

Carter Bank & Trust Announces First Quarter 2018 Financial Results; Announces Trading on OTCQX

2018-04-26

MARTINSVILLE, Va.--(BUSINESS WIRE)-- Carter Bank & Trust (the "Bank") (OTCQX:CARE) today announced net income of \$8.8 million, or \$0.34 earnings per share, for the first quarter of 2018, as compared to net income of \$6.3 million, or \$0.24 earnings per share, for the first quarter of 2017. Pre-tax pre-provision earnings¹ were \$9.6 million in the first quarter of 2018 as compared to \$11.7 million in the same period last year.

First Quarter 2018 Financial Highlights

- First quarter net income of \$8.8 million, or \$0.34 earnings per share, an increase of 40.1% over the same quarter of 2017;
- Net income was positively impacted by the Tax Cuts and Jobs Act (Tax Act) which lowered the federal corporate tax rate from 35% to 21% effective January 1, 2018;
- Net interest margin, on a fully taxable equivalent basis, improved 30 basis points to 3.04% over the same period last year, on a \$327.2 million lower asset base and despite the negative impact of a lower taxable equivalent adjustment resulting from the lower corporate tax rate;
- Provision for loan losses declined \$11.2 million, or 88.1%, compared to linked quarter;
- Deployed excess cash into new loan categories for earnings and diversification purposes;
- Securities gains of \$0.9 million were realized the first quarter of 2018 to take advantage of market opportunities;
- Noninterest expense decreased \$12.7 million, or 36.1%, compared to the linked quarter primarily due to one-time charges recognized in the fourth quarter of 2017;

- Nonperforming loans decreased \$30.4 million from the linked quarter and decreased \$55.9 million from March 31, 2017.

Litz H. Van Dyke, Chief Executive Officer, stated, "I am especially pleased with the improvement in our financial performance and credit quality metrics this quarter, and the progress with our newly launched mortgage initiative. We continue to progress with our comprehensive systems conversion project, targeted to occur in the fourth quarter of 2018. The new system will lay the foundation to provide additional products and services for our customers, operational efficiencies and cost savings throughout the organization ultimately creating value for our shareholders."

Operating Highlights

Net interest income increased \$0.9 million to \$27.4 million for the period ended March 31, 2018 as compared to the same period of 2017. The increase in net interest income is primarily driven by a \$1.7 million decrease in interest expense, offset by a decrease of \$0.8 million in interest income as compared to the same period of 2017. This is a result of the intentional runoff of higher cost certificates of deposit. The net interest margin, on a fully taxable equivalent basis, increased 30 basis points to 3.04% over the past twelve months due to our deployment of excess cash into higher yielding and diversified investment securities as well as the aforementioned runoff of higher cost deposits despite the decreased tax benefit from our tax exempt securities due to the aforementioned decreased in the federal corporate tax rate.

The provision for loan losses totaled \$1.5 million for the period ended March 31, 2018, a decrease of \$2.4 million as compared to the same period of 2017. At March 31, 2018, nonperforming loans were \$62.5 million, a decrease of \$30.4 million from December 31, 2017 and a decrease of \$55.9 million from March 31, 2017. Net recoveries were \$33 thousand in the first three months of 2018 as compared to \$0.4 million of net charge-offs in the same period of 2017. As a percentage of loans, on an annualized basis, net charge-offs (recoveries) were (0.01)%, 1.58% and 0.06% for the periods ending March 31, 2018, December 31, 2017 and March 31, 2017, respectively. Nonperforming loans as a percentage of total loans were 2.35%, 3.46% and 4.33% as of March 31, 2018, December 31, 2017 and March 31, 2017, respectively.

Noninterest income increased \$1.0 million, or 31.1%, to \$3.9 million, excluding net securities gains, for the three months ending March 31, 2018 as compared to \$2.9 million in the same period of 2017. The increase in noninterest income is attributable to \$0.4 million higher income from other real estate owned due to the acquisition of several properties generating income during the period, increased service charges of \$0.2 million, increased insurance fees, and the gain on the sale of our insurance agency during the first quarter of 2018. Securities gains of \$0.9 million were realized during the first three months of 2018 to take advantage of market opportunities and reduce the

credit risk of the securities portfolio.

