

Carter Bank & Trust Announces Second Quarter 2019 Financial Results

2019-07-25

MARTINSVILLE, VA / ACCESSWIRE / July 25, 2019 /Carter Bank & Trust (the "Bank") (NASDAQ: CARE) today announced net income of \$7.8 million, or \$0.30 diluted earnings per share, for the second quarter of 2019, as compared to net income of \$7.2 million, or \$0.27 diluted earnings per share, for the second quarter of 2018. Pre-tax pre-provision earnings were \$9.7 million and \$11.0 million for the quarters ended June 30, 2019 and 2018, respectively.

For the six months ended June 30, 2019, net income was \$15.4 million, or \$0.58 diluted earnings per share, as compared to net income of \$16.0 million, or \$0.61 diluted earnings per share in the first six months of 2018. Pre-tax pre-provision earnings were \$19.3 million for the six months ended June 30, 2019 as compared to \$20.6 million for the same period of 2018.

Second Quarter 2019 Financial Highlights

- Second quarter net income of \$7.8 million, or \$0.30 diluted earnings per share, as compared to net income of \$7.5 million, or \$0.29 diluted earnings per share, in the first quarter of 2019 and net income of \$7.2 million, or \$0.27 diluted earnings per share, over the same quarter of 2018;
- Net interest margin, on a fully taxable equivalent basis, declined seven basis points to 3.02% over the linked quarter and declined 21 basis points over the same quarter last year;
- Securities gains of \$0.9 million were realized in the second quarter of 2019 to take advantage of market opportunities, as compared to securities gains of \$0.1 million in the same period of 2018;
- Solid loan growth of \$23.4 million, or 3.3% on an annualized basis, as compared to the linked quarter and growth of \$123.1 million, or 4.5%, as compared to June 30, 2018;
- Total deposits were \$3.6 billion at June 30, 2019, December 31, 2018 and June 30, 2018. Noninterest-bearing deposits increased by \$23.6 million, or 4.3%, to \$571.4 million as compared to December 31, 2018 and money market accounts increased \$51.5 million, or 63.7%, due to recent special rate promotions during the first half

of 2019;

- Nonperforming loans declined \$5.8 million, or 11.5% as compared to December 31, 2018 and decreased \$15.3 million, or 25.4%, from June 30, 2018. Nonperforming loans as a percentage of total portfolio loans were 1.57%, 1.88% and 2.19% as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

2019 Year-to-Date Financial Highlights

- Year-to-date net income of \$15.4 million, or \$0.58 diluted earnings per share, as compared to a net income of \$16.0 million, or \$0.61 diluted earnings per share, in same period of 2018;
- Net interest margin, on a fully taxable equivalent basis, declined seven basis points to 3.06% year-over-year;
- Net interest income decreased \$0.8 million, or 1.5%, to \$55.9 million year-over-year;
- Provision for loan losses declined \$0.2 million, or 7.7%, as compared to the same period of 2018;
- Securities gains of \$0.9 million were realized in 2019 to take advantage of market opportunities, as compared to securities gains of \$1.0 million in the same period of 2018.

Litz H. Van Dyke, Chief Executive Officer, stated, "Our performance this quarter reflects solid loan and core deposit growth as a result of our various strategic initiatives designed to better position our balance sheet to support an enhanced level of earnings."

Van Dyke continued, "We continue to have a great deal of excitement at Carter Bank & Trust as we continue to launch new products and services. Online consumer account opening and commercial treasury services, which includes a 'best in class' online and mobile commercial platform, are on target to roll out in the third quarter of 2019, accompanied with the opening of a new commercial loan production office in Greensboro, North Carolina. While there is still work to be done in dealing with some of the legacy issues we have mentioned previously, in the coming months our shareholders should begin to see a shift in focus from problem remediation to growth."

