

Carter Bank & Trust Announces Third Quarter 2020 Financial Results

2020-10-29

MARTINSVILLE, VA / ACCESSWIRE / October 29, 2020 / Carter Bank & Trust (the "Bank") (NASDAQ:CARE) today announced a net loss of \$57.7 million, or \$2.19 per share, for the third quarter of 2020 due to a one-time goodwill impairment charge of \$62.2 million (\$2.36 per share) that was recorded in the third quarter of 2020. Net income, excluding this one-time charge, was \$4.5 million, or \$0.17 diluted earnings per share as compared to net income of \$4.5 million, or \$0.17 diluted earnings per share, in the second quarter of 2020 and net income of \$7.6 million, or \$0.29 diluted earnings per share, for the third quarter of 2019. Pre-tax pre-provision earnings¹, excluding goodwill impairment, were \$8.3 million, \$9.4 million and \$9.4 million for the quarters ended September 30, 2020, June 30, 2020 and September 30, 2019, respectively.

For the nine months ended September 30, 2020, the Bank realized a net loss of \$48.8 million, or \$1.85 per share. Net income, excluding the one-time goodwill impairment charge, was \$13.4 million, or \$0.51 diluted earnings per share as compared to net income of \$23.0 million, or \$0.87 diluted earnings per share in the first nine months of 2019. Pre-tax pre-provision earnings¹, excluding goodwill impairment, were \$27.2 million and \$28.7 million for the nine months ended September 30, 2020 and 2019, respectively.

Third Quarter 2020 Financial Highlights

- Net interest income declined \$0.8 million, or 3.1%, to \$25.4 million as compared to the linked quarter primarily due to balance sheet repricing driven by the impact of the lower interest rate environment, offset by a 13 basis point decrease in funding costs compared to the second quarter of 2020, and decreased \$2.6 million, or 9.4%, over the same quarter in 2019;
- Net interest margin, on a fully taxable equivalent basis, declined 13 basis points to 2.66% over the linked quarter and decreased 35 basis points over the same quarter last year;
- A one-time goodwill impairment charge of \$62.2 million (\$2.36 per share) was recorded in the third quarter of 2020. The impairment charge is a non-cash charge that does not affect regulatory capital ratios, liquidity, or our overall financial strength;
- Eight retail branch banking offices were closed during the third quarter of 2020 as part of our branch optimization project. Five of these branches were moved to other real estate owned ("OREO") and marketed

for sale resulting in a \$1.1 million write-down;

- Portfolio loan growth totaled \$28.6 million, or 3.9% on an annualized basis, as compared to the linked quarter, and growth of \$82.2 million, or 2.8%, as compared to September 30, 2019;
- Total deposits increased \$7.1 million to \$3.6 billion as of September 30, 2020 as compared to the linked quarter and growth of \$91.8, or 2.6%, as compared to September 30, 2019. Noninterest-bearing and interest-bearing demand deposits, money market accounts and savings, increased by \$70.2 million, or 3.9%, as compared to linked quarter and increased \$350.5 million, or 23.4%, as compared to September 30, 2019;
- The provision for loan losses totaled \$2.9 million for the quarter ended September 30, 2020, \$5.5 million for the quarter ending June 30, 2020 and \$1.4 million for the same quarter of 2019. Included in the third quarter provision for loan losses was an increase in qualitative loss factors as a result of the estimated economic impact of COVID-19 of \$3.6 million, or \$(0.11) per share, offset by an decrease to our quantitative reserves due to decreases in historic loss rates which were partially offset by an increase in loan volume;
- Nonperforming loans declined \$1.6 million, or 4.0% as compared to December 31, 2019 and decreased \$6.6 million, or 14.1%, from September 30, 2019. Nonperforming loans as a percentage of total portfolio loans were 1.35%, 1.37% and 1.62% as of September 30, 2020, June 30, 2020 and September 30, 2019, respectively.

"Obviously we are disappointed in having to take a goodwill impairment charge in the third quarter. Fortunately this is more of an accounting entry than a reflection of the financial performance of the Bank. While a significant negative impact to earnings, the impairment is a non-cash charge and has no impact on regulatory capital or our liquidity. Regulatory capital levels as well as our liquidity remain strong." stated Litz H. Van Dyke, Chief Executive Officer. "We continue to provide direct financial flexibility to our individual and business customers, to offer our products and services through multiple delivery channels, to show our trademark caring and empathy to every customer, and to provide a safe environment for both employees and customers."

Van Dyke continued, "I again commend our associates for their commitment, performance and professionalism during these difficult times. We continue to open accounts, make loans, and process transactions. We experienced growth in both loans and lower cost deposits in the third quarter. While the economy has shown some signs of improvement in the third quarter, there still remain headwinds and tremendous uncertainty around the continuing impacts from COVID-19. We continue to work on improving the operating fundamentals of the Bank by focusing on resolving legacy credit issues, expense control, margin improvement, and optimizing our branch network. While we expect uncertainty and challenges ahead due to the pandemic, we are confident in our team, technology, products/services, risk management, and strong capital/liquidity position."

