

FORWARD WITH PURPOSE

A LOOK BACK AT 2019, A LOOK FORWARD TO THE FUTURE.

2020 ANNUAL
SHAREHOLDER MEETING
JUNE 24, 2020



 THE
BANK OF FINCASTLE



THE BANK OF FINCASTLE | POST OFFICE BOX 107 | FINCASTLE, VIRGINIA 24090
PHONE: 540-473-2761 | FAX: 540-473-7136 | WWW.BANKOFFINCASTLE.BANK

May 13, 2020

Dear Fellow Shareholder:

We cordially invite you to attend The Bank of Fincastle's Annual Shareholder Meeting at 9:00 a.m. on Wednesday, June 24, 2020 at Fincastle United Methodist Church, located at 137 S. Church Street in Fincastle, Virginia 24090. The enclosed Notice of the 2020 Annual Meeting of Shareholders and Proxy Statement describes the matters to be presented at the Annual Meeting. Also enclosed is a President's Message, along with our balance sheet and income statement for the fiscal year ended December 31, 2019 which will be reviewed as well. Please give them your prompt and careful attention.

We strive to keep our shareholders informed. Consistent with that, we will post our annual and quarterly reports and other important information on the Bank's website under Investor Relations at www.bankoffincastle.bank. You also may request a complete set of the Bank's audited consolidated financial statements for the year ended December 31, 2019 by calling Michael Jasper at 540-473-2761. Our common stock is traded on the OTC Pink marketplace maintained by OTC Markets Group Inc. under the trading symbol "BFTL." You may vote by mail or internet as indicated on the enclosed proxy. Regardless of whether you will be able to attend the Annual Shareholder Meeting, it is important that your shares be represented and your vote recorded.

Due to the uncertainty surrounding the coronavirus/COVID-19 outbreak, the Board of Directors elected to move the Annual Meeting from the usual May time frame to June 24th, in the hope that shareholders may be able to attend in-person. However, given public health concerns, we are also planning for the possibility that the Annual Meeting may need to be held by means of remote communication. If we take this step, we will announce the decision in advance, including details on how to participate in a virtual or telephonic meeting.

We appreciate your continued loyalty and support of The Bank of Fincastle and hope you will be able to attend the Annual Shareholder Meeting, either in person or by proxy.

Sincerely,

George E. Holt, III
Chairman

GH/mpf

THE BANK OF FINCASTLE
17 South Roanoke Street
Fincastle, Virginia 24090

Notice of 2020 Annual Meeting of Shareholders

To be held June 24, 2020

The 2020 Annual Meeting of Shareholders of The Bank of Fincastle will be held at Fincastle United Methodist Church, located at 137 S. Church Street in Fincastle, Virginia 24090, on Wednesday, June 24, 2020, at 9:00 a.m. for the following purposes:

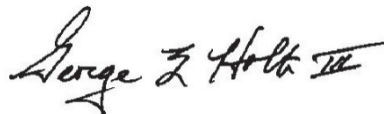
1. To elect two Directors to serve until 2023, as the accompanying Proxy Statement describes.
2. In their discretion, this authorizes proxies to vote upon any other business that properly may come before the annual meeting or any postponements or adjournment.

Shareholders of record at close of business on April 27, 2020, are entitled to notice of and to vote at the annual meeting.

IMPORTANT – YOUR PROXY IS ENCLOSED

Special Note Regarding COVID-19. Given the public health and safety concerns related to coronavirus disease 2019 or COVID-19, we ask that each shareholder evaluate the relative benefit to them personally of in-person attendance at the meeting and take advantage of the ability to vote by proxy via mail or internet, as instructed on the enclosed appointment of proxy. If you elect to attend in person, we ask that you follow recommended guidance, mandates, and applicable executive orders from federal and state authorities, particularly as they relate to social distancing and attendance at public gatherings. If you are not feeling well or think you may have been exposed to COVID-19, we ask that you not attend in-person and vote by proxy for the meeting. Should further developments with COVID-19 necessitate that we change any material aspects of the meeting, including holding the meeting virtually or by telephone, we will make disclosure of such changes. We thank you for your cooperation as we balance our focus on shareholder engagement with the safety of our community and each of our shareholders.

