REFINITIV

DELTA REPORT

10-K

CARE - CARTER BANKSHARES, INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS	3189
CHANGES	431
DELETIONS	1248
ADDITIONS	1510

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2022 December 31, 2023

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _________ to _________

Commission file number: 001-39731

CARTER BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**85-3365661**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1300 Kings Mountain Road, Martinsville, Virginia	**24112**
(Address of principal executive offices)	(Zip Code)

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

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

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. **Yes** ☐ **No** ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. **Yes** ☐ **No** ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). **Yes** ☒ **No** ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	¨	Accelerated filer	x	Emerging growth company	¨
Non-accelerated filer	o	Smaller reporting company	o		

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. ¨

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). **Yes** ☐ **No** ☒

The aggregate market value of Carter Bankshares, Inc.'s common stock held by non-affiliates, computed by reference to the price at which the common stock was last sold, or the average bid and asked price of such common stock, as of June 30, 2022 June 30, 2023 was $317,918,740. $339,949,437.

There were 23,922,128 23,022,221 shares of common stock of Carter Bankshares, Inc. outstanding as of March 7, 2023 March 4, 2024.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement of Carter Bankshares, Inc., to be filed pursuant to Regulation 14A for the 2023 2024 annual meeting of shareholders to be held May 24, 2023 May 22, 2024, are incorporated by reference into Part III of this Annual Report on Form 10-K.

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Important Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains or incorporates certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements include statements that relate to our financial condition, market conditions, results of operations, plans, objectives, outlook for earnings, strategic initiatives and related earn-back periods, revenues, expenses, capital and liquidity levels and ratios, asset levels and asset quality. quality, including but not limited to statements regarding the interest rate environment, the impact of future changes in interest rates, and the impacts of the Company placing its largest lending relationship on nonaccrual status. 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,” “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.

These statements are not guarantees of future results or performance and involve certain risks, uncertainties and assumptions assumption that are difficult to predict and often are beyond the Company's Company’s control. 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 including, but not limited to the effects of:

- market interest rates and the impacts of market interest rates on economic conditions, customer behavior, and the Company's loan and securities portfolios;
- inflation, market and monetary fluctuations;
- changes in trade, monetary and fiscal policies and laws of the U.S. government, including policies of the Federal Reserve; Reserve, FDIC and Treasury Department;
- changes in tax laws;
- the security of our electronic systems and information;
- technological risks and developments, and cyber-security threats, attacks or events;
- rapid technological developments and changes;
- our ability to resolve our nonperforming assets and our ability to secure collateral on loans that have entered nonaccrual status due to loan maturities and failure to pay in full;
- changes in the Company's liquidity and capital positions;
- concentrations of loans secured by real estate, particularly commercial real estate, and the potential impacts of changes in market conditions on the value of real estate collateral;
- increased delinquency and foreclosure rates on commercial real estate loans;
- an insufficient allowance for credit losses ("ACL"); losses;
- the potential adverse effects of unusual and infrequently occurring events, such as weather-related disasters, terrorist acts, war and other military conflicts (such as the war between Israel and Hamas and the ongoing war between Russia and Ukraine) or public health events (such as the COVID-19 pandemic), and of any governmental and societal responses thereto; these potential adverse effects may include, without limitation, adverse effects on the ability of the Company's borrowers to satisfy their obligations to the Company, on the value of collateral securing loans, on the demand for the Company's loans or its other products and services, on incidents of cyberattack and fraud, on the Company's liquidity or capital positions, on risks posed by reliance on third-party service providers, on other aspects of the Company's business operations and on financial markets and economic growth;
- a change in spreads on interest-earning assets and interest-bearing liabilities;
- regulatory supervision and oversight, including our relationship with regulators and any actions that may be initiated by our regulators;
- legislation affecting the financial services industry as a whole (such as the Inflation Reduction Act of 2022), and the Company and the Bank, in particular;

- the outcome of pending and future litigation and/or governmental proceedings, including the outcome of the lawsuits between the Bank and governmental proceedings; West Virginia Governor James C. Justice, II, his wife Cathy Justice, his son James C. Justice, III and various related entities that he and/or they own and control, concerning, among other items, their lending relationship with the Bank and repayment of amounts owed to the Bank;
- 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;
- the soundness of other financial institutions and any indirect exposure related to recent significant bank failures or broader stability or liquidity concerns regarding other financial institutions including but not limited to other regional banks, which may also adversely impact, directly or indirectly, other financial institutions and market

participants with which the Company has commercial or deposit relationships with;

- material increases in costs and expenses;
- reliance on significant customer relationships;
- general economic or business conditions, including unemployment levels, continuing supply chain disruptions and slowdowns in economic growth;
- significant weakening of the local economies in which we operate;
- changes in customer behaviors, including consumer spending, borrowing and saving habits;
- changes in deposit flows and loan demand;
- our failure to attract or retain key employees;
- expansions or consolidations in the Company's branch network, including that the anticipated benefits of the Company's branch network optimization project are not fully realized in a timely manner or at all;
- deterioration of the housing market and reduced demand for mortgages; and
- 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 throughout this Annual Report on Form 10-K, including Part I, Item 1A, "Risk Factors" and any of our subsequent filings with the Securities and Exchange Commission ("SEC"). 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 are expressed in or implied by a forward-looking statement 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, revise or clarify any forward-looking statement to reflect developments occurring after the statement is made.

PART 1

ITEM 1. BUSINESS

General

Carter Bankshares, Inc. (the "Company") is a holding company headquartered in Martinsville, Virginia with assets of $4.2 billion $4.5 billion at December 31, 2022 December 31, 2023. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is an Federal Deposit Insurance Corporation ("FDIC") insured, Virginia state-chartered commercial bank which operates 66 65 branches in Virginia and North Carolina. The Bank provides a full range of retail and commercial financial products and services and insurance products.

In this Annual Report on Form 10-K, unless the context suggests otherwise, the terms "we," "us" and "our" refer to the Company and its subsidiaries, including the Bank.

History and Holding Company Reorganization

The Bank commenced business on December 29, 2006, following the effectiveness of the concurrent merger of ten banking institutions. The ten merged banks and their respective main office locations were Blue Ridge Bank, N.A. (Floyd, Virginia); Central National Bank (Lynchburg, Virginia); Community National Bank (South Boston, Virginia); First National Bank (Rock Mount, Virginia); First National Exchange Bank (Roanoke, Virginia); Mountain National Bank (Galax, Virginia); Patrick Henry National Bank (Martinsville, Virginia); Patriot Bank, N.A. (Fredericksburg, Virginia); Peoples National Bank (Danville, Virginia); and Shenandoah National Bank (Staunton, Virginia).

The Company was incorporated on October 7, 2020, by and at the direction of the board of directors of the Bank, for the sole purpose of acquiring the Bank and serving as the Bank's parent bank holding company pursuant to a corporate reorganization transaction (the "Reorganization"). On November 9, 2020, the Bank entered into an Agreement and Plan of Reorganization (the "Reorganization Agreement") with the Company and CBT Merger Sub, Inc. (the "Merger Sub"), a wholly-owned subsidiary of the Company, pursuant to which the Reorganization would be effected. Effective at 7:00 p.m. on November 20, 2020 (the "Effective Time"), under the terms of the Reorganization Agreement and pursuant to Section 13.1-719.1 of the Virginia Stock Corporation Act (the "VSCA"), the Bank merged with the Merger Sub and survived such merger as a wholly-owned subsidiary of the Company. Prior to the Effective Time, the Company had no material assets and had not conducted any business or operations except for activities related to the Company's organization and the Reorganization.

