Carter Bankshares, Inc.

NEWS RELEASE

Carter Bank & Trust Announces Second Quarter 2018 Financial Results

2018-07-26

MARTINSVILLE, Va.--(BUSINESS WIRE)-- Carter Bank & Trust (the "Bank") (OTCQX:CARE) today announced net income of $7.2 million, or $0.27 earnings per share, for the second quarter of 2018, as compared to a net loss of $1.5 million, or $0.06 per share, for the second quarter of 2017. Pre-tax pre-provision earnings[1] were $11.0 million in the second quarter of 2018 as compared to $8.5 million in the same period last year.

For the six months ended June 30, 2018, net income was $16.0 million, or $0.61 earnings per share, as compared to net income of $4.8 million, or $0.18 earnings per share in the first six months of 2017. Pre-tax pre-provision earnings were $20.6 million for the six months ended June 30, 2018 as compared to $20.2 million for the same period of 2017.

Second Quarter 2018 Financial Highlights

- Second quarter net income of $7.2 million, or $0.27 earnings per share, as compared to a net loss of $1.5 million, or $0.06 per share, 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 income increased $1.8 million, or 6.6%, to $29.3 million compared to linked quarter and $2.6 million, or 9.9%, from June 30, 2017;
- Net interest margin, on a fully taxable equivalent basis, improved 45 basis points to 3.23% over the same period last year, on a $217.1 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 $11.0 million, or 86.4%, compared to the second quarter of 2017 and
- Nonperforming loans decreased $2.3 million from the linked quarter and decreased $9.0 million from June 30, 2017.

2018 Year-to-Date Financial Highlights

- Year-to-date net income of $16.0 million, or $0.61 earnings per share, an increase of 233% over the same period of 2017;
- Net interest margin, on a fully taxable equivalent basis, improved 37 basis points to 3.13% year-over-year;
- Net interest income increased $3.6 million, or 6.7%, to $56.7 million year-over-year;
- Provision for loan losses declined $13.4 million, or 80.5%, compared to the same period of 2017 and
- Securities gains of $1.0 million were realized in the first six months of 2018 to take advantage of market opportunities.

Litz H. Van Dyke, Chief Executive Officer, stated, "I am especially pleased with the progress our organization has made on strategic initiatives this quarter: building a strong credit infrastructure, expansion of our net interest margin, the progress with our newly launched mortgage initiative and the progression with our comprehensive systems conversion project which is on target 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 $3.6 million to $56.7 million during the first six months of 2018 as compared to the same period of 2017. The increase in net interest income is primarily driven by a $2.1 million decrease in interest expense and by an increase of $1.5 million in interest income as compared to the same period of 2017. This is a result of five increases in short-term interest rates since March of 2017 as well as the intentional runoff of higher cost certificates of deposit. The net interest margin, on a fully taxable equivalent basis, increased 37 basis points to 3.13% over the past twelve months due to our deployment of excess cash into higher yielding and diversified investment securities and loans as well as the aforementioned runoff of higher cost deposits despite the decreased tax benefit from our tax-exempt securities and loans due to the aforementioned decrease in the federal corporate tax rate.

The provision for loan losses totaled $3.2 million for the six months ended June 30, 2018, a decrease of $13.4 million as compared to the same period of 2017. At June 30, 2018, nonperforming loans were $60.2 million, a decrease of $32.7 million from December 31, 2017 and a decrease of $9.0 million from June 30, 2017. Net charge-offs were $33 thousand in the first six months of 2018 as compared to $14.6 million of net charge-offs in the same period of 2017. As a percentage of loans, on an annualized basis, net charge-offs were less than 0.01%, 1.58% and 1.10% for the periods ending June 30, 2018, December 31, 2017 and June 30, 2017, respectively. Nonperforming loans as a percentage of total loans were 2.19%, 3.46% and 2.59% as of June 30, 2018, December 31, 2017 and June 30, 2017, respectively.