Operating Highlights

Net interest income decreased \$0.8 million, or 1.5%, to \$55.9 million during the first six months of 2019 as compared to the same period of 2018. The net interest margin, on a fully taxable equivalent basis, decreased seven basis points to 3.06% over the past twelve months. The increases in short-term interest rates positively impact both net interest income and net interest margin, but are muted by lower replacement loan yields from legacy loan pay-downs during 2018. The yield on interest-earning assets increased 24 basis points, offset by a 41 basis point increase in funding costs as compared to the same period of 2018.

The provision for loan losses totaled \$3.0 million for the six months ended June 30, 2019 and \$3.2 million for the same period of 2018. At June 30, 2019, nonperforming loans were \$44.9 million, a decrease of \$5.8 million, or 11.5% as compared to December 31, 2018. Net charge-offs were \$2.2 million in the first six months of 2019 as compared to \$33 thousand of net charge-offs in the same period of 2018. As a percentage of total portfolio loans, on an

annualized basis, net charge-offs were 0.15% and 0.01% for the quarters ending June 30, 2019 and 2018, respectively. Nonperforming loans as a percentage of total portfolio loans were 1.57%, 1.88% and 2.19% as of June 30, 2019, December 31, 2018 and June 30, 2018, respectively.

Noninterest income decreased \$0.9 million, or 10.5%, to \$7.3 million, excluding net securities gains, for the six months ending June 30, 2019 as compared to the same period of 2018. This decrease was primarily due to lower income from other real estate owned ("OREO") due to the sale of several large commercial properties over the last 12 months that generated income beginning in the first quarter of 2018, offset by higher fees on deposits and higher bank owned life insurance earnings. Securities gains of \$0.9 million and \$1.0 million were realized during the first six months of 2019 and 2018, respectively, to take advantage of market opportunities and reduce the credit risk of the securities portfolio.

Total noninterest expense decreased \$0.4 million, or 1.0%, for the first six months of 2019 to \$44.8 million as compared to \$45.2 million in the same period of 2018. The reduction was primarily driven by decreases of \$2.0 million in legal and professional fees, \$0.9 million in tax credit amortization and \$1.2 million in OREO expenses due to fewer properties under management.

The decrease in legal and professional fees were related to regulatory and compliance reviews which were completed as of June 30, 2018. Offsetting these decreases were increases of \$0.7 million in data processing expense due to our core conversion completed in the fourth quarter of 2018 and \$1.0 million in occupancy expense as a result of higher depreciation for hardware and software and amortization of maintenance agreements related to the aforementioned core conversion.

Financial Condition

Total assets were \$4.1 billion at June 30, 2019 and \$4.0 billion at December 31, 2018. Total portfolio loans increased \$161.7 million, or 6.0%, to \$2.9 billion as of June 30, 2019 as compared to December 31, 2018. Nonperforming loans decreased \$5.8 million to \$44.9 million, or 11.5% as of June 30, 2019 as compared to \$50.7 million at December 31, 2018. OREO decreased \$9.1 million at June 30, 2019 as compared to December 31, 2018 due to the sale of properties during the first half of 2019. Closed retail bank offices declined \$2.5 million from December 31, 2018 and have a remaining book value of \$4.3 million at June 30, 2019.

Federal Reserve Bank excess reserves decreased \$148.0 million at June 30, 2019 as compared to December 31, 2018. The balance was higher at year-end primarily due to large legacy credit reductions received late in December of 2018. This excess cash was deployed into higher yielding and diversified securities, funded loan growth, and also funded the planned decrease in high cost deposits.

The securities portfolio increased \$20.9 million and is currently 19.8% of total assets at June 30, 2019 as compared

to 19.4% of total assets at December 31, 2018. The increase is a result of deposit growth and active balance sheet management. We have further diversified the securities portfolio as to bond types, maturities and interest rate structures.

Total deposits were \$3.6 billion as of June 30, 2019 and December 31, 2018. Noninterest-bearing deposits increased by \$23.6 million, or 4.3%, to \$571.4 million as of June 30, 2019 as compared to \$547.8 million as of December 31, 2018 and money market accounts increased \$51.5 million, or 63.7%, due to recent special rate promotions during the first six months of 2019. Offsetting these increases were decreases of \$19.1 million, or 7.5%, in interest-bearing demand deposits, \$34.6 million, or 5.7%, in savings accounts and \$35.1 million in certificates of deposits as compared to December 31, 2018. Noninterest-bearing deposits comprised 16.0% and 15.3% of total deposits at June 30, 2019 and December 31, 2018.