At the Effective Time, under the terms of the Reorganization Agreement and pursuant to Section 13.1-719.1 of the VSCA, each of the outstanding shares of the Bank's common stock, par value $1.00 per share, formerly held by its shareholders was converted into and exchanged for one newly issued share of the Company's common stock, par value $1.00 per share, and the Bank became the Company's wholly-owned subsidiary. The shares of the Company's common stock issued to the Bank's shareholders were issued without registration under the Securities Act of 1933, as amended (the “Act”), pursuant to the exemption from registration provided by Section 3(a)(12) of the Act. Pursuant to Section 13.1-719.1 of the VSCA, the Reorganization did not require approval of the Bank’s shareholders.

In the Reorganization, each shareholder of the Bank received securities of the same class, having substantially the same designations, rights, powers, preferences, qualifications, limitations and restrictions, as those that the shareholder held in the Bank.

Prior to the Effective Time, the Bank’s common stock was registered under Section 12(b) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The Bank was subject to the information requirements of the Exchange Act and, in accordance with Section 12(i) thereof, it filed annual and quarterly reports, proxy statements and other information with the Federal Deposit Insurance Corporation (“FDIC”). FDIC. Upon consummation of the Reorganization, the Company’s common stock was deemed to be registered under Section 12(b) of the Exchange Act, pursuant to Rule 12g-3(a) promulgated thereunder, and the Company now files annual reports, proxy statements and other information with the SEC.

The Company’s common stock is traded on the Nasdaq Global Select Market (“NASDAQ”) under the ticker symbol “CARE.”

Operations

The Company is a bank holding company that conducts its business solely through the Bank. The Bank earns revenue primarily from interest on loans and securities and fees charged for financial services provided to customers. The Bank incurs expenses for the cost of deposits, provision for credit losses and other operating costs such as salaries and employee benefits, data processing, occupancy and tax expense.

Beginning in 2023, and continuing into 2024 and 2025, the Company is focusing on refining and enhancing its brand image and position in the markets it serves. To strengthen and further shape the culture of the Company, a new set of guiding principles were introduced to associates in June 2023. The Bank’s mission guiding principles include a new purpose statement: *To create opportunities for more people and businesses to prosper*; supported by our new set of core values: *Build Relationships, Earn Trust and Take Ownership.* We believe these new guiding principles will help create alignment to support future growth by empowering our associates and igniting a passion for the Company.

The Company’s goal is to be the preferred lifetime financial partner for customers and shareholders, and the employer of choice in the communities the Bank is privileged to serve. Our strategic plan focuses on shift from restructuring the balance sheet to provide more diversification pursuing a prudent growth strategy when appropriate. We believe this strategy will be primarily targeted at organic growth, but will also consider opportunistic acquisitions that fit this strategic vision. We believe that the Bank’s strong capital and higher yielding assets liquidity positions support this strategy. In addition to increase our net interest margin. Another area of focus is the transformation of the infrastructure of the Bank to provide a foundation for operational efficiency and new products and services for our customers that will ultimately increase noninterest income.

Our focus continues to be on loan and deposit growth, with a shift in the composition of deposits to lower cost core deposits with less dependence on higher cost certificates of deposits (“CDs”). We also continue to focus on implementing opportunities Company will seek to increase fee income while closely monitoring our operating expenses. The Bank is also focused on executing our strategy to successfully build our brand and grow our business in our markets.

The Bank offers a full range of deposit services including Lifetime Free Checking, interest checking accounts, savings accounts, retirement accounts and other deposit accounts of various types, ranging from money market accounts to longer-term CDs. These products and services are available to our personal and business customers. The transaction accounts and CDs are tailored to each of the Bank's principal markets at competitive rates. All deposit accounts are insured by the FDIC up to the maximum amount allowed by law.

The Bank also offers a full range of commercial and consumer loans. Commercial loans include both secured and unsecured loans, real estate construction and acquisition loans, and commercial and industrial loans. Consumer loans include residential mortgage, secured and unsecured loans for financing automobiles, home improvements, education, overdraft protection, personal investments and credit cards. The Bank also originates and holds fixed and variable rate mortgage loans and offers home equity lines of credit to its customers.

The Bank's lending activities are subject to a variety of lending limits imposed by federal law. While differing limits apply in certain circumstances based on the type of loan or the nature of the borrower (including the borrower's relationship to the Bank), in general the Bank is subject to a “loan to one” borrower limit of an amount equal to 15% of the Bank's unimpaired capital and surplus. The Bank may not make loans to any director, officer, associate or 10% shareholder of the Company unless the loan is approved by the Company’s Board of Directors (the “Board”) and is made on terms no more favorable than loans made available to a person not affiliated with the Bank.

Our other bank services include safe deposit boxes, direct deposit of payroll and social security checks and debit cards. Online banking products including a full suite of digital tools including: online and mobile banking, online account opening, bill pay, eStatements (paperless electronic statements), mobile deposit, Zelle®, CardValet®, digital wallet, and MoneyPass® network of ATMs. Treasury and corporate cash management services are also available to our business customers. The Bank also provides title insurance and other financial institution-related products and services. The Bank has no current plans to exercise trust powers.

The Bank has one wholly owned subsidiary, CB&T Investment Company (“the Investment Company”), which was chartered effective April 1, 2019. The Investment Company was formed to hold and manage a group of investments previously owned by the Bank and to provide additional latitude to purchase other investments.

The Company is a Virginia business corporation subject to the Bank Holding Company Act of 1956, as amended. As such, the Company is subject to supervision and examination by, and the regulations and reporting requirements of, the Board of Governors of the Federal Reserve System (“FRB”). The Company’s principal office, which is the same as the Bank’s principal office, is located at 1300 Kings Mountain Road, Martinsville, Virginia 24112. The Company’s telephone number at that address is (276) 656-1776. The Company’s website address is www.cbtcares.com.The information on our website is not a part of, nor is it incorporated by reference, into this report.

Competition

The Bank experiences significant competition in attracting depositors and borrowers. Competition in lending activities comes principally from other commercial banks, savings associations, insurance companies, governmental agencies, credit unions, brokerage firms and other non-bank lenders including mortgage companies and consumer finance companies. Competition for deposits comes from other commercial banks, savings associations, money market and mutual funds, credit unions, insurance companies and brokerage firms. Some of the financial organizations competing with the Bank have greater financial resources than the Bank. Certain of these financial organizations also have greater geographic coverage and some offer bank and bank-related services that the Bank does not offer.

Human Capital Management

Our associates are the engine that drives our mission purpose to be the preferred lifetime financial partner create opportunities for the communities in which we are privileged more people and businesses to serve. prosper. Our core values of building lasting relationships, inclusivity, earning trust, and optimism taking ownership are key to building and maintaining a team-oriented environment with associates that are engaged in open communication to help each other serve, learn, and grow. Our investment in competitive compensation, health benefits, wellness programs, and a focus on healthy work-life integration allows our associates to provide a high level of professional service to our customers. At Carter Bankshares, Inc., caring is what we'll always do best.

Associates

As of December 31, 2022 December 31, 2023, we employed 667 679 full-time associates and five part-time associates across our two-state footprint. No associates are represented by a collective bargaining unit. For fiscal year 2022, 2023, we hired 151 182 associates and our voluntary separation turnover rate was 22.4% 13.8%.

