
FEDERAL DEPOSIT INSURANCE CORPORATION
Washington, D.C. 20429

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Date of report (Date of earliest event reported) July 23, 2020

CARTER BANK & TRUST

(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation)	N/A (Commission File Number)	20-5539935 (IRS Employer Identification No.)
--	---	---

1300 KINGS MOUNTAIN ROAD MARTINSVILLE, VIRGINIA (Address of principal executive offices)	24112 (Zip Code)
--	----------------------------

Registrant's telephone number, including area code **(276)656-1776**

NOT APPLICABLE

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, \$1 par value	CARE	Nasdaq Global Select Market

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange of 1934 (§240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On July 23, 2020, Carter Bank & Trust announced by press release its earnings for the three months and six months ended June 30, 2020. A copy of the press release is attached hereto as Exhibit 99.1. The information contained in this Report on Form 8-K furnished pursuant to Item 2.02 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall such information be deemed incorporated by reference in any filing under the Securities Exchange Act of 1933, as amended, except as shall be expressly set forth by specific reference in such filing.

Item 9.01. Financial Statements and Exhibits

Exhibit.

99.1 Press Release announcing Second Quarter 2020 Financial Results

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Carter Bank & Trust

Date: July 23, 2020

By: /s/ Wendy S. Bell
Wendy S. Bell
Senior Executive Vice President &
Chief Financial Officer

Exhibit 99.1

Press Release announcing Second Quarter 2020 Financial Results

Carter Bank & Trust Announces Second Quarter 2020 Financial Results

Martinsville, VA, July 23, 2020 – Carter Bank & Trust (the “Bank”) (NASDAQ:CARE) today announced net income of \$4.5 million, or \$0.17 diluted earnings per share, for the second quarter of 2020, as compared to net income of \$4.4 million, or \$0.17 diluted earnings per share, in the first quarter of 2020 and net income of \$7.8 million, or \$0.30 diluted earnings per share, for the second quarter of 2019. Pre-tax pre-provision earnings¹ were \$9.4 million, \$9.5 million and \$9.7 million for the quarters ended June 30, 2020, March 31, 2020 and June 30, 2019, respectively.

For the six months ended June 30, 2020, net income was \$8.9 million, or \$0.34 diluted earnings per share, as compared to net income of \$15.4 million, or \$0.58 diluted earnings per share in the first six months of 2019. Pre-tax pre-provision earnings were \$18.9 million and \$19.3 million for the six months ended June 30, 2020 and 2019, respectively.

Second Quarter 2020 Financial Highlights

- Net interest income declined \$1.0 million, or 3.7%, to \$26.3 million as compared to the linked quarter primarily due to balance sheet repricing driven by the impact of the lower interest rate environment, offset by a 17 basis point decrease in funding costs compared to the first quarter of 2020, and decreased \$1.7 million, or 6.1%, over the same quarter in 2019;
- Net interest margin, on a fully taxable equivalent basis, declined 18 basis points to 2.79% over the linked quarter and decreased 23 basis points over the same quarter last year;
- Portfolio loan growth of \$17.4 million, or 2.4% on an annualized basis, as compared to the linked quarter, and growth of \$91.9 million, or 3.2%, as compared to June 30, 2019;
- Total deposits increased \$133.7 million, or 15.4% on an annualized basis, to \$3.6 billion as of June 30, 2020 as compared to the linked quarter. Noninterest-bearing and interest bearing demand deposits, money market accounts and savings, increased by \$195.6 million, or 12.3%, as compared to linked quarter;
- The provision for loan losses totaled \$5.5 million for the quarter ended June 30, 2020, \$4.8 million for the quarter ending March 31, 2020 and \$1.4 million for the same quarter of 2019. Included is the impact of a reserve build of \$3.4 million, or \$(0.10) per share, and \$2.6 million, or \$(0.08) per share, driven by economic and market conditions as a result of COVID-19 for the second and first quarters of 2020, respectively;
- Nonperforming loans declined \$1.5 million, or 3.6% as compared to December 31, 2019 and decreased \$4.3 million, or 9.6%, from June 30, 2019. Nonperforming loans as a percentage of total portfolio loans were 1.37%, 1.38% and 1.57% as of June 30, 2020, March 31, 2020 and June 30, 2019, respectively.

“Our financial results this quarter continue to reflect the impact from the unusual economic and social environment we are experiencing as a result of COVID-19.” stated Litz H. Van Dyke, Chief Executive Officer. “As a community bank, we are committed to support the communities in which we do business, including direct financial assistance to local relief programs, and providing financial flexibility to our individual and business customers to help them deal with the challenges from this crisis. We have also

taken unprecedented measures to assure we provide a safe environment for both our employees and customers as we continue to be operational while trying to minimize the disruption to our Bank. ”

Van Dyke continued, “I would like to commend our many associates whose resilience and commitment during these very difficult circumstances has been nothing short of amazing. We continue to open accounts, make loans, and process transactions. We experienced loan growth as well as growth in lower cost deposits for the quarter. While there still remains tremendous uncertainty as to the longer term impact that this crisis will have on our markets and customers, we are confident that our strong capital and liquidity position, combined with our robust technology capabilities and risk management infrastructure, we are well prepared to navigate these uncertain times.”