The allowance for loan losses was 1.40% of total portfolio loans as of June 30, 2019 as compared to 1.45% as of December 31, 2018. General reserves as a percentage of total portfolio loans were 1.18% at June 30, 2019 as compared to 1.26% as of December 31, 2018. The allowance for loan losses was 89.1% of nonperforming loans as of June 30, 2019 as compared to 77.3% of nonperforming loans as of December 31, 2018. 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 decreased to 13.33% as of June 30, 2019 as compared to 13.97% as of December 31, 2018. The Bank's leverage ratio was 9.86% at June 30, 2019 as compared to 9.69% as of December 31, 2018. The Bank's Total Risk-Based Capital ratio was 14.58% at June 30, 2019 as compared to 15.22% at December 31, 2018.

About Carter Bank & Trust

Headquartered in Martinsville, VA, Carter Bank & Trust is a state-chartered community bank in Virginia and trades on the Nasdaq Global Select Market under the symbol CARE. The Bank has \$4.1 billion in assets and 104 branches in Virginia and North Carolina. For more information visit www.CarterBankandTrust.com.

Important Note Regarding Non-GAAP Financial Measures

Statements included in this press release include non-GAAP financial measures and should be read along with the accompanying tables in our definitions and reconciliations of GAAP to non-GAAP financial measures. This press release and the accompanying tables discuss financial measures, such as adjusted noninterest expense, adjusted efficiency ratio, and net interest income on a fully taxable equivalent basis, which are all non-GAAP measures. We believe that such non-GAAP measures are useful because they enhance the ability of investors and management to evaluate and compare the Bank's operating results from period to period in a meaningful manner. Non-GAAP measures should not be considered as an alternative to any measure of performance as promulgated under GAAP,

nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Investors should consider the Bank's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Bank. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Bank's results or financial condition as reported under GAAP.

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, 2019	December 31, 2018	June 30, 2018
ASSETS			
Cash and Due From Banks	\$ 47,071	\$ 47,413	\$ 45,868
Interest-Bearing Deposits in Other Financial Institutions	55,138	61,612	54,131
Federal Reserve Bank Excess Reserves	<u>36,806</u>	<u>184,798</u>	<u>88,624</u>
Total Cash and Cash Equivalents	139,015	293,823	188,623
Securities, Available-for-Sale, at Fair Value	803,673	782,758	865,689
Loans Held-for-Sale	9,841	2,559	1,121
Portfolio Loans	2,865,461	2,703,792	2,751,129
Allowance for Loan Losses	<u>(40,008)</u>	<u>(39,199)</u>	<u>(38,530)</u>
Portfolio Loans, net	2,825,453	2,664,593	2,712,599
Bank Premises and Equipment, net	85,641	85,841	80,568
Other Real Estate Owned, net	24,622	33,681	60,047
Goodwill	58,726	58,726	58,726
Federal Home Loan Bank Stock, at Cost	3,688	-	-
Bank Owned Life Insurance	51,878	51,161	50,393
Other Assets	<u>60,371</u>	<u>66,457</u>	<u>71,745</u>
TOTAL ASSETS	<u>\$ 4,062,908</u>	<u>\$ 4,039,599</u>	<u>\$ 4,089,511</u>
LIABILITIES			
Deposits:			
Noninterest-Bearing Demand	\$ 571,421	\$ 547,773	\$ 548,566
Interest-Bearing Demand	234,953	254,015	255,139
Money Market	132,297	80,835	92,760

