

Dear Shareholders,

We the management team of The Farmers Bank of Appomattox are pleased to provide you with the report of operations for the third quarter of 2019. Our Bank has just completed a very strong and profitable quarter with year to date net income of \$2.01 million or \$1.85 earnings per share. This represents an increase of \$292 thousand (17.01%) over earnings for the same period of 2018. Net interest income increased \$68 thousand during the first nine months of 2019 compared to 2018 as a result of a \$179 thousand increase in interest income offset by a \$111 thousand increase in interest expense. Interest and fees on loans increased 6.0% with the composite loan yield up 17 bps in 2019. The increase in interest expense came as a result of \$3.27 million in deposit growth and an increase in deposit costs of 12 bps. A strong contributor to the net income improvement was a \$474 thousand decrease in the provision for loan losses resulting from the Bank's improved net charge-off ratio, improved recovery efforts and other improved loan quality drivers.

Total assets increased \$6.29 million (2.73%) at September 30, 2019 to \$236 million compared to the \$230 million in total assets at year-end 2018. Deposit growth of \$3.27 million was primarily in non-interest-bearing demand deposits and certificates. Net loans of \$154.6 million remained virtually constant with a 0.62% increase over net loans of \$153.7 million at December 31, 2018. The Bank's capital ratios remain very strong and well above regulatory requirements.

Non-interest income decreased \$62 thousand to \$748 year over year as a result of decreased ATM income and gains on the sale of foreclosed property. Non-interest expense only increased 1.60% (\$76 thousand) which illustrates management's focus on managing expenses. The increase was primarily due to increased salary and benefit expense and the expense resulting from the Visa debit card fraud incident which occurred earlier in the year.

Our Bank is well positioned for the future and our experienced management team and board are dedicated to the tasks ahead. Jane Kelly, Senior Vice President and Chief Operations Officer has announced her retirement effective year end 2019. We will miss her dedicated service to our Bank and wish her well. Thomas L. Rasey, Jr. will be stepping into her position as our Chief Operations Officer and Corporate Secretary. As we move toward the end of 2019, Farmers Bank remains committed to the communities we serve. Our employees strive not only to provide you with the best customer service possible, but also continually give back to our communities. The Bank has a strong desire to make the coming year an even better year for you our shareholders and customers. I encourage you to recommend our services to your friends and neighbors.

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

JANE H. KELLY
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

September 30, 2019

FB MEMBER FDIC The FARMERS BANK of APPOMATTOX

www.thefarmersbankva.com

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

Assets	(Unaudited) September 30, 2019	(Audited) December 31, 2018
Cash and cash equivalents		
Cash and due from banks	\$ 5,870	\$ 4,794
Federal funds sold	6,768	477
Total cash and cash equivalents	<u>12,638</u>	<u>5,271</u>
Securities		
Available-for-sale, at fair value	35,824	36,496
Held to maturity, at amortized cost	19,950	21,525
Loans, net	154,634	153,678
Bank premises and equipment, net	2,673	2,494
Accrued interest receivable	935	1,054
Investment in bank-owned life insurance	6,350	6,234
Other real estate owned	276	148
Prepaid pension expense	1,128	1,180
Other assets	1,816	1,856
Total assets	<u>\$ 236,224</u>	<u>\$ 229,936</u>
Liabilities and Stockholders' Equity		
Deposits		
Demand - noninterest bearing	\$ 42,306	\$ 39,590
Demand - interest bearing	47,246	48,712
Savings	50,400	51,019
Time:		
Certificates of deposits of over \$250	7,502	7,784
Other	51,871	48,951
Total deposits	199,325	196,056
Securities sold under repurchase agreements	2,874	1,845
Accrued interest payable	111	87
Deferred income taxes	292	93
Other liabilities	558	528
Total liabilities	<u>203,160</u>	<u>198,609</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	30,844	29,726
Accumulated other comprehensive net gain (loss)	(947)	(1,566)
Total stockholders' equity	<u>33,064</u>	<u>31,327</u>
Total liabilities and stockholders' equity	<u>\$ 236,224</u>	<u>\$ 229,936</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 9/30/2019	9/30/2018	Nine Months Ended 9/30/2019	9/30/2018
Interest Income				
Interest and fees on loans	\$ 2,038	\$ 1,917	\$ 6,068	\$ 5,725
Interest on securities				
U. S. Government-sponsored agencies	68	94	217	253
Obligations of states and political subdivisions - nontaxable	169	206	532	610
Obligations of states and political subdivisions - taxable	49	69	147	244
Corporate obligations	78	87	244	237
Mortgage-backed securities	14	—	37	—
Interest on federal funds sold	31	15	67	64
Total interest income	<u>2,447</u>	<u>2,388</u>	<u>7,312</u>	<u>7,133</u>
Interest Expense				
Interest on deposits	232	165	647	528
Interest on CDs of over \$250	38	49	98	104
Interest on securities sold under repurchase agreements	1	2	4	6
Total interest expense	<u>271</u>	<u>216</u>	<u>749</u>	<u>638</u>
Net interest income	2,176	2,172	6,563	6,495
Provision for loan losses	(8)	310	57	531
Net interest income after provision for loan losses	<u>2,184</u>	<u>1,862</u>	<u>6,506</u>	<u>5,964</u>
Noninterest Income				
Service charges on deposit accounts	135	141	397	423
Gains on sale or call of securities	5	—	9	1
Other	112	162	343	387
Total noninterest income	<u>252</u>	<u>303</u>	<u>749</u>	<u>811</u>
Noninterest Expense				
Salaries and employee benefits	890	867	2,695	2,625
Expenses of premises and equipment	141	146	422	417
Other operating expenses	543	565	1,749	1,748
Total noninterest expense	<u>1,574</u>	<u>1,578</u>	<u>4,866</u>	<u>4,790</u>
Income before income tax expense	<u>862</u>	<u>587</u>	<u>2,389</u>	<u>1,985</u>
Income tax expense	139	74	382	270
Net income	<u>\$ 723</u>	<u>\$ 513</u>	<u>\$ 2,007</u>	<u>\$ 1,715</u>
Per share data:				
Earnings per share	<u>\$ 0.67</u>	<u>\$ 0.47</u>	<u>\$ 1.85</u>	<u>\$ 1.58</u>
	<u>High</u>	<u>Low</u>		
Stock prices third quarter 2019	\$ 28.55	\$ 26.33		