Operating Highlights

Net interest income decreased \$5.0 million, or 5.9%, to \$79.0 million during the first nine months of 2020 as compared to the same period of 2019. The net interest margin, on a fully taxable equivalent basis, decreased 24 basis points to 2.80% over the past twelve months. The decreases in short-term interest rates had a negative impact on both net interest income and net interest margin, but are offset by a lower cost of funds. The yield on interest-earning assets decreased 49 basis points, offset by a 28 basis point decline in funding costs as compared to the same period of 2019.

The provision for loan losses totaled \$13.2 million for the nine month period ended September 30, 2020 and \$4.4

million for the same period of 2019. The Bank was subject to the adoption of the Current Expected Credit Losses ("CECL") accounting method under Financial Accounting Standards Board ("FASB") Accounting Standards Update 2016-03 and related amendments, Financial Instruments - Credit Losses (Topic 326). However, the Bank elected under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act to defer the implementation of CECL until the earlier of when the national emergency related to the outbreak of COVID-19 ends or December 31, 2020. Included in the provision expense for the nine months ended September 30, 2020 is the estimated economic impact of COVID-19 of \$9.6 million, or \$(0.29) per share, driven by economic and market conditions as a result of COVID-19. This represents a 201% increase in the provision expense as compared to the same period of 2019. The Bank adjusted qualitative risk factors under its incurred loss model for economic conditions, changes in payment deferral procedures, expected changes in collateral values due to reduced cash flows and external factors such as government actions. Management believes the uncertainty regarding customers' ability to repay loans could be adversely impacted by the COVID-19 pandemic given higher unemployment rates, requests for payment deferrals, temporary business shutdowns and reduced consumer and business spending.

At September 30, 2020, nonperforming loans were \$40.5 million, a decrease of \$1.6 million, or 4.0% as compared to December 31, 2019. Net charge-offs were \$2.0 million in the first nine months of 2020 as compared to \$3.3 million in the same period of 2019. As a percentage of total portfolio loans, on an annualized basis, net charge-offs were 0.09% and 0.15% for the periods ending September 30, 2020 and 2019, respectively. Nonperforming loans as a percentage of total portfolio loans were 1.35%, 1.37% and 1.62% as of September 30, 2020, June 30, 2020 and September 30, 2019, respectively.

Noninterest income at September 30, 2020, excluding net securities gains, increased \$4.3 million, or 40.0%, for the nine months ending September 30, 2020 as compared to the same period of 2019. The increase was primarily due to \$3.1 million of commercial loan swap fee income as result of the high demand for this product in the current low interest rate environment, \$1.0 million of higher insurance commissions, related to the adoption of ASU 2014-09, Topic 606 by our provider, \$0.4 million of higher debit card interchange fees, which were offset by lower service charges on deposit accounts of \$0.2 million due to COVID-19 fee waivers. OREO income declined \$0.3 million due to the sale of several large commercial properties over the last 12 months that generated income. Securities gains of \$5.9 million and \$1.6 million were realized during the first nine months of 2020 and 2019, respectively, to take advantage of market opportunities and reposition and diversify holdings in the securities portfolio.

Total noninterest expense increased \$67.4 million, or 99.8%, to \$134.9 million for the nine months ending September 30, 2020 as compared to the same period of 2019. This increase was primarily due to the aforementioned goodwill impairment charge of \$62.2 million. Excluding the impact of the goodwill impairment charge, noninterest expense increased \$5.2 million, or 7.7%, to \$72.7 million. The increase was primarily driven by salaries and employee benefits and occupancy expenses. The increase of \$1.3 million in salaries and benefits were primarily attributable to a \$0.7 million increase of normal merit increases and a \$0.6 million decrease in salary deferrals on new loan originations in the first nine months of 2020. There have not been any permanent or temporary reductions in employees as a result of COVID-19. The \$1.4 million increase in occupancy expense is a result of higher depreciation for software and equipment for ancillary products and services. FDIC insurance increased \$0.9 million primarily due to the \$1.1 million one-time credit for eligible institutions available in the third quarter of 2019. The \$0.7 million increase in advertising is related to our deposit acquisition strategy. Losses on

Sales and Write-downs of Other Real Estate Owned increased \$0.8 million due to the aforementioned write-down of \$1.1 million on five closed retail branch offices moved to OREO in the third quarter of 2020.

Financial Condition

Total assets were \$4.1 billion at September 30, 2020 and \$4.0 billion at December 31, 2019. Total portfolio loans increased \$101.2 million, or 3.5%, to \$3.0 billion as of September 30, 2020 as compared to December 31, 2019. Nonperforming loans decreased \$1.6 million to \$40.5 million, or 4.0% as of September 30, 2020 as compared to \$42.1 million at December 31, 2019. OREO decreased \$1.9 million at September 30, 2020 as compared to December 31, 2019. Closed retail bank offices have a remaining book value of \$2.5 million at September 30, 2020 and \$3.0 million at December 31, 2019.