Total noninterest expense increased \$4.8 million, or 26.7%, for the first three months of 2018 to \$22.6 million as compared to \$17.8 million in the same period of 2017. The increase is primarily due to an increase in salaries and employee benefits of \$2.1 million, an increase in professional and legal fees of \$0.9 million, \$1.0 million of tax credit amortization and a \$0.3 million increase in the reserve for unfunded loan commitments, included in other expenses. The increase in salaries and benefits was expected and planned as investments were made in the appropriate infrastructure to support the Bank in the future. Offsetting these increases were decreases of \$1.2 million in data processing expenses due to the write-off of expenses that were previously capitalized that were fully expensed during 2017, and a decrease of \$0.3 million in FDIC insurance expense attributable to lower FDIC assessment rates and a decrease in the assessment base.

Financial Condition

Total assets were \$4.1 billion at March 31, 2018 and December 31, 2017. Total loans were essentially flat at \$2.7 billion as of March 31, 2018 and December 31, 2017 due to the reduction of several large legacy credit relationships, which offset new loan growth. Nonperforming loans decreased \$30.4 million to \$62.5 million as of March 31, 2018 from \$92.9 million at December 31, 2017 and decreased \$55.9 million from \$118.4 million as of March 31, 2017. The decrease in nonperforming loans is primarily due to nonperforming credits migrating to OREO during the first quarter of 2018. OREO increased \$23.5 million as of March 31, 2018 as compared to December 31, 2017, primarily due to \$26.4 million in commercial loans that were transferred to OREO during the first quarter of 2018.

Federal Reserve Bank excess reserves declined \$54.3 million as compared to December 31, 2017 and declined \$508.5 million from the year ago period. This excess cash was deployed into higher yielding and diversified securities and also funded the planned decrease in high cost deposits during the past twelve months.

The securities portfolio increased \$6.9 million and is currently 23.2% of total assets at March 31, 2018 as compared to 23.0% of total assets at December 31, 2017. The increase is a result of more active balance sheet management and as a replacement for loan growth due to the aforementioned reduction of several large legacy credit relationships. We have further diversified the securities portfolio as to bond types, maturities and interest rate structures.

Total deposits as of March 31, 2018 were \$3.7 billion essentially flat as compared to December 31, 2017. Certificates of deposits decreased only slightly by \$22.4 million, or 1.1%, as compared to December 31, 2017 and declined \$265.7 million, or 11.6%, as compared to March 31, 2017 due to the aforementioned intentional reduction in higher cost time deposits. Noninterest bearing deposits increased by \$44.6 million, or 8.4%, to \$574.8 million as of March

31, 2018 as compared to \$530.2 million as of December 31, 2017. Noninterest bearing deposits comprised 15.7% and 14.4% of total deposits at March 31, 2018 and December 31, 2017.

The allowance for loan losses was 1.39% of total loans as of March 31, 2018 as compared to 1.32% as of December 31, 2017. The allowance for loan losses was 59.0% of nonperforming loans as of March 31, 2018 as compared to 38.0% of nonperforming loans as of December 31, 2017. In the view of management, the allowance for loan losses is adequate to absorb probable losses inherent in the loan portfolio.

The Bank remains well capitalized. The Bank's Tier 1 Capital ratio increased to 13.31% as of March 31, 2018 as compared to 12.93% as of December 31, 2017. The Bank's leverage ratio was 9.62% at March 31, 2018 as compared to 9.33% as of December 31, 2017. The Bank's Total Risk-Based Capital ratio was 14.56% at March 31, 2018 as compared to 14.15% at December 31, 2017.

OTCQX Market

Carter Bank & Trust today announced that the Bank's common stock will begin trading, effective today, on the OTCQX® Best Market, under the ticker symbol "CARE". In making the announcement, Litz H. Van Dyke, Chief Executive Officer, stated, "The OTCQX is a great fit for our Bank as it will improve our visibility to investors who are interested in community banks, while providing a source of liquidity to our current shareholders. As we move the Bank forward with our transformation initiatives, it is the perfect time to bring our Bank's story to the forefront."

About Carter Bank & Trust

Headquartered in Martinsville, VA, Carter Bank & Trust is a state-chartered community bank in Virginia with \$4.1 billion in assets and 109 branches in Virginia and North Carolina. For more information visit www.CarterBankandTrust.com.

