

Dear Shareholders,

The management team of The Farmers Bank of Appomattox is pleased to report on the financial performance and results of operations for the first quarter 2018. The Bank has continued our previous year trend of improved earnings. Net Income of \$605 thousand represents an increase of \$104 thousand compared to 2017 first quarter earnings. This equates to a 20.66 % increase and a strong Return on Average Assets of 1.02%. Earnings were driven by a \$57 thousand increase in total interest income and a \$12 thousand decrease in total interest expense, paired with a \$66 thousand decrease in the provision for loan losses. The Bank also reports a \$28 thousand decrease in tax expense due to the change in the corporate tax rate for 2018.

The Bank experienced total asset growth of \$1.5 million (0.65%) as of March 31, 2018 compared to December 31, 2017 resulting in quarter end total assets of \$239.8 million. Deposits and loans remained relatively constant during the first quarter of 2018. Deposit balances stood at \$205 million while loan balances dropped from \$151 million to \$150 million. Management anticipates growth in both categories during the remainder of 2018. Capital ratios for the Bank continue to remain very strong. Our total risk-based capital ratio of 19.05% is well above the threshold for a well-capitalized bank and helps ensure that we have a firm foundation to meet the challenges of the future.

We are happy to report that the Times Virginian Readers Choice named our Bank as the “Best Bank” and “Best Customer Service.” One of our own was also named as “Best Teller.” Excellence in customer service is and always has been vitally important to our Bank. Management focus for 2018 and the coming years will center around our mentorship and management development programs. We understand the importance of educating and preparing the next generation of bank leaders. We value our employees and realize that we must make education a priority for all of our banking professionals.

We at Farmers Bank are celebrating our 100th year as a proud member of the Community Banking Family. A recent report from the Independent Community Bankers Association shows that community banks employ approximately 765,000 individuals, hold approximately \$3.9 trillion in deposits and \$3.3 trillion in loans. Institutions like ours make nearly 50 percent of all small business loans nationwide. Community banks are making a difference... our community bank continues to make a difference. We plan to have a celebration of our 100 years at our Main Office on Friday, September 14th. More information will follow, but please mark your calendar and plan to join us for this milestone celebration.

We appreciate your loyalty and support. As a shareholder, you provide the means by which we operate, and we pledge to enhance your shareholder value. I encourage you to recommend our services to your friends and neighbors. I also invite you to remain an involved participant in this great institution known as home-town, community banking.

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

March 31, 2018

The FARMERS BANK
of
MEMBER FDIC APPOMATTOX

www.thefarmersbankva.com

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

Assets	(Unaudited) March 31, 2018	(Audited) December 31, 2017
Cash and cash equivalents		
Cash and due from banks	\$ 5,584	\$ 4,968
Federal funds sold	8,793	425
Total cash and cash equivalents	<u>14,377</u>	<u>5,393</u>
Securities		
Available-for-sale, at fair value	40,016	45,610
Held to maturity, at amortized cost	22,102	22,495
Loans, net	150,784	151,879
Bank premises and equipment, net	2,442	2,483
Accrued interest receivable	983	1,157
Investment in bank-owned life insurance	6,117	6,078
Prepaid pension expense	701	717
Other real estate owned	425	571
Other assets	1,844	1,851
Total assets	<u>\$ 239,791</u>	<u>\$ 238,234</u>
Liabilities and Stockholders' Equity		
Deposits		
Demand - noninterest bearing	\$ 42,291	\$ 42,253
Demand - interest bearing	48,880	49,698
Savings	51,307	49,168
Time:		
Certificates of deposits of over \$250	9,559	10,046
Other	53,050	54,543
Total deposits	205,087	205,708
Securities sold under repurchase agreements	3,775	1,461
Accrued interest payable	82	84
Deferred income tax	50	96
Other liabilities	644	428
Total liabilities	<u>209,638</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	28,447	28,352
Net accumulated other comprehensive gain	(1,461)	(1,062)
Total stockholders' equity	<u>30,153</u>	<u>30,457</u>
Total liabilities and stockholders' equity	<u>\$ 239,791</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	
	3/31/2018	3/31/2017
Interest Income		
Interest and fees on loans	\$ 1,890	\$ 1,716
Interest on securities		
U. S. Government-sponsored agencies	77	91
Obligations of states and political subdivisions - nontaxable	203	234
Obligations of states and political subdivisions - taxable	100	183
Corporate obligations	70	63
Interest on federal funds sold	14	9
Total interest income	<u>2,354</u>	<u>2,296</u>
Interest Expense		
Interest on deposits	178	189
Interest on time certificates of \$250 and over	32	34
Interest on securities sold under repurchase agreements	2	1
Total interest expense	<u>212</u>	<u>224</u>
Net interest income	2,142	2,072
Provision for loan losses	71	138
Net interest income after provision for loan losses	<u>2,071</u>	<u>1,934</u>
Noninterest Income		
Service charges on deposit accounts	138	138
Gain on sales and calls of securities	1	-
Other	89	75
Total noninterest income	<u>228</u>	<u>213</u>
Noninterest Expense		
Salaries and employee benefits	890	870
Expenses of premises and equipment	130	119
Other operating expenses	575	529
Total noninterest expense	<u>1,595</u>	<u>1,518</u>
Income before income tax expense	704	629
Income tax expense	99	128
Net income	<u>\$ 605</u>	<u>\$ 501</u>
Per share data:		
Earnings per share	<u>\$ 0.56</u>	<u>\$ 0.46</u>
	High	Low
Stock prices first quarter 2018	\$ 32.00	\$ 30.00