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NEWS RELEASE

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FOR IMMEDIATE RELEASE

The Bank of Fincastle Announces Results of Operations for the Fourth Quarter of 2017

FINCASTLE, Va. – February 1, 2018 – The Bank of Fincastle [SYMBOL: BFTL] announced today its quarterly financial report for the fourth quarter of 2017. For the quarter ended December 31, 2017, the Bank had an unaudited net loss of \$991,000, compared to the fourth quarter of 2016 net loss of \$3,934,000.

The net loss of \$991,000 was primarily due to the enactment of the Tax Cuts and Jobs Act (Tax Reform) signed into law at the end of 2017. Excluding the impact of the Tax Reform, quarterly net income would have been \$366,000, as compared to net losses of \$3,934,000 in the fourth quarter of 2016.

“We have made excellent progress since 2015 and I am optimistic about the future,” said Scott Steele, The Bank of Fincastle, President and CEO. “Our loan portfolio quality is improving and we continue to focus on building our core deposits. We value the loyalty of our customers, shareholders and employees who continue to stand with us.”

Key Highlights

- Net Loss of \$991,000
- Excluding the Estimated Impact of Tax Reform, Net Income of \$366,000
- Asset quality has improved
- Increase in Net Interest Income
- Well Capitalized

Revenue

Total core revenue for the three months ended December 31, 2017 was up 8.26% to \$2.04 million, from \$1.88 million in the fourth quarter of 2016. Higher core revenues reflected increases in both interest income from the loan portfolio and non-interest income sources, excluding gains on sales of other real estate, gains on sales of other assets, and income from subsidiaries. Growth in commercial lines and loans, commercial real estate loans, personal lines and loans, as well as non-interest income from interchange fees contributed to the increase in total revenue.

Net Interest Income

Net interest income was \$1.54 million for the three months ended December 31, 2017 compared to \$1.41 million for the three months ended December 31, 2016. This is an increase of \$126,000 or 8.9%. The increase in net interest income continues to be directly associated with the Bank's continued loan growth.

Noninterest Income

Core non-interest income decreased 7.61% to \$206,000 for the three months ended December 31, 2017 vs. \$223,000 during the same period of 2016. The primary change in non-interest income resulted from a decrease in rental income from bank-owned real estate.

Noninterest Expense

Non-interest expense was \$2 million for the three months ended December 31, 2017 compared to \$1.82 million for the three months ended December 31, 2016. Non-interest expense increased primarily due to legal and audit fees. Personnel expense was at \$827,000 for the three months ended December 31, 2017 compared to \$805,000 for the three months ended December 31, 2016. The Bank had \$205,000 in OREO losses for the three months ended December 31, 2017, as compared to \$950,000 for the three months ending December 31, 2016.

Balance Sheet

At December 31, 2017, The Bank of Fincastle total assets were \$200.77 million compared to \$206.40 million at December 31, 2016. Total loans were \$140.16 million at December 31, 2017 compared to \$121.68 million at December 31, 2016. Core Deposits were \$173.46 million at December 31, 2017 compared to \$190.36 million at December 31, 2016.

Loans

Loans increased 14.41% or \$18.03 million to \$143.13 million over the twelve months ended December 31, 2017. Overall loan growth was driven by commercial real estate, commercial and industrial lines, and term loans, as well as consumer lines and loans.

Deposits

Total core deposits were up \$1.72 million or 1.00% for the last quarter, while the core decreased \$16.90 million during the twelve months ended December 31, 2017. The decrease was due to negative publicity regarding the financial performance of the bank prior to the capital raise.

Capital

The Bank of Fincastle's total capital ratios, common equity tier 1 capital, total risk-based capital, tier 1 risk-based capital and tier 1 leverage ratios were 15.29%, 16.56%, 15.29%, and 12.02%, respectively. All ratios continue to exceed the current regulatory standards for well-capitalized institutions. During the fourth Quarter of 2017 the stock closed as high as \$2.35 with an average close of \$2.15.

Asset Quality

Asset quality has improved. Nonperforming assets as of December 31, 2017 totaled \$9.73 million compared to \$11.25 million as of December 31, 2016. The Bank of Fincastle had \$4.11 million in nonaccrual loans as of December 31, 2017 compared to \$5.45 million in nonaccrual loans as of December 31, 2016. Other real estate owned totaled \$5.62 million at the end of the fourth quarter 2017 compared to \$5.37 million at the end of the fourth quarter 2016. At the end of the fourth quarter of 2017, The Bank of Fincastle had two OREO properties under contract totaling \$1.57 million.

Nonperforming Assets

OREO balances increased \$249,000 or 4.64% during 2017 and decreased \$1.33 million or 19.11% in the fourth quarter. This resulted in a decline in non-performing assets, excluding performing restructured loans, to 4.85% of total assets at December 31, 2017 vs. 5.66% at December 31, 2016. Non-performing assets, including restructured loans, were also down from 5.66% of total assets at December 31, 2016 to 5.21% at December 31, 2017.

Past Due and Nonaccrual Loans

Nonperforming loans, excluding performing, restructured loans, of \$4.85 million were 2.87% of total loans at December 30, 2017 vs. \$5.88 million or 4.70% of total loans at December 30, 2016. Past due accruing loans amounted to 0.31% of total loans at December 30, 2017 vs 0.61% in 2016 while nonaccruals decreased to 2.87% of total loans during the fourth quarter of 2017 from 4.35% of total loans at December 30, 2016. Net charge-offs to average loans outstanding at December 30, 2017 were 0.00% for the quarter and 0.36% for the twelve months of 2017 vs. 2.27% and 5.33% in 2016.

