investment balances remained constant at \$77.7 million, with the tax equivalent yield remaining level at 3.58%.

The Bank's deposits have shown growth despite the fact that deposit pricing has remained relatively unchanged. Total deposits at second quarter end 2017 were \$208 million, which represented growth of \$5.29 million (2.61%) since December 31, 2016. There was growth in every deposit category with the exception of certificates of deposits less than \$100 thousand.

During the first six months of 2017, the Bank experienced a decrease in noninterest income and noninterest expense. Noninterest income declined by \$99.5 thousand compared to this period in 2016 due primarily to a decrease in gains on the call of securities. The decrease in noninterest expense was primarily the result of a 2016 one-time adjustment of the Bank's franchise tax expense. Our Bank's overall efficiency ratio of 62.34%, which is a measure of operating efficiency, continues to compare very favorably to our peer banks' average ratio of 75.27% per the Virginia Bank Performance Report.

We at Farmers Bank continue to take our role as a responsible community partner very seriously. We help new businesses grow, we assist our customers in reaching their financial goals and we continually give back to our communities. We remain very committed in our support of our chosen corporate charity, Gleaning for the World, as well as many other worthwhile organizations and charities. We roll up our sleeves when needed, we donate our time and our funds and work very hard to make our communities a better place to live. In fact, we have been contributing to some organizations for over 30 years. Like many Virginia community banks, our story shows that we strive to make a difference each and every day. Your investment dollars help us with this endeavor and for that we are thankful.

We value you, our shareholders, and appreciate your loyalty and support throughout the years. We look ahead to new possibilities in banking. There has never been a better time to bank with Farmers Bank!

Sincerely,



John R. Caldwell  
President & CEO

RONALD C. SPIGGLE  
Chairman of the Board

JOHN R. CALDWELL  
President and Chief Executive Officer

BRUCE S. DRINKARD  
Senior Vice President

JANE H. KELLY  
Senior Vice President

DAWN S. TOLLEY  
Senior Vice President

Directors

JOHN R. CALDWELL  
CHRISTOPHER J. DILLON  
THOMAS D. EVANS, JR.  
ALISON F. GOBBLE  
LAURIE S. HARRIS  
BENJAMIN H. JOHNSON  
ALFRED L. JONES, III  
R. KINCKLE ROBINSON  
RONALD C. SPIGGLE  
LUTHER C. THOMAS  
DOUGLAS M. WEBB

# QUARTERLY FINANCIAL STATEMENT

June 30, 2017

 **The FARMERS BANK**  
of  
A P P O M A T T O X

[www.thefarmersbankva.com](http://www.thefarmersbankva.com)

**THE FARMERS BANK OF APPOMATTOX**  
**Consolidated Balance Sheets**  
(In thousands of dollars, except share and per share data)

ASSETS	(Unaudited) June 30, 2017	(Audited) December 31, 2016
Cash and cash equivalents		
Cash and due from banks	\$ 4,550	\$ 4,297
Federal funds sold	864	2,811
Total cash and cash equivalents	5,414	7,108
Securities		
Available-for-sale, at fair value	52,528	52,101
Held to maturity, at amortized cost	25,196	25,622
Loans, net	145,765	136,671
Bank premises and equipment, net	2,535	2,530
Accrued interest receivable	1,246	1,243
Investment in bank-owned life insurance	5,997	5,916
Other real estate owned	595	572
Prepaid pension expense	335	392
Other assets	1,740	1,487
Total assets	\$ 241,351	\$ 233,642
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Demand - noninterest bearing	\$ 40,636	\$ 40,044
Demand - interest bearing	48,055	45,903
Savings	50,638	47,535
Time:		
Certificates of deposits of \$100 and over	37,834	37,344
Other	30,578	31,625
Total deposits	207,741	202,451
Securities sold under repurchase agreements	2,821	977
Accrued interest payable	93	91
Deferred income taxes	166	169
Other liabilities	645	714
Total liabilities	211,466	204,402
Stockholders' equity		
Common stock, \$2 par value. Authorized, 1,600,000 shares; issued and outstanding, 1,083,660 shares	2,167	2,167
Surplus	1,000	1,000
Retained earnings	27,187	26,717
Accumulated other comprehensive net gain (loss)	(469)	(644)
Total stockholders' equity	29,885	29,240
Total liabilities and stockholders' equity	\$ 241,351	\$ 233,642

**THE FARMERS BANK OF APPOMATTOX**  
**Consolidated Statements Of Income (Unaudited)**  
(In thousands of dollars, except per share data and stock prices)

	Three Months Ended		Six Months Ended	
	6/30/2017	6/30/2016	6/30/2017	6/30/2016
Interest Income				
Interest and fees on loans	\$ 1,774	\$ 1,582	\$ 3,491	\$ 3,147
Interest on securities				
U. S. Government—sponsored agencies	93	92	184	188
Obligations of states and political subdivisions — nontaxable	230	228	464	450
Obligations of states and political subdivisions — taxable	178	189	360	379
Corporate obligations	71	66	134	124
Corporate certificates of deposit	—	5	—	11
Interest on federal funds sold	6	7	15	11
Total interest income	2,352	2,169	4,648	4,310
Interest Expense				
Interest on deposits	114	126	231	255
Interest on time certificates of \$100 and over	109	100	215	199
Interest on securities sold under repurchase agreements	2	1	3	3
Total interest expense	225	227	449	457
Net interest income	2,127	1,942	4,199	3,853
Provision for loan losses	204	13	341	26
Net interest income after provision for loan losses	1,923	1,929	3,858	3,827
Noninterest Income				
Service charges on deposit accounts	149	145	287	286
Gains on sale or call of securities	—	89	—	89
Other	111	124	186	197
Total noninterest income	260	358	473	572
Noninterest Expense				
Salaries and employee benefits	832	841	1,702	1,689
Expenses of premises and equipment	143	119	262	237
Other operating expenses	571	711	1,101	1,247
Total noninterest expense	1,546	1,671	3,065	3,173
Income before income tax expense	637	616	1,266	1,226
Income tax expense	127	121	255	254
Net income	\$ 510	\$ 495	\$ 1,011	\$ 972
Per share data:				
Earnings per share	\$ 0.47	\$ 0.46	\$ 0.93	\$ 0.90
High	\$ 26.00	Low		
Stock prices second quarter 2017		\$ 24.80		