

Carter Bank & Trust Announces Fourth Quarter and Full-Year 2017 Financial Results

2018-01-25

MARTINSVILLE, Va.--(BUSINESS WIRE)-- Carter Bank & Trust (the "Bank") (OTC:CARE) today announced a net loss of \$5.1 million, or \$0.19 per share, for the fourth quarter of 2017, as compared to a net loss of \$3.9 million, or \$0.15 per share, for the fourth quarter of 2016. Pre-tax pre-provision earnings¹ were negative \$4.1 million in the fourth quarter of 2017 as compared to \$4.7 million in the same period last year.

For the year ended December 31, 2017, net loss was \$0.7 million, or \$0.03 per share, as compared to net income of \$16.0 million, or \$0.61 earnings per share, for the year ended 2016. Pre-tax pre-provision earnings¹ were \$25.0 million for the year ended 2017 as compared to \$35.3 million for the same period of 2016.

Fourth Quarter 2017 Financial Highlights

- Fourth quarter net loss of \$5.1 million, or \$0.19 per share;
- Net interest margin, on a fully taxable equivalent basis, improved 32 basis points to 2.98% over the linked quarter, on a \$77.3 million lower asset base;
- Deployed excess cash into new loan categories for earnings and diversification purposes;
- Noninterest expense increased \$14.5 million, or 69.6%, compared to the linked quarter primarily due to one-time charges including:
 - \$5.3 million of write-downs on retail branch offices marketed for sale in the fourth quarter;
 - \$3.3 million of historic tax credit investment write-downs and
 - \$2.5 million of write-downs in other real estate owned ("OREO")

- Fourth quarter was impacted by provision expense of \$12.7 million;
- Fourth quarter was negatively impacted by a charge of \$2.8 million from the write-down of the Bank's deferred tax assets resulting from the recent tax reform legislation;
- Pre-tax pre-provision earnings¹ of negative \$4.1 million compared to \$4.7 million in the same period of last year was negatively impacted by the aforementioned one-time charges of \$13.9 million in the fourth quarter of 2017 and
- Nonperforming loans decreased \$16.7 million over the linked quarter.

2017 Year-to-Date Financial Highlights

- Year-to-date net loss of \$0.7 million, or \$0.03 per share;
- Net interest margin, on a fully taxable equivalent basis, improved 36 basis points to 2.67% year-over-year;
- Net interest income increased \$5.4 million, or 5.4%, to \$106.5 million year-over-year, on a \$393.2 million lower asset base;
- Securities gains of \$1.2 million were realized in 2017 to take advantage of market opportunities;
- Pre-tax pre-provision earnings¹ of \$25.0 million decreased \$10.3 million, or 29.3%, compared to last year due to the aforementioned one-time charges of \$13.9 million in the fourth quarter of 2017 and infrastructure investments during 2017 and
- Year-to-date earnings were impacted by provision expense of \$43.2 million.

Litz H. Van Dyke, Chief Executive Officer of Carter Bank & Trust, commented, "2017 was an unprecedented year for our organization and has been negatively impacted by a substantial increase in our provision expense and one-time charges taken during the year. We have taken aggressive steps in dealing with legacy problem loans and other financial matters so that they will not have lingering impacts to our long-term performance. These steps are intended to appropriately address these matters and move us beyond the credit issues that have weighed on our earnings performance over the last few quarters. We are confident that our efforts are moving us closer to a period where there will be less impact to earnings from one-time charges and unusually high provisions."

Van Dyke continued, "I am especially pleased with the progress our organization has made on some of our strategic initiatives this quarter. Our net interest margin, on a fully taxable equivalent basis, increased 65 basis points to 2.98% in the fourth quarter of 2017 as compared to the same period in 2016 as a result of our balance sheet optimization; we also launched our mortgage lending initiative and closed 12 retail branch offices in our efforts to right size our branch network. We enthusiastically look forward to 2018 as we serve our customers and execute on a comprehensive systems conversion that will lead to 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 \$5.4 million to \$106.5 million for the year ended December 31, 2017 as compared to 2016. The increase in net interest income is primarily driven by a \$9.3 million decrease in interest expense during the twelve month period of 2017 as compared to the same period of 2016. 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 36 basis points to 2.67% 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.

