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

Martinsville, VA July 28, 2017 – Carter Bank & Trust (The "Bank") (OTC:CARE) today announced financial results for the six months ended June 30, 2017. Net income for the first six months of 2017 was $4.8 million, as compared to $14.6 million for the first six months of 2016. Earnings per share for the first six months of the year were $0.18 as compared to $0.56 for the same period of 2016. Pre-Tax Pre-Provision earnings were $20.2 million for the first six months of 2017 as compared to $21.2 million in the first six months of 2016.

Second Quarter and Year-to-date 2017 Financial Highlights

- Second quarter net loss of $1.5 million.
- 2017 year-to-date earnings of $4.8 million or $0.18 per share.
- Pre-Tax Pre-Provision Earnings of $20.2 million year-to-date 2017.
- Second quarter earnings impacted by provision expense of $12.7 million.
- Nonperforming Loans decreased $40.9 million year-over-year.

Litz H. Van Dyke, Chief Executive Officer of Carter Bank & Trust, commented, "The first half of 2017 was negatively impacted by a substantial increase in our provision expense. We continue to be proactive in dealing with our problem assets. Our efforts revealed impairment in several large commercial real estate relationships during the quarter which resulted in write downs on these credits. On a positive note, core earnings of the Bank remain solid as evidenced by our Pre-Tax Pre-Provision earnings of $20.2 million."

Operating Highlights

Net interest income increased $2.0 million to $52.9 million during the first six months of 2017 as compared to the same period of 2016. The increase in net interest income is primarily driven by a $4.8 million decrease in interest expense during the first six months of 2017 as compared to the same period of 2016 primarily due to the intentional runoff of higher cost certificates of deposit.

Noninterest income was $5.5 million in the first six months of 2017 as compared to $6.0 million in the first six months of 2016. Debit card income, a key component of the Bank's noninterest income improved to $2.4 million in the first six months of 2017 as compared to $2.3 million in 2016.

Total noninterest expense increased 7% in the first six months of 2017 to $38.2 million as compared to $35.7 million in the first six months of 2016. Several factors contributed to this increase including an increase in salaries and employee benefits of $1.7 million and an increase in occupancy expense of $1.2 million. These increases were expected and planned as investments are made in the appropriate infrastructure to support the company in the future.

Financial Condition

Total assets as of June 30, 2017 were $4.3 billion, down from $4.9 billion as of June 30, 2016, a decline of 12.21%. Total loans were essentially flat at $2.7 billion as of June 30, 2017 and 2016. Nonperforming loans decreased to $69.2 million as of June 30, 2017 from $110.2 million as of June 30, 2016. This represents a decline of $40.9 million, or 37%, in nonperforming loans.

The investment portfolio declined $0.6 billion to $1.3 billion as of June 30, 2017 as compared to $1.9 billion as of June 30, 2016. The largest component of the runoff in this portfolio was in FRB excess reserves at $424 million. This helped fund the planned decrease in high cost funding during the past twelve months.

Total deposits as of June 30, 2017 were $3.9 billion as compared to $4.5 billion as of June 30, 2016, a decline of $596 million or 13.36%. Time deposits represented the largest segment of decline in deposits with a $515 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 $42.2 million, or 8.10%, to $563.5 million as of June 30, 2017 as compared to $521.3 as of June 30, 2016.

The Allowance for Loan Losses ("ALLL") was 1.37% of total loans as of June 30, 2017 as compared to 1.04% as of June 30, 2016. The ALLL was 52.7% of nonperforming loans as of June 30, 2017 as compared to 25.4% of nonperforming loans as of June 30, 2016. These strong reserves allow the Bank to more effectively address any potential impairment within the loan portfolio.

The Bank remains well capitalized. The Bank's Tier 1 Capital ratio increased to 12.79% as of June 30, 2017 as compared to 11.82% as of June 30, 2016. The Bank's leverage ratio was 8.78% at June 30, 2017 as compared to 7.71% in the same period of 2016. The Bank's Total Risk-Based Capital ratio was 14.01% at June 30, 2017 as compared to 12.70% at June 30, 2016.