Operating Highlights

Net interest income decreased \$2.3 million, or 4.2%, to \$53.5 million during the first six months of 2020 as compared to the same period of 2019. The net interest margin, on a fully taxable equivalent basis, decreased 18 basis points to 2.88% over the past twelve months. The decreases in short-term interest rates had a negative impact on both net interest income and net interest margin, but are offset by a lower cost of funds. The yield on interest-earning assets decreased 35 basis points, offset by an 18 basis point decline in funding costs as compared to the same period of 2019.

The provision for loan losses totaled \$10.3 million for the six month period ended June 30, 2020 and \$3.0 million for the same period of 2019. The Bank was subject to the adoption of the Current Expected Credit Losses (“CECL”) accounting method under Financial Accounting Standards Board (“FASB”) Accounting Standards Update 2016-03 and related amendments, Financial Instruments – Credit Losses (Topic 326). However, the Bank elected under the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act to defer the implementation of CECL until the earlier of when the national emergency related to the outbreak of COVID-19 ends or December 31, 2020. Included in the provision expense for the six months ended June 30, 2020 is the impact of a reserve build of \$6.0 million, or \$(0.18) per share, driven by economic and market conditions as a result of COVID-19. This represents a 243% increase in the provision expense as compared to the same period of 2019. The Bank adjusted qualitative risk factors under its incurred loss model for economic conditions, changes in payment deferral procedures, expected changes in collateral values due to reduced cash flows and external factors such as government actions. Management believes the uncertainty regarding customers' ability to repay loans could be adversely impacted by the COVID-19 pandemic given higher unemployment rates, requests for payment deferrals, temporary business shutdowns and reduced consumer and business spending.

At June 30, 2020, nonperforming loans were \$40.6 million, a decrease of \$1.5 million, or 3.6% as compared to December 31, 2019. Net charge-offs were \$1.6 million in the first six months of 2020 as compared to \$2.2 million in the same period of 2019. As a percentage of total portfolio loans, on an annualized basis, net charge-offs were 0.11% and 0.15% for the periods ending June 30, 2020 and 2019, respectively. Nonperforming loans as a percentage of total portfolio loans were 1.37%, 1.38% and 1.57% as of June 30, 2020, March 31, 2020 and June 30, 2019, respectively.

Noninterest income at June 30, 2020, excluding net securities gains, increased \$2.2 million, or 30.4%, for the six months ending June 30, 2020 as compared to the same period of 2019. The increase was primarily due to \$1.5 million of commercial loan swap fee income due to the high demand for this product in the current rate environment, \$1.0 million of higher insurance commissions, related to the

adoption of ASU 2014-09, Topic 606 by our provider, \$0.2 million of higher debit card interchange fees, which were offset by lower service charges on deposit accounts of \$0.3 million due to COVID-19 fee waivers. Other Real Estate Owned (“OREO”) income declined \$0.3 million due to the sale of several large commercial properties over the last 12 months that generated income. Securities gains of \$3.5 million and \$0.9 million were realized during the first six months of 2020 and 2019, respectively, to take advantage of market opportunities and reposition and diversify holdings in the securities portfolio.

Total noninterest expense increased \$2.9 million, or 6.4%, to \$47.6 million for the six months ending June 30, 2020 as compared to the same period of 2019. The increase was primarily driven by salaries and employee benefits and occupancy expenses. The increase of \$1.2 million in salaries and benefits were primarily attributable to a \$0.8 million increase of normal merit increases and a \$0.4 million decrease in salary deferrals on new loan originations in the first six months of 2020. There have not been any permanent or temporary reductions in employees as a result of COVID-19. The \$1.0 million increase in occupancy expense is a result of higher depreciation for software and equipment for ancillary products and services. The \$0.5 million increase in advertising is related to our deposit acquisition strategy. The \$0.4 million increase in the unfunded loan commitment reserve was due to several new commitments approved during the first quarter of 2020 and increased commitments on existing lines of credit. Offsetting these increases were decreases of \$0.5 million in debit card expenses and data processing.

Financial Condition

Total assets were \$4.2 billion at June 30, 2020 and \$4.0 billion at December 31, 2019. Total portfolio loans increased \$72.6 million, or 5.0% on an annualized basis, to \$3.0 billion as of June 30, 2020 as compared to December 31, 2019. Nonperforming loans decreased \$1.5 million to \$40.6 million, or 3.6% as of June 30, 2020 as compared to \$42.1 million at December 31, 2019. OREO decreased \$1.1 million at June 30, 2020 as compared to December 31, 2019. Closed retail bank offices carrying values declined \$0.5 million from December 31, 2019 and have a remaining book value of \$2.5 million at June 30, 2020.

Federal Reserve Bank excess reserves increased \$96.0 million at June 30, 2020 as compared to December 31, 2019 due to maintaining higher liquidity levels as a result of COVID-19.

The securities portfolio increased \$6.4 million and is currently 18.0% of total assets at June 30, 2020 as compared to 18.5% of total assets at December 31, 2019. The increase is a result of active balance sheet management. We have further diversified the securities portfolio as to bond types, maturities and interest rate structures.