Noninterest income increased $2.7 million, or 48.7%, to $8.1 million, excluding net securities gains, for the six months ending June 30, 2018 as compared to $5.4 million in the same period of 2017. The increase in noninterest income is attributable to increased service charges of $0.4 million, $0.4 million of fees from bank owned life insurance, $0.6 million from the gain on sale of OREO during the first six months of 2018 and $1.3 million higher income from other real estate owned ("OREO") due to the acquisition of several large commercial properties generating income during the first quarter of 2018. Securities gains of $1.0 million were realized during the first six months of 2018 to take advantage of market opportunities and reduce the credit risk of the securities portfolio.

Total noninterest expense increased $6.8 million, or 17.8%, for the first six months of 2018 to $45.2 million as compared to $38.4 million in the same period of 2017. Increases included $4.7 million in salaries and employee benefits, $0.5 million in occupancy expense, $0.5 million in telephone expense, $1.9 million in professional and legal fees, $0.9 million in OREO expenses, $2.0 million of tax credit amortization and $0.3 million 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. The increase in professional and legal fees was related to regulatory and compliance reviews which were completed as of June 30, 2018. The increase in OREO is due to the aforementioned acquired properties. Offsetting these increases were decreases of $2.4 million in data processing expenses due to the write-off of expenses that were previously capitalized that were fully expensed during 2017, $1.7 million of lower losses on sales and write-downs of OREO and a decrease of $0.6 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 June 30, 2018 and December 31, 2017. Total portfolio loans were essentially flat at $2.7 billion as of June 30, 2018 and December 31, 2017 due to the reduction of several large legacy credits, which offset new loan growth. Nonperforming loans decreased $32.7 million to $60.2 million as of June 30, 2018 from $92.9 million at December 31, 2017 and decreased $9.0 million from $69.2 million as of June 30, 2017. The decrease in nonperforming loans is primarily due to nonperforming credits migrating to OREO during the first quarter of 2018. OREO increased $20.3 million as of June 30, 2018 as compared to December 31, 2017, primarily due to $29.3

million in properties that were transferred to OREO during the first six months of 2018, offset by $9.0 million that was sold during the first half of 2018.

Federal Reserve Bank excess reserves declined $63.1 million at June 30, 2018 as compared to December 31, 2017 and declined $424.5 million from the year ago period. This excess cash was deployed into higher yielding and diversified securities, funded loan growth, and also funded the planned decrease in high cost deposits during the past twelve months.

The securities portfolio decreased $81.5 million and is currently 21.2% of total assets at June 30, 2018 as compared to 23.0% of total assets at December 31, 2017. The decrease is a result of active balance sheet management in calibration with loan and deposit growth. We have further diversified the securities portfolio as to bond types, maturities and interest rate structures.

Total deposits as of June 30, 2018 were $3.6 billion, essentially flat as compared to December 31, 2017. Certificates of deposits increased by $28.2 million, or 1.4%, as compared to December 31, 2017 due to recent special rate promotions during the first and second quarters of 2018 and declined $91.3 million, or 4.2%, as compared to June 30, 2017 due to the aforementioned intentional reduction in higher cost time deposits. Noninterest-bearing deposits increased by $18.4 million, or 3.5%, to $548.6 million as of June 30, 2018 as compared to $530.2 million as of December 31, 2017. Noninterest-bearing deposits comprised 15.1% and 14.4% of total deposits at June 30, 2018 and December 31, 2017.

The allowance for loan losses was 1.40% of total loans as of June 30, 2018 as compared to 1.32% as of December 31, 2017. The allowance for loan losses was 64.0% of nonperforming loans as of June 30, 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 13.65% as of June 30, 2018 as compared to 12.93% as of December 31, 2017. The Bank's leverage ratio was 9.78% at June 30, 2018 as compared to 9.33% as of December 31, 2017. The Bank's Total Risk-Based Capital ratio was 14.90% at June 30, 2018 as compared to 14.15% at December 31, 2017.

