

# Carter Bank & Trust Announces Third Quarter and Year-to-Date 2017 Financial Results

2017-10-26

MARTINSVILLE, Va.--(BUSINESS WIRE)-- Carter Bank & Trust ( the "Bank") (OTC:CARE) today announced a net loss of \$0.4 million, or \$0.02 per share, for the third quarter of 2017, as compared to net income of \$5.2 million, or \$0.20 earnings per share, for the third quarter of 2016. Pre-tax-pre-provision earnings<sup>1</sup> were \$8.9 million in the third quarter of 2017 as compared to \$9.4 million in the same period last year.

Net income for the first nine months of 2017 was \$4.4 million, or \$0.17 earning per share, as compared to \$19.8 million, or \$0.76 earnings per share, for the first nine months of 2016. Pre-tax pre-provision earnings<sup>1</sup> were \$29.1 million for the nine months of 2017 as compared to \$30.6 million in the first nine months of 2016.

## Third Quarter 2017 Financial Highlights

- Third quarter net loss of \$0.4 million, or \$0.02 per share;
- Net interest margin, on a fully taxable equivalent basis, improved one basis point to 2.77% over the linked quarter;
- Pre-tax pre-provision earnings<sup>1</sup> of \$8.9 million for the third quarter of 2017 representing a increase of 4.4% compared to the second quarter of 2017, on a \$117.0 million lower asset base;
- Securities gains of \$1.1 million were realized in the third quarter of 2017 to take advantage of market opportunities;
- Third quarter was impacted by provision expense of \$13.9 million and
- Nonperforming loans increased \$40.4 million over the linked quarter due to one credit relationship involving

commercial real estate.

## 2017 Year-to-Date Financial Highlights

- Year-to-date net income of \$4.4 million, or \$0.17 earning per share;
- Net interest margin, on a fully taxable equivalent basis, improved 37 basis points to 2.76% year-over-year;
- Net interest income increased \$2.5 million, or 3.2%, to \$78.7 million year-over-year;
- Pre-tax pre-provision earnings<sup>1</sup> of \$29.1 million year-to-date 2017 representing a slight decline of 5.0% compared to the same period of last year, on a \$554.4 million lower asset base and
- Year-to-date earnings were impacted by provision expense of \$30.5 million.

Litz H. Van Dyke, Chief Executive Officer of Carter Bank & Trust, commented, “2017 has been negatively impacted by a substantial increase in our provision expense. We have taken aggressive steps in dealing with legacy problem loans. These steps are intended to move us beyond the credit issues that have weighed on our earnings performance over the last few quarters. I am especially pleased with the progress our organization has made on strategic initiatives this quarter. Our net interest margin, on a fully taxable equivalent basis, increased 37 basis points to 2.76% over the same period in 2016 and we kicked-off a major technology conversion which will transform the infrastructure of our bank and provide a foundation for operational efficiency for decades to come.”

## Operating Highlights

Net interest income increased \$2.5 million to \$78.7 million during the first nine months of 2017 as compared to the same period of 2016. The increase in net interest income is primarily driven by a \$7.2 million decrease in interest expense during the first nine months of 2017 as compared to the same period of 2016 primarily due to the intentional runoff of higher cost certificates of deposit. The net interest margin, on a fully taxable equivalent basis, increased 37 basis points to 2.76% over the past twelve months due to our deployment of excess cash into higher yielding and diversified investment securities as well as the aforementioned runoff of higher cost deposits.

The provision for loan losses totaled \$30.5 million for the year-to-date period ended September 30, 2017, an increase of \$25.3 million as compared to the same period of 2016. Net charge-offs were \$29.4 million for the first nine months of 2017 as compared to \$1.2 million in the same period of 2016. During 2017, we have dealt with significant impairment in several large commercial real estate loan relationships. This resulted in significant charge-offs as we aggressively worked toward resolution of these legacy credits.

Noninterest income decreased \$0.5 million, or 5.4%, to \$8.3 million, excluding net securities gains, in the first nine months of 2017 as compared to \$8.8 million in the first nine months of 2016. The decline in noninterest income is

primarily attributable to lower income from other real estate owned due to the disposition of several properties during the period. Debit card income, a key component of the Bank's noninterest income improved to \$3.6 million in the first nine months of 2017 as compared to \$3.5 million in 2016. Securities gains of \$1.1 million were realized in the third quarter of 2017 to take advantage of market opportunities and reduce the credit risk of the securities portfolio.