Total deposits increased \$102.5 million to \$3.6 billion as of June 30, 2020 as compared to December 31, 2019. Core deposits, including noninterest-bearing and interest-bearing demand deposits, money market accounts and savings, increased by \$237.1 million, or 15.4%, as compared to December 31, 2019. Offsetting these increases was the intentional runoff of \$134.6 million of higher cost certificates of deposits. Noninterest-bearing deposits comprised 18.4% and 15.8% of total deposits at June 30, 2020 and December 31, 2019, respectively.

The allowance for loan losses was 1.60%, 1.46% and 1.34% of total portfolio loans as of June 30, 2020, March 31, 2020 and December 31, 2019, respectively. General reserves as a percentage of total portfolio loans were 1.33%, 1.22% and 1.13% at June 30, 2020, March 31, 2020 and December 31, 2019,

respectively. Included in the allowance is a reserve build of \$6.0 million, or \$(0.18) per share, driven by economic and market conditions as a result of COVID-19. The allowance for loan losses was 116.8% of nonperforming loans as of June 30, 2020 as compared to 92.0% of nonperforming loans as of December 31, 2019. In the view of management, the allowance for loan losses is adequate to absorb probable losses inherent in the loan portfolio. For further information regarding the Bank's decision to defer CECL under Section 4014 of the CARES Act, as well as further detail on the increase in provision during the first six months of 2020, please see the discussion above under Provision for Loan Losses.

The Bank is providing deferrals to customers under Section 4013 of the CARES Act and regulatory interagency statements on loan modifications. These deferrals typically provide deferrals of both principal and interest for up to 180 days. At the end of the deferral period, for term loans, payments will be applied to accrued interest first and will resume principal payments once accrued interest is current. Deferred principal will be due at maturity. For interest only loans, such as lines of credit, deferred interest will be due at maturity. As of June 30, 2020, we have had 958 commercial loans opt for deferrals with an aggregate principal balance of \$1.2 billion. Approximately \$462.5 million of these modifications were in the hospitality industry comprised of deferrals on 85 loans. The average deferment period for these customers has been 3.9 months. The request for loan deferrals has generally stabilized at June 30, 2020. We have participated in the Paycheck Protection Program ("PPP") passed by Congress. As of June 30, 2020, we had 970 PPP loans approved totaling \$55.8 million. These PPP loans generated \$1.5 million in fees which will be recognized in income when the loan is forgiven or over the remaining life of the loan.

The Bank remains well capitalized. The Bank's Tier 1 Capital ratio decreased to 13.32% as of June 30, 2020 as compared to 13.58% as of December 31, 2019. The Bank's leverage ratio was 10.30% at June 30, 2020 as compared to 10.33% as of December 31, 2019. The Bank's Total Risk-Based Capital ratio was 14.57% at June 30, 2020 as compared to 14.83% at December 31, 2019.

Total capital of \$489.1 million at June 30, 2020, reflects an increase of \$15.9 million as compared to December 31, 2019. The increase in equity during the first six months of 2020 is due to net income of \$8.9 million and a \$10.2 million increase in other comprehensive income due to changes in fair value of investment securities. These increases were offset by the \$3.7 million special dividend paid in March of 2020. The remaining difference of \$0.5 million is related to restricted stock activity during the first six months.

At June 30, 2020, funding sources accessible to the Bank include borrowing availability at the Federal Home Loan Bank ("FHLB"), equal to 25% of the Bank's assets approximating \$1.0 billion, subject to the amount of eligible collateral pledged, federal funds unsecured lines with six other correspondent financial institutions in the amount of \$115.0 million and access to the institutional CD market through brokered CDs and QwickRate. In addition to the above resources, the Bank also has \$624.5 million of unpledged available-for-sale investment securities as an additional source of liquidity.

Based on continued market volatility, consensus forecasts for a prolonged low interest rate environment, and the drop in price of the Bank's common stock during the quarter, the Bank is currently analyzing the value of goodwill related to its prior acquisitions. Based on our preliminary analysis, we do not believe that our goodwill is impaired. Any potential goodwill impairment could be material to reported earnings, but would be a non-cash charge and have no effect on the Bank's cash

balances, liquidity or tangible equity. In addition, because goodwill and other intangible assets are not included in the calculation of regulatory capital, the Bank's well-capitalized regulatory capital ratios would not be affected by this potential non-cash expense. The Bank anticipates the analysis will be completed prior to filing the Quarterly Report on Form 10-Q with the Federal Deposit Insurance Corporation in August 2020.

About Carter Bank & Trust

Headquartered in Martinsville, VA, Carter Bank & Trust is a state-chartered community bank in Virginia and trades on the Nasdaq Global Select Market under the symbol CARE. The Bank has \$4.2 billion in assets and 99 branches in Virginia and North Carolina. For more information visit www.CBTCares.com.

