

Dear Shareholders,

I am pleased to present the results of our financial performance for the first six months of 2018. Our Bank remains strong and profitable with many benchmarks above peer banks. Our net income for the first six months of 2018 of \$1.20 million is an 18.94% increase over the 2017 mid-year earnings of \$1.01 million. Earnings per share rose to \$1.11 and the Bank's Return on Average Assets was 1.01%. Loan and deposit balances remained relatively constant through the second quarter of 2018, and total assets of \$239 million was comparable to total assets of \$238 million at December 31, 2017.

Net interest income increased \$124 thousand during the first six months of 2018 resulting from a \$97 thousand net increase in interest income plus a \$27 thousand decline in interest expense. The improvement in interest income came as a result of the strong loan growth in 2016 and 2017 along with a slight increase in yields. The June 30, 2018 composite loan yield increased to 4.93% from 4.88% at June 30, 2017. Investment balances declined \$4.22 million to \$63.9 million, with the tax equivalent yield declining to 3.14%.

The Bank's deposits mix has shifted slightly with demand deposit and savings accounts increasing by \$2.20 million during the first six months of 2018 and certificates of deposit balances declining by \$3.80 million during the same period. The Bank is currently in an environment of strong competition with many Banks offering promotional rates to attract funds. Management will continue to monitor competitor rates and make deposit pricing adjustments as appropriate.

During the first six months of 2018, the Bank experienced an increase in noninterest income and noninterest expense. Noninterest income increased by \$34.6 thousand compared to this period in 2017 due primarily to gains on the sale of assets and an increase in loan fee income. The increase in noninterest expense was primarily the result of a write-off due to a fraud loss and increases in salary and benefits for 2018. Our Bank's overall efficiency ratio of 64.96%, which is a measure of operating efficiency, continues to compare very favorably to our peer banks' average ratio of 72.58% per the Virginia Bank Performance Report.

As we at the Farmers Bank Appomattox celebrate our 100th year of service to the community, we reflect upon the many talented and dedicated employees, officers and directors who have come before us. We are thankful for their efforts and leadership in our mission as we, the current family of bankers, dedicate ourselves to the tasks ahead. We recently mourned the loss of one of these leaders, Floyd E. Williams, our retired President and CEO who passed away in July 2018. We are thankful for his leadership and offer our condolences to his wife and family.

It is no secret that banking is continually changing, but we are ready to face the challenges that may come our way. We take our role of being a responsible community partner very seriously. I have been so encouraged by individuals who have come to me during this time of celebration and told me that they got their first loan from our Bank or that we helped them to purchase their first home. We have been involved in helping to start various community businesses and allow them the funding needed to grow. We intend to build upon our rich legacy and are excited about the future.

We value you, our shareholders, and appreciate your loyalty and support throughout our one hundred years. Remember, 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

DAWN S. TOLLEY
Executive Vice President

BRUCE S. DRINKARD
Senior Vice President

JANE H. KELLY
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, 2018

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

www.thefarmersbankva.com

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

	(Unaudited) June 30, 2018	(Audited) December 31, 2017
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 5,150	\$ 4,968
Federal funds sold	5,712	425
Total cash and cash equivalents	<u>10,862</u>	<u>5,393</u>
Securities		
Available-for-sale, at fair value	42,307	45,610
Held to maturity, at amortized cost	21,576	22,495
Loans, net	151,786	151,879
Bank premises and equipment, net	2,554	2,483
Accrued interest receivable	1,110	1,157
Investment in bank-owned life insurance	6,156	6,078
Other real estate owned	327	571
Prepaid pension expense	682	717
Other assets	<u>1,898</u>	<u>1,851</u>
Total assets	<u>\$239,258</u>	<u>\$238,234</u>
Liabilities and Stockholders' Equity		
Deposits		
Demand - noninterest bearing	\$ 43,112	\$ 42,253
Demand - interest bearing	48,619	49,698
Savings	51,586	49,168
Time:		
Certificates of deposits of over \$250	8,314	10,046
Other	<u>52,478</u>	<u>54,543</u>
Total deposits	204,109	205,708
Securities sold under repurchase agreements	3,915	1,461
Accrued interest payable	87	84
Deferred income taxes	43	96
Other liabilities	<u>426</u>	<u>428</u>
Total liabilities	<u>208,580</u>	<u>207,777</u>
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	29,044	28,352
Accumulated other comprehensive net gain (loss)	<u>(1,533)</u>	<u>(1,062)</u>
Total stockholders' equity	<u>30,678</u>	<u>30,457</u>
Total liabilities and stockholders' equity	<u>\$239,258</u>	<u>\$238,234</u>

“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	
	6/30/2018	6/30/2017	6/30/2018	6/30/2017
Interest Income				
Interest and fees on loans	\$1,918	\$1,775	\$3,808	\$3,491
Interest on securities				
U. S. Government-sponsored agencies	83	93	160	184
Obligations of states and political subdivisions - nontaxable	201	230	404	464
Obligations of states and political subdivisions - taxable	76	177	175	360
Corporate obligations	80	71	150	134
Interest on federal funds sold	<u>34</u>	<u>6</u>	<u>48</u>	<u>15</u>
Total interest income	<u>2,392</u>	<u>2,352</u>	<u>4,745</u>	<u>4,648</u>
Interest Expense				
Interest on deposits	185	197	363	386
Interest on CDs of over \$250	22	26	55	60
Interest on securities sold under repurchase agreements	<u>2</u>	<u>2</u>	<u>4</u>	<u>3</u>
Total interest expense	<u>209</u>	<u>225</u>	<u>422</u>	<u>449</u>
Net interest income	<u>2,183</u>	<u>2,127</u>	<u>4,323</u>	<u>4,199</u>
Provision for loan losses	150	204	221	341
Net interest income after provision for loan losses	2,033	1,923	4,102	3,858
Noninterest Income				
Service charges on deposit accounts	143	149	281	287
Gains on sale or call of securities	-	-	1	-
Other	<u>136</u>	<u>111</u>	<u>225</u>	<u>186</u>
Total noninterest income	<u>279</u>	<u>260</u>	<u>507</u>	<u>473</u>
Noninterest Expense				
Salaries and employee benefits	867	832	1,757	1,702
Expenses of premises and equipment	141	143	271	262
Other operating expenses	<u>608</u>	<u>571</u>	<u>1,183</u>	<u>1,101</u>
Total noninterest expense	<u>1,616</u>	<u>1,546</u>	<u>3,211</u>	<u>3,065</u>
Income before income tax expense	<u>696</u>	<u>637</u>	<u>1,398</u>	<u>1,266</u>
Income tax expense	<u>97</u>	<u>127</u>	<u>196</u>	<u>255</u>
Net income	<u>\$ 599</u>	<u>\$ 510</u>	<u>\$1,202</u>	<u>\$1,011</u>
Per share data:				
Earnings per share	<u>\$ 0.55</u>	<u>\$ 0.47</u>	<u>\$ 1.11</u>	<u>\$ 0.93</u>
	High	Low		
Stock prices second quarter 2018	\$32.00	\$30.10		