Compensation, Benefits, and Wellness

Our compensation strategy includes the development of job descriptions that are reviewed annually. We use market-based compensation and benefits data to provide competitive salaries and benefits to our associates. We offer paid leave, health benefits, wellness programs, a 401(k) program with matching and employer contributions, restricted stock awards for high performing associates, flexible spending accounts, and employee assistance programs to all eligible associates. We bring in external professionals who conduct wellness programs which has been especially effective during the COVID-19 pandemic, to help our associates remain focused on their health and wellness.

Associate Performance and Development

The development and performance of our associates is centered on open dialogue that provides the associate with our expectations for their role and management with the opportunity to understand associates' career aspirations. Our performance review process uses core competencies and a standardized rating system to measure performance. Associates are provided the opportunity at the start of the review cycle to perform a self-assessment including comments on their performance. These self-assessments are available for leaders to review as they develop an associate's overall performance rating. The performance review is used as a factor for the merit increase process.

The Bank conducts a standard New Hire Orientation program that associates attend on their first day of employment so new associates receive consistent information to jump start their new opportunity with the Bank. Associates also complete an average of 15 hours of regulatory and compliance training each year, in addition to training specific to their job duties and responsibilities. The Bank also develops and conducts programs to provide leaders with the tools and resources they need to develop their associates and build high-performing teams. Associates are given opportunities to attend webinars and enroll in outside classes to enrich their professional goals.

Diversity, Equity, and Inclusion

We strive to promote inclusion through our core Company values and behaviors. We use various communication channels to develop an engaged workforce and create an inclusive workplace. In 2021, we created a Diversity, Equity, and Inclusion Council (the "DEI Council") that is overseen by our Chief Executive Officer (or "CEO") and directed by our Chief Human

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1. BUSINESS - (continued)

Resources Officer and our Regulatory Risk Management Director. The DEI Council consists of at least 10 associates from

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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across our organization and is focused on collecting information, developing a roadmap, data and presenting information to management to further the Bank's efforts of identifying focus areas and recommending action plans to cultivate a culture that will attract and retain a diverse and inclusive workforce.

Here is a snapshot of our diversity metrics as of December 31, 2022 December 31, 2023:

Gender	% of Total Workforce
Female	79.00 77.1 %
Male	21.00 22.9 %

Generation	% of Total Workforce
Generation Z (1997 and later)	8.90 13.0 %
Millennials (1981 - 1996)	38.30 37.7 %
Generation X (1965 – 1980)	31.00 32.3 %
Baby Boomers (1946 – 1964)	20.80 16.3 %
Silent Generation (before 1946)	1.00 0.7 %

Ethnicity	% of Total Workforce
American Indian / Alaskan Native	0.20 0.3 %
Asian	0.90 1.2 %
Black or African American	10.20 12.5 %
Hispanic or Latino	2.20 3.0 %
Not specified	0.90 2.5 %
Two or more races	2.10 2.7 %
White	83.50 77.8 %

We continue our commitment to equal employment opportunities by focusing on attracting, developing and retaining a diverse and inclusive workforce. We launched conducted an annual engagement survey that includes a section to inform the Bank on many areas of engagement, including inclusion. Our leaders continue to use this data to inform decisions on how to continue to develop a diverse and inclusive workforce.

Talent Acquisition and Retention

We focus on fairness and equitable approaches to create an environment where all of our associates can develop and thrive. Our efforts include ongoing reviews of our selection and hiring practices alongside a continued focus on pay analysis to offer our associates salaries based on their experience, knowledge, skills, abilities, and fit for a position's duties and responsibilities.

Our talent acquisition program uses various external partners to reach a diverse population of candidates. We have developed training programs that prepare associates for their roles and responsibilities. Our leaders identify and work with our Human Resources teams to promote associates when opportunities are available.

Supervision and Regulation

General

Bank holding companies, banks and their affiliates are extensively regulated under federal and state law. Consequently, the growth and earnings performance of the Company and the Bank can be affected not only by management decisions and general economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities including, but not limited to, the Bureau of Financial Institutions (the "Bureau") of the Virginia State Corporation Commission (the "SCC"), the FDIC, the FRB, the Internal Revenue Service ("IRS"), federal and state taxing authorities, and the SEC.

The following summary briefly describes significant provisions of currently applicable federal and state laws and certain regulations and the potential impact of such provisions. This summary is not complete, and we refer you to the particular

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1. BUSINESS - (continued)

statutory or regulatory provisions or proposals for more information. Because regulation of financial institutions changes regularly and is the subject of constant legislative and regulatory debate, we cannot forecast how federal and state regulation and supervision of financial institutions may change in the future and affect the Company's and the Bank's operations.

Regulatory Reform Environment

The financial crisis of 2008, including the downturn of global economic, financial and money markets and the threat of collapse of numerous financial institutions, Banking and other events led to financial services statutes, regulations and policies are continually under review by the adoption U.S. Congress, state legislatures and federal and state regulatory agencies. The scope of numerous the laws and regulations, that apply and the intensity of the supervision to and focus on, financial institutions. The most significant of these laws is the The Dodd-Frank Act Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), signed into law on July 21, 2010, which in part, was intended to implement significant structural reforms to the financial services industry. The Dodd-Frank Act implemented far-reaching changes across the financial regulatory landscape, including changes that have significantly affected the business of all bank holding companies and banks, including the Company and its subsidiaries are subject, have increased in recent years, initially in response to the Bank. Some 2008 financial crisis, and more recently in light of other factors, including continued turmoil and stress in the rules that financial markets, technological factors, market changes, and increased scrutiny of proposed bank mergers and acquisitions by federal and state bank regulators. Regulatory enforcement and fines have been proposed also increased across the banking and in some cases, adopted to comply with the Dodd-Frank Act's mandates are discussed further below.

In May 2018, the Economic Growth, Regulatory Relief and Consumer Protection Act (the "EGRRCPA") was enacted to reduce the regulatory burden on certain banking organizations, including community banks, by modifying or eliminating certain federal regulatory requirements. In particular, the EGRRCPA amended certain provisions of the Dodd-Frank Act as well as statutes administered by the Federal Reserve and the FDIC. Certain provisions of the Dodd-Frank Act and changes thereto resulting from the enactment of EGRRCPA that may affect the Company and the Bank are discussed below in more detail. financial services sector.

The Company and the Bank continue continues to experience ongoing regulatory reform. These reform and these regulatory changes could have a significant effect on how we conduct business. The specific implications impacts of regulatory reforms, including but not limited to the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd Frank Act"), which was enacted in 2010, or the EGRRCPA, Economic Growth, Regulatory Relief and other potential regulatory reforms Consumer Protection Act (the "EGRRCPA"), which was enacted in 2018, cannot yet be fully predicted and will depend to a large extent on the specific regulations that are likely to be adopted in the future.

Regulation of the Company and the Bank

As a Virginia bank holding company, the Company is subject to the Bank Holding Company Act of 1956 (the "BHCA") and regulation and supervision by the FRB, and also is subject to the bank holding company laws of Virginia and is subject to regulation and supervision by the SCC and the Bureau. Pursuant to the BHCA, the FRB has the power to order any bank holding company or its subsidiaries to terminate any activity or to terminate its ownership or control of any subsidiary when it has reasonable grounds to believe that continuation of such activity or ownership constitutes a serious risk to the financial soundness, safety or stability of any bank subsidiary of the bank holding company. The FRB and the FDIC have adopted guidelines and released interpretative materials that establish operational and managerial standards to promote the safe and sound operation of banks and bank holding companies. These standards relate to the institution's key operating functions, including but not limited to capital management, internal controls, internal audit systems, information systems, data and cybersecurity, loan documentation, credit underwriting, interest rate exposure and risk management, vendor management, executive management and its compensation, corporate governance, asset growth, asset quality, earnings, liquidity and risk management.