Savings	576,145	610,757	662,689
Certificates of Deposits	<u>2,062,664</u>	<u>2,097,801</u>	<u>2,082,444</u>
Total Deposits	3,577,480	3,591,181	3,641,598
Other Liabilities	<u>21,195</u>	<u>12,204</u>	<u>10,066</u>
TOTAL LIABILITIES	<u>3,598,675</u>	<u>3,603,385</u>	<u>3,651,664</u>

SHAREHOLDERS' EQUITY

Common Stock, Par Value \$1.00 Per Share, Authorized 100,000,000 Shares;

26,333,929 outstanding at June 30, 2019,			
26,270,174 outstanding at December 31, 2018 and 26,257,761 at June 30, 2018	26,334	26,270	26,258
Additional Paid-in-Capital	142,268	142,175	142,178
Retained Earnings	292,951	277,835	281,958
Accumulated Other Comprehensive Income (Loss)	<u>2,680</u>	<u>(10,066)</u>	<u>(12,547)</u>
TOTAL SHAREHOLDERS' EQUITY	464,233	436,214	437,847
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 4,062,908</u>	<u>\$ 4,039,599</u>	<u>\$ 4,089,511</u>

PROFITABILITY RATIOS (ANNUALIZED)

Return on Average Assets	0.76%	0.29%	0.80%
Return on Average Shareholders' Equity	6.87%	2.75%	7.47%
Portfolio Loan to Deposit Ratio	80.10%	75.29%	75.55%
Allowance to Total Portfolio Loans	1.40%	1.45%	1.40%

CAPITALIZATION RATIOS

Shareholders' Equity to Average Assets	11.06%	10.70%	10.69%
Tier 1 Leverage Ratio	9.86%	9.69%	9.78%
Risk-Based Capital - Tier 1	13.33%	13.97%	13.65%
Risk-Based Capital - Total	14.58%	15.22%	14.90%

CARTER BANK & TRUST

CONSOLIDATED FINANCIAL DATA

INCOME STATEMENTS

(Unaudited)

(Dollars in Thousands, except per share data)

	Quarter-to-Date			Year-to-Date	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest Income	\$ 40,068	\$ 39,139	\$ 38,362	\$ 79,207	\$ 73,950
Interest Expense	<u>12,113</u>	<u>11,243</u>	<u>9,111</u>	<u>23,356</u>	<u>17,262</u>
NET INTEREST INCOME	27,955	27,896	29,251	55,851	56,688
Provision for Loan Losses	<u>1,369</u>	<u>1,627</u>	<u>1,730</u>	<u>2,996</u>	<u>3,245</u>

NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	26,586	26,269	27,521	52,855	53,443
NONINTEREST INCOME					
Gains on Sales of Securities, net	909	31	132	940	1,000
Service Charges, Commissions and Fees	892	1,226	780	2,118	2,032
Debit Card Interchange Fees	1,320	1,174	1,234	2,494	2,367
Insurance	369	274	69	643	604
Bank Owned Life Insurance Income	356	361	393	717	393
Gains on Sales of Other Real Estate Owned, net	-	-	915	-	573
Gains on Sales of Bank Premises, net	178	-	-	8	-
Other Real Estate Owned Income	231	290	966	521	1,515
Other	324	448	252	772	646
TOTAL NONINTEREST INCOME	<u>4,579</u>	<u>3,804</u>	<u>4,741</u>	<u>8,213</u>	<u>9,130</u>
NONINTEREST EXPENSE					
Salaries and Employee Benefits	12,809	12,035	12,607	24,844	24,867
Occupancy Expense, net	2,836	2,827	2,321	5,663	4,646
FDIC Insurance Expense	433	714	633	1,147	1,471
Other Taxes	711	643	643	1,354	1,120
Telephone Expense	562	505	643	1,067	1,312
Professional and Legal Fees	980	649	2,402	1,629	3,612
Data Processing	409	721	200	1,130	468
Losses on Sales and Write-downs of Other Real Estate Owned, net	88	188	-	276	-
Losses on Sales and Write-downs of Bank Premises, net	-	170	71	-	71
Debit Card Expense	830	710	662	1,540	1,314
Tax Credit Amortization	563	563	1,015	1,126	2,030
Other Real Estate Owned Expense	(46)	89	707	43	1,238
Other	2,659	2,296	1,118	4,955	3,090
TOTAL NONINTEREST EXPENSE	<u>22,834</u>	<u>22,110</u>	<u>23,022</u>	<u>44,774</u>	<u>45,239</u>
INCOME BEFORE INCOME TAXES					
	8,331	7,963	9,240	16,294	17,334
Income Tax Provision	504	422	2,041	926	1,306
NET INCOME	<u>\$ 7,827</u>	<u>\$ 7,541</u>	<u>\$ 7,199</u>	<u>\$ 15,368</u>	<u>\$ 16,028</u>
SHARES OUTSTANDING					
Shares Outstanding, at End of Period	26,333,929	26,308,087	26,257,761	26,333,929	26,257,761
Average Shares Outstanding-Basic	26,333,929	26,293,108	26,257,761	26,313,631	26,257,761
Average Shares Outstanding-Diluted	26,347,635	26,295,226	26,257,761	26,320,530	26,257,761
PER SHARE DATA					
Basic Earnings Per Common Share	\$ 0.30	\$ 0.29	\$ 0.27	\$ 0.58	\$ 0.61
Diluted Earnings Per Common Share	\$ 0.30	\$ 0.29	\$ 0.27	\$ 0.58	\$ 0.61
Book Value	\$ 17.63	\$ 17.10	\$ 16.67	\$ 17.63	\$ 16.67
Tangible Book Value ²	\$ 15.40	\$ 14.86	\$ 14.44	\$ 15.40	\$ 14.44
Market Value	\$ 19.75	\$ 19.19	\$ 17.96	\$ 19.75	\$ 17.96
PROFITABILITY RATIOS (non-GAAP)					
Net Interest Margin (FTE) ³	3.02%	3.09%	3.23%	3.06%	3.13%

Core Efficiency Ratio⁴

71.59%

67.01%

63.42%

69.29%

64.17%

CARTER BANK & TRUST

CONSOLIDATED SELECTED FINANCIAL DATA

NET INTEREST MARGIN (FTE) (QTD AVERAGES)

(Unaudited)

(Dollars in Thousands)	June 30, 2019			March 31, 2019			June 30, 2018		
	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate
ASSETS									
Interest-Bearing Deposits with Banks	\$ 127,377	\$ 763	2.40%	\$ 172,155	\$ 1,021	2.41%	\$ 105,286	\$ 500	1.90%
Tax-Free Investment Securities	91,148	795	3.50%	110,955	1,018	3.72%	136,902	1,360	3.98%
Taxable Investment Securities	737,949	4,283	2.33%	701,390	4,122	2.38%	789,703	4,064	2.06%
Tax-Free Loans	387,053	3,088	3.20%	401,066	3,314	3.35%	423,621	3,272	3.10%
Taxable Loans	2,473,376	31,929	5.18%	2,396,152	30,574	5.17%	2,300,378	30,139	5.26%
Federal Home Loan Bank	1,581	26	6.60%	-	-	-	-	-	-
Total Interest-Earning Assets	\$3,818,484	\$ 40,884	4.29%	\$3,781,718	\$ 40,049	4.29%	\$3,755,890	\$ 39,335	4.20%
LIABILITIES									
Deposits:									
Interest-Bearing Demand	\$ 257,754	\$ 595	0.93%	\$ 271,214	\$ 641	0.96%	\$ 258,539	\$ 515	0.80%
Money Market	136,271	517	1.52%	90,601	243	1.09%	92,211	167	0.73%
Savings	586,923	498	0.34%	606,317	486	0.33%	677,935	513	0.30%
Certificates of Deposit	2,075,899	10,483	2.03%	2,098,658	9,854	1.90%	2,040,047	7,916	1.56%
Total Interest-Bearing Deposits	\$3,056,847	\$ 12,093	1.59%	\$3,066,790	\$ 11,224	1.48%	\$3,068,732	\$ 9,111	1.19%
Borrowings:									
Other Borrowings	1,029	20	7.80%	954	20	8.50%	-	-	-
Total Borrowings	1,029	20	7.80%	954	20	8.50%	-	-	-
Total Interest-Bearing Liabilities	\$3,057,876	\$ 12,113	1.59%	\$3,067,744	\$ 11,244	1.49%	\$3,068,732	\$ 9,111	1.19%
Net Interest Income		\$ 28,771			\$ 28,805			\$ 30,224	
Net Interest Margin			<u>3.02%</u>			<u>3.09%</u>			<u>3.23%</u>