Important Note Regarding Forward-Looking Statements

This information contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting Carter Bank & Trust and its future business and operations. Forward looking statements are typically identified by words or phrases such as "will likely result," "expect", "anticipate," "estimate," "forecast," "project," "intend", "believe", "assume", "strategy", "trend", "plan", "outlook", "outcome", "continue", "remain", "potential," "opportunity", "believe", "comfortable", "current", "position", "maintain", "sustain", "seek", "achieve" and variations of such words and similar expressions, or future or conditional

verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to: credit losses, cyber-security concerns; rapid technological developments and changes; sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve; a change in spreads on interest-earning assets and interest-bearing liabilities; regulatory supervision and oversight; legislation affecting the financial services industry as a whole, and Carter Bank & Trust, in particular; the outcome of pending and future litigation and governmental proceedings; increasing price and product/service competition; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; managing our internal growth and acquisitions; the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or costly than anticipated; containing costs and expenses; reliance on significant customer relationships; general economic or business conditions; deterioration of the housing market and reduced demand for mortgages; deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses. Many of these factors, as well as other factors, are described in our filings with the SEC. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

CARTER BANK & TRUST
 CONSOLIDATED FINANCIAL DATA
 BALANCE SHEET
 (Unaudited)

(Dollars in Thousands, except per share data)

	March 31, 2018	December 31, 2017	March 31, 2017

ASSETS

Cash and Due From Banks	\$ 52,030	\$ 58,533	\$ 37,087
Interest-Bearing Deposits in Other Financial Institutions	62,880	58,365	42,821
Federal Reserve Bank Excess Reserves	97,367	151,715	605,828
Total Cash and Cash Equivalents	212,277	268,613	685,736
Securities, Available-for-Sale, at Fair Value	954,127	947,201	-
Securities, Held-to-Maturity, at Cost (Fair Value \$842,426 at March 31, 2017)	-	-	837,189
Loans Held-for-Sale	-	517	-
Portfolio Loans, net of Unearned Income	2,660,898	2,684,445	2,731,754
Allowance for Loan Losses	(36,866)	(35,318)	(37,953)
Portfolio Loans, net	2,624,032	2,649,127	2,693,801
Bank Premises and Equipment, net	79,896	77,273	96,272
Other Real Estate Owned, net	63,263	39,793	20,076
Goodwill	58,726	59,762	59,762
Other Intangibles	-	122	135
Bank Owned Life Insurance	50,000	-	-
Other Assets	70,472	69,884	47,033
TOTAL ASSETS	\$4,112,793	\$4,112,292	\$4,440,004

LIABILITIES

Deposits			
Noninterest-Bearing Demand	\$ 574,811	\$ 530,242	\$ 540,898
Interest-Bearing Demand	264,939	260,979	257,105
Money Market	107,624	102,686	165,767
Savings	690,315	721,459	732,625
Certificates of Deposits	2,031,887	2,054,249	2,297,626
Total Deposits	3,669,576	3,669,615	3,994,021
Other Liabilities	10,340	10,551	5,031
TOTAL LIABILITIES	3,679,916	3,680,166	3,999,052

SHAREHOLDERS' EQUITY

Common Stock, Par Value \$1.00 Per Share, Authorized 100,000,000 Shares; 26,257,761 outstanding in 2018 and 2017	26,258	26,258	26,258
Additional Paid-in-Capital	142,178	142,178	142,178
Retained Earnings	274,759	265,930	272,516
Accumulated Other Comprehensive Loss	(10,318)	(2,240)	-
TOTAL SHAREHOLDERS' EQUITY	432,877	432,126	440,952
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$4,112,793	\$4,112,292	\$4,440,004

PROFITABILITY RATIOS (ANNUALIZED)

Return on Average Assets	0.88%	-0.02%	0.56%
Portfolio Loan to Deposit Ratio	72.51%	73.15%	68.40%
Allowance to Total Portfolio Loans	1.39%	1.32%	1.39%

CARTER BANK & TRUST
CONSOLIDATED FINANCIAL DATA
INCOME STATEMENT
(Unaudited)

(Dollars in Thousands, except per share data)

	Quarter-to-Date		
	March 31, 2018	December 31, 2017	March 31, 2017
Interest Income	\$ 35,588	\$ 36,453	\$ 36,353
Interest Expense	8,151	8,669	9,844
NET INTEREST INCOME	27,437	27,784	26,509
Provision for Loan Losses	1,515	12,685	3,880
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	25,922	15,099	22,629
NONINTEREST INCOME			
Gains on Sales of Securities, net	868	114	-
Service Charges, Commissions and Fees	1,252	717	1,008

