



News Release for Immediate Release

The Bank of Fincastle Announces Year End Earnings for 2018

FINCASTLE, VA – January 29, 2019 – The Bank of Fincastle [SYMBOL: BFTL] has announced its 2018 year-end financial report and is pleased to report unaudited net income of \$221,672 for the quarter ended December 31, 2018. This is a considerable improvement when compared to the fourth quarter 2017 net loss of \$1,072,204.

“Our strategies for growth continue to demonstrate success and we are happy to report The Bank of Fincastle earned a profit each quarter in 2018,” said Scott Steele, President and CEO. “Net income for 2018 was \$875,000, a dramatic improvement of more than \$4.5 million when compared to 2017. We continue to generate positive outcomes with our asset quality control initiatives. For the first time since 2013, the Bank’s non-performing assets to total assets ratio is now less than four percent.”

Key highlights include an increase in total assets of \$6,424,328 and an increase in total deposits of \$5,654,941, since December 31, 2017. Asset quality continues to improve with total nonperforming assets being reduced by 44% 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 December 31, 2018 The Bank of Fincastle reported total capital of 16.17% and tier 1 leverage capital of 11.89%. Both common equity tier 1 and tier 1 capital ratios were 14.91%.

Key Highlights

- The Bank has achieved four profitable quarters in a row.
- Increase in total assets by \$6,424,328 and an increase in total deposits by \$5,654,941, since December 31, 2017
- For the year, the Bank has achieved a Return on Average Assets of 0.43% and Return on Average Equity 3.48%.
- Asset quality continues to improve.
 - Quarter-end 30-89 day delinquencies are 0.34% of the portfolio vs. 0.32% on 12/31/2017.
 - Nonaccrual loans are 2.00% of the loan portfolio, an improvement from 2.91% on 12/31/2017.
 - OREO as a percentage of total assets has improved from 2.80% at 12/31/2017 to 1.02% at 12/31/2018.
- Quarterly non-interest income was \$261,048, down 9.00% from the same quarter last year. Non-interest income declined as management reorganized a subsidiary company and implemented a new merchant credit card program to increase noninterest income.
- Quarterly non-interest expense was \$1.64 million for the three months ended December 31, 2018 compared to \$1.61 million for the three months ended December 31, 2017. Non-interest expense increased primarily due to expenses

associated with nonperforming assets. The bank had \$64,600 in OREO net losses for the three months ended December 31, 2018 as compared to net gains of \$407,007 for the three months ending December 31, 2017.

- The bank continues to exceed capital requirements.

Revenue

Total core revenue for the three months ended December 31, 2018 was up 15.51% to \$2.30 million, from \$1.99 million in the fourth 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 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 and secondary-market mortgage loan origination fees contributed to the increase in total revenue.

Net Interest Income

Net interest income was \$1.81 million for the three months ended December 31, 2018 compared to \$1.60 million for the three months ended December 31, 2017. This is an increase of \$210,607 or 13.16%. 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 9.00% to \$261,048 for the three months ended December 31, 2018 versus \$286,881 during the same period of 2017. The primary change in non-interest income resulted from income from subsidiaries.

Noninterest Expense

Non-interest expense was \$1.64 million for the three months ended December 31, 2018 compared to \$1.61 million for the three months ended December 31, 2017. Non-interest expense increased primarily due to reduced expenses related to nonperforming assets. The bank had \$64,600 in OREO net losses for the three months ended December 31, 2018 as compared to net gains of \$407,007 for the three months ending December 31, 2017.

Balance Sheet

At December 31, 2018, The Bank of Fincastle total assets were \$207.12 million compared to \$200.69 million at September 30, 2017. Net loans were \$148.82 million at December 31, 2018 compared to \$138.05 million at December 31, 2017. Total Deposits were \$179.11 million at December 31, 2018 compared to \$173.46 million at December 31, 2017.

Loans

Loans increased 7.80% or \$10.77 million to \$148.82 million over the twelve months ended December 31, 2018. Overall loan growth was driven by commercial real estate and residential real estate lines and term loans.

Deposits

At December 31, 2018 total deposits increased \$6.42 million or 3.26% since December 31, 2017. Deposit growth was driven by local noninterest-bearing deposit accounts and interest-bearing time deposits.

Capital

The Bank of Fincastle's capital ratios: Common equity tier 1 capital was 14.90%, Total risk-based capital was 16.17%, Tier 1 risk-based capital was 14.90% and the Tier 1 leverage ratio was 11.89%. 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 \$2.69. The Bank's book value per share was \$2.53 on December 31, 2018.

Asset Quality

Nonperforming assets as of December 31, 2018 totaled \$7.10 million compared to \$12.70 million as of December 31, 2017. The Bank of Fincastle had \$3.04 million in nonaccrual loans as of December 31, 2018 compared to \$4.11 million in nonaccrual loans as of December 31, 2017. Other real estate owned totaled \$2.11 million at the end of the fourth quarter 2018 compared to \$5.62 million at the end of the fourth quarter 2017.