Important Note Regarding Non-GAAP Financial Measures

Statements included in this press release include non-GAAP financial measures and should be read along with the accompanying tables in our definitions and reconciliations of GAAP to non-GAAP financial measures. This press release and the accompanying tables discuss financial measures, such as adjusted noninterest expense, adjusted efficiency ratio, and net interest income on a fully taxable equivalent basis, which are all non-GAAP measures. We believe that such non-GAAP measures are useful because they enhance the ability of investors and management to evaluate and compare the Bank's operating results from period to period in a meaningful manner. Non-GAAP measures should not be considered as an alternative to any measure of performance as promulgated under GAAP, nor are they necessarily comparable to non-GAAP performance measures that may be presented by other companies. Investors should consider the Bank's performance and financial condition as reported under GAAP and all other relevant information when assessing the performance or financial condition of the Bank. Non-GAAP measures have limitations as analytical tools, and investors should not consider them in isolation or as a substitute for analysis of the Bank's results or financial condition as reported under GAAP.

Important Note Regarding Forward-Looking Statements

This information contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements generally relate to our financial condition, results of operations, plans, objectives, outlook for earnings, revenues, expenses, capital and liquidity levels and ratios, asset levels, asset quality, financial position, and other matters regarding or affecting Carter Bank & Trust and its future business and operations, and specifically including information related to the pending appraisal of collateral for one impaired loan relationship and potential impacts on the Bank's financial results. Forward looking statements are typically identified by words or phrases such as "will likely result," "expect," "anticipate," "estimate," "forecast," "project," "intend," "believe," "assume," "strategy," "trend," "plan," "outlook," "outcome," "continue," "remain," "potential," "opportunity," "believe," "comfortable," "current," "position," "maintain," "sustain," "seek," "achieve" and variations of such words and similar expressions, or future or conditional verbs such as will, would, should, could or may. Although we believe the assumptions upon which these forward-looking statements are based are reasonable, any of these assumptions could prove to be inaccurate and the forward-looking statements based on these assumptions could be incorrect. The matters discussed in these forward-looking statements are subject to various risks, uncertainties and other factors that could cause actual results and trends to differ materially from those made, projected, or implied in or by the forward-looking statements depending on a variety of uncertainties or other factors including, but not limited to: credit losses; cyber-security concerns; rapid technological developments and changes; the Bank's liquidity and capital positions; the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts or public health events (such as the current COVID-19 pandemic), and of governmental and societal responses thereto; these potential adverse effects

may include, without limitation, adverse effects on the ability of the Bank's borrowers to satisfy their obligations to the Bank, on the value of collateral securing loans, on the demand for the Bank's loans or its other products and services, on incidents of cyberattack and fraud, on the Bank's liquidity or capital positions, on risks posed by reliance on third-party service providers, on other aspects of the Bank's business operations and on financial markets and economic growth; sensitivity to the interest rate environment including a prolonged period of low interest rates, a rapid increase in interest rates or a change in the shape of the yield curve; a change in spreads on interest-earning assets and interest-bearing liabilities; regulatory supervision and oversight; legislation affecting the financial services industry as a whole, and Carter Bank & Trust, in particular; the outcome of pending and future litigation and governmental proceedings; increasing price and product/service competition; the ability to continue to introduce competitive new products and services on a timely, cost-effective basis; managing our internal growth and acquisitions; the possibility that the anticipated benefits from acquisitions cannot be fully realized in a timely manner or at all, or that integrating the acquired operations will be more difficult, disruptive or more costly than anticipated; containing costs and expenses; reliance on significant customer relationships; general economic or business conditions; deterioration of the housing market and reduced demand for mortgages; deterioration in the overall macroeconomic conditions or the state of the banking industry that could warrant further analysis of the carrying value of goodwill and could result in an adjustment to its carrying value resulting in a non-cash charge to net income; re-emergence of turbulence in significant portions of the global financial and real estate markets that could impact our performance, both directly, by affecting our revenues and the value of our assets and liabilities, and indirectly, by affecting the economy generally and access to capital in the amounts, at the times and on the terms required to support our future businesses. Many of these factors, as well as other factors, are described in our filings with the FDIC. Forward-looking statements are based on beliefs and assumptions using information available at the time the statements are made. We caution you not to unduly rely on forward-looking statements because the assumptions, beliefs, expectations and projections about future events may, and often do, differ materially from actual results. Any forward-looking statement speaks only as to the date on which it is made, and we undertake no obligation to update any forward-looking statement to reflect developments occurring after the statement is made.

*Carter Bank & Trust
Wendy Bell, 276-656-1776
Senior Executive Vice President & Chief Financial Officer
wendy.bell@CBTCares.com*

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
BALANCE SHEETS
(Unaudited)

(Dollars in Thousands, except per share data)

