

Dear Shareholders,

I am writing to you on behalf of our Board of Directors and Executive Management team to provide you with a report on the financial condition and results of operation for the first six months of 2023. As we reach the midpoint of this year, our Bank remains strong and profitable with benchmarks comparable to our peer banks. The economic environment of 2023 continues to be one marked by rising interest rates and many other uncertainties. Given this environment, I am very proud of how The Farmers Bank of Appomattox continues to remain rooted in our values while striving to meet the needs of our customers and provide a good return for our shareholders.

The first half of 2023 remained profitable with earnings comparable to the same period in 2022. Six-month net income of \$1.49 million was slightly below 2022 six-month net income of \$1.52 million. Investment income decreased slightly with the composite yield dropping by 2 bps. Loan interest and fee income increased \$1.13 million year / year as a result of the 62-bps composite loan yield increase to 5.20%, again reflecting the rising interest rates and nature of the Bank's loan instruments. The strength of the increased loan yield led to a \$253 thousand increase in net interest income in spite of an increase of \$960 thousand in deposit interest expense. The Bank's composite deposit costs of 0.95% was a 65-bps increase over mid-year 2022. Non-interest income increased \$104 thousand due primarily to increased fees for certificate of deposit early withdrawals driven by the rising interest rates. Non-interest expense increased \$345 thousand primarily from increased salaries, benefits and data processing costs.

The Bank's Return on Average Assets was 0.95% and compared favorably with peer Virginia banks' ROAA of 0.73%. Earnings per share were \$1.38. As of 6/30/23 the Bank's total assets of \$322.8 million increased by \$6.6 million (2.1%) compared to year-end 2022. During this period, loan balances remained constant while deposits grew by \$10.3 million (3.69%). The Bank remains in an unrealized loss position in our investment portfolio due to the sharp increase in interest rates. This unrealized loss position is attributed to the Bank's investment securities being purchased at lower interest rates than the current market rates. These are unrealized losses and would only become realized if management decided to sell the bonds in this current market. Management continues to utilize other funding sources to meet funding needs rather than liquidate bonds at this time.

The Bank continues to embrace our role as valued community partner. Recently our Bank co-hosted an event with the Appomattox Inn & Suites where business, community and educational leaders were introduced to the Academy Center of the Arts of Lynchburg and the many opportunities this organization offers to benefit our community. Also, with an eye for the future, the Bank has completed the purchase of property in Lynchburg for a potential expansion of our marketing area. We have begun the process of placing a branch in Lynchburg and will make more information available in the near future.

I remain thankful for you, our valued shareholders and customers that allow us to continue on this path of community banking. We have an experienced and dedicated team of bank professionals ready to meet the challenges ahead. As a reminder, there has never been a better time to bank with a true community bank. We are attentive, responsive and dedicated to our customers and small businesses. Please let us know how we can serve you better. As always, we appreciate your loyalty and support.

