

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 operations for the first quarter 2023. The banking environment is marked by the news of recent bank failures and uncertain economic conditions which provide definite head winds as we approach the year ahead. The first quarter of 2023 has provided an economy with the continued rising of interest rates as the Federal Reserve battles inflation. Operating during an economy of this type continues to require us to be nimble and focused on the task of meeting ever challenges of today and the changing needs and expectations of our customers.

During the first quarter of 2023, the Bank's net income of \$708 thousand represents a decrease of \$49 thousand (-6.5%) compared to 2022 first quarter earnings. This resulted in return on average assets of 0.91%. Interest and fees on loans increased by \$495 thousand due to loan growth of \$29.6 million in 2022, with a current composite yield of 5.07%. Interest expense increased by \$368 thousand given the sharp increase in interest rates and the current rate environment. Net interest income for the first quarter of 2023 stood at \$2.58 million compared to \$2.46 million for the first quarter of 2022, and resulted in a tax-equivalent net interest margin of 3.40%.

The Bank experienced a growth in total assets of \$1.6 million (0.51%) as of March 31, 2023 compared to December 31, 2022. The Bank has also experienced deposit growth of \$2.5 million as competition for deposits have remained prevalent. Due to rising interest rates, loan demand has remained fairly flat with total outstanding loans net of reserves at \$214 million. Capital ratios for the Bank continue to remain very strong given our total capital ratio of 18.95% as of March 31, 2023, which is well above the average ratio for peer banks. This excess capital helps ensure that we have a firm foundation to meet the challenges the future may bring.

Beginning in 2023, the Bank adopted the use of the Current Expected Credit Loss (CECL) methodology for accounting for estimating allowances for credit losses. This is an accounting standard change required by the Financial Accounting Standards Board (FASB) and replaces the Allowance for Loan and Lease Losses (ALLL) accounting standard. This new standard has required larger reserves based on the new analysis. Implementation has gone well and the bank will follow this new allowance process going forward.

I remain extremely appreciative of our directors, officers and employees that continually endeavor to ensure that our customers' needs are met. We are not only a premier bank, but also a responsible employer and valued community partner. We value you, our shareholders, and the role you play in allowing our Bank to do what we do so well. Thank you for your support. It is great to be a part of this wonderful institution known for community banking.

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

March 31, 2023


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)

<u>Assets</u>	<u>(Unaudited)</u> <u>March 31, 2023</u>	<u>(Audited)</u> <u>December 31, 2022</u>
Cash and cash equivalents		
Cash and due from banks	\$ 5,155	\$ 4,285
Federal funds sold	5,440	4,361
Total cash and cash equivalents	<u>10,595</u>	<u>8,646</u>
Securities		
Available-for-sale, at fair value	73,794	72,463
Loans, net	213,990	214,894
Bank premises and equipment, net	2,561	2,577
Accrued interest receivable	1,325	1,330
Investment in bank-owned life insurance	9,811	9,753
Prepaid pension expense	1,163	1,192
Deferred income tax	2,428	2,811
Other real estate owned	118	118
Other assets	<u>2,039</u>	<u>2,424</u>
Total assets	<u>\$317,824</u>	<u>\$316,208</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Demand - noninterest bearing	\$ 58,198	\$ 58,354
Demand - interest bearing	68,282	71,376
Savings	67,707	73,520
Time:		
Certificates of deposits of over \$250	25,160	19,676
Other	<u>62,376</u>	<u>56,251</u>
Total deposits	281,723	279,177
Securities sold under repurchase agreements and other borrowings	5,105	7,976
Accrued interest payable	309	156
Other liabilities	<u>1,363</u>	<u>1,101</u>
Total liabilities	<u>288,500</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	37,037	37,261
Net accumulated other comprehensive gain	<u>(10,880)</u>	<u>(12,630)</u>
Total stockholders' equity	<u>29,324</u>	<u>27,798</u>
Total liabilities and stockholders' equity	<u>\$317,824</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>3/31/2023</u>	<u>3/31/2022</u>
Interest Income		
Interest and fees on loans	\$2,677	\$2,182
Interest on securities		
U. S. Government-sponsored agencies	17	29
Obligations of states and political subdivisions - nontaxable	240	296
Obligations of states and political subdivisions - taxable	87	93
Corporate obligations	56	37
Mortgage-backed Securities	28	24
Interest on federal funds sold	<u>41</u>	<u>1</u>
Total interest income	<u>3,146</u>	<u>2,662</u>
Interest Expense		
Interest on deposits	345	155
Interest on time certificates of \$250 and over	166	43
Interest on repurchase agreements and other borrowings	<u>56</u>	<u>1</u>
Total interest expense	<u>567</u>	<u>199</u>
Net interest income	2,579	2,463
Provision for loan losses	<u>147</u>	<u>26</u>
Net interest income after provision for loan losses	<u>2,432</u>	<u>2,437</u>
Noninterest Income		
Service charges on deposit accounts	127	125
Gain on sales and calls of securities	1	—
Other	<u>189</u>	<u>118</u>
Total noninterest income	<u>317</u>	<u>243</u>
Noninterest Expense		
Salaries and employee benefits	1,057	987
Expenses of premises and equipment	162	162
Other operating expenses	<u>723</u>	<u>651</u>
Total noninterest expense	<u>1,942</u>	<u>1,800</u>
Income before income tax expense	807	880
Income tax expense	<u>99</u>	<u>123</u>
Net income	<u>\$ 708</u>	<u>\$ 757</u>
Per share data:		
Earnings per share	<u>\$ 0.65</u>	<u>\$ 0.70</u>
	Low	High
Stock prices first quarter 2023	<u>\$24.50</u>	<u>\$26.50</u>