Federal Reserve Bank excess reserves increased \$67.9 million at September 30, 2020 as compared to December 31, 2019 due to maintaining higher liquidity levels as a result of COVID-19.

The securities portfolio increased \$35.4 million and is currently 18.8% of total assets at September 30, 2020 as compared to 18.5% of total assets at December 31, 2019. The increase is a result of active balance sheet management. We have further diversified the securities portfolio as to bond types, maturities and interest rate structures.

Total deposits increased \$109.5 million to \$3.6 billion as of September 30, 2020 as compared to December 31, 2019. Core deposits, including noninterest-bearing and interest-bearing demand deposits, money market accounts and savings, increased by \$307.3 million, or 19.9%, as compared to December 31, 2019. Offsetting these increases was the intentional runoff of \$197.8 million of higher cost certificates of deposits. Noninterest-bearing deposits comprised 18.4% and 15.8% of total deposits at September 30, 2020 and December 31, 2019, respectively.

The allowance for loan losses was 1.67%, 1.60% and 1.34% of total portfolio loans as of September 30, 2020, June 30, 2020 and December 31, 2019, respectively. General reserves as a percentage of total portfolio loans were 1.40%, 1.33% and 1.13% at September 30, 2020, June 30, 2020 and December 31, 2019, respectively. Included in the allowance for loan losses is the estimated economic impact of COVID-19 of \$9.6 million, or \$(0.29) per share, driven by economic and market conditions as a result of COVID-19. The allowance for loan losses was 123.5% of nonperforming loans as of September 30, 2020 as compared to 92.0% of nonperforming loans as of December 31, 2019. In the view of management, the allowance for loan losses is adequate to absorb probable losses inherent in the loan portfolio. For further information regarding the Bank's decision to defer CECL under Section 4014 of the CARES Act, as well as further detail on the increase in provision during the first nine months of 2020, please see the discussion above under Provision for Loan Losses.

The Bank provides deferrals to customers under Section 4013 of the CARES Act and regulatory interagency statements on loan modifications. The Bank launched a deferral program in March 2020 that ran through August 2020 (Part I). The deferrals in the initial program typically provided deferral of both principal and interest for up to 180 days. The Bank is providing deferrals in another program that launched in August 2020 and runs through December 2020 (Part II). The deferrals in this program is needs based and requires the collection of updated financial information. The majority of the deferrals in the second program will be principal only deferrals. At the end

of the deferral period, for term loans, payments will be applied to accrued interest first and will resume principal payments once accrued interest is current. Deferred principal will be due at maturity. For interest only loans, such as lines of credit, deferred interest will be due at maturity. As of October 27, 2020, we have had 116 loans opt for deferrals under Part II of the program which continues through December 31, 2020, with an aggregate principal balance of \$381.1 million. The weighted average deferment period for these customers is 3.98 months.

Approximately \$321.8 million of these modifications were in the hospitality industry, comprised of deferrals on 58 loans. We have participated in the Paycheck Protection Program ("PPP") passed by Congress. As of September 30, 2020, we had 962 PPP loans approved totaling \$55.8 million. These PPP loans generated \$1.5 million in fees which will be recognized in income when the loan is forgiven or over the remaining life of the loan.

A one-time goodwill impairment charge of \$62.2 million (\$2.36 per share) was recorded as of September 30, 2020. The Bank performed an interim impairment analysis of goodwill as of September 30, 2020 due to the continued decline in our stock price primarily related to the economic fallout of COVID-19. The impairment charge is a non-cash charge that does not affect regulatory capital ratios, liquidity, or our overall financial strength.

The Bank remains well capitalized. The Bank's Tier 1 Capital ratio was 13.08% as of September 30, 2020 as compared to 13.58% as of December 31, 2019. The Bank's leverage ratio was 10.12% at September 30, 2020 as compared to 10.33% as of December 31, 2019. The Bank's Total Risk-Based Capital ratio was 14.33% at September 30, 2020 as compared to 14.83% at December 31, 2019.

Total capital of \$434.8 million at September 30, 2020, reflects a decrease of \$38.3 million as compared to December 31, 2019. The decrease in equity during the first nine months of 2020 is due to a net loss of \$48.8 million and a \$13.4 million increase in other comprehensive income due to changes in fair value of investment securities. The net decrease also included the \$3.7 million special dividend paid in March of 2020. The remaining difference of \$0.8 million is related to restricted stock activity during the first nine months.

At September 30, 2020, funding sources accessible to the Bank include borrowing availability at the Federal Home Loan Bank ("FHLB"), equal to 25% of the Bank's assets approximating \$1.0 billion, subject to the amount of eligible collateral pledged, federal funds unsecured lines with six other correspondent financial institutions in the amount of \$115.0 million and access to the institutional CD market. In addition to the above resources, the Bank also has \$651.6 million of unpledged available-for-sale investment securities as an additional source of liquidity.