The provision for loan losses totaled \$43.2 million for the year ended December 31, 2017, an increase of \$25.5 million as compared to 2016. Net charge-offs were \$42.4 million in 2017 as compared to \$10.2 million in 2016. During 2017, we have dealt with significant impairment in several large commercial real estate loan relationships. This resulted in significant charge-offs as we aggressively worked toward resolution of these legacy credits.

Noninterest income decreased \$0.9 million, or 6.8%, to \$11.6 million, excluding net securities gains, for the twelve months ending December 31, 2017 as compared to \$12.5 million in 2016. The decline in noninterest income is primarily attributable to lower income from other real estate owned due to the disposition of several properties during the period. Debit card income, a key component of the Bank’s noninterest income improved to \$4.9 million in 2017 as compared to \$4.7 million in 2016. Securities gains of \$1.2 million were realized during the second half of 2017 to take advantage of market opportunities and reduce the credit risk of the securities portfolio.

Total noninterest expense increased \$16.1 million, or 20.6%, for the year-to-date period of 2017 to \$94.3 million as compared to \$78.2 million in the same period of 2016. Several factors contributed to this increase including the aforementioned one-time charges, an increase in salaries and employee benefits of \$5.2 million, an increase in professional and legal fees of \$5.7 million and an increase of \$2.1 million in data processing license fee. These increases were expected and planned as investments were made in the appropriate infrastructure to support the Bank in the future. Also contributing to this increase were the one-time charges of \$5.3 million on write-downs of retail branch offices marketed for sale and \$3.3 million of historic tax credit investment write-downs that were evaluated for impairment during the fourth quarter of 2017. Offsetting these increases were decreases of \$6.1 million on losses on sales and write-downs of OREO due to the disposition of several properties during 2016 and a decrease of \$1.0 million in FDIC insurance expense attributable to lower FDIC assessment rates and a decrease in the assessment base.

Financial Condition

Total assets as of December 31, 2017 declined to \$4.1 billion, or 8.7%, from \$4.5 billion as of December 31, 2016. Total loans were essentially flat at \$2.7 billion as of December 31, 2017 and 2016 due to the reduction of several large legacy credit relationships. Nonperforming loans decreased \$16.7 million to \$92.9 million as of December 31, 2017 from \$109.6 million at September 30, 2017 and decreased \$26.6 million from \$119.5 million as of December 31, 2016. The decrease in nonperforming loans is primarily due to charge-offs on legacy nonperforming credits during 2017. OREO increased \$12.6 million as of December 31, 2017 as compared to September 30, 2017, primarily due to the transfer of \$13.7 million from Bank Premises and Equipment to OREO for the net remaining book value on the branches marketed for sale.

Federal Reserve Bank excess reserves declined \$455.2 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 \$67.5 million and is currently 23.0% of total assets at December 31, 2017 as compared to 19.5% of total assets at December 31, 2016. 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 December 31, 2017 were \$3.7 billion as compared to \$4.1 billion as of December 31, 2016, a decline of \$394.2 million, or 9.7%. Time deposits represented the largest segment of decline in deposits with a \$328.0 million decline year-over-year. This reduction is strategically aligned with the Bank's plan to improve the net interest margin. Noninterest bearing deposits decreased slightly by \$4.7 million to \$530.2 million as of December 31, 2017 as compared to \$534.9 million as of December 31, 2016. Noninterest bearing deposits comprised 14.4% and 13.2% of total deposits at December 31, 2017 and 2016, respectively.

The allowance for loan losses was 1.32 % of total loans as of December 31, 2017 as compared to 1.26% as of December 31, 2016. The allowance for loan losses was 38.0% of nonperforming loans as of December 31, 2017 as compared to 28.9% of nonperforming loans as of December 31, 2016. 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 12.93% as of December 31, 2017 as compared to 12.22% as of December 31, 2016. The Bank's leverage ratio was 9.33% at December 31, 2017 as compared to 8.10% in the same period of 2016. The Bank's Total Risk-Based Capital ratio was 14.15% at December 31, 2017 as compared to 13.35% at December 31, 2016.