	June 30, 2020	December 31, 2019	June 30, 2019
ASSETS			
Cash and Due From Banks	\$ 47,175	\$ 41,386	\$ 47,071
Interest-Bearing Deposits in Other Financial Institutions	6,846	45,156	55,138
Federal Reserve Bank Excess Reserves	135,237	39,270	36,806
Total Cash and Cash Equivalents	189,258	125,812	139,015
Securities, Available-for-Sale, at Fair Value	749,029	742,617	803,673
Loans Held-for-Sale	9,345	19,714	9,841
Portfolio Loans	2,957,344	2,884,766	2,865,461
Allowance for Loan Losses	(47,405)	(38,762)	(40,008)
Portfolio Loans, net	2,909,939	2,846,004	2,825,453
Bank Premises and Equipment, net	89,493	85,942	85,641
Other Real Estate Owned, net	17,245	18,324	24,622
Goodwill	62,192	62,192	62,192
Federal Home Loan Bank Stock, at Cost	5,093	4,113	3,688
Bank Owned Life Insurance	53,300	52,597	51,878
Other Assets	66,839	48,793	56,905
TOTAL ASSETS	\$ 4,151,733	\$ 4,006,108	\$ 4,062,908

LIABILITIES

Deposits:

Noninterest-Bearing Demand	\$ 662,639	\$ 554,875	\$ 571,421
Interest-Bearing Demand	318,903	286,561	234,953
Money Market	190,664	140,589	132,297
Savings	608,716	561,814	576,145
Certificates of Deposits	1,825,785	1,960,406	2,062,664
Total Deposits	3,606,707	3,504,245	3,577,480
FHLB Borrowings	35,000	10,000	-
Other Liabilities	20,967	18,752	21,195
TOTAL LIABILITIES	3,662,674	3,532,997	3,598,675

SHAREHOLDERS' EQUITY

Common Stock, Par Value \$1.00 Per Share, Authorized 100,000,000 Shares;

26,384,801 outstanding at June 30, 2020,	26,385	26,334	26,334
26,334,229 outstanding at December 31, 2019 and 26,333,929 at June 30, 2019	143,016	142,492	142,268
Additional Paid-in-Capital	309,347	304,158	292,951
Retained Earnings	10,311	127	2,680
Accumulated Other Comprehensive Income	489,059	473,111	464,233
TOTAL SHAREHOLDERS' EQUITY	\$ 4,151,733	\$ 4,006,108	\$ 4,062,908
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			

PROFITABILITY RATIOS (ANNUALIZED)

Return on Average Assets	0.44%	0.65%	0.76%
Return on Average Shareholders' Equity	3.70%	5.76%	6.87%
Portfolio Loan to Deposit Ratio	82.00%	82.32%	80.10%
Allowance to Total Portfolio Loans	1.60%	1.34%	1.40%

CAPITALIZATION RATIOS

Shareholders' Equity to Assets	11.78%	11.81%	11.43%
Tier 1 Leverage Ratio	10.30%	10.33%	9.78%
Risk-Based Capital - Tier 1	13.32%	13.58%	13.23%
Risk-Based Capital - Total	14.57%	14.83%	14.48%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
INCOME STATEMENTS
(Unaudited)

(Dollars in Thousands, except per share data)

	Quarter-to-Date			Year-to-Date	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Interest Income	\$ 35,617	\$ 37,836	\$ 40,068	\$ 73,453	\$ 79,207
Interest Expense	9,355	10,572	12,113	19,927	23,356
NET INTEREST INCOME	26,262	27,264	27,955	53,526	55,851
Provision for Loan Losses	5,473	4,798	1,369	10,271	2,996
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	20,789	22,466	26,586	43,255	52,855
NONINTEREST INCOME					
Gains on Sales of Securities, net	2,321	1,214	909	3,535	940
Service Charges, Commissions and Fees	190	1,650	892	1,840	2,118
Debit Card Interchange Fees	1,468	1,243	1,320	2,711	2,494
Insurance	332	1,309	369	1,641	643
Bank Owned Life Insurance Income	350	353	356	703	717
Gains on Sales of Other Real Estate Owned, net	137	-	-	-	-
Gains on Sales of Bank Premises, net	-	-	178	-	8
Other Real Estate Owned Income	82	139	231	221	521
Commercial Loan Swap Fee Income	1,125	423	-	1,548	-
Other	196	621	324	817	772
TOTAL NONINTEREST INCOME	6,201	6,952	4,579	13,016	8,213
NONINTEREST EXPENSE					
Salaries and Employee Benefits	12,489	13,581	12,809	26,070	24,844
Occupancy Expense, net	3,415	3,249	2,836	6,664	5,663
FDIC Insurance Expense	537	544	433	1,081	1,147
Other Taxes	788	746	711	1,534	1,354
Advertising Expense	400	606	326	1,006	497
Telephone Expense	573	574	562	1,147	1,067
Professional and Legal Fees	1,399	437	980	1,836	1,629
Data Processing	595	486	469	1,081	1,219
Losses on Sales and Write-downs of Other Real Estate Owned, net	-	189	88	52	276
Losses on Sales and Write-downs of Bank Premises, net	59	12	-	71	-
Debit Card Expense	671	554	830	1,225	1,540
Tax Credit Amortization	272	272	563	544	1,126
Unfunded Loan Commitment Expense	(383)	982	173	599	218
Other Real Estate Owned Expense	177	140	(31)	317	66
Other	2,031	2,376	2,085	4,407	4,128
TOTAL NONINTEREST EXPENSE	23,023	24,748	22,834	47,634	44,774
INCOME BEFORE INCOME TAXES	3,967	4,670	8,331	8,637	16,294
Income Tax (Benefit) Provision	(488)	247	504	(241)	926
NET INCOME	\$ 4,455	\$ 4,423	\$ 7,827	\$ 8,878	\$ 15,368
Shares Outstanding, at End of Period	26,384,801	26,385,185	26,333,929	26,384,801	26,333,929
Average Shares Outstanding-Basic	26,384,957	26,362,649	26,333,929	26,373,803	26,313,631
Average Shares Outstanding-Diluted	26,384,957	26,368,365	26,347,635	26,373,803	26,320,530
PER SHARE DATA					
Basic Earnings Per Common Share	\$ 0.17	\$ 0.17	\$ 0.30	\$ 0.34	\$ 0.58
Diluted Earnings Per Common Share	\$ 0.17	\$ 0.17	\$ 0.30	\$ 0.34	\$ 0.58
Book Value	\$ 18.54	\$ 18.00	\$ 17.63	\$ 18.54	\$ 17.63
Tangible Book Value ²	\$ 16.18	\$ 15.64	\$ 15.27	\$ 16.18	\$ 15.27
Market Value	\$ 8.07	\$ 9.18	\$ 19.75	\$ 8.07	\$ 19.75
PROFITABILITY RATIOS (non-GAAP)					
Net Interest Margin (FTE) ³	2.79%	2.97%	3.02%	2.88%	3.06%
Core Efficiency Ratio ⁴	75.00%	74.00%	71.59%	74.48%	69.29%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
NET INTEREST MARGIN (FTE) (QTD AVERAGES)
(Unaudited)

