

Richard J. Holland, Jr.

March 8, 2022

Dear Fellow Shareholders of Farmers Bankshares, Inc.

I am writing to you for two purposes. First, I wish to share with you some information about what has transpired at Farmers Bank. Second, I wish to share my significant concerns about the current direction of Farmers Bankshares, Inc. and correct some of the very misleading statements in the letter dated February 28, 2022 that you received from the other directors of Farmers Bankshares.

On February 10, 2022, I was removed as Chairman of Farmers Bankshares, Inc. and Farmers Bank and was removed from the Board of Directors of Farmers Bank, after the Board changed the Bank's articles of incorporation for that sole purpose. I did not resign and I did not "step down," contrary to what others may be saying and what you may have seen in the local press. I was unceremoniously fired.

The current Board of Directors has decided that, for the first time in 102 years, Farmers Bank should not have a member of the Holland family involved in the day-to-day business of the Bank. This is a tremendous disappointment to the entire Holland family. That this has occurred only two years after I retired as Chief Executive Officer, while remaining involved as Chairman to help develop business of the Bank *and* as the Bank's Chaplain to offer professional or personal help to the Bank's employees, is particularly shocking. I remain very proud of the culture that the Holland family established at the Bank and the care we afforded our employees. My dismissal, as well as the treatment of other employees, shows that this culture of care is quickly vanishing.

Farmers Bankshares and the Bank were facing significant challenges while I served as Chief Executive Officer. We were able to weather the 2008 financial crisis, but some challenges remained and we dealt with them. The economy has improved. Deposits in community banks are up.

During my tenure as CEO, I was primarily responsible for the purchase of a majority interest in the Manry-Rawls insurance agency. While Farmers Bankshares did report "record" results for 2021, these results were significantly driven by Farmers' investment in and income from the insurance agency. The 2021 results were also driven by a \$3.1 million one-time gain on the sale of property owned by the Bank, which I shepherded to conclusion during 2021 and which will not be repeated in the coming years. The income from the sale of the property and the insurance agency is not part of the Bank's core banking business.

When you look at the Bank's core banking business, the picture is bleak:

- The core Bank's return on average assets (which does not include the insurance agency business, or the sale of bank-owned real estate) is approximately 0.50%. Our peers average close to 1.00%, or twice what our Bank is earning.
- The core Bank's return on your equity is approximately 4.50%. Our peers average between 8% and 12% -- again, twice what our Bank is earning.
- Our Bank is significantly less efficient than our competitors. The core Bank's efficiency ratio (lower is better) is approximately 74%, when our peers average in the low-to-mid 60s.
- The stock price of Farmers Bankshares, Inc. has not meaningfully increased in the past five years.
- The Bank's loan-to-deposit ratio is the fourth lowest in the entire state of Virginia at 49%, while the state average is 72%. To increase this ratio to 80%, which is the target for long-term profitability, the Bank would need to increase loans by \$167 million or 64%. Unfortunately, the Bank's loans actually decreased during 2021. A March 2, 2022 article in the Virginia Pilot under the headline "Hampton Roads banks report growth in profits as more money circulates in regional economy" makes clear that other local banks are significantly out-performing Farmers Bank in attracting loans and earning net income.

At the same time the Bank is facing these internal challenges, there is immense pressure in the banking industry on community banks to consolidate. Regulatory compliance is more complex and more costly than ever before. Bank customers are demanding new technology, products and services that are more costly and more difficult for small banks to deliver than larger banks. Responsible loan growth, given management's recent and present practices, will be very difficult to realize. It simply is not enough to wait until "loan demand returns to our local markets," as the February 28 Board letter states.

Simply put – I have lost all confidence in the current Board of Directors and management to address these challenges. I have concluded that they do not have a credible or achievable plan. The Bank's management refuses to admit that they are not up to the task. I do not believe the Bank's management or Board of Directors is honestly assessing the Bank's current and future operations, or how to maximize value for shareholders in the long-run.

Before I was removed as Chairman of Farmers Bankshares, Inc., on January 31, 2022 I used my authority as Chairman to call a Special Meeting of Shareholders. There was to be one item of business at that meeting – shareholders were to vote on the following advisory proposal:

RESOLVED, that the shareholders of Farmers Bankshares, Inc. (the "Company") recommend and urge the Company's Board of Directors (the "Board"), within the next 90 days, to explore, solicit, receive and evaluate strategic alternatives to maximize value for all of the Company's shareholders, including but not limited to a merger, consolidation, sale or other business combination transaction involving the Company, and to engage and direct a nationally recognized investment bank with experience in financial institution merger transactions to assist it in such process.

As you saw in the February 28 Board letter, the other Directors and management have decided to ignore this properly called meeting, and hide from shareholders who may want to express their views on this matter. The other Directors and management say that they “place great value on our shareholders’ input” but their conduct demonstrates otherwise.

At this point, I must address several statements in the February 28 Board letter that are very misleading.

First, the February 28 Board letter states that Farmers is engaged in a “360-degree review” process to evaluate strategic alternatives, and then equates this 360-degree process with the process urged by the advisory proposal. This is incorrect. If approved by shareholders, the advisory proposal would have urged Farmers to solicit interest from other parties as part of evaluating all alternatives. The 360-degree process is not taking that step. Instead, its analysis of merger or sale alternatives is likely to be limited to “what if” scenarios and hypothetical modeling – a method of evaluating alternatives that is much less robust and useful to Farmers’ shareholders.

Second, the February 28 Board letter states that the directors could not make an informed decision regarding the advisory proposal until Farmers completed its current process. This also is incorrect. The Board had no significant decision to make prior to shareholders voting on the advisory proposal. The advisory proposal would have given shareholders the opportunity to vote their conscience regarding the importance of evaluating all alternatives, including soliciting interest from other parties – nothing more, nothing less. Only afterward would the Board have been required to consider the votes that were cast and determine how to respond.

Third, the February 28 Board letter clearly communicates that the signing directors have all decided not to convene a special meeting to vote on the advisory proposal. To be clear, since I called the special meeting (and was removed as Chairman very shortly thereafter), the Board has not discussed my advisory proposal, the new Chairman has not put the advisory proposal on the agenda for a Board meeting, and no director has approached me to discuss the advisory proposal. This is appalling corporate governance and leadership that should shock all shareholders.

Fourth, the February 28 Board letter only tells half the story related to Farmers’ potential repurchase of my shares of stock. After preliminary negotiations (offer and counter-offer), I was the one that terminated discussions with Farmers about this transaction. I grew significantly concerned that the Bank would suffer following that transaction. To be clear – I am only interested in transactions that will treat all shareholders equally, and I am not willing to leave any of my fellow shareholders behind.

As the largest shareholder of Farmers Bankshares, Inc., I believe that my investment would be best protected by a sale or merger of the company. Such a transaction would create a significant premium for all shareholders and would create significant additional liquidity for anyone looking to sell their shares of company stock. Many members of the Holland family are not willing to risk our long-term investment in the Bank, or our Father’s and Grandfather’s legacy, to the current Board and management.

I invite any shareholder to call me at (757) 450-4420 or email me at rjh.jr5346@gmail.com to discuss this letter or your investment in Farmers Bankshares.

I pledge to all of the company's shareholders that, even though I am no longer involved in the day-to-day operations of Farmers Bank, I will do everything in my power to protect you and your families' investments. I do not believe that the Bank's current Board or management is a good investment.

Very truly yours,

A handwritten signature in black ink, appearing to read "Dick Holland, Jr.", with a stylized flourish at the end.

Richard J. (Dick) Holland, Jr.