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 106 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 more 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 FDIC. 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 SHEETS
(Unaudited)

(Dollars in Thousands, except per share data)	June 30, 2018	December 31, 2017	June 30, 2017
ASSETS			
Cash and Due From Banks	$ 50,893	$ 58,533	$ 43,318
Interest-Bearing Deposits in Other Financial Institutions	49,106	58,365	48,091
Federal Reserve Bank Excess Reserves	88,624	151,715	513,154
Total Cash and Cash Equivalents	188,623	268,613	604,563
Securities, Available-for-Sale, at Fair Value	865,689	947,201	-
Securities, Held-to-Maturity, at Cost (Fair Value $827,818 at June 30, 2017)	-	-	823,063
Loans Held-for-Sale	1,121	517	2,669
Portfolio Loans, net of Unearned Income	2,749,724	2,684,445	2,667,102
Allowance for Loan Losses	(38,530)	(35,318)	(36,500)
Portfolio Loans, net	2,711,194	2,649,127	2,630,602
Bank Premises and Equipment, net	80,568	77,273	94,865
Other Real Estate Owned, net	60,047	39,793	34,522
Goodwill	58,726	59,762	59,762
Other Intangibles	-	122	124
Bank Owned Life Insurance	50,393	-	-
Other Assets	73,150	69,884	56,409
TOTAL ASSETS	$4,089,511	$4,112,292	$4,306,579
LIABILITIES			
Deposits			
Noninterest-Bearing Demand	$ 548,566	$ 530,242	$ 563,494
Interest-Bearing Demand	255,139	260,979	247,693
Money Market	92,760	102,686	143,376
Savings	662,689	721,459	733,855
Certificates of Deposits	2,082,444	2,054,249	2,173,705
Total Deposits	3,641,598	3,669,615	3,862,123
Other Liabilities	10,066	10,551	4,987
TOTAL LIABILITIES	3,651,664	3,680,166	3,867,110
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	281,958	265,930	271,033
Accumulated Other Comprehensive Loss	(12,547)	(2,240)	-
TOTAL SHAREHOLDERS' EQUITY	437,847	432,126	439,469
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$4,089,511	$4,112,292	$4,306,579
PROFITABILITY RATIOS (ANNUALIZED)			
Return on Average Assets	0.80%	-0.02%	0.22%
Portfolio Loan to Deposit Ratio	75.51%	73.15%	69.06%
Allowance to Total Portfolio Loans	1.40%	1.32%	1.37%