Allowance for Loan Losses

The Bank's allowance for loan losses amounted to \$2.97 million or 2.07% of total loans at December 31, 2017 vs. \$3.42 million and 2.73% of total loans at December 31, 2016.

Below are the financial highlights for comparison:

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars, except share and per share data)

	(Unaudited)	(Audited)
	<u>December 31, 2017</u>	<u>December 31, 2016</u>
ASSETS		
Cash and due from banks	\$3,725	\$5,034
Interest-bearing deposits with banks	3,235	4,607
Federal funds sold	1,088	80

Investment securities held to maturity	-	51,202
Investment securities available for sale	30,659	-
Restricted investment securities	241	251
Loans held for sale	10,073	735
Loans, net of allowance for loan losses of \$2,968 at 2017 and \$3,420 at 2016	130,087	120,948
Premises and equipment, net	5,808	6,488
Accrued interest receivable	555	410
Other real estate owned	5,623	5,801
Other assets	<u>9,676</u>	<u>10,844</u>
Total assets	<u><u>\$200,770</u></u>	<u><u>\$206,400</u></u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Deposits

Noninterest-bearing demand deposits	\$59,420	\$63,922
Interest-bearing deposits	<u>114,037</u>	<u>126,436</u>
Total deposits	173,457	190,358
Accrued interest payable	59	61
Federal funds purchased	-	-
Other liabilities	<u>2,660</u>	<u>825</u>
Total liabilities	<u><u>176,176</u></u>	<u><u>191,244</u></u>

Stockholders' equity

Common stock, \$0.04 par value; 10,000,000 shares
authorized, 9,999,999 shares at 2017 and

2,281,915 shares at 2016, issued and outstanding

Surplus

400

91

18,119

5,058

Retained earnings	6,075	10,007
	<u>24,594</u>	<u>15,156</u>
Total stockholders' equity		
	<u>\$200,770</u>	<u>\$206,400</u>
Total liabilities and stockholders' equity		

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME (LOSS)
(In thousands of dollars, except share and per share data)

	(Unaudited) December 31, 2017	(Audited) 3 Months Ended December 31, 2016
INTEREST INCOME		
Interest and fees on loans	\$1,695	\$1,532
Interest on investment securities, taxable	128	85
Interest on investment securities, tax-exempt	-	1
Interest - other	<u>7</u>	<u>40</u>
Total interest income	1,830	1,658
INTEREST EXPENSE		
Interest on deposits	160	181
Other interest expense	<u>8</u>	<u>-</u>
Total interest expense	168	181
Net interest income	1,662	1,477
PROVISION FOR LOAN LOSSES	<u>-</u>	<u>3,117</u>
Net interest income after provision for loan losses	<u>1,662</u>	<u>(1,640)</u>
NONINTEREST INCOME		
Service fees	46	51
Rental income	42	56

Bank card and credit card interchange fees	87	79
Other income	<u>370</u>	<u>80</u>
Total noninterest income	<u>545</u>	<u>266</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	827	805
Occupancy and equipment	171	146
Data processing expenses	325	290
Legal and professional fees	175	79
Postage, stationery and supplies	30	28
Real estate and other taxes	46	51
FDIC insurance assessment	59	93
Losses on other real estate owned	(173)	950
Realized losses on available-for-sale securities	20	-
Expenses of adversely classified items	238	199
Other expenses	<u>130</u>	<u>128</u>
Total noninterest expense	<u>1,848</u>	<u>2,769</u>
LOSS BEFORE INCOME TAXES	<u>359</u>	<u>(4,143)</u>
INCOME TAX (EXPENSE) BENEFIT		
Current	67	(9)
Deferred	<u>(1,414)</u>	<u>219</u>
Total income tax (expense) benefit	<u>(1,347)</u>	<u>210</u>
NET LOSS	<u><u>\$(988)</u></u>	<u><u>\$(3,933)</u></u>
Per share data:		
Book Value of Stock per Share	2.46	6.64
Loss per share	<u><u>\$(0.10)</u></u>	<u><u>\$(1.72)</u></u>

About The Bank of Fincastle

The Bank of Fincastle has been a leading financial services provider for consumers and small businesses since 1875, and offers a full range of banking, lending and investment products. Headquartered in Fincastle, Virginia, the bank has six full-service branches, thirteen ATM locations, three 7 am to 7 pm drive through locations and offers online banking, mobile banking, 24/7 telephone banking and online real estate applications. To reach one of our professionals visit www.bankoffincastle.bank or call 540-473-2761. The Bank of Fincastle is a Member FDIC, Equal Housing Lender and Equal Opportunity Employer.

For additional information, please contact Michael Jasper (Chief Financial Officer) or Scott Steele (President and CEO) at 540-473-2761 or visit us online at <https://www.bankoffincastle.bank/investor-relations/>

Information in this press release may contain forward-looking statements that might involve risks and uncertainties that could cause actual results to differ materially. These risks and uncertainties include without limitation, the effects of future economic conditions, governmental fiscal and monetary policies, legislative and regulatory changes, and changes in interest rates.

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