About Carter Bank & Trust

Headquartered in Martinsville, VA, Carter Bank & Trust is a state-chartered community bank in Virginia with more than 100 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)

	December 31, 2017	September 30, 2017	December 31, 2016
ASSETS			
Cash and Due From Banks	\$ 58,533	\$ 38,866	\$ 45,211
Interest-Bearing Deposits in Other Financial Institutions	58,365	53,739	42,662
Federal Reserve Bank Excess Reserves	151,715	327,193	606,904
Total Cash and Cash Equivalents	\$ 268,613	\$ 419,798	\$ 694,777
Securities, Available for Sale, at Fair Value	947,201	882,997	-
Securities, Held-to-Maturity, at Cost (Fair Value \$885,167 at December 31, 2016)	-	-	879,694
Loans Held for Sale	517	48,476	-
Portfolio Loans, net of Unearned Income	2,684,445	2,636,050	2,731,783
Allowance for Loan Losses	(35,318)	(35,645)	(34,500)
Portfolio Loans, net	\$ 2,649,127	\$ 2,600,405	\$ 2,697,283
Bank Premises and Equipment, net	77,273	94,420	96,606
Other Real Estate Owned, net	39,793	27,170	23,558
Goodwill	59,762	59,762	59,762
Other Intangibles	122	113	33
Other Assets	69,884	56,437	53,816
TOTAL ASSETS	\$ 4,112,292	\$ 4,189,578	\$ 4,505,529
LIABILITIES			
Deposits			
Noninterest-Bearing Demand	\$ 530,242	\$ 567,348	\$ 534,923
Interest-Bearing Demand	260,979	226,166	259,942
Money Market	102,686	115,976	182,579
Savings	721,459	736,662	704,147
Certificates of Deposits	2,054,249	2,097,378	2,382,248
Total Deposits	\$ 3,669,615	\$ 3,743,530	\$ 4,063,839
Other Liabilities	10,551	5,876	7,040
TOTAL LIABILITIES	\$ 3,680,166	\$ 3,749,406	\$ 4,070,879
SHAREHOLDERS' EQUITY			
Common Stock, Par Value \$1.00 Per Share, Authorized 100,000,000 Shares; 26,257,761 outstanding in 2017 and 2016	26,258	26,258	26,258
Additional Paid-in-Capital	142,178	142,178	142,178
Retained Earnings	265,930	270,604	266,214
Accumulated Other Comprehensive (Loss) Income	(2,240)	1,132	-
TOTAL SHAREHOLDERS' EQUITY	\$ 432,126	\$ 440,172	\$ 434,650
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,112,292	\$ 4,189,578	\$ 4,505,529
PROFITABILITY RATIOS (ANNUALIZED)			
Return on Average Assets	-0.02%	0.13%	0.33%
Portfolio Loan to Deposit Ratio	73.15%	70.42%	67.22%

Allowance to Total Portfolio Loans

1.32%

1.35%

1.26%

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

(dollars in thousands, except per share data)