The BHCA applicable Virginia bank holding company laws generally limit the activities of a bank holding company and its subsidiaries to that of banking, managing or controlling banks, or any other activity that is closely related to banking or to managing or controlling banks.The BHCA also permits interstate banking acquisitions subject to certain conditions, including national and state concentration limits. The FRB has jurisdiction under the BHCA to approve any bank or non-bank acquisition, merger or consolidation proposed by a bank holding company. A bank holding company must be "well capitalized" and "well managed" to engage in an interstate bank acquisition or merger, and banks may branch across state lines provided that the law of the state in which the branch is to be located would permit establishment of the branch if the bank were a state bank chartered by such state. In addition, applicable Virginia law requires prior notice to the Virginia SCC before a Virginia bank holding company may acquire more than 5% of the shares of, or otherwise gain control of, any entity other than a bank, bank holding company or other financial institution.

The Bank is subject to supervision, regulation and examination by the Bureau and the Bank's primary federal regulator, the FDIC. Federal and state laws and regulations generally applicable to financial institutions regulate, among other things, the scope of business, investments, reserves against deposits, capital levels relative to operations, the nature and amount of collateral for loans, the establishment of branches, mergers, consolidations and dividends. The system of supervision and regulation applicable to the Bank establishes a comprehensive framework for its operations and is intended primarily for the protection of the FDIC's deposit insurance funds and the depositors. The Bank is not a member of the Federal Reserve System.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1. BUSINESS - (continued)

Banking Acquisitions; Changes in Control

The BHCA and related regulations require, among other things, the prior approval of the FRB in any case where a bank holding company proposes to (i) acquire direct or indirect ownership or control of more than 5% of the outstanding voting stock of any bank or bank holding company (unless it already owns a majority of such voting shares), (ii) acquire all or substantially all of the assets of another bank or bank holding company, or (iii) merge or consolidate with any other bank holding company. In determining whether to approve a proposed bank acquisition, the FRB will consider, among other factors, the effect of the acquisition on competition, the public benefits expected to be received from the acquisition, any outstanding regulatory compliance issues of any institution that is a party to the transaction, the projected capital ratios and levels on a post-acquisition basis, the financial condition of each institution that is a party to the transaction and of the combined institution after the transaction, the parties' managerial resources and risk management and governance processes and systems, the parties' compliance with the Bank Secrecy Act and anti-money laundering requirements, and the acquiring institution's performance under the Community Reinvestment Act and its compliance with fair housing and other consumer protection laws.

On July 9, 2021, President Biden issued an Executive Order on Promoting Competition in the American Economy, which, among other initiatives, encouraged the review of current practices and adoption of a plan for the revitalization of merger oversight under the BHCA and the Bank Merger Act. On March 25, 2022, the FDIC published a Request for Information seeking information and comments regarding the regulatory framework that applies to merger transactions involving one or more insured depository institution. Making any formal changes to the framework for evaluating bank mergers would require an extended process, and any such changes are uncertain and cannot be predicted at this time. However, the adoption of more expansive or stringent standards may have an impact on the Company's acquisition activity. Additionally, this Executive Order could influence the federal bank regulatory agencies' expectations and supervisory oversight for banking acquisitions.

Subject to certain exceptions, the BHCA and the Change in Bank Control Act, together with the applicable regulations, require FRB approval (or, depending on the circumstances, no notice of disapproval) prior to any person or company's acquiring "control" of a bank or bank holding company. A conclusive presumption of control exists if an individual or company acquires the power, directly or indirectly, to direct the management or policies of an insured depository institution or to vote 25% or more of any class of voting securities of any insured depository institution. A rebuttable presumption of control exists if a person or company acquires 10% or more but less than 25% of any class of voting securities of an insured depository institution and either the institution has registered its securities with the SEC under Section 12 of the Exchange Act or no other person will own a greater percentage of that class of voting securities immediately after the acquisition. The Company's common stock is registered under Section 12 of the Exchange Act.

On April 1, 2020, the FRB issued a rule for determining whether a company has control over a bank or other company for purposes of the BHCA, and the control presumptions promulgated under Regulation Y, became effective. The rule provides specific guidance for the FRB's approach to certain control evaluations, including a tiered framework incorporating a series of presumptions based on ownership of a class of voting securities. A company may be presumed to be in control of a target second company based on five levels of ownership of voting securities: (i) less than five percent; (ii) five percent; (iii) ten percent; (iv) 15 percent; (v) 25 percent; and (vi) with a presumption triggered at levels below 25 percent, depending on whether any of nine types of relationships exist (i.e., directors and director service positions, business relationships and business terms, officer/employee interlocks, contractual powers, proxy contests involving directors, and total equity ownership) and, at the same time, ownership of a class of voting securities exceeds certain thresholds. A presumption of control (once triggered) does not automatically result in a control determination under the BHCA as such presumptions may be rebutted. The rule applies only to questions of control under the BHCA, but does not extend to the Change in Bank Control Act.

In addition, Virginia law requires the prior approval of the SCC for (i) the acquisition by a Virginia bank holding company of more than 5% of the voting shares of a Virginia bank or a Virginia bank holding company, or (ii) the acquisition by any other person of control of a Virginia bank holding company or a Virginia bank.

Certain Transactions by Insured Banks with their Affiliates

There are statutory restrictions related to the extent bank holding companies and their non-bank subsidiaries may borrow, obtain credit from or otherwise engage in "covered transactions" with their insured depository institution (i.e., banking) subsidiaries. In general, an "affiliate" of a bank includes the bank's parent holding company and any subsidiary thereof. However, an "affiliate" does not generally include the bank's operating subsidiaries. A bank (and its subsidiaries) may not lend money to, or

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engage in other covered transactions with, its non-bank affiliates if the aggregate amount of covered transactions outstanding involving the bank, plus the proposed transaction, exceeds the following limits: (a) in the case of any one such affiliate, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 10 percent of the bank's capital stock and surplus; and (b) in the case of all affiliates, the aggregate amount of covered transactions of the bank and its subsidiaries cannot exceed 20 percent of the bank's capital stock and surplus. "Covered transactions" are defined to include a loan or extension of credit to an affiliate, a purchase of or investment in securities issued by an affiliate, a purchase of assets from an affiliate, the acceptance of securities issued by an affiliate as collateral for a loan or extension of credit to any person or company, the issuance of a guarantee, acceptance or letter of credit on behalf of an affiliate, securities borrowing or lending transactions with an affiliate that creates a credit exposure to such affiliate, or a derivatives transaction with an affiliate that creates a credit exposure to such affiliate. Certain covered transactions are also subject to collateral security requirements.

Covered transactions as well as other types of transactions between a bank and a bank holding company must be on market terms, which means that the transaction must be conducted on terms and under circumstances that are substantially the same, or at least as favorable to the bank, as those prevailing at the time for comparable transactions with or involving nonaffiliates or, in the absence of comparable transactions, that in good faith would be offered to or would apply to nonaffiliates. Moreover, certain amendments to the

BHCA provide that, to further competition, a bank holding company and its subsidiaries are prohibited from engaging in certain tying arrangements in connection with any extension of credit, lease or sale of property of any kind, or furnishing of any service.