Total noninterest expense increased \$4.6 million, or 8.4%, in the first nine months of 2017 to \$59.0 million as compared to \$54.4 million in the first nine months of 2016. Several factors contributed to this increase including an increase in salaries and employee benefits of \$3.4 million and an increase in professional and legal fees of \$3.3 million. These increases were expected and planned as investments are made in the appropriate infrastructure to support the bank in the future. Offsetting these increases were decreases of \$3.4 million comprised of losses on sales and write-downs of other real estate owned and expenses due to the aforementioned disposition of several properties during the period. FDIC insurance expense decreased \$1.1 million attributable to lower FDIC assessment rates and a decrease in the assessment base.

## Financial Condition

Total assets as of September 30, 2017 declined to \$4.2 billion, or 11.7%, from \$4.7 billion as of September 30, 2016. Total loans were essentially flat at \$2.7 billion as of September 30, 2017 and 2016 due to the reduction of several large legacy credit relationships. Nonperforming loans increased to \$109.6 million as of September 30, 2017 from \$69.2 million at June 30, 2017 and increased \$0.2 million from \$109.4 million as of September 30, 2016. The increase of \$40.4 million in nonperforming loans from June 30, 2017 was due to one impaired commercial real estate credit relationship that was moved to nonaccrual, charged down by \$14.4 million to market value and the remaining balance of \$44.3 million was transferred to Held for Sale classification during the third quarter of 2017. Other real estate owned declined \$2.6 million from the year ago period due to the disposition of several properties during the period.

Federal Reserve Bank excess reserves declined \$547.7 million from the year ago period. This excess cash was deployed into higher yielding and diversified securities and also funded the planned decrease in high cost deposits during the past twelve months.

The securities portfolio declined \$39.6 million as of September 30, 2017 as compared to September 30, 2016 primarily due to \$73.0 million of sales in the securities portfolio to reduce credit risk in the portfolio and to take advantage of market opportunities.

Total deposits as of September 30, 2017 were \$3.7 billion as compared to \$4.3 billion as of September 30, 2016, a decline of \$549.2 million, or 12.8%. Time deposits represented the largest segment of decline in deposits with a

\$486.0 million decline year-over-year. This reduction is strategically aligned with the Bank's plan to improve the net interest margin. Noninterest bearing deposits increased by \$26.0 million, or 4.8%, to \$567.3 million as of September 30, 2017 as compared to \$541.3 million as of September 30, 2016. Noninterest bearing deposits comprised 15.2% and 12.6% of total deposits at September 30, 2017 and 2016, respectively.

The allowance for loan losses was 1.35% of total loans as of September 30, 2017 as compared to 1.17% as of September 30, 2016. The allowance for loan losses was 32.5% of nonperforming loans as of September 30, 2017 as compared to 28.3% of nonperforming loans as of September 30, 2016. In the view of management, the allowance for loan losses is adequate to meet the loss contingency based on experience factors and a review of the loan portfolio.

The Bank remains well capitalized. The Bank's Tier 1 Capital ratio increased to 12.96% as of September 30, 2017 as compared to 12.30% as of September 30, 2016. The Bank's leverage ratio was 8.99% at September 30, 2017 as compared to 8.06% in the same period of 2016. The Bank's Total Risk-Based Capital ratio was 14.18% at September 30, 2017 as compared to 13.31% at September 30, 2016.

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

(dollars in thousands, except per share data)

