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## NEWS RELEASE

July 31, 2018

FOR IMMEDIATE RELEASE

### **The Bank of Fincastle Announces Second Quarter Earnings for 2018**

FINCASTLE, VA – July 30, 2018 – The Bank of Fincastle [SYMBOL: BFTL] has announced its 2018 second quarter financial report and is pleased to report unaudited net income of \$226,171 for the quarter ended June 30, 2018. This is a considerable improvement when compared to the second quarter 2017 net income of \$17,682.

“We are gaining momentum,” said Scott Steele, President and CEO. “Our second quarter earnings reflect the outstanding job our employees have done thus far in 2018. In addition to improving our earnings, we developed and implemented several new product features such as Mobile Deposit, Business Mobile Banking and a rewards program for our debit card users called UChoose Rewards. We also added the ability to apply for Home Equity Lines and Mortgages online.”

In addition to a positive net income for the quarter, other key highlights include an increase in total assets by \$3,213,000 and an increase in total deposits by \$2,682,000 since December 31, 2017. Asset quality continues to improve with total nonperforming assets being reduced by 12% during the past twelve months. Net interest income has improved as the Bank continues to increase its loan portfolio.

The Bank’s strong capital position exceeds the BASEL III capital requirements. As of June 30, 2018 The Bank of Fincastle reported total capital of 16.33% and tier 1 leverage capital of 11.86%. Both common equity tier 1 and tier 1 capital ratios were 15.06%.

### **Key Highlights**

- The bank has achieved two profitable quarters in a row with the 2nd quarter net income representing an improvement of 18.78% over the first quarter net income of \$190,406.
- For the first 6 months of the year, we have achieved a Return on Average Assets of 0.45% and Return on Average Equity 3.68%.
- Asset quality continues to improve.

Quarter end 30-89 day delinquencies are 0.16% of the portfolio vs. 0.52% on 6/30/2017.

Nonaccrual loans are 2.35% of the loan portfolio, an improvement from 3.02% on 6/30/2017.

OREO as a percentage of total assets has improved from 3.13% at 6/30/2017 to 2.00% at 6/30/2018.

- Our net interest margin, a key measure which reflects the difference between interest income earned and interest expense paid relative to the bank's interest-earning assets, has improved to 3.93% versus 3.37% the same quarter last year.
- Non-interest expense to average assets continues its dramatic improvement as the bank is able to reduce its expenses related to past asset quality issues. At 6/30/2018 non-interest expense to average assets was 3.53% vs. 5.45% on 6/30/2017.
- The bank is seeing steady growth for total assets and total loans. Annualized net growth for total assets was 3.26% and annualized net growth for loans was 4.81%.
- The bank continues to exceed capital requirements.

### **Revenue**

Total core revenue for the three months ended June 30, 2018 was up 18.26% to \$2.20 million, from \$1.86 million in the second quarter of 2017. 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 \$1.79 million for the three months ended June 30, 2018 compared to \$1.49 million for the three months ended June 30, 2017. This is an increase of \$299,000 or 20.12%. The increase in net interest income continues to be directly associated with the Company's continued loan growth.

### **Noninterest Income**

Core non-interest income decreased 7.61% to \$243,000 for the three months ended June 30, 2018 versus \$263,000 during the same period of 2017. The primary change in non-interest income resulted from a decrease in earnings from subsidiaries, including the subsidiary business that held the foreclosed property known as Ashley Plantation Golf and Country Club which subsequently sold in the first quarter of 2018.

### **Noninterest Expense**

Non-interest expense was \$1.75 million for the three months ended June 30, 2018 compared to \$1.72 million for the three months ended June 30, 2017. Non-interest expense increased primarily due to expenses associated with the implementation fees for new services. Personnel expense was \$862,000 for the three months ended June 30, 2018 compared to \$831,000 for the three months ended June 30, 2017. The bank had \$1,000 in OREO net losses for the three months ended June 30, 2018 as compared to net gains of \$34,000 for the three months ending June 30, 2017.

## **Balance Sheet**

At June 30, 2018, The Bank of Fincastle total assets were \$203.91 million compared to \$193.01 million at June 30, 2017. Net loans were \$141.37 million at June 30, 2018 compared to \$117.52 million at June 30, 2017. Core Deposits were \$176.14 million at June 30, 2018 compared to \$177.50 million at June 30, 2017.

## **Loans**

Loans increased 20.30% or \$23.85 million to \$141.37 million over the twelve months ended June 30, 2018. Overall loan growth was driven by commercial real estate, commercial and industrial lines and term loans as well as consumer lines and loans.

## **Deposits**

At June 30, 2018 total core deposits increased \$2.68 million or 1.55% since December 31, 2017, while the core decreased \$1.37 million during the twelve months ended June 30, 2018. The deposit decrease in 2017 was due to a May 2017 article in the Roanoke Times regarding the financial condition of the Bank.

## **Capital**

The Bank of Fincastle's capital ratios: Common equity tier 1 capital was 15.06%, Total risk-based capital was 16.33%, Tier 1 risk-based capital was 15.06% and the Tier 1 leverage ratio was 11.86%. All ratios continue to exceed the current regulatory standards for well-capitalized institutions.

During the second quarter of 2018 the stock closed as high as \$2.40. The Bank's book value per share was \$2.47 on 6/30/2018.