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 91 branches in Virginia and North Carolina. For more information visit www.CBTCares.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 and asset quality. 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; the Bank's liquidity and capital positions; the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts or public health events (such as the current COVID-19 pandemic), and of governmental and societal responses thereto; these potential adverse effects may include, without limitation, adverse effects on the ability of the Bank's borrowers to satisfy their obligations to the Bank, on the value of collateral securing loans, on the demand for the Bank's loans or its other products and services, on incidents of cyberattack and fraud, on the Bank's liquidity or capital positions, on risks posed by reliance on third-party service providers, on other aspects of the Bank's business operations and on financial markets and economic growth; 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; 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.

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CARTER BANK & TRUST
 CONSOLIDATED SELECTED FINANCIAL DATA
 BALANCE SHEETS
 (Unaudited)

(Dollars in Thousands, except per share data)	September 30, 2020	December 31, 2019	September 30, 2019
ASSETS			
Cash and Due From Banks	\$ 37,688	\$ 41,386	\$ 46,517
Interest-Bearing Deposits in Other Financial Institutions	6,267	45,156	44,540
Federal Reserve Bank Excess Reserves	<u>107,219</u>	<u>39,270</u>	<u>35,108</u>
Total Cash and Cash Equivalents	151,174	125,812	126,165
Securities, Available-for-Sale, at Fair Value	777,986	742,617	734,453
Loans Held-for-Sale	32,104	19,714	20,514
Portfolio Loans	2,985,921	2,884,766	2,903,701
Allowance for Loan Losses	<u>(49,965)</u>	<u>(38,762)</u>	<u>(40,331)</u>
Portfolio Loans, net	2,935,956	2,846,004	2,863,370
Bank Premises and Equipment, net	87,439	85,942	86,531
Other Real Estate Owned, net	16,410	18,324	23,112
Goodwill	-	62,192	62,192
Federal Home Loan Bank Stock, at Cost	5,093	4,113	3,688
Bank Owned Life Insurance	53,651	52,597	52,240
Other Assets	<u>74,312</u>	<u>48,793</u>	<u>47,811</u>
TOTAL ASSETS	<u>\$4,134,125</u>	<u>\$4,006,108</u>	<u>\$4,020,076</u>

LIABILITIES

Deposits:

Noninterest-Bearing Demand	\$ 665,813	\$ 554,875	\$ 566,826
Interest-Bearing Demand	351,066	286,561	207,334
Money Market	211,465	140,589	157,123
Savings	622,806	561,814	569,392
Certificates of Deposits	<u>1,762,645</u>	<u>1,960,406</u>	<u>2,021,306</u>
Total Deposits	3,613,795	3,504,245	3,521,981
FHLB Borrowings	35,000	10,000	-
Other Liabilities	<u>50,523</u>	<u>18,752</u>	<u>24,047</u>
TOTAL LIABILITIES	<u>3,699,318</u>	<u>3,532,997</u>	<u>3,546,028</u>

SHAREHOLDERS' EQUITY

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

26,386,901 outstanding at September 30, 2020,

26,334,229 outstanding at December 31, 2019 and 26,333,929 at September 30, 2019

Additional Paid-in-Capital	143,244	142,492	142,380
Retained Earnings	251,669	304,158	300,552
Accumulated Other Comprehensive Income	<u>13,507</u>	<u>127</u>	<u>4,782</u>
TOTAL SHAREHOLDERS' EQUITY	<u>434,807</u>	<u>473,111</u>	<u>474,048</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$4,134,125</u>	<u>\$4,006,108</u>	<u>\$4,020,076</u>

PROFITABILITY RATIOS (ANNUALIZED)

Return on Average Assets	(1.59)%	0.65%	0.75%
Return on Average Shareholders' Equity	(13.59)%	5.76%	6.71%
Portfolio Loan to Deposit Ratio	82.63%	82.32%	82.45%
Allowance to Total Portfolio Loans	1.67%	1.34%	1.39%

CAPITALIZATION RATIOS

Shareholders' Equity to Assets	10.52%	11.81%	11.79%
Tier 1 Leverage Ratio	10.12%	10.33%	10.18%
Risk-Based Capital - Tier 1	13.08%	13.58%	13.36%
Risk-Based Capital - Total	14.33%	14.83%	14.61%

CARTER BANK & TRUST

CONSOLIDATED SELECTED FINANCIAL DATA

INCOME STATEMENTS

(Unaudited)

(Dollars in Thousands, except per share data)