By Order of the Board of Directors



George E. Holt, III
Chairman

IMPORTANT NOTICE:

PLEASE VOTE BY INTERNET OR MAIL. IF BY MAIL COMPLETE, SIGN, DATE AND RETURN THE ENCLOSED PROXY FORM IN THE ACCOMPANYING ENVELOPE, SO THAT YOUR SHARES WILL BE REPRESENTED AT THE MEETING. SHAREHOLDERS ATTENDING THE MEETING MAY REVOKE THEIR PROXIES AND PERSONALLY VOTE ON ALL MATTERS WHICH ARE CONSIDERED AT ANY TIME BEFORE VOTING OCCURS.



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Dear Shareholder:

As I write this message, we are in one of the strangest times in modern history. In January, we saw a soaring stock market breaking record highs. The COVID-19 virus arrived in America, forcing millions to stay in their homes for the sake of the greater good. The situation has been a matter of reflection for us all as the region's first case of COVID-19 affected a Botetourt County family.

I am exceedingly proud of our employees' commitment and hard work during this unprecedented time. I feel we have been able to balance excellent service with practical safeguards. Nationally, the conversation is centering around the idea of a return to normalcy. This is something we all long for...to just get back to doing business as usual.

The Bank of Fincastle has spent the past few years working to return to our rightful place as a great local financial institution. I am pleased to report that we continue to make significant progress in this regard. We have worked with our employees, shareholders, board, and customers to re-establish this Bank as a place that neighbors can depend on and a beacon of financial strength in Botetourt County and the Roanoke Valley. Business as usual for The Bank of Fincastle is creating a financially strong Bank by offering excellent value products people want. In other words, listening to our customers. This is not just the reflection of a bank executive who is proud of his employees. There is data to underscore our continued performance.

In Q4, we announced unaudited total assets of \$221.30 million, against total liabilities of \$193.12 million and net income of \$1,387,045 for the three months ended December 31, 2019. A major key highlight of our fourth-quarter performance was the recapture of a \$1.39 million deferred tax asset reserve. Throughout 2019, the numbers continued to strengthen in asset quality metrics, improvement in the Bank's net interest income, and overall profitability.

A goal for the past year was to increase lending. In 2019, The Bank of Fincastle grew net loans by 12.73% from year-end 2018. Our loan to deposit ratio improved from 83.5% at year-end 2018 to 89.39% at year-end 2019. We also enjoyed good growth without "buying" deposits, achieving 6.71% year-over-year organic deposit growth while maintaining a .66% cost of funds.

Asset quality continues to improve. Delinquencies are 0.26% of the portfolio at the end of the year, while non-performing assets, including restructured loans, were down from 3.43% of total assets on December 31, 2018, to 2.39% at December 31, 2019. OREO, as a percentage of total assets, has improved from 1.02% to 0.81% over the same timeframe.

While our numbers tell a positive story, we are also adding new services to position us to grow in the future. We made several enhancements to our on-line products this year, and we are well-positioned to attract a new, more tech-savvy generation of customers across the Valley. We also added a commercial loan officer to focus on expanding and accelerating our growth into the Roanoke, Virginia market.

We have made a decision due to the recent economic events surrounding the COVID-19 pandemic, to reassess our aggressive sales and growth goals for 2020. Our team is following our pandemic plan, has undergone periodic pandemic response and business continuity training. We are well trained for events such

as these. In addition, our balance sheet reflects a strong capital position and higher loan loss reserve levels versus our peers.

While the events of 2020 have been challenging for many people, The Bank of Fincastle is in a good financial situation and well-positioned to be a strong ally in our community's recovery and a catalyst to a brighter tomorrow.