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CONSOLIDATED SELECTED FINANCIAL DATA

NET INTEREST MARGIN (FTE) (YTD AVERAGES)

(Unaudited)

(Dollars in Thousands)

	June 30, 2019			June 30, 2018		
	Average Balance	Income/ Expense	Rate	Average Balance	Income/ Expense	Rate
ASSETS						
Interest-Bearing Deposits with Banks	\$ 149,643	\$ 1,784	2.40%	\$ 155,016	\$ 1,362	1.77%
Tax-Free Investment Securities	100,997	1,813	3.62%	153,036	3,203	4.22%
Taxable Investment Securities	719,770	8,405	2.35%	781,086	7,819	2.02%
Tax-Free Loans	394,021	6,402	3.28%	429,025	6,609	3.11%
Taxable Loans, net of Unearned Income	2,434,977	62,503	5.18%	2,265,223	57,018	5.08%
Federal Home Loan Bank	795	26	6.60%	-	-	-
Total Interest-Earning Assets	<u>\$ 3,800,203</u>	<u>\$ 80,933</u>	<u>4.29%</u>	<u>\$ 3,783,386</u>	<u>\$ 76,011</u>	<u>4.05%</u>
LIABILITIES						
Deposits:						
Interest-Bearing Demand	\$ 264,447	\$ 1,235	0.94%	\$ 261,609	\$ 919	0.71%
Money Market	113,562	760	1.35%	104,528	300	0.58%
Savings	596,566	984	0.33%	694,386	1,038	0.30%
Certificates of Deposit	2,087,216	20,337	1.96%	2,026,539	15,005	1.49%
Total Interest-Bearing Deposits	<u>\$ 3,061,791</u>	<u>\$ 23,316</u>	<u>1.54%</u>	<u>\$ 3,087,062</u>	<u>\$ 17,262</u>	<u>1.13%</u>
Borrowings						
Other Borrowings	692	40	11.66%	-	-	-
Total Borrowings	<u>692</u>	<u>40</u>	<u>11.66%</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Interest-Bearing Liabilities	<u>\$ 3,062,483</u>	<u>\$ 23,356</u>	<u>1.54%</u>	<u>\$ 3,087,062</u>	<u>\$ 17,262</u>	<u>1.13%</u>
Net Interest Income		<u>\$ 57,577</u>			<u>\$ 58,749</u>	
Net Interest Margin			<u>3.06%</u>			<u>3.13%</u>

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CONSOLIDATED SELECTED FINANCIAL DATA

LOANS AND LOANS HELD-FOR-SALE

(Unaudited)

(Dollars in Thousands)	December		
	June 30, 2019	31, 2018	June 30, 2018
Commercial			
Commercial Real Estate	\$ 1,421,891	\$ 1,381,231	\$ 1,381,844
Commercial and Industrial	662,178	660,872	852,135
Commercial Construction	257,760	238,016	207,172
Total Commercial Loans	<u>2,341,829</u>	<u>2,280,119</u>	<u>2,441,151</u>
Consumer			
Residential Mortgages	431,185	339,307	221,768
Other Consumer	73,096	73,058	80,506
Consumer Construction	19,351	11,308	7,704
Total Consumer Loans	<u>523,632</u>	<u>423,673</u>	<u>309,978</u>
Total Portfolio Loans	2,865,461	2,703,792	2,751,129

Loans Held-for-Sale	9,841	2,559	1,121
Total Loans	<u>\$ 2,875,302</u>	<u>\$ 2,706,351</u>	<u>\$ 2,752,250</u>