Regulatory Capital Requirements

All financial institutions are required to maintain minimum levels of regulatory capital. The FDIC establishes risk-based and leveraged capital standards for the financial institutions they regulate. The FDIC also may impose capital requirements in excess of these standards on a case-by-case basis for various reasons, including financial condition or actual or anticipated growth.

As of December 31, 2022 December 31, 2023 and 2021, 2022, the Bank qualified as a "well capitalized" institution. Refer to Note 20, 21, Capital Adequacy, of the Notes to Consolidated Financial Statements in Part II, Item 8, of this Annual Report on Form 10-K.

In response to the COVID-19 pandemic, federal banking agencies adopted a final rule in late August 2020 that allowed the Company to phase in the impact of adopting the Current Expected Credit Losses ("CECL") methodology up to two years, with a three-year transition period to phase out the cumulative benefit to regulatory capital provided during the two-year delay. The Company adopted the CECL methodology effective January 1, 2021. Refer to "Capital Resources" in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), of this Annual Report on Form 10-K for information regarding the impact of this final rule on the Company's regulatory capital.

Basel III Capital Framework

The FRB and the FDIC have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and standards for calculating risk-weighted assets and risk-based capital measurements (collectively, the "Basel III Final Rules") that apply to banking institutions they supervise and to bank holding companies. For the purposes of the Basel III Final Rules, (i) common equity tier 1 capital (CET1) consists principally of common stock (including surplus) and retained earnings; (ii) Tier 1 capital consists principally of CET1 plus non-cumulative preferred stock and related surplus, and certain grandfathered cumulative preferred stocks and trust preferred securities; and (iii) Tier 2 capital consists of other capital instruments, principally qualifying subordinated debt and preferred stock, and limited amounts of an institution's allowance for credit losses. Each regulatory capital classification is subject to certain adjustments and limitations, as implemented by the Basel III Final Rules. The Basel III Final Rules also establish risk weightings that are applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans.

The Basel III Final Rules also include a requirement that banks and bank holding companies maintain additional capital (the "capital conservation buffer"). The Basel III Final Rules and capital conservation buffer require:

- a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer (which is added to the minimum CET1 ratio, effectively resulting in a required ratio of CET1 to risk-weighted assets of at least 7%);
- a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (effectively resulting in a required Tier 1 capital ratio of 8.5%);
- a minimum ratio of total capital (that is, Tier 1 plus Tier 2) capital to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (effectively resulting in a required total capital ratio of 10.5%); and

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- a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average total assets, subject to certain adjustments and limitations.

The Basel III Final Rules provide deductions from and adjustments to regulatory capital measures, primarily to CET1, including deductions and adjustments that were not applied to reduce CET1 under historical regulatory capital rules. For example, mortgage servicing rights, deferred tax assets dependent upon future taxable income, and significant investments in non-consolidated financial entities must be deducted from CET1 to the extent that any one such category exceeds 10% of CET1 or all such categories in the aggregate exceed 15% of CET1. As of December 31, 2022 December 31, 2023, the Company and the Bank met all capital adequacy requirements under the Basel III Final Rules.

In July 2023, the Federal Reserve Board and the FDIC issued proposed rules to implement the final components of the Basel III agreement, often known as the "Basel III endgame." These proposed rules contain provisions that apply to banks with $100 billion or more in total assets and that will significantly alter how those banks calculate risk-based assets. These proposed rules do not apply to holding companies or banks with less than $100 billion in assets, such as the Company and the Bank, but the final impacts of these rules cannot yet be predicted. The comment window for these proposed rules closed on November 30, 2023.

Community Bank Leverage Ratio

As a result of the EGRRCPA, the federal banking agencies issued a rule in September 2019 that permits qualifying Qualifying banks with less than $10 billion in consolidated assets to elect to be subject to a 9% leverage ratio applied using less complex leverage calculations (the “Community Bank Leverage Ratio Framework” or “CBLRF”). Banks that opt into the CBLRF and maintain a leverage ratio of greater than 9% are not subject to other risk-based and leverage capital requirements and are deemed to meet Basel III Final Rules' well capitalized ratio requirements. To qualify for the CBLRF, a bank must have less than $10 billion in total consolidated assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9%. A bank that elects the CBLRF and has a leverage ratio greater than 9% will be considered to be in compliance with Basel III capital requirements and exempt from the complex Basel III calculations. A bank that falls out of compliance with the CBLRF will have a two-quarter grace period to come back into full compliance, provided that its leverage ratio remains above 8% (a bank will be deemed well-capitalized during the grace period). The CBLRF became available for banking organizations to use as of March 31, 2020 (with the flexibility for banking organizations to subsequently opt into or out of the CBLRF, as applicable). As of December 31, 2022 December 31, 2023, the Bank has not elected to apply the CBLRF, but the Bank continues to assess the potential impact of opting in to CBLRF as part of its ongoing capital management and planning processes.

Dividend Limitations

The Company is a legal entity that is separate and distinct from the Bank. A significant portion of the revenues of the Company result from dividends paid to it by the Bank. Both the Company and the Bank are subject to laws and regulations that limit the payment of dividends, including limits on the sources of dividends and requirements to maintain capital at or above regulatory minimums. Banking regulators have indicated that Virginia banking organizations should generally pay dividends only (1) from net undivided profits of the bank, after providing for all expenses, losses, interest and taxes accrued or due by the bank and (2) if the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition. In addition, FRB supervisory guidance indicates that the FRB may have safety and soundness concerns if a bank holding company pays dividends that exceed earnings for the period in which the dividend is being paid. Further, the Federal Deposit Insurance Act (“FDIA”) prohibits insured depository institutions such as the Bank from making capital distributions, including paying dividends, if, after making such distribution, the institution would become undercapitalized as defined in the statute. We do not expect that any of these laws, regulations or policies will materially affect the ability of the Company or the Bank to pay dividends.

Insurance of Accounts, Assessments and Regulation by the FDIC

Deposits with the Bank are insured through the Deposit Insurance Fund (“DIF”) of the FDIC. As a DIF-insured institution, the Bank is subject to FDIC rules and regulations as administrator of the DIF. The Dodd-Frank Act made permanent the current standard maximum deposit insurance amount of $250,000. The FDIC coverage applies per depositor, per insured depository

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institution, for each account ownership category. The FDIC is authorized to conduct examinations of and to require reporting by DIF-insured institutions.

The FDIC is authorized to prohibit any DIF-insured institution from engaging in any activity that the FDIC determines by regulation or order to pose a serious threat to the insurance fund. Also, the FDIC may initiate enforcement actions against banks after first giving the institution's primary regulatory authority an opportunity to take such action. The FDIC may terminate the deposit insurance of any depository institution, including the Bank, if it determines, after a hearing, that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed in writing by the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance, if the institution has no tangible capital. If deposit insurance is terminated, the deposits at the institution at the time of termination, less subsequent withdrawals, shall continue to be insured for a period from six months to two years, as determined by the FDIC. Management is aware of no existing circumstances that could result in termination of the Bank's deposit insurance.