	September 30, 2017	June 30, 2017	September 30, 2016
<b>ASSETS</b>			
Cash and Due From Banks	\$ 77,602	\$ 91,409	\$ 75,835
Interest-Bearing Deposits in Other Financial Institutions	15,003	-	-
Federal Reserve Bank Excess Reserves	327,193	513,154	874,847
Securities, Available for Sale, at Fair Value	882,997	-	-
Securities, Held-to-Maturity, at Cost (Fair Value \$827,818 at June 30, 2017 and \$938,437 at September 30, 2016)	-	823,063	922,638
Loans Held for Sale	48,476	2,669	-
Portfolio Loans, net of Unearned Income	2,636,050	2,667,102	2,657,687
Allowance for Loan Losses	(35,645)	(36,500)	(30,993)
Portfolio Loans, net	<u>\$ 2,600,405</u>	<u>\$ 2,630,602</u>	<u>\$ 2,626,694</u>
Bank Premises and Equipment, net	94,420	94,865	96,975
Other Real Estate Owned	27,170	34,522	29,780
Goodwill	59,762	59,762	59,762
Other Intangibles	113	124	41
Other Assets	56,437	56,409	57,371
<b>TOTAL ASSETS</b>	<u><b>\$ 4,189,578</b></u>	<u><b>\$ 4,306,579</b></u>	<u><b>\$ 4,743,943</b></u>
<b>LIABILITIES</b>			
Deposits			
Noninterest-Bearing Demand	\$ 567,348	\$ 563,494	\$ 541,327
Interest-Bearing Demand	342,142	391,069	468,901
Savings	736,662	733,855	699,193
Certificates of Deposits	2,097,378	2,173,705	2,583,328
Total Deposits	<u>\$ 3,743,530</u>	<u>\$ 3,862,123</u>	<u>\$ 4,292,749</u>
Other Liabilities	5,876	4,987	12,678
<b>TOTAL LIABILITIES</b>	<u><b>\$ 3,749,406</b></u>	<u><b>\$ 3,867,110</b></u>	<u><b>\$ 4,305,427</b></u>

Common Stock, Par Value \$1.00 Per Share, Authorized 100,000,000 Shares; 26,257,761  
 outstanding in 2017 and 2016  
 Additional Paid-in-Capital  
 Accumulated Other Comprehensive Income  
 Retained Earnings

26,258	26,258	26,258
142,178	142,178	142,178
1,132	-	-
270,604	271,033	270,080
<u>\$ 440,172</u>	<u>\$ 439,469</u>	<u>\$ 438,516</u>
<u>\$ 4,189,578</u>	<u>\$ 4,306,579</u>	<u>\$ 4,743,943</u>

TOTAL SHAREHOLDERS' EQUITY

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY

PROFITABILITY RATIOS (ANNUALIZED)

Return on Average Assets	0.13%	0.22%	0.54%
Portfolio Loan to Deposit Ratio	70.42%	69.06%	61.91%
Allowance to Total Portfolio Loans	1.35%	1.37%	1.17%

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

(dollars in thousands, except per share data)

	Quarter-to-Date			Year-to-Date	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest Income	\$ 34,906	\$ 35,962	\$ 36,881	\$ 107,136	\$ 111,870
Interest Expense	9,122	9,476	11,579	28,442	35,653
<b>NET INTEREST INCOME</b>	<b>25,784</b>	<b>26,486</b>	<b>25,302</b>	<b>78,694</b>	<b>76,217</b>
Provision for Loan Losses	13,890	12,742	3,214	30,512	5,164
<b>NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES</b>	<b>11,894</b>	<b>13,744</b>	<b>22,088</b>	<b>48,182</b>	<b>71,053</b>
<b>NONINTEREST INCOME</b>					
Securities Gains, net	1,072	-	-	1,072	-
Service Charges on Deposit Accounts	588	660	686	2,257	2,431
Debit Card Fees	1,213	1,226	1,223	3,644	3,508
Insurance Fees	599	406	633	1,468	1,502
Other Real Estate Owned Income	79	97	202	285	1,057
Other	379	132	96	672	302
<b>TOTAL NONINTEREST INCOME</b>	<b>3,930</b>	<b>2,521</b>	<b>2,840</b>	<b>9,398</b>	<b>8,800</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and Employee Benefits	10,986	9,954	9,291	31,114	27,676
Occupancy Expense, net	1,643	2,044	1,997	6,793	5,972
FDIC Insurance	937	924	1,700	2,990	4,112
Professional and Legal Fees	2,910	1,404	98	3,592	289
Losses on Sales and Writedowns of Other Real Estate Owned, net	392	1,759	2,379	2,099	4,590
Debit Card Expense	518	630	651	1,767	2,057
Other Real Estate Owned Expense	54	124	116	365	1,285
Other	3,379	3,644	2,489	10,301	8,443
<b>TOTAL NONINTEREST EXPENSE</b>	<b>20,819</b>	<b>20,483</b>	<b>18,721</b>	<b>59,021</b>	<b>54,424</b>
<b>(LOSS) INCOME BEFORE INCOME TAXES</b>	<b>(4,995)</b>	<b>(4,218)</b>	<b>6,207</b>	<b>(1,441)</b>	<b>25,429</b>
Income Tax (Benefit) Provision	(4,566)	(2,735)	975	(5,831)	5,585
<b>NET (LOSS) INCOME</b>	<b>\$ (429)</b>	<b>\$ (1,483)</b>	<b>\$ 5,232</b>	<b>\$ 4,390</b>	<b>\$ 19,844</b>
Average Shares Outstanding	26,257,761	26,257,761	26,257,761	26,257,761	26,257,761
<b>PER SHARE DATA</b>					
Earnings Per Share	\$ (0.02)	\$ (0.06)	\$ 0.20	\$ 0.17	\$ 0.76
Market Value	\$ 17.05	\$ 15.50	\$ 13.15	\$ 17.05	\$ 13.15
<b>PROFITABILITY RATIOS</b>					
Net Interest Margin (FTE) <sup>2</sup>	2.77%	2.76%	2.39%	2.76%	2.39%
Core Efficiency Ratio <sup>3</sup>	59.81%	56.12%	54.29%	57.47%	54.73%