	Quarter-to-Date			Year-to-Date	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Interest Income	\$ 33,986	\$ 35,617	\$ 40,154	\$ 107,439	\$ 119,361
Interest Expense	<u>8,550</u>	<u>9,355</u>	<u>12,084</u>	<u>28,477</u>	<u>35,440</u>
NET INTEREST INCOME	25,436	26,262	28,070	78,962	83,921
Provision for Loan Losses	<u>2,914</u>	<u>5,473</u>	<u>1,390</u>	<u>13,185</u>	<u>4,386</u>
NET INTEREST INCOME AFTER	22,522	20,789	26,680	65,777	79,535

PROVISION FOR LOAN LOSSES

NONINTEREST INCOME

Gains on Sales of Securities, net	2,388	2,321	659	5,923	1,599
Service Charges, Commissions and Fees	1,205	190	1,111	3,045	3,229
Debit Card Interchange Fees	1,559	1,468	1,340	4,270	3,834
Insurance	482	332	454	2,123	1,097
Bank Owned Life Insurance Income	351	350	362	1,054	1,079
Gains on Sales of Other Real Estate Owned, net	-	137	-	-	-
Other Real Estate Owned Income	58	82	96	279	617
Commercial Loan Swap Fee Income	1,572	1,125	-	3,120	-
Other	360	196	134	1,177	906
TOTAL NONINTEREST INCOME	7,975	6,201	4,156	20,991	12,361

NONINTEREST EXPENSE

Salaries and Employee Benefits	13,036	12,489	12,952	39,106	37,796
Occupancy Expense, net	3,413	3,415	3,040	10,077	8,703
FDIC Insurance Expense	547	537	(426)	1,628	721
Other Taxes	809	788	747	2,343	2,101
Advertising Expense	404	400	205	1,410	702
Telephone Expense	578	573	557	1,725	1,624
Professional and Legal Fees	1,474	1,399	1,318	3,310	2,947
Data Processing	836	595	556	1,917	1,775
Losses on Sales and Write-downs of Other Real Estate Owned, net	1,305	-	293	1,357	569
Losses on Sales and Write-downs of Bank Premises, net	17	59	31	88	23
Debit Card Expense	764	671	620	1,989	2,160
Tax Credit Amortization	272	272	563	816	1,689
Unfunded Loan Commitment Expense	(348)	(383)	158	251	376
Other Real Estate Owned Expense	94	177	167	411	233
Goodwill Impairment Expense	62,192	-	-	62,192	-
Other	1,907	2,031	1,996	6,314	6,124
TOTAL NONINTEREST EXPENSE	87,300	23,023	22,777	134,934	67,543

(LOSS) INCOME BEFORE INCOME TAXES

Income Tax Provision (Benefit)	875	(488)	458	634	1,384
NET (LOSS) INCOME	\$ (57,678)	\$ 4,455	\$ 7,601	\$ (48,800)	\$ 22,969

Shares Outstanding, at End of Period	26,386,901	26,384,801	26,333,929	26,386,901	26,333,929
Average Shares Outstanding-Basic	26,385,189	26,384,957	26,333,929	26,377,626	26,320,472
Average Shares Outstanding-Diluted	26,385,189	26,384,957	26,352,910	26,377,626	26,331,268

PER SHARE DATA

Basic (Loss) Earnings Per Common Share	\$ (2.19)	\$ 0.17	\$ 0.29	\$ (1.85)	\$ 0.87
Diluted (Loss) Earnings Per Common Share	\$ (2.19)	\$ 0.17	\$ 0.29	\$ (1.85)	\$ 0.87
Book Value	\$ 16.48	\$ 18.54	\$ 18.00	\$ 16.48	\$ 18.00
Tangible Book Value ²	\$ 16.48	\$ 16.18	\$ 15.64	\$ 16.48	\$ 15.64
Market Value	\$ 6.65	\$ 8.07	\$ 18.89	\$ 6.65	\$ 18.89

PROFITABILITY RATIOS (non-GAAP)

Net Interest Margin (FTE) ³	2.66%	2.79%	3.01%	2.80%	3.04%
Core Efficiency Ratio ⁴	75.27%	75.00%	71.63%	74.74%	70.08%

CONSOLIDATED SELECTED FINANCIAL DATA
NET INTEREST MARGIN (FTE) (QTD AVERAGES)
(Unaudited)

