

Dear Shareholders,

The Farmers Bank of Appomattox has remained strong and profitable during the third quarter of 2018. Year to date net income of \$1.72 million or \$1.58 earnings per share represents a 4.17% increase over earnings for the same period of 2017. Loan balances grew \$25.32 million in 2016 and 2017, which led to the 7.10% growth in related interest and fee income. Net interest income increased \$141 thousand during the first nine months of 2018 compared to 2017 as a result of a \$102 thousand increase in interest income combined with a \$39 thousand decline in interest expense. The decline in interest expense was due primarily to a decline in certificate of deposit balances.

Total assets decreased by \$3.67 million (1.54%) as of September 30, 2018 compared to year-end 2017 to \$235 million. This decline came primarily as proceeds from maturities and calls of investment balances were used to fund deposit run-off. Deposits declined \$5.54 million as an increase in savings account balances were more than offset by decreases in other deposits, namely certificates, which declined by \$6.44 million. The run-off in certificates was due to increases in competitor interest rates and special offerings. The Bank has taken steps to increase certain deposit offerings to be more competitive. Net loans of \$152.8 million grew \$905 thousand during the first nine months of 2018 as the Bank was able to maintain the tremendous growth from the past two years.

Non-interest income increased by \$49.8 thousand to \$811 thousand in 2018 compared to the nine-month period in 2017 as a result of income for a newly implemented loan payment convenience fee and a \$25 thousand insurance recovery from a fraudulent deposit loss. Non-interest expense increased \$198 thousand due primarily to increases salaries and benefits, service contracts, data processing costs and a charged off deposit account that were partially offset by a decrease in carrying expenses for Other Real Estate. The provision for loan loss increased by \$105 thousand compared to the same period in 2017. The heavy quarterly increase in the provision was due to the write off of one relationship in the amount of \$151 thousand.

Although the bank has encountered some challenges during the third quarter of 2018, our capital ratios remain strong and well above regulatory requirements. We remain well positioned for the future and our experienced management team and board are dedicated to the tasks ahead. As we move toward the end of 2018, Farmers Bank remains a strong community bank with deep ties to the communities we serve. Our employees continually strive not only to provide you with the best customer service possible, but also continually give back to our communities. Most often, our Bank is the institution of choice for non-profit organizations due to our discounted service prices. The Bank has a strong desire to make the coming year an even better year for our customers. We also remain committed to you our shareholders. I encourage you to recommend our services to your friends and neighbors.

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

September 30, 2018

FB 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) September 30, 2018	(Audited) December 31, 2017
Assets		
Cash and cash equivalents		
Cash and due from banks	\$ 4,311	\$ 4,968
Federal funds sold	1,390	425
Total cash and cash equivalents	<u>5,701</u>	<u>5,393</u>
Securities		
Available-for-sale, at fair value	42,076	45,610
Held to maturity, at amortized cost	21,551	22,495
Loans, net	152,784	151,879
Bank premises and equipment, net	2,530	2,483
Accrued interest receivable	1,041	1,157
Investment in bank-owned life insurance	6,195	6,078
Other real estate owned	148	571
Prepaid pension expense	664	717
Other assets	<u>1,873</u>	<u>1,851</u>
Total assets	<u>\$234,563</u>	<u>\$238,234</u>
Liabilities and Stockholders' Equity		
Deposits		
Demand - noninterest bearing	\$ 39,946	\$ 42,253
Demand - interest bearing	48,187	49,698
Savings	53,890	49,168
Time:		
Certificates of deposits of more than \$250	8,014	10,046
Other	<u>50,133</u>	<u>54,543</u>
Total deposits	200,170	205,708
Securities sold under repurchase agreements	3,087	1,461
Accrued interest payable	80	84
Deferred income taxes	(15)	96
Other liabilities	<u>642</u>	<u>428</u>
Total liabilities	<u>203,964</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	29,124	28,352
Accumulated other comprehensive net gain (loss)	<u>(1,692)</u>	<u>(1,062)</u>
Total stockholders' equity	<u>30,599</u>	<u>30,457</u>
Total liabilities and stockholders' equity	<u>\$234,563</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 9/30/2018	9/30/2017	Nine Months Ended 9/30/2018	9/30/2017
Interest Income				
Interest and fees on loans	\$1,917	\$1,855	\$5,725	\$5,345
Interest on securities				
U. S. Government-sponsored agencies	94	87	253	271
Obligations of states and political subdivisions - nontaxable	206	220	610	684
Obligations of states and political subdivisions - taxable	69	139	244	500
Corporate obligations	87	75	237	209
Interest on federal funds sold	<u>15</u>	<u>6</u>	<u>64</u>	<u>22</u>
Total interest income	<u>2,388</u>	<u>2,382</u>	<u>7,133</u>	<u>7,031</u>
Interest Expense				
Interest on deposits	165	198	528	585
Interest on CDs of over \$250	49	27	104	87
Interest on securities sold under repurchase agreements	<u>2</u>	<u>2</u>	<u>6</u>	<u>5</u>
Total interest expense	<u>216</u>	<u>227</u>	<u>638</u>	<u>677</u>
Net interest income	2,172	2,155	6,495	6,354
Provision for loan losses	<u>310</u>	<u>85</u>	<u>531</u>	<u>426</u>
Net interest income after provision for loan losses	<u>1,862</u>	<u>2,070</u>	<u>5,964</u>	<u>5,928</u>
Noninterest Income				
Service charges on deposit accounts	141	144	423	431
Gains on sale or call of securities	-	37	1	37
Other	<u>162</u>	<u>107</u>	<u>387</u>	<u>293</u>
Total noninterest income	<u>303</u>	<u>288</u>	<u>811</u>	<u>761</u>
Noninterest Expense				
Salaries and employee benefits	867	847	2,624	2,549
Expenses of premises and equipment	146	132	418	394
Other operating expenses	<u>565</u>	<u>547</u>	<u>1,748</u>	<u>1,648</u>
Total noninterest expense	<u>1,578</u>	<u>1,526</u>	<u>4,790</u>	<u>4,591</u>
Income before income tax expense	<u>587</u>	<u>832</u>	<u>1,985</u>	<u>2,098</u>
Income tax expense	<u>74</u>	<u>196</u>	<u>270</u>	<u>451</u>
Net income	<u>\$ 513</u>	<u>\$ 636</u>	<u>\$1,715</u>	<u>\$1,647</u>
Per share data:				
Earnings per share	<u>\$ 0.47</u>	<u>\$ 0.59</u>	<u>\$ 1.58</u>	<u>\$ 1.52</u>
	High	Low		
Stock prices third quarter 2018	\$30.00	\$32.94		