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The Bank of Fincastle Announces Second Quarter Earnings for 2020

FINCASTLE, Va. (July 30, 2020) – The Bank of Fincastle [SYMBOL: BFTL] has reported an unaudited quarterly net income of \$216,076 for the second quarter of 2020, with assets of \$253.0 million and total liabilities of \$224.0 million.

Net loans end the quarter at \$207.0 million, up 34.0% from the same quarter last year while total deposits ended the quarter at \$222.1 million, up 16.8% from the prior year. “Our positive second quarter loan and deposit growth not only reflects the tremendous efforts of our retail and commercial banking staff during the pandemic, but also reflects the impact of the Paycheck Protection Program (PPP) loan fundings,” said President and CEO Scott Steele. The Bank of Fincastle has originated 255 PPP loans totaling \$40.9 million in rounds 1 and 2 of the program. Discounting the impact of the PPP loans, the bank has achieved year-over-year loan growth of 7.6%.

Steele continued, “Asset quality remains a focus. The bank has not experienced any significant loan losses thus far in 2020 and our asset quality metrics continue to improve. However given the uncertain economic conditions, we felt it prudent to allocate an additional \$150,000 to our allowance for loan losses (ALLL).” At quarter end, the Bank’s Allowance for Loan Losses stood at 1.62 percent of total loans (less the SBA guaranteed PPP loans) versus 1.48 percent at March 31, 2020.

Commenting on bank operations in the current environment Steele stated, “Part of our Vision Statement is to provide innovative solutions for the evolving needs of our customers, and I believe there has been no better display of this than our quick and immediate response to our customers’ financials needs brought on by the pandemic. Bank operations have continued with minimal disruption, including lobby hours by appointment and strict workplace safety standards such as social distancing requirements, PPE usage and work at home programs. We have adopted new technologies to better enable us to process electronic signatures, hold virtual meetings and work remotely. In addition to participating in the PPP lending program, we have processed numerous requests for temporary payment deferrals to help borrowers who have been economically impacted by the pandemic.” said Steele. At quarter end, the bank had processed payment deferral requests totaling more than \$42.9 million, representing 20.7% of the total loan portfolio. As of July 30, \$7.9 million, representing 18.6% of the deferrals have returned to full payment status.

Key Highlights

- Net income of \$216,076 vs. net income of \$208,686 for same quarter last year.
- Second quarter Return on Average Assets was 0.35 percent versus 0.39 percent for the second quarter of 2019. Return on Average Equity was 3.00 percent versus 3.21 percent for the same period in 2019.
- Year-over-year net loan growth of 34.0%, or 7.6% discounting the impact of the PPP loans.

- Year-over-year increase in total assets of 15.5% and total deposits of 16.8%
- Originated 255 PPP loans totaling \$40.9 million in rounds 1 and 2 of the program, with 211 loans, or \$9.7 million, in loans less than \$350,000.
- Total gross PPP fees are forecast to approximate \$977,000.
- Net Interest income and Noninterest income increased 8.48% and 52.63% respectively.
- Net Interest Margin dropped 12 basis points in the second quarter to 3.67%.
- The Bank continues to exceed capital requirements.

Revenue

Total core revenue for the three months ended June 30, 2020 was up 9.37 percent to \$2.39 million, from \$2.18 million in the second quarter of 2019. Growth in commercial lines and loans including PPP loans, commercial real estate loans, residential loans, as well as non-interest income from secondary-market mortgage loan origination fees contributed to the increase in total revenue.

Net Interest Income

Net interest income was \$2.05 million for the three months ended June 30, 2020 compared to \$1.89 million for the three months ended June 30, 2019. This is an increase of \$160,533 or 8.48 percent. The increase in net interest income continues to be directly associated with the Bank's continued loan growth.

Noninterest Income

Core non-interest income increased 52.63 percent to \$443,900 for the three months ended June 30, 2020 versus \$290,842 during the same period of 2019. Non-interest income increased primarily due to increased income from secondary-market mortgage loan origination fees.

Noninterest Expense

Non-interest expense was \$2.09 million for the three months ended June 30, 2020 compared to \$1.94 million for the three months ended June 30, 2019. Non-interest expense increased primarily due to a non-cash, non-recurring expense of \$65,000.

Net Income

Net income for the three months ended June 30, 2020 increased 3.54 percent to \$216,076 from \$208,686 for the same period in 2019. Earnings per share for the three months ended June 30, 2020 was \$0.0212.

Balance Sheet

At June 30, 2020, The Bank of Fincastle total assets were \$253.0 million compared to \$219.1 million at June 30, 2019. Net loans were \$207.0 million at June 30, 2020 compared to \$154.5 million at June 30, 2019. Total deposits were \$222.1 million at June 30, 2020 compared to \$190.2 million at June 30, 2019.

Loans

Net loans grew to \$207.0 million in the second quarter of 2020 from \$154.5 million in the second quarter of 2019, a \$52.5 million or 34.0 percent increase. Overall loan growth was primarily driven by the origination of 255 SBA Paycheck Protection Program (PPP) loans totaling \$40.9 million.

Deposits

Deposits in the second quarter of 2020 were \$222.1 million compared to \$190.2 million in the same quarter of 2019, an increase of \$31.9 million or 16.76 percent. Funds from PPP loans drove deposit growth as well as local noninterest-bearing deposit accounts and interest-bearing time deposits.

Capital

The Bank of Fincastle's capital ratios: Common equity tier 1 capital was 15.00 percent, Total risk-based capital was 16.26 percent, Tier 1 risk-based capital was 15.00 percent and the Tier 1 leverage ratio was 10.59 percent. All ratios continue to exceed the current regulatory standards for well-capitalized institutions.