(Dollars in Thousands) ASSETS	September 30, 2020		June 30, 2020		September 30, 2019	
	Average Balance	Income/Expense Rate	Average Balance	Income/Expense Rate	Average Balance	Income/Expense Rate
Interest-Bearing Deposits with Banks	\$ 124,886	320.10%	\$ 106,710	260.10%	\$ 99,827	5572.21%
Tax-Free Investment Securities	54,541	4553.34%	49,633	4163.35%	33,452	3323.94%
Taxable Investment Securities	693,330	3,1501.81%	685,468	3,5942.09%	751,665	4,6972.48%
Tax-Free Loans	302,351	2,3973.17%	322,739	2,5633.17%	373,167	2,9233.11%
Taxable Loans	2,694,747	28,5114.18%	2,651,873	29,5774.44%	2,526,509	32,2705.07%
Federal Home Loan Bank Stock	5,093	393.04%	5,093	675.23%	3,688	586.24%
Total Interest-Earning Assets	<u>\$3,874,948</u>	<u>34,5843.53%</u>	<u>\$3,821,516</u>	<u>36,2433.77%</u>	<u>\$3,788,308</u>	<u>40,8374.28%</u>
LIABILITIES						
Deposits:						
Interest-Bearing Demand	\$ 330,402	2390.29%	\$ 297,815	2420.33%	\$ 222,062	4040.72%
Money Market	200,303	2100.42%	183,542	2110.46%	156,509	5521.40%
Savings	616,414	1680.11%	592,193	1570.11%	572,716	2560.18%
Certificates of Deposit	1,801,535	7,8151.73%	1,845,294	8,6271.88%	2,048,043	10,8532.10%
Total Interest-Bearing Deposits	<u>\$2,948,654</u>	<u>8,4321.14%</u>	<u>\$2,918,844</u>	<u>9,2371.27%</u>	<u>\$2,999,330</u>	<u>12,0651.60%</u>
Borrowings:						
FHLB Borrowings	35,000	1011.13%	35,000	1001.13%	-	-
Other Borrowings	1,183	175.72%	1,245	185.58%	1,226	196.15%
Total Borrowings	<u>36,183</u>	<u>1181.28%</u>	<u>36,245</u>	<u>1181.28%</u>	<u>1,226</u>	<u>196.15%</u>
Total Interest-Bearing Liabilities	<u>\$2,984,837</u>	<u>8,5501.14%</u>	<u>\$2,955,089</u>	<u>9,3551.27%</u>	<u>\$3,000,556</u>	<u>12,0841.60%</u>
Net Interest Income	<u>\$ 26,034</u>		<u>\$ 26,888</u>		<u>\$ 28,753</u>	
Net Interest Margin	<u>2.66%</u>		<u>2.79%</u>		<u>3.01%</u>	

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
NET INTEREST MARGIN (FTE) (YTD AVERAGES)
(Unaudited)

(Dollars in Thousands) ASSETS	September 30, 2020			September 30, 2019		
	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate
Interest-Bearing Deposits with Banks	\$ 98,283	\$ 268	0.36%	\$ 132,855	\$ 2,341	2.36%
Tax-Free Investment Securities	41,922	1,076	3.42%	78,235	2,145	3.67%
Taxable Investment Securities	696,954	11,246	2.15%	730,519	13,102	2.40%
Tax-Free Loans	320,914	7,620	3.16%	386,993	9,324	3.22%
Taxable Loans	2,644,031	88,885	4.45%	2,465,823	94,773	5.14%
Federal Home Loan Bank Stock	4,869	170	4.65%	1,770	84	6.35%
Total Interest-Earning Assets	<u>\$3,806,973</u>	<u>\$ 109,265</u>	<u>3.80%</u>	<u>\$3,796,195</u>	<u>\$ 121,769</u>	<u>4.29%</u>
LIABILITIES						
Deposits:						
Interest-Bearing Demand	\$ 308,617	\$ 926	0.40%	\$ 250,163	\$ 1,639	0.88%

Money Market	179,546	692	0.51%	128,035	1,312	1.37%
Savings	590,534	470	0.11%	588,529	1,240	0.28%
Certificates of Deposit	<u>1,855,027</u>	<u>26,076</u>	<u>1.88%</u>	<u>2,074,015</u>	<u>31,190</u>	<u>2.01%</u>
Total Interest-Bearing Deposits	<u>\$2,933,724</u>	<u>\$ 28,164</u>	<u>1.28%</u>	<u>\$3,040,742</u>	<u>\$ 35,381</u>	<u>1.56%</u>
Borrowings:						
FED Funds Purchased	73	1	1.59%	-	-	-
FHLB Borrowings	29,161	260	1.17%	-	-	-
Other Borrowings	<u>1,303</u>	<u>52</u>	<u>5.33%</u>	<u>872</u>	<u>59</u>	<u>9.05%</u>
Total Borrowings	<u>30,537</u>	<u>313</u>	<u>1.35%</u>	<u>872</u>	<u>59</u>	<u>9.05%</u>
Total Interest-Bearing Liabilities	<u>\$2,964,261</u>	<u>\$ 28,477</u>	<u>1.28%</u>	<u>\$3,041,614</u>	<u>\$ 35,440</u>	<u>1.56%</u>
Net Interest Income		<u>\$ 80,788</u>			<u>\$ 86,329</u>	
Net Interest Margin			<u>2.80%</u>			<u>3.04%</u>

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
LOANS AND LOANS HELD-FOR-SALE
(Unaudited)