	June 30, 2020			March 31, 2020			June 30, 2019		
	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate
ASSETS									
Interest-Bearing Deposits with Banks	\$ 106,710	\$ 26	0.10%	\$ 62,960	\$ 210	1.32%	\$ 127,377	\$ 763	2.40%
Tax-Free Investment Securities	49,633	416	3.35%	21,452	204	3.80%	91,148	795	3.50%
Taxable Investment Securities	685,468	3,594	2.09%	712,104	4,502	2.52%	737,949	4,283	2.33%
Tax-Free Loans	322,739	2,563	3.17%	337,857	2,660	3.15%	387,053	3,088	3.20%
Taxable Loans	2,651,873	29,577	4.44%	2,584,917	30,797	4.74%	2,473,376	31,929	5.18%
Federal Home Loan Bank Stock	5,093	67	5.23%	4,418	64	5.85%	1,581	26	6.60%
Total Interest-Earning Assets	\$3,821,516	\$ 36,243	3.77%	\$3,723,708	\$ 38,437	4.11%	\$3,818,484	\$ 40,884	4.29%
LIABILITIES									
Deposits:									
Interest-Bearing Demand	\$ 297,815	\$ 242	0.33%	\$ 297,395	\$ 446	0.60%	\$ 257,754	\$ 595	0.93%
Money Market	183,542	211	0.46%	154,564	271	0.71%	136,271	517	1.52%
Savings	592,193	157	0.11%	562,712	145	0.10%	586,923	498	0.34%
Certificates of Deposit	1,845,294	8,627	1.88%	1,918,841	9,633	2.02%	2,075,899	10,483	2.03%
Total Interest-Bearing Deposits	\$2,918,844	\$ 9,237	1.27%	\$2,933,512	\$ 10,495	1.44%	\$3,056,847	\$ 12,093	1.59%
Borrowings:									
FED Funds Purchased	-	-	-	220	1	1.59%	-	-	-
FHLB Borrowings	35,000	100	1.13%	17,418	58	1.33%	-	-	-
Other Borrowings	1,245	18	5.58%	1,481	18	4.81%	1,029	20	7.80%
Total Borrowings	36,245	118	1.28%	19,119	77	1.62%	1,029	20	7.80%
Total Interest-Bearing Liabilities	\$2,955,089	\$ 9,355	1.27%	\$2,952,631	\$ 10,572	1.44%	\$3,057,876	\$ 12,113	1.59%
Net Interest Income		\$ 26,888			\$ 27,865			\$ 28,771	
Net Interest Margin			2.79%			2.97%			3.02%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
NET INTEREST MARGIN (FTE) (YTD AVERAGES)
(Unaudited)