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
ASSET QUALITY DATA
(Unaudited)

(Dollars in Thousands)	June 30, 2019	December 31, 2018	June 30, 2018
Nonperforming Loans			
Real Estate	\$ 4,884	\$ 3,289	\$ 8,382
Consumer	142	65	-
Commercial	<u>397</u>	<u>606</u>	<u>-</u>
Total Nonperforming Loans	5,423	3,960	8,382
Nonperforming Troubled Debt Restructurings			
Real Estate	39,483	46,771	51,821
Consumer	-	-	-
Commercial	<u>-</u>	<u>-</u>	<u>-</u>
Total Nonperforming Troubled Debt Restructurings	39,483	46,771	51,821
Total Nonperforming Loans and Troubled Debt Restructurings	44,906	50,731	60,203
Other Real Estate Owned	<u>24,622</u>	<u>33,681</u>	<u>60,047</u>
Total Nonperforming Assets	<u>\$ 69,528</u>	<u>\$ 84,412</u>	<u>\$ 120,250</u>

	June 30, 2019	December 31, 2018	June 30, 2018
Nonperforming Loans	\$ 44,906	\$ 50,731	\$ 60,203
Other Real Estate Owned	<u>24,622</u>	<u>33,681</u>	<u>60,047</u>
Nonperforming Assets	69,528	84,412	120,250
Troubled Debt Restructurings (Nonaccruing)	39,483	46,771	51,821
Troubled Debt Restructurings (Accruing)	<u>113,899</u>	<u>114,806</u>	<u>291,721</u>
Total Troubled Debt Restructurings	\$ 153,382	\$ 161,577	\$ 343,542
Nonperforming Loans to Total Portfolio Loans	1.57%	1.88%	2.19%
Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	2.41%	3.08%	4.28%
Allowance for Loan Losses to Total Portfolio Loans	1.40%	1.45%	1.40%
Allowance for Loan Losses to Nonperforming Loans	89.09%	77.27%	64.00%

Net Loan Charge-offs (Recoveries)	\$	2,187	\$	12,989	\$	33
Net Loan Charge-offs (Recoveries) (Annualized) to Average Loans		0.16%		0.47%		0.01%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
ALLOWANCE FOR LOAN LOSSES
(Unaudited)

(Dollars in Thousands)	December		
	June 30, 2019	31, 2018	June 30, 2018
Balance Beginning of Year	\$ 39,199	\$ 35,318	\$ 35,318
Provision for Loan Losses	2,996	16,870	3,245
Charge-offs:			
Real Estate Loans	485	11,924	684
Consumer Loans	1,959	2,710	851
Commercial Loans	<u>2</u>	<u>20</u>	<u>6</u>
Total Charge-offs	<u>2,446</u>	<u>14,654</u>	<u>1,541</u>
Recoveries:			
Real Estate Loans	-	1,415	1,415
Consumer Loans	259	250	93
Commercial Loans	-	-	-
Total Recoveries	<u>259</u>	<u>1,665</u>	<u>1,508</u>
Total Net Charge-offs	<u>2,187</u>	<u>12,989</u>	<u>33</u>
Balance End of Year	<u>\$ 40,008</u>	<u>\$ 39,199</u>	<u>\$ 38,530</u>

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
(Unaudited)
(Dollars in Thousands, except per share data)

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

¹Pre-tax pre-provision earnings are computed as net interest income plus noninterest income minus noninterest expense before the provision for loan losses and income tax provision.

²Tangible Equity

	Quarter-to-Date			Year-to-Date	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Total Shareholders' Equity	\$ 464,233	\$ 449,769	\$ 437,847	\$ 464,233	\$ 437,847
Less: Goodwill	<u>58,726</u>	<u>58,726</u>	<u>58,726</u>	<u>58,726</u>	<u>58,726</u>
Tangible Equity	405,507	391,043	379,121	405,507	379,121
Shares Outstanding at End of Period	26,333,929	26,308,087	26,257,761	26,333,929	26,257,761
Tangible Book Value Per Common Share	\$ 15.40	\$ 14.86	\$ 14.44	\$ 15.40	\$ 14.44

³Net interest income has been computed on a fully taxable equivalent basis ("FTE") using a 21% federal income tax rate for the 2019 and 2018 periods.