The DIF is funded by assessments on banks and other depository institutions calculated based on average consolidated total assets minus average tangible equity (defined as Tier 1 capital). The actual assessment to be paid by each DIF member is based on the institution's assessment risk classification and whether the institution is considered by its supervisory agency to be financially sound or to have supervisory concerns. As required by the Dodd-Frank Act, the FDIC has adopted a large-bank pricing assessment scheme, set a target “designated reserve ratio” (described in more detail below) of 2% for the DIF and, in lieu of dividends, provides for a lower assessment rate schedule when the reserve ratio reaches 2% and 2.5%. An institution's assessment rate is based on a statistical analysis of financial ratios that estimates the likelihood of failure over a three-year period, which considers the institution's weighted average CAMELS composite rating, and is subject to further adjustments including those related to levels of unsecured debt and brokered deposits. At December 31, 2022, total base assessment rates for institutions that have been insured for at least five years range from 1.5 to 40 basis points applying to banks with less than $10 billion in assets.

Banks with less than $10 billion in total consolidated assets (such as the Bank) receive credits to offset the portion of their assessments that help to raise the reserve ratio to 1.35%. The FDIC will automatically apply such a bank's credits to reduce its regular DIF assessment up to the entire amount of the assessment. The FDIC will remit any such remaining credits in a lump sum to the appropriate bank following application to the bank's regular DIF assessment for four quarterly assessment periods.

The Dodd-Frank Act transferred to the FDIC increased discretion with regard to managing the required amount of reserves for the DIF, or the “designated reserve ratio.” The FDIA requires the FDIC to consider the appropriate level for the DIF on at least an annual basis. On October 18, 2022, the FDIC adopted a final rule to increase initial base deposit insurance assessment rate schedules uniformly by 2 bps, beginning in the first quarterly assessment period of 2023. This increase in assessment rate schedules is intended to increase the likelihood that the reserve ratio reaches 1.35% by the statutory deadline of September 30, 2028. The new assessment rate schedules will remain in effect unless and until the reserve ratio meets or exceeds 2%. Progressively lower assessment rate schedules will take effect when the reserve ratio reaches 2%, and again when it reaches 2.5%.

In November 2023, the FDIC issued a final rule to implement a special DIF assessment following the FDIC's use of the "systemic risk" exception to the least-cost resolution test in connection with the failures and resolutions of Silicon Valley Bank and Signature Bank. Banks with less than $5 billion of uninsured deposits, such as the Bank, are exempt from this special assessment.

Community Reinvestment

The Community Reinvestment Act (the "CRA") imposes on financial institutions, including the Bank, an affirmative obligation to help meet the credit needs of their local communities, including low and moderate-income neighborhoods, consistent with the safe and sound operation of those institutions. Each financial institution's efforts in helping meet community credit needs currently are evaluated as part of the examination process pursuant to regulations adopted by the federal banking agencies. Under the regulation, a financial institution's efforts in helping meet its community's credit needs are evaluated, based on the particular institution's total assets, according to three-pronged test of lending, investment and service in the community. The grade received by a bank is considered in evaluating mergers, acquisitions and applications to open a branch or facility. To the

best knowledge of the Bank, it is meeting its obligations under the CRA. The Bank received a rating of "satisfactory" on its most recent CRA examination dated February 1, 2021 October 23, 2023.

On October 24, 2023, the federal bank regulatory agencies jointly issued a final rule to modernize CRA regulations consistent with the following key goals: (1) to encourage banks to expand access to credit, investment, and banking services in low to moderate incoming communities; (2) to adapt to changes in the banking industry, including internet and mobile banking and the growth of non-branch delivery systems; (3) to provide greater clarity and consistency in the application of the CRA regulations, including adoption of a new metrics-based approach to evaluating bank retail lending and community development financing; and (4) to tailor CRA evaluations and data collection to bank size and type, recognizing that differences in bank size and business models may impact CRA evaluations and qualifying activities. Most of the final CRA rule's requirements will be applicable beginning January 1, 2026, with certain requirements, including the data reporting requirements, applicable as of January 1, 2027. The Bank is evaluating the expected impact of the modified CRA regulations, but currently does not anticipate any material impact to its business, operations or financial condition due to the modified CRA regulations.

Federal Home Loan Bank of Atlanta

The Bank is a member of the Federal Home Loan Bank ("FHLB") of Atlanta, which is one of 12 regional FHLBs that provide funding to their members for making housing loans as well as for affordable housing and community development loans. Each regional FHLB serves as a reserve, or central bank, for the members within its assigned region. Each FHLB makes loans to members in accordance with policies and procedures established by the Board of Directors of the FHLB. As a member, the Bank must purchase and maintain stock in the FHLB. At December 31, 2022 December 31, 2023, the Bank owned $9.7 million $21.6 million of FHLB stock.

Consumer Protection

The Consumer Financial Protection Bureau (the "CFPB") is the federal regulatory agency responsible for implementing, examining and enforcing compliance with federal consumer financial laws for institutions with more than $10 billion of assets and, to a lesser extent, smaller institutions. The CFPB supervises and regulates providers of consumer financial products and services, and has rule making authority in connection with numerous federal consumer financial protection laws (for example, but not limited to, the Truth-in-Lending Act ("TILA") and the Real Estate Settlement Procedures Act ("RESPA")).

Because the Company and the Bank are smaller institutions (i.e., with assets of $10 billion or less), most consumer protection aspects of the Dodd-Frank Act will continue to be applied to the Company by the FRB and the Bank by the FDIC. However, the CFPB may include its own examiners in regulatory examinations by a smaller institution's principal regulators and may require smaller institutions to comply with certain CFPB reporting requirements. In addition, regulatory positions taken by the CFPB and administrative and legal precedents established by CFPB enforcement activities, including in connection with supervision of larger banks, could influence how the FRB and the FDIC apply consumer protection laws and regulations to financial institutions that are not directly supervised by the CFPB. The precise effect of the CFPB's consumer protection activities on the Company and the Bank cannot be determined with certainty.

Mortgage Banking Regulation

In connection with making mortgage loans, the Bank is subject to rules and regulations that, among other things, establish standards for loan origination, prohibit discrimination, provide for inspections and appraisals of property, require credit reports on prospective borrowers, restrict in some cases certain loan features and fix maximum interest rates and fees, require the disclosure of certain basic information to mortgagors concerning credit and settlement costs, limit payment for settlement services to the reasonable value of the services rendered and require the maintenance and disclosure of information regarding the disposition of mortgage applications based on race, gender, geographical distribution and income level. The Bank's mortgage origination activities are subject to the Equal Credit Opportunity Act, TILA, the Home Mortgage Disclosure Act, RESPA, the Home Ownership Equity Protection Act, and the regulations promulgated under these acts, among other additional state and federal laws, regulations and rules.

The Bank's mortgage origination activities are also subject to Regulation Z, which implements TILA. Certain provisions of Regulation Z require mortgage lenders to make a reasonable and good faith determination, based on verified and documented information, that a consumer applying for a mortgage loan has a reasonable ability to repay the loan according to its terms. Alternatively, a mortgage lender can originate "qualified mortgages," which are generally defined as mortgage loans without negative amortization, interest-only payments, balloon payments, terms exceeding 30 years, and points and fees paid by a consumer equal to or less than 3% of the total loan amount. Under the EGRRCPA, most residential mortgage loans originated and held in portfolio by a bank with less than $10 billion in assets will be designated as “qualified mortgages.” Higher-priced qualified mortgages (e.g., sub-prime loans) receive a rebuttable presumption of compliance with ability-to-repay rules, and other qualified mortgages (e.g., prime loans) are deemed to comply with the ability-to-repay rules. The Bank predominantly originates mortgage loans that comply with Regulation Z’s “qualified mortgage” rules.