Sincerely,

A handwritten signature in black ink, appearing to read "Scott Steele". The signature is written in a cursive style with a long horizontal flourish extending to the right.

Scott Steele
President & CEO
The Bank of Fincastle

PROXY STATEMENT
OF
THE BANK OF FINCASTLE

ANNUAL MEETING OF SHAREHOLDERS TO BE HELD JUNE 24, 2020

This Proxy Statement is furnished on May 13, 2020, in connection with the solicitation of proxies to be used at the Annual Meeting of Shareholders of The Bank of Fincastle ("Bank"), to be held on Wednesday, June 24, 2020, at 9:00 a.m., Eastern Standard Time, at Fincastle United Methodist Church located at 137 S. Church Street in Fincastle, Virginia 24090.

Proxies in the form enclosed are solicited by management at the direction of the Board of Directors of the Bank. If the enclosed proxy is properly signed and returned, the shares represented thereby will be voted at the Annual Meeting in accordance with its terms. Where no instructions are indicated, proxies will be voted FOR the nominees set forth in this proxy statement. Any proxy given pursuant to this solicitation may be revoked at any time prior to the vote of the shareholders, and an opportunity will be given to shareholders attending the Meeting to withdraw their proxies and to vote their shares in person.

VOTING SECURITIES

The close of business on April 27, 2020, has been fixed as the record date for the determination of the shareholders of the Bank entitled to notice of and to vote at the Annual Meeting of Shareholders. As of that date, there were 10,187,499 shares of common stock outstanding, each of which is entitled to one vote.

PROPOSAL 1 ELECTION OF DIRECTORS

To elect two Directors to serve until 2023, as the accompanying Proxy Statement describes.

The Board of Directors recommends a vote **FOR** each of the nominees for Director.

Mr. Charles "Scott" Steele and Mr. George E. Holt, III are nominated to serve a three-year term until 2023, or their replacements are elected and qualified. Both individuals are highly qualified and regarded, and currently serve as directors. We look forward to having them serve our Board further.

There is substantially more information related to the Board nominees and management in general under "INFORMATION CONCERNING DIRECTORS AND NOMINEES."

PROPOSAL 2. OTHER MATTERS

In their discretion, this authorizes proxies to vote upon any other business that properly may come before the annual meeting or any postponements or adjournments.

The Board of Directors does not know of any matters that may be presented for consideration at the meeting other than those specifically set forth in the Notice of Annual Meeting. If other proper matters are presented at the meeting, the proxy holders named in the enclosed Proxy intend to act consistent with their best judgment.

INFORMATION CONCERNING DIRECTORS AND NOMINEES

Director Nominees

Class I - Serving until 2023

Charles “Scott” Steele – Director since 2016



BACKGROUND

Charles “Scott” Steele, 48, joined The Bank of Fincastle in June of 2015 and was named President and CEO in July of the same year. Previously he served as Senior Vice President, Chief Lending Officer and Compliance Officer for CornerStone Bank in Lexington, Virginia. A native of White Sulphur Springs, Mr. Steele received his Bachelor’s degree in Business Administration from West Virginia University and earned a diploma from the Graduate School of Banking at Louisiana State University. He is a charter member of the Botetourt County Rotary Club and serves on the Botetourt County Chamber of Commerce Board of Directors.

QUALIFICATIONS

Since joining The Bank of Fincastle, Mr. Steele has led the Board in developing a new strategic direction for the Bank with a strong focus on improving asset quality, operational policies and procedures, internal controls, regulatory relations, enterprise risk management, product diversification and staff development and training.

COMMITTEES

Loan – Chairman
Asset/Liability – Member
IT/Enterprise Risk Management – Member
CRA/Marketing – Member
Strategic Planning – Member

George E. Holt, III – Director Since 2015 (Currently serves as Chairman of the Board)



BACKGROUND

Ed Holt, 67, grew up in Botetourt County and graduated from The College of William and Mary with both BA and MBA degrees. In 2004 he left the employ of larger businesses to found RailCar Interchange where he is currently President. He proudly serves on the Board of Directors of The Bank of Fincastle following in the footsteps of his father and grandfather. Mr. Holt also serves on the Boards of the Botetourt County Historical Society, the Western Virginia Historical Society and Godwin Cemetery.