Sincerely,



John R. Caldwell
President & CEO

DOUGLAS M. WEBB
Chairman of the Board

JOHN R. CALDWELL
President and Chief Executive Officer

DAWN S. TOLLEY
Executive Vice President

BRUCE S. DRINKARD
Senior Vice President

THOMAS L. RASEY, JR.
Senior Vice President

Directors

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

QUARTERLY FINANCIAL STATEMENT

June 30, 2023

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

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

<u>Assets</u>	<u>(Unaudited)</u> <u>June 30, 2023</u>	<u>(Audited)</u> <u>December 31, 2022</u>
Cash and cash equivalents		
Cash and due from banks	\$ 6,269	\$ 4,285
Federal funds sold	9,783	4,361
Total cash and cash equivalents	<u>16,052</u>	<u>8,646</u>
Securities		
Available-for-sale, at fair value	72,244	72,463
Held to maturity, at amortized cost	—	—
Loans, net	214,837	214,894
Bank premises and equipment, net	2,627	2,577
Accrued interest receivable	1,364	1,330
Investment in bank-owned life insurance	9,872	9,753
Prepaid pension expense	1,083	1,192
Deferred income tax	2,569	2,811
Other real estate owned	—	118
Other assets	<u>2,182</u>	<u>2,424</u>
Total assets	<u>\$322,830</u>	<u>\$316,208</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Demand - noninterest bearing	\$ 56,529	\$ 58,354
Demand - interest bearing	66,537	71,376
Savings	65,496	73,520
Time:		
Certificates of deposits of over \$250	33,299	19,676
Other	<u>67,630</u>	<u>56,251</u>
Total deposits	289,491	279,177
Repurchase agreements and other borrowings	2,473	7,976
Accrued interest payable	477	156
Other liabilities	<u>825</u>	<u>1,101</u>
Total liabilities	<u>293,266</u>	<u>288,410</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	37,824	37,261
Accumulated other comprehensive net gain (loss)	<u>(11,427)</u>	<u>(12,630)</u>
Total stockholders' equity	<u>29,564</u>	<u>27,798</u>
Total liabilities and stockholders' equity	<u>\$322,830</u>	<u>\$316,208</u>

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

	<u>Three Months Ended</u>		<u>Six Months Ended</u>	
	<u>6/30/2023</u>	<u>6/30/2022</u>	<u>6/30/2023</u>	<u>6/30/2022</u>
Interest Income				
Interest and fees on loans	\$2,880	\$2,249	\$5,558	\$4,432
Interest on securities				
U. S. Government-sponsored agencies	17	19	34	48
Obligations of states and political subdivisions - nontaxable	238	280	478	576
Obligations of states and political subdivisions - taxable	87	88	173	180
Corporate obligations	57	48	113	85
Mortgage-backed securities	27	30	55	54
Interest on federal funds sold	<u>138</u>	<u>2</u>	<u>179</u>	<u>2</u>
Total interest income	<u>3,444</u>	<u>2,716</u>	<u>6,590</u>	<u>5,377</u>
Interest Expense				
Interest on deposits	477	149	822	304
Interest on CDs of over \$250	318	39	485	82
Interest on repurchase agreements and other borrowings	<u>2</u>	<u>17</u>	<u>57</u>	<u>18</u>
Total interest expense	<u>797</u>	<u>205</u>	<u>1,364</u>	<u>404</u>
Net interest income	2,647	2,511	5,226	4,973
Provision for loan losses	<u>25</u>	<u>103</u>	<u>172</u>	<u>129</u>
Net interest income after provision for loan losses	<u>2,622</u>	<u>2,408</u>	<u>5,054</u>	<u>4,844</u>
Noninterest Income				
Service charges on deposit accounts	135	135	262	260
Gain on sale and calls of securities	—	9	1	9
Other	<u>186</u>	<u>146</u>	<u>375</u>	<u>264</u>
Total noninterest income	<u>321</u>	<u>290</u>	<u>638</u>	<u>533</u>
Noninterest Expense				
Salaries and employee benefits	1,074	962	2,132	1,948
Expenses of premises and equipment	171	175	333	337
Other operating expenses	<u>793</u>	<u>699</u>	<u>1,515</u>	<u>1,350</u>
Total noninterest expense	<u>2,038</u>	<u>1,836</u>	<u>3,980</u>	<u>3,635</u>
Income before income tax expense	<u>905</u>	<u>862</u>	<u>1,712</u>	<u>1,742</u>
Income tax expense	<u>118</u>	<u>97</u>	<u>217</u>	<u>221</u>
Net income	<u>\$ 787</u>	<u>\$ 765</u>	<u>\$1,495</u>	<u>\$1,521</u>
Per share data:				
Earnings per share	<u>\$ 0.73</u>	<u>\$ 0.71</u>	<u>\$ 1.38</u>	<u>\$ 1.40</u>
	High	Low		
Stock prices second quarter 2023	\$24.90	\$22.00		