



2017 ANNUAL REPORT

FRONTIER
COMMUNITY BANK

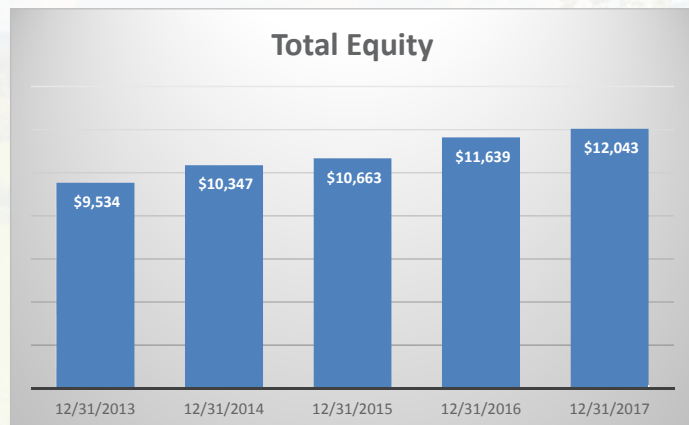
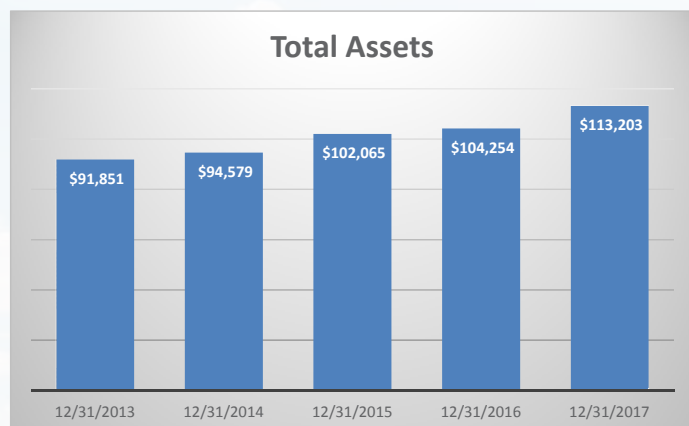
FROM YOUR PRESIDENT

April 2, 2018

Dear Shareholders:

2017 was an exciting year at Frontier! Our first branch office grew sufficiently to offset overhead expense,

while our loan production office opened in Lynchburg, VA. Increased operating expenses for the Staunton branch and a one-time deferred tax asset expense decreased year-end net income to \$351,636, compared to \$521,018 the previous year. However, management does not anticipate earnings impact from these issues in the future. The Tax Cuts and Jobs Act of 2017 legislation required a one-time adjustment to the deferred tax asset of \$66,463 which was recognized as a tax expense on the income statement. On a per share basis, book value increased from \$9.57 to \$9.90. Shareholder equity increased by \$403,238, which equates to three and a half percent. Finally, asset quality remains strong; Frontier did not report any loans past due at year-end.



The primary objective for this year is to focus upon increasing earnings by growing assets while holding expenses down. The economy improved last year, allowing Frontier to expand its asset base at an annualized rate of 7.9%. Management is encouraged by this level of growth when comparing it to recent years and hopes to build upon and increase this momentum during 2018. Since the Staunton office is past break even, further growth should equate to earnings accretion.

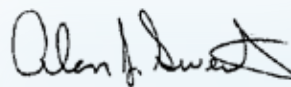
The Lynchburg loan production office is an integral part of our primary objective. It was extremely successful during 2017, serving as the primary loan growth driver for the Bank. We look forward to continued success from our Lynchburg office as it continues to build a solid foundation for a future branch location. The Board is in the initial stages of planning to establish a branch in Lynchburg, perhaps in late 2019 or early 2020.

In closing, it is important to note that external factors affecting Frontier continue to improve, enhancing Frontier's ability to expand. The local and national economies improved throughout the year, providing the Bank with many more growth opportunities than the recent past. The regulatory environment also improved, evidenced by the Senate's approval of the Economic

Growth, Regulatory Relief, and Consumer Protection Act bill. Frontier's ability to grow will be enhanced if the proposed bill becomes law in its present state. These factors, combined with an asset growth rate of 4% during the first quarter of 2018, are creating optimism for the Frontier management team. We look forward to a strong 2019!

Please think of your Bank whenever a financial need arises. We appreciate every opportunity to learn more

about you and earn your business. As always, feel free to contact me directly at 540.932.9100 if you have further questions about Frontier.