Brokered Deposits

Section 29 of the FDIA and FDIC regulations generally limit the ability of any bank to accept, renew or roll over any brokered deposit unless it is “well capitalized” or, with the FDIC’s approval, “adequately capitalized.” On December 15, 2020, the FDIC issued rules to revise brokered deposit regulations in light of modern deposit-taking methods. The rules established a new framework for certain provisions of the “deposit broker” definition and amended the FDIC’s interest rate methodology calculating rates and rate caps. The rules became effective on April 1, 2021 and, to date, there has been no material impact to either the Company or the Bank from the rules.

Prompt Corrective Action

Federal banking agencies have broad powers under current federal law to take prompt corrective action to resolve problems of insured depository institutions. The extent of these powers depends upon whether the institution in question is “well capitalized,” “adequately capitalized,” “undercapitalized,” “significantly undercapitalized” or “critically undercapitalized.” These terms are defined under uniform regulations issued by each of the federal banking agencies regulating these institutions. An insured depository institution which is less than adequately capitalized must adopt an acceptable capital restoration plan, is subject to increased regulatory oversight and is increasingly restricted in the scope of its permissible activities. As of December 31, 2022 December 31, 2023, the Bank was considered “well capitalized.”

Incentive Compensation

The Dodd-Frank Act requires the federal banking agencies and the SEC to establish joint regulations or guidelines prohibiting incentive-based payment arrangements at specified regulated entities with at least $1 billion in total consolidated assets, that encourage inappropriate risks by providing an executive officer, employee, director, or principal shareholder with excessive compensation, fees, or benefits that could lead to material financial loss to the entity. In 2016, the SEC and the federal banking agencies proposed rules that prohibit covered financial institutions (including bank holding companies and banks) from establishing or maintaining incentive-based compensation arrangements that encourage inappropriate risk taking by providing covered persons (consisting of senior executive officers and significant risk takers, as defined in the rules) with excessive compensation, fees or benefits that could lead to material financial loss to the financial institution. The proposed rules outline factors to be considered when analyzing whether compensation is excessive and whether an incentive-based compensation arrangement encourages inappropriate risks that could lead to material loss to the covered financial institution, and establish minimum requirements that incentive-based compensation arrangements must meet to be considered to not encourage inappropriate risks and to appropriately balance risk and reward. The proposed rules also impose additional corporate governance requirements on the boards of directors of covered financial institutions and impose additional record-keeping requirements. The comment period for these proposed rules has closed and a final rule has not yet been published. If the rules are adopted as proposed, they will restrict the manner in which executive compensation is structured.

Confidentiality and Required Disclosures of Customer Information

The Company is subject to various laws and regulations that address the privacy of nonpublic personal financial information of consumers. The Gramm-Leach-Bliley Act and certain regulations issued thereunder protect against the transfer and use by financial institutions of consumer nonpublic personal information. A financial institution must provide to its customers, at the beginning of the customer relationship and annually thereafter, the institution’s policies and procedures regarding the handling of customers’ nonpublic personal financial information. These privacy provisions generally prohibit a financial institution from providing a customer’s personal financial information to unaffiliated third parties unless the institution discloses to the customer that the information may be so provided and the customer is given the opportunity to opt-out of such disclosure. Certain exceptions may apply to the requirement to deliver an annual privacy notice based on how a financial institution limits sharing

of nonpublic personal information, and whether the institution’s disclosure practices or policies have changed in certain ways since the last privacy notice that was delivered.

Data privacy and data protection are areas of increasing state legislative focus.In March 2021, the Governor of Virginia signed into law the Virginia Consumer Data Protection Act (the “VCDPA”), which went into effect on January 1, 2023. The VCDPA grants Virginia residents the right to access, correct, delete, know, and opt-out of the sale and processing for targeted advertising purposes of their personal information, similar to the protections provided by similar consumer data privacy laws in California and in Europe. The VCDPA also imposes data protection assessment requirements and authorizes the Attorney

General of Virginia to enforce the VCDPA, but does not provide a private right of action for consumers. The Bank is exempt from the VCDPA, but certain third party vendors of the Bank are or will be subject to the VCDPA.The Company and the Bank are monitoring for the potential negative effects on the products and services provided by these vendors.

The Company is also subject to various laws and regulations that attempt to combat money laundering and terrorist financing. The Bank Secrecy Act (the "BSA") requires all financial institutions to, among other things, create a system of controls designed to prevent money laundering and the financing of terrorism, and imposes recordkeeping and reporting requirements. The USA PATRIOT Act added regulations to facilitate information sharing among governmental entities and financial institutions for the purpose of combating terrorism and money laundering and requires financial institutions to establish anti-money laundering programs. Regulations adopted under the BSA impose on financial institutions customer due diligence requirements, and the federal banking regulators expect that customer due diligence programs will be integrated within a financial institution's broader BSA and anti-money laundering compliance program. The Office of Foreign Assets Control ("OFAC"), which is a division of the U.S. Department of Treasury, is responsible for helping to ensure that United States entities do not engage in transactions with "enemies" of the United States, as defined by various Executive Orders and Acts of Congress. If the Company finds the name of an "enemy" of the United States on any transaction, account or wire transfer that is on an OFAC list, it must freeze such account or place transferred funds into a blocked account, and report it to OFAC.

Although these laws and programs impose compliance costs and create privacy obligations and, in some cases, reporting obligations, and compliance with all of the laws, programs, and privacy and reporting obligations may require significant resources of the Company and the Bank, these laws and programs do not materially affect the Bank's products, services or other business activities.

Corporate Transparency Act

On January 1, 2021, as part of the 2021 National Defense Authorization Act, Congress enacted the Corporate Transparency Act ("CTA"), which requires the Financial Crimes Enforcement Network ("FinCEN") to issue regulations implementing reporting requirements for "reporting companies" (as defined in the CTA) to disclose beneficial ownership interests of certain U.S. and foreign entities by January 1, 2022. The CTA imposes additional reporting requirements on entities not previously subject to such beneficial ownership disclosure regulations and also contains exemptions for several different types of entities, including among others: (i) certain banks, bank holding companies, and credit unions; (ii) money transmitting businesses registered with FinCEN; and (iii) certain insurance companies. Reporting companies subject to the CTA are required to provide specific information with respect to beneficial owner(s) (as defined in the CTA) as well as satisfy initial filing obligations (for newly-formed reporting companies) and submit on-going periodic reports. Non-compliance with FinCEN regulations promulgated under the CTA may result in civil fines and criminal penalties. On September 29, 2022, FinCEN issued a final rule to implement the beneficial ownership reporting requirements of the CTA, which will be became effective January 1, 2024. The Company and the Bank will continue to monitor regulatory developments related to the CTA and will continue to assess the ultimate impact of the CTA on the Company and the Bank.

