
NEWS RELEASE

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The Bank of Fincastle Announces Third Quarter Earnings for 2018

FINCASTLE, VA – October 31, 2018 – The Bank of Fincastle [SYMBOL: BFTL] has announced its 2018 third quarter financial report and is pleased to report unaudited net income of \$237,833 for the quarter ended September 30, 2018. This is a considerable improvement when compared to the third quarter 2017 net loss of \$96,335.

“Our third quarter positive earnings report reflects the continued improvement in our asset quality, non-interest expense reduction, balance sheet management and operational efficiencies,” said Scott Steele, President and CEO of The Bank of Fincastle. Steele added, “Our non-interest income is much improved and is driven primarily by the gains on the sale of foreclosure properties and structural changes made to our mortgage company, Colonial Mortgage. Today we have Colonial Mortgage loan originators in three of our branch locations in Fincastle, Daleville and Troutville. We also relocated Colonial Mortgage processing and back office operations to our corporate offices in downtown Fincastle.”

Key highlights include an increase in total assets by \$2,008,958 and an increase in total deposits by \$1,191,888, since December 31, 2017. Asset quality continues to improve with total nonperforming assets being reduced by 38% during the past twelve months. Net interest income has improved as the Bank continues to grow its loan portfolio.

The Bank’s strong capital position exceeds the BASEL III capital requirements. As of September 30, 2018 The Bank of Fincastle reported total capital of 16.53% and tier 1 leverage capital of 12.05%. Both common equity tier 1 and tier 1 capital ratios were 15.26%.

Key Highlights

- The Bank has achieved three profitable quarters in a row.
- Increase in total assets by \$2,008,958 and an increase in total deposits by \$1,191,888, since December 31, 2017
- For the first 9 months of the year, the Bank has achieved a Return on Average Assets of 0.43% and Return on Average Equity 3.51%.
- Asset quality continues to improve.
 - Quarter end 30-89 day delinquencies are 0.37% of the portfolio vs. 0.62% on 9/30/2017.
 - Nonaccrual loans are 2.64% of the loan portfolio, an improvement from 3.68% on 9/30/2017.
 - OREO as a percentage of total assets has improved from 3.46% at 9/30/2017 to 1.58% at 9/30/2018.
- Quarterly non-interest income was \$415,487, an improvement of 64.88% from the same quarter last year. Non-interest income has improved as our subsidiary businesses Colonial Title Company, LLC and Colonial Mortgage Company, LLC had strong quarterly results.

- Quarterly non-interest expense was \$1.85 million for the three months ended September 30, 2018 compared to \$1.90 million for the three months ended September 30, 2017. Non-interest expense decreased primarily due to reduced expenses associated with nonperforming loans. The bank had \$123,000 in OREO net losses for the three months ended September 30, 2018 as compared to net gains of \$896,000 for the three months ending September 30, 2017.
- The bank continues to exceed capital requirements.

Revenue

Total core revenue for the three months ended September 30, 2018 was up 12.63% to \$2.18 million, from \$1.94 million in the third 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 \$1.72 million for the three months ended September 30, 2018 compared to \$1.55 million for the three months ended September 30, 2017. This is an increase of \$164,578 or 10.59%. The increase in net interest income continues to be directly associated with the Company's continued loan growth.

Noninterest Income

Core non-interest income increased 64.88% to \$415,487 for the three months ended September 30, 2018 versus \$251,991 during the same period of 2017. The primary change in non-interest income resulted from gains on the sale of other assets.

Noninterest Expense

Non-interest expense was \$1.85 million for the three months ended September 30, 2018 compared to \$1.90 million for the three months ended September 30, 2017. Non-interest expense decreased primarily due to reduced expenses related to nonperforming assets. The bank had \$122,890 in OREO net losses for the three months ended September 30, 2018 as compared to net gains of \$896,017 for the three months ending September 30, 2017.

Balance Sheet

At September 30, 2018, The Bank of Fincastle total assets were \$202.70 million compared to \$200.69 million at September 30, 2017. Net loans were \$143.49 million at September 30, 2018 compared to \$138.05 million at September 30, 2017. Total Deposits were \$174.65 million at September 30, 2018 compared to \$173.46 million at September 30, 2017.

Loans

Loans increased 3.94% or \$5.45 million to \$143.49 million over the nine months ended September 30, 2018. Overall loan growth was driven by commercial real estate and residential real lines and term loans.

Deposits

At September 30, 2018 total deposits increased \$1.19 million or 0.69% since December 31, 2017. During the twelve months ended September 30, 2018 deposits increased \$2.91 million. Deposit growth was driven by noninterest-bearing deposit accounts and interest-bearing time deposits.

Capital

The Bank of Fincastle's capital ratios: Common equity tier 1 capital was 15.26%, Total risk-based capital was 16.53%, Tier 1 risk-based capital was 15.26% and the Tier 1 leverage ratio was 12.05%. All ratios continue to exceed the current regulatory standards for well-capitalized institutions.

During the third quarter of 2018 the stock closed as high as \$2.65. The Bank's book value per share was \$2.50 on September 30, 2018.