QUALIFICATIONS

Mr. Holt’s extensive experience in successful businesses, along with his educational training in business and his MBA, enables him to identify and lead the implementation of successful business practices and strategies to enhance the lending and operational performance of The Bank of Fincastle.

COMMITTEES

Succession Planning and Compensation – Chairman

Strategic Planning – Chairman

Asset/Liability - Vice-Chairman

Audit - Vice-Chairman

Loan – Member

IT/Enterprise Risk Management – Member

Nominating and Corporate Governance – Member

Continuing in Office

Class III - Serving until 2022

<u>Name, Age, Year First Became Director</u>	<u>Principal Occupation</u>
C. Ray Sprinkle Age 71 Director since 1972	Realtor, Re/Max All Stars
Steven W. Spickard Age 59 Director since 2001	Owner, Spickard Contracting
Gregory R. Gersack Age 54 Director since 2017	Managing Director, Head of Midwest & West Coast Depositories-FIG Group Head of Equity Capital Markets- Janney Montgomery Scott, LLC

Class II – Serving until 2021

<u>Name, Age, Year First Became Director</u>	<u>Principal Occupation</u>
Kirtesh Patel Age 46 Director since 2019	President and CEO of OMMA Management
John W. Rader, Jr. Age 59 Director since 2012	Senior Vice President of Investments at Valley Investment Management of Davenport & Company, LLC
Robert C. Wagner, IV Age 52 Director since 2017	Founder and Managing Principal of Three Rivers Fund Advisors, LLC

Board Meeting, Committees, Attendance, and Fees

During 2019 there were 12 meetings of the Board of Directors of the Bank. The Board of Directors has the following Committees: Audit, Loan, Succession Planning and Compensation, Nominating and Corporate Governance, Asset Liability, CRA/Marketing, Strategic Planning and IT/Enterprise Risk Management. Committees meet as needed, some (such as the Loan Committee) quite often, others once a quarter or less. Each director attended at least 75% of all meetings of the Board and committees on which he or she served.

Shareholder Communications with the Board

The Bank has an informal process for shareholders to communicate with the Board of Directors. If you wish to communicate with the Board or any of its members, you may do so by sending written correspondence to the Board or any member at the Bank's principal address, Attention: Board of Directors, P.O. Box 107, Fincastle, Virginia 24090.

Interest of Management in Certain Transactions

As of December 31, 2019, the total maximum extensions of credit to policymaking officers, directors, principal stockholders and their associates amounted to \$4,035,198 or 14.3%, of total year-end capital. The maximum aggregate amount of such indebtedness available in 2019 was \$4,808,526 or 17.1% of total year-end capital. These loans were made in the ordinary course of the Bank's business, on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with others, and do not involve more than the normal risks of collectability or present any unfavorable features. None of these loans are past due or on non-accrual status. The Bank expects to have in the future similar banking transactions with officers, directors, principal shareholders and their associates.

Independent Public Accountants

The Bank's Audit Committee appointed Yount, Hyde & Barbour, PC as independent public accountants for the fiscal year ended December 31, 2019. A representative of Yount, Hyde & Barbour, PC will be present at the Annual Meeting and will respond to appropriate questions from the shareholders.

2021 SHAREHOLDER PROPOSALS

If any shareholder intends to present a proposal to be considered for inclusion in the Bank's proxy materials for the 2021 Annual Meeting, the proposal must be in proper form and must be received by the Bank's Secretary, at the Bank's principal office in Fincastle, Virginia, on or before December 15, 2020.

COMPLETING YOUR PROXY

Shareholders are urged to vote by internet, mail or to specify choices on the enclosed Proxy and to date and return it by mail in the enclosed envelope. We thank you for your prompt response and cooperation.