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

(Dollars in Thousands, except per share data)	Quarter-to-Date			Year-to-Date	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest Income	$ 38,362	$ 35,588	$ 36,084	$ 73,950	$ 72,437
Interest Expense	9,111	8,151	9,476	17,262	19,320
NET INTEREST INCOME	29,251	27,437	26,608	56,688	53,117
Provision for Loan Losses	1,730	1,515	12,742	3,245	16,622
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	27,521	25,922	13,866	53,443	36,495
NONINTEREST INCOME					
Gains on Sales of Securities, net	132	868	-	1,000	-
Service Charges, Commissions and Fees	780	1,252	591	2,032	1,599
Debit Card Interchange Fees	1,234	1,133	1,226	2,367	2,431
Insurance Commissions	69	535	405	604	869
Bank Owned Life Insurance Income	393	-	-	393	-
Gains on Sales of Other Real Estate Owned, net	915	-	-	573	-
Other Real Estate Owned Income	966	549	97	1,515	206
Other	252	394	202	646	363
TOTAL NONINTEREST INCOME	4,741	4,731	2,521	9,130	5,468
NONINTEREST EXPENSE					
Salaries and Employee Benefits	12,607	12,260	9,954	24,867	20,128
Occupancy Expense, net	2,321	2,325	2,044	4,646	4,150
FDIC Insurance Expense	633	838	924	1,471	2,053
Other Taxes	643	477	461	1,120	902
Telephone Expense	643	669	415	1,312	827
Professional and Legal Fees	2,402	1,210	1,404	3,612	1,682
Data Processing License Fee	200	268	1,444	468	2,904
Losses on Sales and Write-downs of Other Real Estate Owned, net	-	342	1,759	-	1,707
Losses on Sales and Write-downs of Bank Premises	71	-	288	71	288
Debit Card Expense	662	652	630	1,314	1,249
Tax Credit Amortization	1,015	1,015	-	2,030	-
Other Real Estate Owned Expense	707	531	124	1,238	311
Other	1,118	1,972	1,158	3,090	2,208
TOTAL NONINTEREST EXPENSE	23,022	22,559	20,605	45,239	38,409
INCOME (LOSS) BEFORE INCOME TAXES	9,240	8,094	(4,218)	17,334	3,554
Income Tax Provision (Benefit)	2,041	(735)	(2,735)	1,306	(1,265)
NET INCOME (LOSS)	$ 7,199	$ 8,829	$ (1,483)	$ 16,028	$ 4,819
Average Shares Outstanding	26,257,761	26,257,761	26,257,761	26,257,761	26,257,761
PER SHARE DATA					
Earnings (Loss) Per Common Share-Basic and Diluted	$ 0.27	$ 0.34	$ (0.06)	$ 0.61	$ 0.18
Market Value	$ 17.96	$ 17.05	$ 15.50	$ 17.96	$ 15.50
PROFITABILITY RATIOS (non-GAAP)					
Net Interest Margin (FTE)[2]	3.23%	3.04%	2.78%	3.13%	2.76%
Core Efficiency Ratio[3]	61.64%	64.67%	56.29%	63.11%	56.48%

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 2017 periods and a 21% federal income tax statutory rate for the 2018 periods.

Net Interest Income (FTE) (non-GAAP)	Quarter-to-Date			Year-to-Date	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
Interest Income	$ 38,362	$ 35,588	$ 36,084	$ 73,950	$ 72,437
Interest Expense	(9,111)	(8,151)	(9,476)	(17,262)	(19,320)
Tax Equivalent Adjustment[2]	973	1,087	2,065	2,061	4,122
NET INTEREST INCOME (FTE) (non-GAAP)	$30,224	$28,524	$28,673	$58,749	$57,239

[3]Core Efficiency Ratio (non-GAAP)

	Quarter-to-Date			Year-to-Date	
	June 30, 2018	March 31, 2018	June 30, 2017	June 30, 2018	June 30, 2017
NONINTEREST EXPENSE	$23,022	$22,559	$20,605	$45,239	$38,409
Less: One Time Regulatory and Compliance	(1,353)	(500)	(1,000)	(1,853)	(1,000)
Less: Losses on Sales and Write-downs of Other Real Estate Owned, net	-	(342)	(1,759)	-	(1,707)
Less: Losses on Sales and Write-downs of Bank Premises	(71)	-	(288)	(71)	(288)
Less: Tax Credit Amortization	(1,015)	(1,015)	-	(2,030)	
Plus: Regulatory Review	323	-	-	323	-
NET NONINTEREST EXPENSE	$20,906	$20,702	$17,558	$41,608	$35,414
NET INTEREST INCOME	$29,251	$27,437	$26,608	$56,688	$53,117
Plus: Taxable Equivalent Adjustment	973	1,087	2,065	2,061	4,122
NET INTEREST INCOME (FTE) (Non-GAAP)	$30,224	$28,524	$28,673	$58,749	$57,239
Less: Gains on Sales of Securities, net	(132)	(868)	-	(1,000)	-
Less: Gains on Sales of Other Real Estate Owned, net	(915)			(573)	-
Less: Other Gains	-	(374)	-	(374)	-
Noninterest Income	4,741	4,731	2,521	9,130	5,468
NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	$33,918	$32,013	$31,194	$65,932	$62,707
CORE EFFICIENCY RATIO	61.64%	64.67%	56.29%	63.11%	56.48%

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Carter Bank & Trust

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