Debit Card Interchange Fees	1,133	1,210	1,205
Insurance Commissions	535	379	464
Other Real Estate Owned Income	549	163	109
Other	394	846	161
TOTAL NONINTEREST INCOME	4,731	3,429	2,947
NONINTEREST EXPENSE			
Salaries and Employee Benefits	12,260	11,597	10,174
Occupancy Expense, net	2,325	2,945	2,106
FDIC Insurance Expense	838	900	1,129
Other Taxes	477	523	441
Telephone Expense	669	460	412
Professional and Legal Fees	1,210	3,260	278
Data Processing License Fee	268	1,331	1,460
Losses (Gains) on Sales and Write-downs of Other Real Estate Owned, net	291	2,515	(52)
Loss on Sales and Write-downs of Bank Premises	51	5,295	-
Debit Card Expense	652	669	619
Tax Credits Amortization	1,015	-	-
Tax Credits Impairment	-	3,259	-
Other Real Estate Owned Expense	531	426	187
Other	1,972	2,119	1,050
TOTAL NONINTEREST EXPENSE	22,559	35,299	17,804
INCOME (LOSS) BEFORE INCOME TAXES	8,094	(16,771)	7,772
Income Tax (Benefit) Provision	(735)	(11,700)	1,470
NET INCOME (LOSS)	\$ 8,829	\$ (5,071)	\$ 6,302
Average Shares Outstanding	26,257,761	26,257,761	26,257,761
PER SHARE DATA			
Earnings (Loss) Per Common Share- Basic and Diluted	\$ 0.34	\$ (0.19)	\$ 0.24
Market Value	\$ 17.05	\$ 17.55	\$ 16.90
PROFITABILITY RATIOS			
Net Interest Margin (FTE) ²	3.04%	2.98%	2.74%
Core Efficiency Ratio ³	64.67%	65.57%	56.66%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
(Unaudited)

DEFINITIONS AND RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

¹ Pre-tax pre-provision is computed as net interest income plus noninterest income minus noninterest expense before the provision for loan losses and income tax (benefit) provision.

² Net interest income has been computed on a fully taxable equivalent basis ("FTE") using a 35% federal income tax rate for the March 31, 2017 and December 31, 2017 quarters and the 21% federal income tax statutory rate for the March 31, 2018 quarter.

Net Interest Income (FTE) (non-GAAP)

	Quarter-to-Date		
	March 31, 2018	December 31, 2017	March 31, 2017
Interest Income	\$ 35,588	\$ 36,453	\$ 36,353
Interest Expense	(8,151)	(8,669)	(9,844)
Tax Equivalent Adjustment ²	1,087	2,244	2,057
NET INTEREST INCOME (FTE) (non-GAAP)	\$ 28,524	\$ 30,028	\$ 28,566

³ Core Efficiency Ratio (non-GAAP)

	Quarter-to-Date		
	March 31, 2018	December 31, 2017	March 31, 2017
NONINTEREST EXPENSE	\$ 22,559	\$ 35,299	\$ 17,804
Less: One Time Regulatory and Compliance	(500)	(1,845)	-
Less: (Losses) Gains on Sales and Write-downs of Other Real Estate Owned, net	(291)	(2,515)	52

Less: Loss on Sales and Write-downs of Bank Premises	(51)	(5,295)	-
Less: Tax Credits Impairment	-	(3,259)	-
Less: Tax Credits Amortization	(1,015)	-	-
Less: Regulatory Review	-	(521)	-
NET NONINTEREST EXPENSE	\$ 20,702	\$ 21,864	\$ 17,856
NET INTEREST INCOME	\$ 27,437	\$ 27,784	\$ 26,509
Plus: Taxable Equivalent Adjustment	1,087	2,244	2,057
NET INTEREST INCOME (FTE) (Non-GAAP)	\$ 28,524	\$ 30,028	\$ 28,566
Less: Securities Gains, net	(868)	(114)	-
Less: Other Gains	(374)	-	-
Noninterest Income	4,731	3,429	2,947
NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	\$ 32,013	\$ 33,343	\$ 31,513
CORE EFFICIENCY RATIO	64.67%	65.57%	56.66%

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Source: Carter Bank & Trust