Net Interest Income (FTE) (Non-GAAP)

	Quarter-to-Date			Year-to-Date	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
Interest Income	\$ 40,068	\$ 39,139	\$ 38,362	\$ 79,207	\$ 73,950
Interest Expense	<u>(12,113)</u>	<u>(11,243)</u>	<u>(9,111)</u>	<u>(23,356)</u>	<u>(17,262)</u>
Net Interest Income	27,955	27,896	29,251	55,851	56,688
Tax Equivalent Adjustment ³	<u>816</u>	<u>909</u>	<u>973</u>	<u>1,726</u>	<u>2,061</u>
NET INTEREST INCOME (FTE) (Non-GAAP)	<u>\$ 28,771</u>	<u>\$ 28,805</u>	<u>\$ 30,224</u>	<u>\$ 57,577</u>	<u>\$ 58,749</u>
Net Interest Income (Annualized)	115,400	116,820	121,228	116,108	118,472
Average Earning Assets	<u>3,818,484</u>	<u>3,781,718</u>	<u>3,755,890</u>	<u>\$ 3,800,203</u>	<u>\$ 3,783,386</u>
NET INTEREST MARGIN (FTE) (Non-GAAP)	<u>3.02%</u>	<u>3.09%</u>	<u>3.23%</u>	<u>3.06%</u>	<u>3.13%</u>

⁴Core Efficiency Ratio (Non-GAAP)

	Quarter-to-Date			Year-to-Date	
	June 30, 2019	March 31, 2019	June 30, 2018	June 30, 2019	June 30, 2018
NONINTEREST EXPENSE	\$ 22,834	\$ 22,110	\$ 23,022	\$ 44,774	\$ 45,239
Less: One Time Regulatory and Compliance	-	-	(1,353)	-	(1,853)
Less: Losses on Sales and Write-downs of Other Real Estate Owned, net	(88)	(188)	-	(276)	-
Less: Losses on Sales and Write-downs of Bank Premises, net	-	(170)	(71)	-	(71)
Less: Tax Credit Amortization	(563)	(563)	(1,015)	(1,126)	(2,030)
Plus: Regulatory Review	-	-	323	-	323
Plus: Contingent Liability	331	-	-	331	-
Less: Conversion Expense	-	(2)	(8)	(2)	(271)

Plus: Conversion Vacation Accrual					
	291	269	-	560	-
CORE NONINTEREST EXPENSE (Non-GAAP)	\$ 22,805	\$ 21,456	\$ 20,898	\$ 44,261	\$ 41,337
NET INTEREST INCOME	\$ 27,955	\$ 27,896	\$ 29,251	\$ 55,851	\$ 56,688
Plus: Taxable Equivalent Adjustment ³	816	909	973	1,726	2,061
NET INTEREST INCOME (FTE) (Non-GAAP)	\$ 28,771	\$ 28,805	\$ 30,224	\$ 57,577	\$ 58,749
Less: Gains on Sales of Securities, net	(909)	(31)	(132)	(940)	(1,000)
Less: Gains on Sales of Other Real Estate Owned, net	-	-	(915)	-	(573)
Less: Gains on Sales Bank Premises, net	(178)	-	-	(8)	-
Less: Other Real Estate Owned Income	(231)	(290)	(966)	(521)	(1,515)
Less: Other Gains	(176)	(271)	-	(447)	(374)
Noninterest Income	4,579	3,804	4,741	8,213	9,130
CORE NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	\$ 31,856	\$ 32,017	\$ 32,952	\$ 63,874	\$ 64,417
CORE EFFICIENCY RATIO (Non-GAAP)	71.59%	67.01%	63.42%	69.29%	64.17%

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