	June 30, 2020			June 30, 2019		
	Average Balance	Income/Expense	Rate	Average Balance	Income/Expense	Rate
ASSETS						
Interest-Bearing Deposits with Banks	\$ 84,836	\$ 236	0.55%	\$ 149,643	\$ 1,784	2.40%
Tax-Free Investment Securities	35,543	620	3.49%	100,997	1,813	3.62%
Taxable Investment Securities	698,786	8,096	2.31%	719,770	8,405	2.35%
Tax-Free Loans	330,298	5,223	3.16%	394,021	6,402	3.28%
Taxable Loans	2,618,395	60,374	4.58%	2,434,977	62,503	5.18%
Federal Home Loan Bank Stock	4,755	131	5.52%	795	26	6.60%
Total Interest-Earning Assets	\$3,772,613	\$ 74,680	3.94%	\$3,800,203	\$ 80,933	4.29%
LIABILITIES						
Deposits:						
Interest-Bearing Demand	\$ 297,605	\$ 688	0.46%	\$ 264,447	\$ 1,235	0.94%
Money Market	169,053	481	0.57%	113,562	760	1.35%
Savings	577,453	302	0.11%	596,566	984	0.33%
Certificates of Deposit	1,882,067	18,261	1.95%	2,087,216	20,337	1.96%
Total Interest-Bearing Deposits	\$2,926,178	\$ 19,732	1.36%	\$3,061,791	\$ 23,316	1.54%
Borrowings:						
FED Funds Purchased	110	1	1.62%	-	-	-
FHLB Borrowings	26,209	159	1.20%	-	-	-
Other Borrowings	1,363	35	5.16%	692	40	11.66%
Total Borrowings	27,682	195	1.40%	692	40	11.66%
Total Interest-Bearing Liabilities	\$2,953,860	\$ 19,927	1.36%	\$3,062,483	\$ 23,356	1.54%
Net Interest Income		\$ 54,753			\$ 57,577	
Net Interest Margin			2.88%			3.06%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
LOANS AND LOANS HELD-FOR-SALE
(Unaudited)

(Dollars in Thousands)	June 30, 2020	December 31, 2019	June 30, 2019
Commercial			
Commercial Real Estate	\$ 1,374,242	\$ 1,365,310	\$ 1,396,986
Commercial and Industrial	279,143	256,798	257,947
Obligations of State and Political Subdivisions	338,190	364,869	405,212
Commercial Construction	374,609	292,827	223,711
Total Commercial Loans	2,366,184	2,279,804	2,283,856
Consumer			
Residential Mortgages	508,388	514,538	489,158
Other Consumer	69,884	73,688	73,096
Consumer Construction	12,888	16,736	19,351
Total Consumer Loans	591,160	604,962	581,605
Total Portfolio Loans	2,957,344	2,884,766	2,865,461
Loans Held-for-Sale	9,345	19,714	9,841
Total Loans	\$ 2,966,689	\$ 2,904,480	\$ 2,875,302

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
ASSET QUALITY DATA
(Unaudited)

(Dollars in Thousands)	June 30, 2020	December 31, 2019	June 30, 2019
Nonperforming Loans			
Commercial Real Estate	\$ 247	\$ 1,017	\$ 328
Commercial and Industrial	155	77	397
Obligations of State and Political Subdivisions	-	-	-
Commercial Construction	3,162	3,210	2,976
Residential Mortgages	3,326	2,857	1,580
Other Consumer	206	267	142
Consumer Construction	-	-	-
Total Nonperforming Loans	7,096	7,428	5,423
Nonperforming Troubled Debt Restructurings			
Commercial Real Estate	29,010	30,073	34,329
Commercial and Industrial	240	390	-
Obligations of State and Political Subdivisions	-	-	-
Commercial Construction	4,252	4,242	5,154
Residential Mortgages	-	-	-
Other Consumer	-	-	-
Consumer Construction	-	-	-
Total Nonperforming Troubled Debt Restructurings	33,502	34,705	39,483
Total Nonperforming Loans and Troubled Debt Restructurings	40,598	42,133	44,906
Other Real Estate Owned	17,245	18,324	24,622
Total Nonperforming Assets	\$ 57,843	\$ 60,457	\$ 69,528

	June 30, 2020	December 31, 2019	June 30, 2019
Nonperforming Loans	\$ 40,598	\$ 42,133	\$ 44,906
Other Real Estate Owned	17,245	18,324	24,622
Total Nonperforming Assets	57,843	60,457	69,528
Troubled Debt Restructurings (Nonaccruing)	33,502	34,705	39,483
Troubled Debt Restructurings (Accruing)	107,284	109,265	113,899
Total Troubled Debt Restructurings	\$ 140,786	\$ 143,970	\$ 153,382

Nonperforming Loans to Total Portfolio Loans	1.37%	1.46%	1.57%
Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	1.94%	2.08%	2.41%
Allowance for Loan Losses to Total Portfolio Loans	1.60%	1.34%	1.40%
Allowance for Loan Losses to Nonperforming Loans	116.77%	92.00%	89.09%
Net Loan Charge-offs (Recoveries)	\$ 1,628	\$ 3,841	\$ 2,187
Net Loan Charge-offs (Recoveries) (Annualized) to Average Loans	0.11%	0.13%	0.16%

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
ALLOWANCE FOR LOAN LOSSES
(Unaudited)

(Dollars in Thousands)	Quarter-to-Date			Year-to-Date	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Balance Beginning of Year	\$ 42,942	\$ 38,762	\$ 39,572	\$ 38,762	\$ 39,199
Provision for Loan Losses	5,473	4,798	1,369	10,271	2,996
Charge-offs:					
Commercial Real Estate	40	-	19	40	69
Commercial and Industrial	8	38	2	46	2
Obligations of State and Political Subdivisions	-	-	-	-	-
Commercial Construction	-	-	-	-	393
Residential Mortgages	15	5	18	20	23
Other Consumer	1,094	1,527	1,031	2,621	1,959
Consumer Construction	-	-	-	-	-
Total Charge-offs	1,157	1,570	1,070	2,727	2,446
Recoveries:					
Commercial Real Estate	-	707	-	707	-
Commercial and Industrial	1	1	-	2	-
Obligations of State and Political Subdivisions	-	-	-	-	-
Commercial Construction	-	-	-	-	-
Residential Mortgages	-	-	-	-	-
Other Consumer	146	244	137	390	259
Consumer Construction	-	-	-	-	-
Total Recoveries	147	952	137	1,099	259
Total Net Charge-offs	1,010	618	933	1,628	2,187
Balance End of Year	\$ 47,405	\$ 42,942	\$ 40,008	\$ 47,405	\$ 40,008