(Dollars in Thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Commercial			
Commercial Real Estate	\$ 1,417,164	\$ 1,365,310	\$ 1,396,935
Commercial and Industrial	300,951	256,798	255,376
Obligations of State and Political Subdivisions	310,610	364,869	394,781
Commercial Construction	<u>386,343</u>	<u>292,827</u>	<u>255,697</u>
Total Commercial Loans	<u>2,415,068</u>	<u>2,279,804</u>	<u>2,302,789</u>
Consumer			
Residential Mortgages	490,343	514,538	504,344
Other Consumer	66,177	73,688	72,917
Consumer Construction	<u>14,333</u>	<u>16,736</u>	<u>23,651</u>
Total Consumer Loans	<u>570,853</u>	<u>604,962</u>	<u>600,912</u>
Total Portfolio Loans	<u>2,985,921</u>	<u>2,884,766</u>	<u>2,903,701</u>
Loans Held-for-Sale	<u>32,104</u>	<u>19,714</u>	<u>20,514</u>
Total Loans	<u>\$ 3,018,025</u>	<u>\$ 2,904,480</u>	<u>\$ 2,924,215</u>

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

(Dollars in Thousands)	September 30, 2020	December 31, 2019	September 30, 2019
Nonperforming Loans			
Commercial Real Estate	\$ 235	\$ 1,017	\$ 1,393
Commercial and Industrial	159	77	108

Obligations of State and Political Subdivisions	-	-	498
Commercial Construction	3,748	3,210	4,074
Residential Mortgages	3,310	2,857	2,292
Other Consumer	152	267	363
Consumer Construction	-	-	-
Total Nonperforming Loans	<u>7,604</u>	<u>7,428</u>	<u>8,728</u>
Nonperforming Troubled Debt Restructurings	-	-	-
Commercial Real Estate	28,599	30,073	34,085
Commercial and Industrial	-	390	-
Obligations of State and Political Subdivisions	-	-	-
Commercial Construction	4,249	4,242	4,292
Residential Mortgages	-	-	-
Other Consumer	-	-	-
Consumer Construction	-	-	-
Total Nonperforming Troubled Debt Restructurings	<u>32,848</u>	<u>34,705</u>	<u>38,377</u>
Total Nonperforming Loans and Troubled Debt Restructurings	<u>40,452</u>	<u>42,133</u>	<u>47,105</u>
Other Real Estate Owned	16,410	18,324	23,112
Total Nonperforming Assets	<u>\$ 56,862</u>	<u>\$ 60,457</u>	<u>\$ 70,217</u>

	September 30, 2020	December 31, 2019	September 30, 2019
Nonperforming Loans	\$ 40,452	\$ 42,133	\$ 47,105
Other Real Estate Owned	16,410	18,324	23,112
Total Nonperforming Assets	<u>56,862</u>	<u>60,457</u>	<u>70,217</u>
Troubled Debt Restructurings (Nonaccruing)	32,848	34,705	38,377
Troubled Debt Restructurings (Accruing)	110,320	109,265	113,725
Total Troubled Debt Restructurings	<u>\$ 143,168</u>	<u>\$ 143,970</u>	<u>\$ 152,102</u>
Nonperforming Loans to Total Portfolio Loans	1.35%	1.46%	1.62%
Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	1.89%	2.08%	2.40%
Allowance for Loan Losses to Total Portfolio Loans	1.67%	1.34%	1.39%
Allowance for Loan Losses to Nonperforming Loans	123.52%	92.00%	85.62%
Net Loan Charge-offs (Recoveries)	\$ 1,982	\$ 3,841	\$ 3,254
Net Loan Charge-offs (Recoveries) (Annualized) to Average Loans	0.09%	0.13%	0.15%

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

	Quarter-to-Date			Year-to-Date	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
(Dollars in Thousands)					
Balance Beginning of Year	\$ 47,405	\$ 42,942	\$ 40,008	\$ 38,762	\$ 39,199
Provision for Loan Losses	2,914	5,473	1,390	13,185	4,386
Charge-offs:					
Commercial Real Estate	-	40	-	40	69

Commercial and Industrial Obligations of State and Political Subdivisions	-	8	1	46	3
Commercial Construction	-	-	-	-	-
Residential Mortgages	-	15	174	20	197
Other Consumer	680	1,094	1,080	3,301	3,039
Consumer Construction	-	-	-	-	-
Total Charge-offs	<u>680</u>	<u>1,157</u>	<u>1,255</u>	<u>3,407</u>	<u>3,701</u>
Recoveries:					
Commercial Real Estate	-	-	-	707	-
Commercial and Industrial Obligations of State and Political Subdivisions	119	1	-	121	-
Commercial Construction	-	-	-	-	-
Residential Mortgages	1	-	-	1	-
Other Consumer	206	146	188	596	447
Consumer Construction	-	-	-	-	-
Total Recoveries	<u>326</u>	<u>147</u>	<u>188</u>	<u>1,425</u>	<u>447</u>
Total Net Charge-offs	<u>354</u>	<u>1,010</u>	<u>1,067</u>	<u>1,982</u>	<u>3,254</u>
Balance End of Year	<u>\$ 49,965</u>	<u>\$ 47,405</u>	<u>\$ 40,331</u>	<u>\$ 49,965</u>	<u>\$ 40,331</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:

¹ Pre-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.