CARTER BANK & TRUST  
CONSOLIDATED SELECTED FINANCIAL DATA  
(Unaudited)

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

- 1 Pre-tax pre-provision is computed as net interest income plus noninterest income minus noninterest expense before the provision for loan losses and income tax (benefit) provision.
- 2 Net interest income has been computed on a fully taxable equivalent basis ("FTE") using the 35% federal income tax statutory rate.

Net Interest Income (FTE) (non-GAAP)	Quarter-to-Date			Year-to-Date	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
Interest Income	\$ 34,906	\$ 35,962	\$ 36,881	\$ 107,136	\$ 111,870
Interest Expense	(9,122)	(9,476)	(11,579)	(28,442)	(35,653)
Tax Equivalent Adjustment <sup>2</sup>	2,140	2,064	1,962	6,261	5,991
<b>NET INTEREST INCOME (FTE) (non-GAAP)</b>	<b>\$ 27,924</b>	<b>\$28,550</b>	<b>\$ 27,264</b>	<b>\$ 84,955</b>	<b>\$ 82,208</b>

  

<sup>3</sup> Core Efficiency Ratio (non-GAAP)	Quarter-to-Date			Year-to-Date	
	September 30, 2017	June 30, 2017	September 30, 2016	September 30, 2017	September 30, 2016
<b>NONINTEREST EXPENSE</b>	<b>\$ 20,819</b>	<b>\$20,483</b>	<b>\$ 18,721</b>	<b>\$ 59,021</b>	<b>\$ 54,424</b>
Less: One Time Regulatory and Compliance	(1,500)	(1,000)	-	(2,500)	-
Less: Losses on Sales and Writedowns of Other Real Estate Owned, net	(392)	(1,759)	(2,379)	(2,099)	(4,590)
Less: Loss on Sale of Fixed Asset, net	-	(288)	-	(288)	(44)
Less: Fixed Asset Write Off	(662)	-	-	(662)	-
<b>NET NONINTEREST EXPENSE</b>	<b>\$ 18,265</b>	<b>\$17,436</b>	<b>\$ 16,342</b>	<b>\$ 53,472</b>	<b>\$ 49,790</b>
<b>NET INTEREST INCOME</b>	<b>\$ 25,784</b>	<b>\$26,486</b>	<b>\$ 25,302</b>	<b>\$ 78,694</b>	<b>\$ 76,217</b>
Less: Securities Gains, net	(1,072)	-	-	(1,072)	-
Plus: Taxable Equivalent Adjustment	2,140	2,064	1,962	6,261	5,991
<b>NET INTEREST INCOME (FTE) (Non-GAAP)</b>	<b>\$ 26,852</b>	<b>\$28,550</b>	<b>\$ 27,264</b>	<b>\$ 83,883</b>	<b>\$ 82,208</b>
Less: Gain on Sales of Fixed Assets, net Noninterest Income	(243)	-	-	(243)	(34)
<b>NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME</b>	<b>\$ 30,539</b>	<b>\$31,071</b>	<b>\$ 30,104</b>	<b>\$ 93,038</b>	<b>\$ 90,974</b>
<b>CORE EFFICIENCY RATIO</b>	<b>59.81%</b>	<b>56.12%</b>	<b>54.29%</b>	<b>57.47%</b>	<b>54.73%</b>

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Source: Carter Bank & Trust