Alan J. Sweet
President and Chief Executive Officer

BRANCH SPOTLIGHT



WAYNESBORO

400 Lew Dewitt Blvd. | Waynesboro, VA 22980
P: 540.932.9100 | F: 540.942.5751

Your Bank Staff

Alan Sweet, President & CEO
Seth Bokelman, Chief Lending Officer
Rick Galway, Chief Financial Officer
Ashley Helmick, Assistant to the CEO
Elizabeth Ralston, Operations & BSA
Bill Cecil, IT & HR Manager
Tara Bryant, Compliance & Loan Review

Rhonda Fix, Loan Operations Supervisor
Tatiana Stevens, Credit Analyst
Marcie Mader, Loan Processor
Cherie Emswiler, Loan Processor
Tiffany Campbell, Personal Banking Supervisor
Danielle Fitzgerald, Personal Banker
Erica Deluhery, Personal Banker

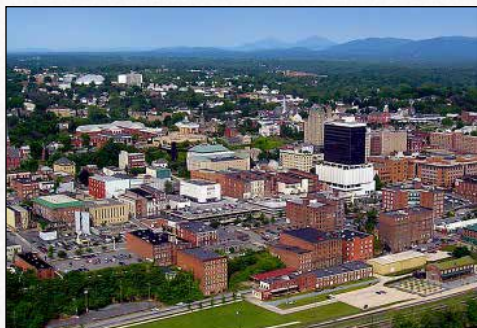


STAUNTON

PO Box 2724 | 1013 Richmond Ave. | Staunton, VA 24402-2724
P: 540.213.1200 | F: 540.213.0479

Your Bank Staff

Laurie Landes, Senior Vice President
Angela Humphries, Branch Manager
Amanda Drumheller, Personal Banker
Hailey Kyger, Personal Banker



LYNCHBURG LPO

6000 Boonsboro Rd., Suite D | Lynchburg, VA 24503
P: 434.386.8564 | F: 434.386.8565

Your Bank Staff

Christopher Chamberlin, Executive Vice President

FINANCIAL HIGHLIGHTS

DECEMBER 31,

Results of Operations:

	2017	2016
Interest income	\$ 4,521,285	\$ 4,146,994
Interest expense	(958,921)	(834,024)
Net interest income	3,562,364	3,312,970
(Provision for) /recovery of loan losses	(125,700)	37,400
Noninterest income	215,967	216,790
Noninterest expense	(2,988,744)	(2,755,429)
Net income before tax	663,887	811,731
Income tax expense	(312,251)	(290,713)
Net income	<u>\$ 351,636</u>	<u>\$ 521,018</u>

Period-end Balances:

Loans, net of unearned income & allowance	\$ 93,175,159	\$ 82,814,914
Deposits	99,234,234	87,482,018
Assets	113,203,426	104,253,777
Stockholder's equity	12,042,353	11,639,115

Per Share Information:

Earnings – basic	\$0.29	\$0.43
Earnings – diluted	\$0.29	\$0.43
Book value	\$9.90	\$9.57

Ratios:

Return on average assets	0.3 %	0.5 %
Return on average equity	3.0 %	4.6 %
Net interest margin	3.30 %	3.30 %

STATEMENTS OF INCOME

STATEMENTS OF INCOME AND COMPREHENSIVE INCOME FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

	2017	2016
Interest and Dividend Income		
Loans, including fees	\$ 4,237,024	\$ 3,893,814
Federal funds sold and deposits with other banks	222,241	182,201
Securities interest, accretion and amortization	28,910	38,803
Dividends on restricted stock	33,110	32,176
Total interest and dividend income	<u>4,521,285</u>	<u>4,146,994</u>
Interest Expense		
Deposits	931,941	798,484
Federal funds purchased and other borrowed funds	26,980	35,540
Total interest expense	<u>958,921</u>	<u>834,024</u>
Net Interest Income	3,562,364	3,312,970
Provision for/(recovery of) loan losses	125,700	(37,400)
Net interest income after provision for/(recovery of) loan losses	<u>3,436,664</u>	<u>3,350,370</u>
Noninterest Income		
Service charges on deposit accounts	19,182	27,416
Mortgage origination fee income	91,992	102,375
Other income	104,793	86,999
Total noninterest income	<u>215,967</u>	<u>216,790</u>
Noninterest Expense		
Salaries and employee benefits	1,635,122	1,513,111
Occupancy expense	276,528	165,207
Equipment and supplies expense	107,559	86,963
Marketing	58,696	73,490
Professional fees	174,115	187,996
Data processing fees	181,557	172,630
FDIC insurance expense	35,201	47,267
Bank franchise tax	96,610	87,032
Other	423,356	421,733
Total noninterest expense	<u>2,988,744</u>	<u>2,755,429</u>
Net income before income taxes	663,887	811,731
Income tax expense	312,251	290,713
Net income	<u>\$ 351,636</u>	<u>\$ 521,018</u>
Unrealized gain/(loss) on available for sale securities (net of tax of (\$836) and \$1,089 respectively)	(1,623)	2,113
Comprehensive income	<u>\$ 350,013</u>	<u>\$ 523,131</u>
Earnings per common share, basic	<u>\$ 0.29</u>	<u>\$ 0.43</u>
Earnings per common share, diluted	<u>\$ 0.29</u>	<u>\$ 0.43</u>