² Tangible Equity

	Quarter-to-Date			Year-to-Date	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
Total Shareholders' Equity	\$ 434,807	\$ 489,059	\$ 474,048	\$ 434,807	\$ 474,048
Less: Goodwill	-	62,192	62,192	-	62,192
Tangible Equity	<u>\$ 434,807</u>	<u>\$ 426,867</u>	<u>\$ 411,856</u>	<u>\$ 434,807</u>	<u>\$ 411,856</u>
Shares Outstanding at End of Period	26,386,901	26,384,801	26,333,929	26,386,901	26,333,929
Tangible Book Value Per Common Share	\$ 16.48	\$ 16.18	\$ 15.64	\$ 16.48	\$ 15.64

³ Net interest income has been computed on a fully taxable equivalent basis ("FTE") using a 21% federal income tax rate for the 2020 and 2019 periods.

Net Interest Income (FTE) (Non-GAAP)	Quarter-to-Date			Year-to-Date	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	Interest Income	\$ 33,986	\$ 35,617	\$ 40,154	\$ 107,439
Interest Expense	(8,550)	(9,355)	(12,084)	(28,477)	(35,440)
Net Interest Income	25,436	26,262	28,070	78,962	83,921
Tax Equivalent Adjustment ³	598	626	683	1,826	2,408
NET INTEREST INCOME (FTE) (Non-GAAP)	<u>\$ 26,034</u>	<u>\$ 26,888</u>	<u>\$ 28,753</u>	<u>\$ 80,788</u>	<u>\$ 86,329</u>
Net Interest Income (Annualized)	102,880	106,615	114,074	106,638	115,422
Average Earning Assets	<u>3,874,948</u>	<u>3,821,516</u>	<u>3,788,308</u>	<u>3,806,973</u>	<u>3,796,195</u>
NET INTEREST MARGIN (FTE) (Non-GAAP)	<u>2.66%</u>	<u>2.79%</u>	<u>3.01%</u>	<u>2.80%</u>	<u>3.04%</u>

⁴ Core Efficiency Ratio (Non-GAAP)

	Quarter-to-Date			Year-to-Date	
	September 30, 2020	June 30, 2020	September 30, 2019	September 30, 2020	September 30, 2019
	NONINTEREST EXPENSE	\$ 87,300	\$ 23,023	\$ 22,777	\$ 134,934
Less: Losses on Sales and Write-downs of Other Real Estate Owned, net	(1,305)	-	(293)	(1,357)	(569)
Less: Losses on Sales and Write-downs of Bank Premises, net	(17)	(59)	(31)	(88)	(23)
Less: Tax Credit Amortization	(272)	(272)	(563)	(816)	(1,689)
Plus: Contingent Liability	144	-	-	144	331
Less: Conversion Expense	-	-	-	-	(2)
Less: Goodwill Impairment	(62,192)	-	-	(62,192)	-
Plus: FDIC Assessment Credits	-	-	1,056	-	1,056
Plus: Conversion Vacation Accrual	99	192	86	579	646
CORE NONINTEREST EXPENSE (Non-GAAP)	<u>\$ 23,757</u>	<u>\$ 22,884</u>	<u>\$ 23,032</u>	<u>\$ 71,204</u>	<u>\$ 67,293</u>
NET INTEREST INCOME	\$ 25,436	\$ 26,262	\$ 28,070	\$ 78,962	\$ 83,921
Plus: Taxable Equivalent Adjustment ³	598	626	683	1,826	2,408
NET INTEREST INCOME (FTE) (Non-GAAP)	<u>\$ 26,034</u>	<u>\$ 26,888</u>	<u>\$ 28,753</u>	<u>\$ 80,788</u>	<u>\$ 86,329</u>
Less: Gains on Sales of Securities, net	(2,388)	(2,321)	(659)	(5,923)	(1,599)
Less: Gains on Sales of Other Real Estate Owned, net	-	(137)	-	-	-
Less: Other Real Estate Owned Income	(58)	(82)	(96)	(279)	(617)
Less: Other Gains	-	(38)	-	(307)	(447)
Noninterest Income	7,975	6,201	4,156	20,991	12,361
CORE NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	<u>\$ 31,563</u>	<u>\$ 30,511</u>	<u>\$ 32,154</u>	<u>\$ 95,270</u>	<u>\$ 96,027</u>
CORE EFFICIENCY RATIO (Non-GAAP)	75.27%	75.00%	71.63%	74.74%	70.08%

SOURCE: Carter Bank & Trust

View source version on [accesswire.com](https://www.accesswire.com):

<https://www.accesswire.com/612921/Carter-Bank-Trust-Announces-Third-Quarter-2020-Financial-Results>