	Quarter-to-Date			Year-to-Date	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Interest Income	\$ 36,453	\$ 34,906	\$ 35,552	\$ 143,589	\$ 147,422
Interest Expense	8,669	9,122	10,729	37,111	46,382
NET INTEREST INCOME	27,784	25,784	24,823	106,478	101,040
Provision for Loan Losses	12,685	13,890	12,553	43,197	17,717
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	15,099	11,894	12,270	63,281	83,323
NONINTEREST INCOME					
Gains on Sales of Securities, net	114	1,072	-	1,186	-
Service Charges, Commissions and Fees	717	588	708	2,974	3,139
Debit Card Interchange Fees	1,210	1,213	1,210	4,854	4,718
Insurance Fees	379	599	376	1,847	1,878
Other Real Estate Owned Income	163	79	204	448	1,261
Other	846	379	1,196	1,518	1,498
TOTAL NONINTEREST INCOME	3,429	3,930	3,694	12,827	12,494
NONINTEREST EXPENSE					
Salaries and Employee Benefits	11,597	10,986	9,851	42,711	37,527
Occupancy Expense, net	2,945	2,643	2,541	9,738	8,513
FDIC Insurance Expense	900	937	802	3,890	4,914
Other Taxes	523	482	763	1,907	1,760
Telephone Expense	460	412	406	1,699	1,615
Professional and Legal Fees	3,260	1,910	820	6,852	1,109
Data Processing License Fee	1,331	1,369	864	5,604	3,456
Losses on Sales and Writedowns of Other Real Estate Owned, net	2,515	392	6,156	4,614	10,746
Loss on Sales and Writedowns of Fixed Assets	5,295	-	-	5,583	44
Debit Card Expense	669	518	678	2,436	2,735
Other Real Estate Owned Expense	426	54	161	791	1,446
Other	5,378	1,116	727	8,495	4,328
TOTAL NONINTEREST EXPENSE	35,299	20,819	23,769	94,320	78,193
(LOSS) INCOME BEFORE INCOME TAXES	(16,771)	(4,995)	(7,805)	(18,212)	17,624
Income Tax (Benefit) Provision	(11,700)	(4,566)	(3,940)	(17,531)	1,645
NET (LOSS) INCOME	\$ (5,071)	\$ (429)	\$ (3,865)	\$ (681)	\$ 15,979
Average Shares Outstanding	26,257,761	26,257,761	26,257,761	26,257,761	26,257,761
PER SHARE DATA					
(Loss) Earnings Per Common Share- Basic and Diluted	\$ (0.19)	\$ (0.02)	\$ (0.15)	\$ (0.03)	\$ 0.61
Market Value	\$ 17.55	\$ 17.05	\$ 13.29	\$ 17.55	\$ 13.29
PROFITABILITY RATIOS					
Net Interest Margin (FTE) ²	2.98%	2.66%	2.33%	2.67%	2.31%
Core Efficiency Ratio ³	65.57%	59.81%	57.81%	59.61%	55.50%

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 the 35% federal income tax statutory rate.

Net Interest Income (FTE) (non-GAAP)	Quarter-to-Date			Year-to-Date	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Interest Income	\$ 36,453	\$ 34,906	\$ 35,552	\$ 143,589	\$ 147,422
Interest Expense	(8,669)	(9,122)	(10,729)	(37,111)	(46,382)
Tax Equivalent Adjustment ²	2,244	2,140	1,949	8,505	7,939
NET INTEREST INCOME (FTE) (non-GAAP)	\$ 30,028	\$ 27,924	\$ 26,772	\$ 114,983	\$ 108,979
³ Core Efficiency Ratio (non-GAAP)	Quarter-to-Date			Year-to-Date	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
NONINTEREST EXPENSE	\$ 35,299	\$ 20,819	\$ 23,769	\$ 94,320	\$ 78,193
Less: One Time Regulatory and Compliance	(1,845)	(1,500)	-	(4,345)	-
Less: Losses on Sales and Writedowns of Other Real Estate Owned, net	(2,515)	(392)	(6,157)	(4,614)	(10,746)
Less: Loss on Sale and Writedowns of Fixed Assets	(5,295)	-	-	(5,583)	(44)
Less: Historic Tax Credits Impairment	(3,259)	-	-	(3,259)	-
Less: Regulatory Review	(521)	-	-	(521)	-
Less: Other Writedowns	-	(662)	-	(662)	-
NET NONINTEREST EXPENSE	\$ 21,864	\$ 18,265	\$ 17,612	\$ 75,336	\$ 67,403
NET INTEREST INCOME	\$ 27,784	\$ 25,784	\$ 24,823	\$ 106,478	\$ 101,040
Less: Securities Gains, net	(114)	(1,072)	-	(1,186)	-
Plus: Taxable Equivalent Adjustment	2,244	2,140	1,949	8,505	7,939
NET INTEREST INCOME (FTE) (Non-GAAP)	\$ 29,914	\$ 26,852	\$ 26,772	\$ 113,797	\$ 108,979
Less: Gain on Sales of Fixed Assets	-	(243)	-	(236)	(34)
Noninterest Income	3,429	3,930	3,694	12,827	12,494
NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	\$ 33,343	\$ 30,539	\$ 30,466	\$ 126,388	\$ 121,439
CORE EFFICIENCY RATIO	65.57%	59.81%	57.81%	59.61%	55.50%

View source version on [businesswire.com](http://www.businesswire.com/news/home/20180125005345/en/): <http://www.businesswire.com/news/home/20180125005345/en/>

Carter Bank & Trust

Wendy Bell, 276-226-2302

Executive Vice President & Chief Financial Officer

wendy.bell@carterbankandtrust.com

Source: Carter Bank & Trust