

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 position and results of operations for the nine-month period ended 9/30/2023. We continue to operate in an economic environment that is defined by increased competition and great uncertainty. We face greater challenges to earnings and loan demand than in previous years due to higher interest rates and inflationary economic conditions. Given these challenges, our Bank remains profitable and well capitalized. Nine-month net income of \$2.22 million reflected a \$203 thousand decrease from September 2022 net income of \$2.42 million. Our year-to-date income represents a Return on Average Assets of 0.93% and earnings per share of \$2.23, both favorably comparable to peers.

Year to date interest and fees on loans exceeded \$8.5 million, a year over year increase of \$1.7 million resulting from rising interest rates. This led to a 70-bps improvement in the composite loan yield to 5.28%. Deposit balances grew by \$6.4 million to \$285.6 million with a 1.04% composite deposit cost, which was a dramatic increase compared to the prior year. As management expected, many customers moved their checking and savings deposits to certificates of deposit to take advantage of the rising interest rates. The result was an increase of \$1.59 million in interest expense. Investment balances reported at fair value remained relatively constant with a third quarter-end balance of \$70.4 million. The Bank's investment portfolio remains in an unrealized loss position due to the effect of the rising interest rates on the fixed rate bonds in the portfolio. Management has looked strategically at addressing investment holdings to improve earnings.

The increased interest income and expense resulted in a net interest income increase of \$227 thousand with a tax equivalent net interest margin of 3.37%. Noninterest income increased by \$63 thousand (7.52%) led primarily by an increase in CD early withdrawal penalties. Noninterest expense increased \$507 thousand (9.21%) attributed primarily to increases in salaries and benefits costs, data processing expense, insurance expense and our FDIC assessment. The Bank experienced an increase in pension expense of \$190 thousand due to settlement accounting requirements associated with the Bank's defined benefit retirement plan.

Some of you may have heard that the Bank is looking to expand into the Lynchburg market. Our Board and Management are committed to remaining independent and profitable and see a need to expand our footprint in order to do so. This is a strategic initiative that has been considered for some time, and we are excited about this opportunity to provide our brand of customer service in the Lynchburg market. We will share more information as it becomes available. The Bank's strong capital position will serve us well as we move into a season of growth.

As always, I remain thankful for you, our valued shareholders and customers that allow us to continue on this path of community banking. We add value to the communities we serve and do so with a personal touch. We are attentive, responsive and dedicated to our customers and small businesses. In addition, we value and provide employment to over 70 banking professionals with five offices operating in our communities. We continually keep our eye to the future while being grounded in the core values that have brought us this far. Please take time to recommend us to your associates and friends. 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

September 30, 2023

 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)

<u>Assets</u>	<u>(Unaudited)</u> <u>September 30, 2023</u>	<u>(Audited)</u> <u>December 31, 2022</u>
Cash and cash equivalents		
Cash and due from banks	\$ 4,776	\$ 4,285
Federal funds sold	4,589	4,361
Total cash and cash equivalents	<u>9,365</u>	<u>8,646</u>
Securities		
Available-for-sale, at fair value	70,424	72,463
Loans, net	216,228	214,894
Bank premises and equipment, net	3,263	2,577
Accrued interest receivable	1,472	1,330
Investment in bank-owned life insurance	9,935	9,753
Prepaid pension expense	902	1,192
Deferred income tax	3,123	2,811
Other real estate owned	—	118
Other assets	<u>2,242</u>	<u>2,424</u>
Total assets	<u>\$316,954</u>	<u>\$316,208</u>
<u>Liabilities and Stockholders' Equity</u>		
Deposits		
Demand - noninterest bearing	\$ 57,659	\$ 58,354
Demand - interest bearing	65,327	71,376
Savings	64,046	73,520
Time:		
Certificates of deposits of over \$250	29,442	19,676
Other	<u>69,144</u>	<u>56,251</u>
Total deposits	285,618	279,177
Repurchase agreements and other borrowings	1,994	7,976
Accrued interest payable	578	156
Other liabilities	<u>921</u>	<u>1,101</u>
Total liabilities	<u>289,111</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	38,060	37,261
Accumulated other comprehensive net gain (loss)	<u>(13,384)</u>	<u>(12,630)</u>
Total stockholders' equity	<u>27,843</u>	<u>27,798</u>
Total liabilities and stockholders' equity	<u>\$316,954</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>Nine Months Ended</u>	
	<u>9/30/2023</u>	<u>9/30/2022</u>	<u>9/30/2023</u>	<u>9/30/2022</u>
Interest Income				
Interest and fees on loans	\$2,975	\$2,439	\$ 8,533	\$ 6,870
Interest on securities				
U.S. Government-sponsored agencies	17	17	51	65
Obligations of states and political subdivisions - nontaxable	237	251	716	827
Obligations of states and political subdivisions - taxable	87	87	260	268
Corporate obligations	68	53	181	138
Mortgage-backed securities	26	29	81	83
Interest on federal funds sold	<u>87</u>	<u>22</u>	<u>265</u>	<u>24</u>
Total interest income	<u>3,497</u>	<u>2,898</u>	<u>10,087</u>	<u>8,275</u>
Interest Expense				
Interest on deposits	543	156	1,365	460
Interest on CDs of over \$250	326	44	811	125
Interest on repurchase agreements and other borrowings	<u>2</u>	<u>46</u>	<u>59</u>	<u>65</u>
Total interest expense	<u>871</u>	<u>246</u>	<u>2,235</u>	<u>650</u>
Net interest income	2,626	2,652	7,852	7,625
Provision for loan losses	<u>25</u>	<u>43</u>	<u>197</u>	<u>172</u>
Net interest income after provision for loan losses	<u>2,601</u>	<u>2,609</u>	<u>7,655</u>	<u>7,453</u>
Noninterest Income				
Service charges on deposit accounts	107	144	369	404
Gain on sale and calls of securities	—	17	1	27
Other	<u>155</u>	<u>142</u>	<u>529</u>	<u>405</u>
Total noninterest income	<u>262</u>	<u>303</u>	<u>899</u>	<u>836</u>
Noninterest Expense				
Salaries and employee benefits	1,125	985	3,256	2,933
Expenses of premises and equipment	162	159	495	497
Other operating expenses	<u>745</u>	<u>725</u>	<u>2,260</u>	<u>2,075</u>
Total noninterest expense	<u>2,032</u>	<u>1,869</u>	<u>6,011</u>	<u>5,505</u>
Income before income tax expense	<u>831</u>	<u>1,043</u>	<u>2,543</u>	<u>2,784</u>
Income tax expense	<u>107</u>	<u>143</u>	<u>324</u>	<u>363</u>
Net income	<u>\$ 724</u>	<u>\$ 900</u>	<u>\$ 2,219</u>	<u>\$2,421</u>
Per share data:				
Earnings per share	<u>\$ 0.67</u>	<u>\$ 0.83</u>	<u>\$ 2.05</u>	<u>\$ 2.23</u>
	<u>High</u>	<u>Low</u>		
Stock prices second quarter 2023	\$28.00	\$22.30		