Asset Quality

Nonperforming assets as of September 30, 2018 totaled \$9.24 million compared to \$14.99 million as of September 30, 2017. The Bank of Fincastle had \$3.88 million in nonaccrual loans as of September 30, 2018 compared to \$4.85 million in nonaccrual loans as of September 30, 2017. Other real estate owned totaled \$3.21 million at the end of the third quarter 2018 compared to \$6.95 million at the end of the third quarter 2017.

Nonperforming Assets

OREO balances decreased \$3.74 million or 53.85% during the twelve months ended September 30, 2018. This resulted in a decline in non-performing assets, excluding performing restructured loans, to 3.59% of total assets at September 30, 2018 versus 5.90% at September 30, 2017. Non-performing assets, including restructured loans, were also down from 7.46% of total assets at September 30, 2017 to 4.56% at September 30, 2018.

Past Due and Nonaccrual Loans

Nonperforming loans, excluding performing, restructured loans, of \$4.07 million were 2.78% of total loans at September 30, 2018 versus \$4.91 million or 3.72% of total loans at September 30, 2017. Past due accruing loans amounted to 0.37% of total loans at September 30, 2018 versus 0.66% in 2017 while nonaccruals decreased to 2.64% of total loans at September 30, 2018 from 3.68% at September 30, 2017. Net charge-offs to average loans outstanding at September 30, 2018 were 0.12% for the quarter versus 0.99% for the quarter ended September 30, 2017.

Allowance for Loan Losses

The Company's Allowance for Loan Losses amounted to \$3.04 million or 2.07% of total loans at September 30, 2018 versus \$2.97 million and 2.25% of total loans at September 30, 2017.

Below are the following financial highlights for comparison:

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	<u>(Unaudited)</u> September 30, 2018	<u>(Audited)</u> December 31, 2017
ASSETS		
Cash and due from banks	\$ 3,724,648	\$ 3,724,989
Interest-bearing deposits with banks	4,469,814	3,234,718
Federal funds sold	126,000	1,088,000
Investment securities held to maturity	-	-
Investment securities available for sale	32,194,685	32,707,371
Restricted investment securities	235,450	240,550
Loans held for sale	60,000	-
Loans, net of allowance for loan losses of \$3,037,918 at 2018 and \$2,967,670 at 2017	143,492,598	138,047,309
Premises and equipment, net	5,110,187	5,808,484
Accrued interest receivable	561,405	554,791
Other real estate owned	3,207,854	5,623,193
Other assets	9,519,431	9,663,709
Total assets	<u>\$ 202,702,072</u>	<u>\$ 200,693,114</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand deposits	\$ 60,856,653	\$ 59,420,025
Interest-bearing deposits	113,792,228	114,036,968
Total deposits	174,648,880	173,456,992
Accrued interest payable	87,048	59,443
Federal funds purchased	-	-
Reserve for losses on letters of credit	1,571,358	1,768,307
Other liabilities	1,396,351	896,520
Total liabilities	<u>177,703,638</u>	<u>176,181,262</u>
Stockholders' equity		
Common stock, \$0.04 par value; 10,000,000 shares authorized, 9,999,999 shares at 2018 and 9,999,999 shares at 2017, issued and outstanding	400,000	400,000
Surplus	18,119,152	18,119,152
Retained earnings	7,024,256	6,369,845
Accumulated other comprehensive income (loss)	(544,974)	(377,145)
Total stockholders' equity	<u>24,998,434</u>	<u>24,511,852</u>
Total liabilities and stockholders' equity	<u>\$ 202,702,072</u>	<u>\$ 200,693,114</u>

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

	(Unaudited)	(Unaudited)
	3 Months Ended	
	September 30, 2018	September 30, 2017
INTEREST INCOME		
Interest and fees on loans	\$ 1,766,513	\$ 1,544,837
Interest on investment securities, taxable	131,694	122,817
Interest on investment securities, tax-exempt	-	680
Interest - other	28,048	46,036
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Total interest income	1,926,255	1,714,370
INTEREST EXPENSE		
Interest on deposits	\$ 207,751	\$ 160,444
Other interest expense	-	-
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Total interest expense	207,751	160,444
Net interest income	1,718,504	1,553,926
PROVISION FOR LOAN LOSSES		
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Net interest income after provision for loan losses	1,718,504	1,553,926
NONINTEREST INCOME		
Service fees	33,772	40,517
Rental income	40,100	43,200
Bank card and credit card interchange fees	108,449	92,848
Other income	233,166	75,426
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Total noninterest income	415,487	251,991
NONINTEREST EXPENSE		
Salaries and employee benefits	881,273	817,152
Occupancy and equipment	199,653	162,906
Data processing expenses	332,235	310,087
Legal and professional fees	67,661	127,274
Postage, stationery and supplies	21,541	43,675
FDIC insurance assessment	22,606	87,500
Losses (gains) on other real estate owned	122,890	(896,017)
Expenses of adversely classified items	40,257	1,072,137
Other expenses	157,317	172,538
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Total noninterest expense	1,845,433	1,897,252
INCOME (LOSS) BEFORE INCOME TAXES	<hr/>	<hr/>
	288,558	(91,335)
INCOME TAX EXPENSE (BENEFIT)		
Current	-	5,000
Deferred	50,725	-
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Total income tax expense (benefit)	50,725	5,000
NET INCOME (LOSS)	<hr/> <hr/>	<hr/> <hr/>
	\$ 237,833	\$ (96,335)

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 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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