During the first quarter of 2020, the stock closed as high as \$2.45. The Bank's tangible book value per share was \$2.84 on June 30, 2020.

Asset Quality

Nonperforming assets as of June 30, 2020 totaled \$4.12 million compared to \$6.44 million as of June 30, 2019. The Bank of Fincastle had \$1.31 million in nonaccrual loans as of June 30, 2020 compared to \$1.86 million in nonaccrual loans as of June 30, 2019. Other real estate owned totaled \$1.07 million at the end of the second quarter 2020 compared to \$2.40 million at the end of the second quarter 2019. OREO as a percentage of total assets has improved to 0.42 percent at June 30, 2020 from 1.09 percent at June 30, 2019.

Nonperforming Assets

OREO balances decreased \$1.32 million or 55.18 percent during the twelve months ended June 30, 2020. This resulted in a decline in non-performing assets, excluding performing restructured loans, to 0.94 percent of total assets at June 30, 2020 versus 2.03 percent at June 30, 2019. Non-performing assets, including restructured loans, were also down from 2.94 percent of total assets at June 30, 2019 to 1.63 percent at June 30, 2020.

Past Due and Nonaccrual Loans

Nonperforming loans, excluding performing, restructured loans, of \$1.31 million were 0.62 percent of total loans at June 30, 2020 versus \$2.05 million or 1.30 percent of total loans at June 30, 2019. Past due accruing loans amounted to 0.41 percent of total loans at June 30, 2020 versus 0.76 percent in 2019 while nonaccruals decreased to 0.62 percent of total loans at June 30, 2020 from 1.18 percent at June 30, 2019. Net charge-offs to average loans outstanding for the quarter ended June 30, 2020 were -0.09 percent versus -0.03 percent for the quarter ended June 30, 2019.

Allowance for Loan Losses

The Company's Allowance for Loan Losses amounted to \$2.75 million or 1.31 percent of total loans at June 30, 2020 versus \$2.54 million and 1.61 percent of total loans at June 30, 2019. Loan loss provision expense of \$150,000 was recognized during the quarter. The Allowance for Loan Losses was 1.62 percent of total loans less the SBA guaranteed PPP loans at June 30, 2020 versus 1.48 percent at March 31, 2020.

The following are financial highlights for the Bank:

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

Unaudited

	June 30, 2020	June 30, 2019
ASSETS		
Cash and cash equivalents	\$ 2,923,096	\$ 3,764,561
Interest-bearing deposits with banks	8,977,719	17,437,893
Federal funds sold	132,000	114,000
Investment securities available for sale, at fair value	15,534,047	24,984,285
Restricted investment securities	254,050	241,250
Loans held for sale	479,000	403,797
Loans, net of allowance for loan losses of \$2,754,200 at 2020 and \$2,541,250 at 2019	207,034,258	154,530,495
Premises and equipment, net	4,676,889	5,178,991
Accrued interest receivable	1,041,875	598,043
Other real estate owned	1,074,468	2,397,082
Bank owned life insurance	5,732,705	5,611,558
Other assets	5,119,026	3,866,833
	\$ 252,979,133	\$ 219,128,789
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand deposits	\$ 89,005,571	\$ 62,506,693
Interest-bearing deposits	133,088,936	127,702,097
Total deposits	222,094,506	190,208,790
Accrued interest payable	114,316	156,323
Reserve for losses on letters of credit	753,312	1,342,760
Other liabilities	1,017,178	1,325,554
Total liabilities	223,979,312	193,033,428
Stockholders' equity		
Common stock, \$0.04 par value; 25,000,000 shares authorized, 10,199,999 shares at 2020 and 9,999,999 shares at 2019, issued and outstanding	408,000	400,000
Surplus	18,725,977	18,119,152
Retained earnings	9,649,754	7,644,706
Accumulated other comprehensive income (loss)	216,090	(68,497)
Total stockholders' equity	28,999,821	26,095,361
Total liabilities and stockholders' equity	\$ 252,979,133	\$ 219,128,789

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED STATEMENT OF INCOME
Unaudited

	3 Months Ended	
	June 30, 2020	June 30, 2019
INTEREST INCOME		
Interest and fees on loans	\$ 2,208,986	\$ 1,998,374
Interest on investment securities, taxable	94,200	113,328
Interest on interest bearing deposits in banks	6,613	93,951
Total interest income	2,309,799	2,205,653
INTEREST EXPENSE		
Interest on deposits	257,040	313,427
Interest on borrowings	-	-
Total interest expense	257,040	313,427
Net interest income	2,052,759	1,892,226
PROVISION FOR LOAN LOSSES	150,000	-
Net interest income after provision for loan losses	1,902,759	1,892,226
NONINTEREST INCOME		
Service charges on deposit accounts	14,212	35,366
Rental income	35,075	35,550
Debit and credit card fees	106,089	112,752
Other income	288,524	107,174
Total noninterest income	443,900	290,842
NONINTEREST EXPENSE		
Salaries and employee benefits	1,004,735	954,338
Occupancy and equipment	174,969	169,851
Data processing expenses	377,696	253,329
Legal and professional fees	163,526	113,838
Postage, stationery and supplies	28,275	21,873
FDIC insurance assessment	14,677	27,507
Losses (gains) on sale and write-downs of other real estate owned, net	7,483	12,658
Expenses of adversely classified items	25,891	76,081
Other expenses	295,592	312,166
Total noninterest expense	2,092,844	1,941,641
INCOME BEFORE INCOME TAXES	253,815	241,427
INCOME TAX EXPENSE	37,739	32,741
NET INCOME	\$ 216,076	\$ 208,686

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, a 7 am to 7 pm drive through location and offers online deposit account opening, online real-estate and consumer loan applications, online banking, mobile banking and 24/7 telephone banking. 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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