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2019 and 2018

ASSETS	2019	2018
Cash and cash equivalents	\$ 3,136,134	\$ 3,305,017
Interest-bearing deposits with banks	8,722,934	4,507,162
Federal funds sold	126,000	132,000
Investment securities available for sale, at fair value	22,892,227	32,250,341
Restricted investment securities	241,350	235,450
Loans held for sale	442,780	573,000
Loans, net of allowance for loan losses of \$2,349,472 at 2019 and \$2,676,945 at 2018	167,759,353	148,820,724
Premises and equipment, net	4,622,301	5,099,030
Accrued interest receivable	596,652	600,216
Other real estate owned	1,788,218	2,107,010
Bank owned life insurance	5,671,829	5,552,722
Other assets	5,295,619	3,907,182
	Total assets	Total assets
	\$ 221,295,397	\$ 207,089,854
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand deposits	\$ 63,463,543	\$ 61,018,397
Interest-bearing deposits	127,320,902	118,093,537
	Total deposits	Total deposits
	190,784,445	179,111,934
Accrued interest payable	149,809	111,799
Reserve for losses on letters of credit	944,379	1,358,880
Other liabilities	1,236,529	1,208,295
	Total liabilities	Total liabilities
	193,115,162	181,790,908
Stockholders' equity		
Common stock, \$0.04 par value; 25,000,000 shares authorized, 10,104,999 shares at 2019 and 9,999,999 shares at 2018, issued and outstanding	404,200	400,000
Surplus	18,424,702	18,119,152
Retained earnings	9,347,186	7,218,340
Accumulated other comprehensive income (loss)	4,147	(438,546)
	Total stockholders' equity	Total stockholders' equity
	28,180,235	25,298,946
	Total liabilities and stockholders' equity	Total liabilities and stockholders' equity
	\$ 221,295,397	\$ 207,089,854

THE BANK OF FINCASTLE AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

Years Ended December 31, 2019 and 2018

	2019	2018
INTEREST INCOME		
Interest and fees on loans	\$ 8,032,500	\$ 7,267,180
Interest on investment securities, taxable	417,183	529,153
Interest on interest bearing deposits in banks	337,657	105,162
Total interest income	8,787,340	7,901,495
INTEREST EXPENSE		
Interest on deposits	1,238,142	808,221
Interest on borrowings	1,654	5,146
Total interest expense	1,239,796	813,367
Net interest income	7,547,544	7,088,128
(RECOVERY OF) PROVISION FOR LOAN LOSSES	(200,000)	220,000
Net interest income after (recovery of) provision for loan losses	7,747,544	6,868,128
NONINTEREST INCOME		
Service charges on deposit accounts	127,829	141,886
Rental income	141,600	160,100
Debit and credit card fees	429,237	404,321
Other income	461,598	460,953
Total noninterest income	1,160,264	1,167,260
NONINTEREST EXPENSE		
Salaries and employee benefits	3,451,734	3,496,934
Occupancy and equipment	790,226	752,463
Data processing expenses	1,238,466	1,349,164
Legal and professional fees	367,748	434,529
Postage, stationery and supplies	89,549	93,325
FDIC insurance assessment	46,526	111,394
Losses (gains) on sale and write-downs of other real estate owned, net	440,851	167,968
Expenses of adversely classified items	287,603	118,110
(Gains) losses on letters of credit, net	-	(200,000)
Other expenses	1,348,549	723,204
Total noninterest expense	8,061,252	7,047,091
INCOME BEFORE INCOME TAXES	846,556	988,297
Income tax (benefit) expense	(1,282,290)	139,803
NET INCOME	\$ 2,128,846	\$ 848,494
Per share data:		
Income per share	\$ 0.21	\$ 0.08

COMMUNITY | INTEGRITY | EXCELLENCE | INDEPENDENCE | LOYALTY



F THE BANK OF FINCASTLE

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