BALANCE SHEETS

AT DECEMBER 31, 2017 and 2016

	2017	2016
Assets		
Cash and due from banks	\$ 2,522,920	\$ 1,812,033
Interest bearing deposits with other banks	11,964,701	11,437,713
Total cash and cash equivalents	<u>14,487,621</u>	<u>13,249,746</u>
Restricted stock, at cost	562,650	652,450
Securities available for sale, at fair value	--	1,998,358
Securities held to maturity (fair value \$738,795 and \$867,732, respectively)	756,408	898,592
Loans, net of allowance for loan losses of \$1,141,300 and \$1,015,600, respectively	93,175,159	82,814,914
Premises and equipment, net	3,465,738	3,588,494
Accrued interest receivable	248,025	211,198
Deferred income tax assets, net	107,364	126,161
Other real estate owned, net	250,444	250,444
Other assets	<u>150,017</u>	<u>463,420</u>
Total assets	<u><u>\$ 113,203,426</u></u>	<u><u>\$ 104,253,777</u></u>
Liabilities		
Deposits:		
Noninterest-bearing	\$ 9,596,995	\$ 8,415,632
Interest-bearing	89,637,239	79,066,386
Total deposits	<u>99,234,234</u>	<u>87,482,018</u>
Federal funds purchased	521,000	--
Long-term borrowings	1,133,333	4,866,667
Accrued interest payable	46,175	41,482
Other accrued expenses and other liabilities	<u>226,331</u>	<u>224,495</u>
Total liabilities	<u>101,161,073</u>	<u>92,614,662</u>
Stockholders' Equity		
Common stock, \$5 par value, 10,000,000 shares authorized; 1,216,015 shares issued and outstanding	6,080,075	6,080,075
Additional paid-in capital	6,423,247	6,370,022
Retained deficit	(460,969)	(812,605)
Accumulated other comprehensive income	<u>--</u>	<u>1,623</u>
Total stockholders' equity	<u>12,042,353</u>	<u>11,639,115</u>
Total liabilities and stockholder's equity	<u><u>\$ 113,203,426</u></u>	<u><u>\$ 104,253,777</u></u>

BOARD OF DIRECTORS

Gianfranco “John” Avoli

Mr. Avoli is the Director of External Affairs at the Frontier Culture Museum of Virginia. He is the former Mayor of the City of Staunton, Virginia and Chief Executive Officer of the Frontier Culture Museum. Mr. Avoli is a founding director and serves on the Audit Committee.

Gary I. Eavers

Mr. Eavers joined the Board of Directors in October 2017. He is the President of Shenandoah Cheese and G.L. Eavers LLC and Vice President of Roller Eavers LLC, Eavers LLC, Eavers Tire Stuarts Draft and Fishersville and Eavers Enterprises Inc. Mr. Eavers is a member of the Asset Liability Committee.

Rachel Figura

Mrs. Figura joined the Board of Directors in February 2017. She is the Assistant County Attorney for Rockingham County. Mrs. Figura serves on the Audit and Executive Committees.

Julian Q. Moffett

Mr. Moffett is the Chief Executive Officer of Moffett Paving & Excavating Corporation and past Assistant City Manager and Director of Public Works for the City of Staunton. Mr. Moffett is a founding director and Chairman of the Asset Liability Committee.

James A. Morris

Mr. Morris joined the Board of Directors in January 2013. He is the President of WM Management Ltd, a real estate investment

and management firm, President of DICAM, Inc., and President of ROXIE, LLC. Mr. Morris is a member of the Executive and Director’s Loan Committees and Chairman of the Audit Committee.

Stephanie Snell

Mrs. Snell joined the Board of Directors in June 2016. She is the owner of Charlottesville Skin and Laser Center. Mrs. Snell also has 21 years of commercial banking experience. She is a member of the Asset Liability and Director’s Loan Committees.

Donna H. Snyder

Ms. Snyder joined the Board of Directors in May 2014. A career banker, who served as the Senior Vice President and Cashier for Virginia Financial Corporation prior to retiring from Stellar One Corporation in 2008. Ms. Snyder is a member of the Audit and Executive Committees.

Alan J. Sweet

Mr. Sweet is the President and Chief Executive Officer. He has twenty-six years of community banking experience. Mr. Sweet joined Frontier Community Bank during the organizational stage.

M. Terry Westhafer

Mr. Westhafer is the President of Central Tire Corporation, and the managing member of Westhafer Company, LLC. Mr. Westhafer, a founding director, is Chairman of the Board. He also serves on the Executive and Director’s Loan Committees.





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