Nonperforming Assets

OREO balances decreased \$3.52 million or 62.53% during the twelve months ended December 31, 2018. This resulted in a decline in non-performing assets, excluding performing restructured loans, to 2.48% of total assets at December 31, 2018 versus 4.85% at December 31, 2017. Non-performing assets, including restructured loans, were also down from 6.33% of total assets at December 31, 2017 to 3.43% at December 31, 2018.

Past Due and Nonaccrual Loans

Nonperforming loans, excluding performing, restructured loans, of \$3.04 million were 2.00% of total loans at December 31, 2018 versus \$4.11 million or 2.91% of total loans at December 31, 2017. Past due accruing loans amounted to 0.34% of total loans at December 31, 2018 versus 0.32% in 2017 while nonaccruals decreased to 2.00% of total loans at December 31, 2018 from 2.91% at December 31, 2017. Net charge-offs to average loans outstanding at December 31, 2018 were 1.56% for the quarter versus 0.01% for the quarter ended December 31, 2017.

Allowance for Loan Losses

The Company's Allowance for Loan Losses amounted to \$2.68 million or 1.76% of total loans at December 31, 2018 versus \$2.97 million and 2.10% of total loans at December 31, 2017.

Below are the following financial highlights for the company.

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	(Unaudited) <u>December 31, 2018</u>	(Audited) <u>December 31, 2017</u>
ASSETS		
Cash and due from banks	\$ 3,305,017	\$ 3,724,989
Interest-bearing deposits with banks	4,507,162	3,234,718
Federal funds sold	132,000	1,088,000
Investment securities held to maturity	-	-
Investment securities available for sale	32,250,341	32,707,371
Restricted investment securities	235,450	240,550
Loans held for sale	573,000	-
Loans, net of allowance for loan losses of \$2,676,945 at 2018 and \$2,967,670 at 2017	148,820,724	138,047,309
Premises and equipment, net	5,099,030	5,808,484
Accrued interest receivable	600,216	554,791
Other real estate owned	2,107,010	5,623,193
Other assets	9,487,493	9,663,709
Total assets	<u>\$ 207,117,442</u>	<u>\$ 200,693,114</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand deposits	\$ 61,018,397	\$ 59,420,025
Interest-bearing deposits	118,093,537	114,036,968
Total deposits	179,111,934	173,456,992
Accrued interest payable	111,799	59,443
Federal funds purchased	-	-
Reserve for losses on letters of credit	1,358,880	1,768,307
Other liabilities	1,208,295	896,520
Total liabilities	<u>181,790,908</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	7,245,928	6,369,845
Accumulated other comprehensive income (loss)	(438,546)	(377,145)
Total stockholders' equity	<u>25,326,534</u>	<u>24,511,852</u>
Total liabilities and stockholders' equity	<u>\$ 207,117,442</u>	<u>\$ 200,693,114</u>

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

	(Unaudited)	(Unaudited)
	3 Months Ended	
	December 31, 2018	December 31, 2017
INTEREST INCOME		
Interest and fees on loans	\$ 1,889,841	\$ 1,595,934
Interest on investment securities, taxable	131,308	162,308
Interest on investment securities, tax-exempt	-	416
Interest - other	31,581	9,061
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Total interest income	2,052,730	1,767,719
INTEREST EXPENSE		
Interest on deposits	\$ 241,742	\$ 159,115
Other interest expense	-	8,224
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Total interest expense	241,742	167,339
Net interest income	1,810,988	1,600,380
PROVISION FOR LOAN LOSSES	<hr/>	<hr/>
	220,000	-
Net interest income after provision for loan losses	<hr/>	<hr/>
	1,590,988	1,600,380
NONINTEREST INCOME		
Service fees	39,834	39,768
Rental income	34,800	41,993
Bank card and credit card interchange fees	101,309	92,068
Other income	85,105	113,052
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Total noninterest income	261,048	286,881
NONINTEREST EXPENSE		
Salaries and employee benefits	886,352	826,581
Occupancy and equipment	167,003	170,879
Data processing expenses	340,142	325,378
Legal and professional fees	112,048	191,624
Postage, stationery and supplies	25,487	30,363
FDIC insurance assessment	19,547	59,083
Losses (gains) on other real estate owned	64,600	(407,007)
Expenses of adversely classified items	(196,387)	238,158
Other expenses	223,379	177,498
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Total noninterest expense	1,642,171	1,612,557
INCOME (LOSS) BEFORE INCOME TAXES	<hr/>	<hr/>
	209,865	274,704
INCOME TAX EXPENSE (BENEFIT)		
Current	(1,378)	(67,139)
Deferred	(10,429)	1,414,048
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Total income tax expense (benefit)	(11,807)	1,346,909
NET INCOME (LOSS)	<hr/> <hr/>	<hr/> <hr/>
	\$ 221,672	\$ (1,072,205)

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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