## **Asset Quality**

Nonperforming assets as of June 30, 2018 totaled \$9.16 million compared to \$10.45 million as of June 30, 2017. The Bank of Fincastle had \$4.36 million in nonaccrual loans as of June 30, 2018 compared to \$3.65 million in nonaccrual loans as of June 30, 2017. Other real estate owned totaled \$4.07 million at the end of the second quarter 2018 compared to \$6.80 million at the end of the second quarter 2017.

## **Nonperforming Assets**

OREO balances decreased \$2.73 million or 40.2% during the twelve months ended June 30, 2018. This resulted in a decline in non-performing assets, excluding performing restructured loans, to 4.23% of total assets at June 30, 2018 versus 5.41% at June 30, 2017. Non-performing assets, including restructured loans, were also down from 7.23% of total assets at June 30, 2017 to 5.16% at June 30, 2018.

## **Past Due and Nonaccrual Loans**

Nonperforming loans, excluding performing, restructured loans, of \$4.36 million were 3.02% of total loans at June 30, 2018 versus \$3.65 million or 3.02% of total loans at June 30, 2017. Past due accruing loans amounted to 0.16% of total loans at June 30, 2018 versus 0.52% in 2017 while nonaccruals remained stable at 3.02% of total loans at June 30, 2018 and 2017. Net charge-offs to average loans outstanding at June 30, 2018 were -0.16% for the quarter versus 0.24% for the quarter ended June 30, 2017.

**Allowance for Loan Losses**

The Company's Allowance for Loan Losses amounted to \$3.08 million or 2.13% of total loans at June 30, 2018 versus \$3.28 million and 2.71% of total loans at June 30, 2017.

Below are the following financial highlights for comparison:

THE BANK OF FINCASTLE AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS

	<u>(Unaudited)</u> <b>June 30, 2018</b>	<u>(Unaudited)</u> <b>June 30, 2017</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 2,798,681	\$ 3,810,469
Interest-bearing deposits with banks	7,620,328	11,630,169
Federal funds sold	92,000	76,000
Investment securities held to maturity	-	34,231,316
Investment securities available for sale	32,253,044	-
Restricted investment securities	235,450	240,650
Loans held for sale	75,905	-
Loans, net of allowance for loan losses of \$3,083,417 at 2018 and \$3,276,272 at 2017	141,294,677	117,519,518
Premises and equipment, net	5,286,617	6,367,948
Accrued interest receivable	534,579	417,417
Other real estate owned	4,069,354	6,798,949
Other assets	9,645,369	11,921,942
	<b>\$ 203,906,005</b>	<b>\$ 193,014,378</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing demand deposits	\$ 62,919,411	\$ 60,966,565
Interest-bearing deposits	113,219,665	116,537,627
	176,139,077	177,504,192
Accrued interest payable	79,180	56,185
Federal funds purchased	-	-
Reserve for losses on letters of credit	1,572,202	1,937,500
Other liabilities	1,387,337	829,120
	179,177,796	180,326,996
Stockholders' equity		
Common stock, \$0.04 par value; 10,000,000 shares authorized, 9,999,999 shares at 2018 and 2,281,915 shares at 2017, issued and outstanding	400,000	91,277
Surplus	18,119,152	5,057,723
Retained earnings	6,786,424	7,538,382
Accumulated other comprehensive income (loss)	(577,367)	-
	24,728,209	12,687,381
	<b>\$ 203,906,005</b>	<b>\$ 193,014,378</b>

THE BANK OF FINCASTLE AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	(Unaudited)	(Unaudited)
	<b>3 Months Ended</b>	
	<b>June 30, 2018</b>	<b>June 30, 2017</b>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 1,812,492	\$ 1,473,881
Interest on investment securities, taxable	132,680	124,561
Interest on investment securities, tax-exempt	-	1,526
Interest - other	30,385	46,075
Total interest income	1,975,557	1,646,043
<b>INTEREST EXPENSE</b>		
Interest on deposits	190,143	159,636
Other interest expense	-	-
Total interest expense	190,143	159,636
Net interest income	1,785,414	1,486,407
<b>PROVISION FOR LOAN LOSSES</b>		
Net interest income after provision for loan losses	1,785,414	1,486,407
<b>NONINTEREST INCOME</b>		
Service fees	35,019	36,345
Rental income	42,000	44,800
Debit and credit card fees	103,017	93,407
Other income	63,279	88,816
Total noninterest income	243,315	263,368
<b>NONINTEREST EXPENSE</b>		
Salaries and employee benefits	861,672	831,714
Occupancy and equipment	208,262	182,954
Data processing expenses	356,169	280,042
Legal and professional fees	103,829	129,654
Postage, stationery and supplies	21,457	21,841
FDIC insurance assessment	10,773	97,795
Losses (gains) on other real estate owned	965	(34,012)
Expenses of adversely classified items	17,637	59,809
Other expenses	165,990	154,564
Total noninterest expense	1,746,754	1,724,361
<b>INCOME (LOSS) BEFORE INCOME TAXES</b>	281,975	25,414
<b>INCOME TAX EXPENSE (BENEFIT)</b>		
Current	2,500	7,732
Deferred	53,304	-
Total income tax expense (benefit)	55,804	7,732
<b>NET INCOME (LOSS)</b>	\$ 226,171	\$ 17,682

For additional information, please contact Scott Steele, President and CEO at 540-473-2761.

### **About The Bank of Fincastle**

The Bank of Fincastle has been a leading financial services provider in the Roanoke region 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](http://www.bankoffincastle.bank) or call 540-473-2761. The Bank of Fincastle is a Member FDIC, Equal Housing Lender and Equal Opportunity Employer.

*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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