CARTER BANK & TRUST
CONSOLIDATED SELECTED FINANCIAL DATA
(Unaudited)
(Dollars in Thousands, except per share data)

DEFINITIONS AND RECONCILIATION OF GAAP TO NON-GAAP FINANCIAL MEASURES:

¹Pre-tax pre-provision earnings are computed as net interest income plus noninterest income minus noninterest expense before the provision for loan losses and income tax provision.

²Tangible Equity

	Quarter-to-Date			Year-to-Date	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
Total Shareholders' Equity	\$ 489,059	\$ 474,821	\$ 464,233	\$ 489,059	\$ 464,233
Less: Goodwill	62,192	62,192	62,192	62,192	62,192
Tangible Equity	\$ 426,867	\$ 412,629	\$ 402,041	\$ 426,867	\$ 402,041
Shares Outstanding at End of Period	26,384,801	26,385,754	26,333,929	26,384,801	26,333,929
Tangible Book Value Per Common Share	\$ 16.18	\$ 15.64	\$ 15.27	\$ 16.18	\$ 15.27

³Net interest income has been computed on a fully taxable equivalent basis ("FTE") using a 21% federal income tax rate for the 2020 and 2019 periods.

Net Interest Income (FTE) (Non-GAAP)

	Quarter-to-Date			Year-to-Date	
	June 30, 2020	March 31, 2019	June 30, 2019	June 30, 2020	June 30, 2019
Interest Income	\$ 35,617	\$ 37,836	\$ 40,068	\$ 73,453	\$ 79,207
Interest Expense	(9,355)	(10,572)	(12,113)	(19,927)	(23,356)
Net Interest Income	26,262	27,264	27,955	53,526	55,851
Tax Equivalent Adjustment ³	626	601	816	1,227	1,726
NET INTEREST INCOME (FTE) (Non-GAAP)	\$ 26,888	\$ 27,865	\$ 28,771	\$ 54,753	\$ 57,577
Net Interest Income (Annualized)	106,615	110,537	115,400	108,543	116,108
Average Earning Assets	3,821,516	3,723,708	3,818,484	3,772,613	3,800,203
NET INTEREST MARGIN (FTE) (Non-GAAP)	2.79%	2.97%	3.02%	2.88%	3.06%

⁴Core Efficiency Ratio (Non-GAAP)

	Quarter-to-Date			Year-to-Date	
	June 30, 2020	March 31, 2020	June 30, 2019	June 30, 2020	June 30, 2019
NONINTEREST EXPENSE	\$ 23,023	\$ 24,748	\$ 22,834	\$ 47,634	\$ 44,774
Less: Losses on Sales and Write-downs of Other Real Estate Owned, net	-	(189)	(88)	(52)	(276)
Less: Losses on Sales and Write-downs of Bank Premises, net	(59)	(12)	-	(71)	-
Less: Tax Credit Amortization	(272)	(272)	(563)	(544)	(1,126)
Plus: Contingent Liability	-	-	331	-	331
Less: Conversion Expense	-	-	-	-	(2)
Plus: Conversion Vacation Accrual	192	288	291	480	560
CORE NONINTEREST EXPENSE (Non-GAAP)	\$ 22,884	\$ 24,563	\$ 22,805	\$ 47,447	\$ 44,261
NET INTEREST INCOME	\$ 26,262	\$ 27,264	\$ 27,955	\$ 53,526	\$ 55,851
Plus: Taxable Equivalent Adjustment ³	626	601	816	1,227	1,726
NET INTEREST INCOME (FTE) (Non-GAAP)	\$ 26,888	\$ 27,865	\$ 28,771	\$ 54,753	\$ 57,577
Less: Gains on Sales of Securities, net	(2,321)	(1,214)	(909)	(3,535)	(940)
Less: Gains on Sales of Other Real Estate Owned, net	(137)	-	-	-	-
Less: Gains on Sales Bank Premises, net	-	-	(178)	-	(8)
Less: Other Real Estate Owned Income	(82)	(139)	(231)	(221)	(521)
Less: Other Gains	(38)	(269)	(176)	(307)	(447)
Noninterest Income	6,201	6,952	4,579	13,016	8,213
CORE NET INTEREST INCOME (FTE) (Non-GAAP) plus NONINTEREST INCOME	\$ 30,511	\$ 33,195	\$ 31,856	\$ 63,706	\$ 63,874
CORE EFFICIENCY RATIO (Non-GAAP)	75.00%	74.00%	71.59%	74.48%	69.29%