Cybersecurity

The federal banking agencies have also adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the

Company or the Bank fails to meet the expectations set forth in this regulatory guidance, the Company or the Bank could be subject to various regulatory actions and any remediation efforts may require significant resources of the Company or the Bank. In addition, all federal and state banking agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

On November 18, 2021, the federal bank regulatory agencies issued final rules to improve the sharing of information about cyber incidents that may affect the U.S. banking system. These rules require a banking organization to notify its primary federal regulator of any significant computer-security incident as soon as possible and no later than 36 hours after the banking organization determines that a cyber-incident has occurred. Notification is required for incidents that have materially affected or are reasonably likely to materially affect the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector. In addition, the rules require a bank service provider to notify affected banking organization customers as soon as possible when the provider determines that it has experienced a computer-security incident that has materially affected or is reasonably likely to materially affect banking organization customers for four or more hours. The rule became effective on May 1, 2022. The final rules did not have a material impact on the Company or the Bank's operations.

Stress Testing

The federal banking agencies have implemented stress-testing requirements for certain large or risky financial institutions, including bank holding companies and state-chartered banks. Although these requirements do not apply to the Company and the Bank, the federal banking agencies emphasize that all banking organizations, regardless of size, should have the capacity to analyze the potential effect of adverse market conditions or outcomes on the organization's financial condition. Based on existing regulatory guidance, the Company and the Bank will be expected to consider its interest rate risk management, commercial real estate loan concentrations and other credit-related information, and funding and liquidity management during this analysis of adverse market conditions or outcomes.

Volcker Rule

The Dodd-Frank Act prohibits bank holding companies and their subsidiary banks from engaging in proprietary trading except in limited circumstances, and places limits on ownership of equity investments in private equity and hedge funds (the "Volcker Rule"). The EGRRCPA and final rules adopted to implement the EGRRCPA exempt all banks with less than $10 billion in assets (including their holding companies and affiliates) from the Volcker Rule, provided that the institution has total trading assets and liabilities of 5% or less of total assets, subject to certain limited exceptions. The Company believes that its financial condition and its operations are not significantly affected by the Volcker Rule, amendments thereto, or its implementing regulations.

Call Reports and Examination Cycle

All institutions, regardless of size, submit a quarterly call report that includes data used by federal banking agencies to monitor the condition, performance, and risk profile of individual institutions and the industry as a whole. The EGRRCPA contained provisions expanding the number of regulated institutions eligible to use streamlined call report forms. In June 2019, the federal banking agencies issued a final rule to permit insured depository institutions with total assets of less than $5 billion that do not engage in certain complex or international activities to file the most streamlined version of the quarterly call report, and to reduce data reportable on certain streamlined call report submissions.

Effect of Governmental Monetary Policies

As with other financial institutions, the earnings of the Company and the Bank are affected by general economic conditions as well as by the monetary policies of the FRB. Such policies, which include regulating the national supply of bank reserves and bank credit, can have a major effect upon the source and cost of funds and the rates of return earned on loans and investments, and on levels of inflation in the United States. The FRB exerts a substantial influence on interest rates and credit conditions, primarily through establishing target rates for federal funds, open market operations in U.S. Government securities, varying the discount rate on member bank borrowings and setting cash reserve requirements against deposits. Changes in monetary policy, including changes in interest rates, will influence the origination of loans, the purchase of investments, the generation of deposits, and rates received on loans and investment securities and paid on deposits. Federal Reserve monetary policies have

had a significant effect on the operating results of community banks, including us, in the past and are expected to do so in the future.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1. BUSINESS - (continued)

Application of Supervisory Guidance to the Company and the Bank

On March 31, 2021, the Federal Reserve issued a final rule outlining and confirming the use of supervisory guidance for regulated institutions, including bank holding companies like the Company. The rule generally codifies a statement issued by the federal banking agencies in September 2018 clarifying the differences between regulations and guidance, and provides that, unlike a law or regulation, supervisory guidance does not have the force and effect of law, and the agencies do not take enforcement actions based on supervisory guidance. Rather, guidance outlines expectations and priorities, or articulates views regarding appropriate practices for a specific subject. The rule became effective on April 30, 2021. The Company has not been materially impacted by the effectiveness of this rule.

Future Regulation

From time to time, various legislative and regulatory initiatives are introduced in Congress and state legislatures, as well as by regulatory agencies. Such initiatives may include proposals to expand or contract the powers of bank holding companies and depository institutions or to substantially change the financial institution regulatory system. Such legislation could change banking statutes and the operating environment of the Company and the Bank in substantial and unpredictable ways. If enacted, such legislation could increase or decrease the cost of doing business, limit or expand permissible activities or affect the competitive balance among banks, savings associations, credit unions, and other financial institutions with which we compete. The Company cannot predict whether any such legislation will be enacted, and, if enacted, the effect that it, or any implementing regulations, would have on its financial condition or results of operations. A change in statutes, regulations or regulatory policies applicable to the Company and the Bank could have a material effect on our business.

Where You Can Find More Information

The Company files quarterly, annual and periodic reports, proxy statements and insider filings with the SEC. The Company's SEC filings are available to the public over the Internet at the SEC's web site at http://www.sec.gov. The Company's SEC filings also are available through our website, www.CBTCares.com. Copies of documents may also be obtained free of charge by directing a request by telephone to (276) 656-1776 or mail to Investor Relations, Carter Bankshares, Inc., 1300 Kings Mountain Road, Martinsville, Virginia 24112.

ITEM 1A. RISK FACTORS

Investments in the Company's common stock involves risks. In addition to the other information set forth in this Annual Report on Form 10-K, including the information addressed above under "Important Note Regarding Forward-Looking Statements," investors in the Company's common stock should carefully consider the risk factors discussed below. The following discussion highlights the risks that we believe are material to the Company, but the following discussion does not necessarily include all risks that we may face, and an investor in the Company's common stock should not interpret the disclosure of a risk in the following discussion to state or imply that the risk has not already materialized. These factors could materially and adversely affect the Company's business, financial condition, liquidity, results of operations, and capital position, and could cause the Company's actual results to differ materially from its historical results or the results contemplated by the forward-looking statements contained in this Annual Report on Form 10-K, in which case, the trading price of the Company's common stock could decline.

Risks Related to Credit

Nonperforming assets can take significant time to resolve and may adversely affect the Company's results of operations and financial condition, and could result in further losses in the future.

As of December 31, 2023, our nonperforming loans totaled $309.5 million, or 8.83%, of the Company's loan portfolio. The Company's policy is to place loans in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due based on contractual terms. While the Company generally seeks to reduce or resolve problem assets through, among other methods, loan workouts, restructurings, or sales of the loans or underlying collateral, decreases in the value of the underlying collateral, decreases in the respective borrowers' financial condition, profitability, or operating performance, or efforts by the respective borrowers' to delay or avoid legal processes may inhibit such reduction or resolution efforts which, in turn, could adversely impact the Company's business, financial condition and results of operations.

The Company's nonperforming assets adversely affect its business, financial condition and results of operations in various ways. The Company does not record interest income on nonaccrual loans or OREO; thus nonperforming assets adversely affect the Company's net income and returns on assets and equity, increase the Company's loan administration costs and adversely affects the Company's results of operations and efficiency ratio. The resolution of nonperforming assets requires significant time commitments from management which can adversely impact the Company's and Bank's other strategic and operational priorities. If the Bank takes collateral in foreclosure and via a similar proceeding, the Bank is required to mark the collateral to its then-fair market value, which may result in a loss, and the Bank will incur legal and other expenses, which may be significant, in connection with the foreclosure and sale process. Nonperforming loans and OREO can also increase the Company's and the Bank's risk profile and the level of regulatory capital that their respective banking regulators believe is appropriate. Nonperforming loans and OREO also can adversely impact the Company's liquidity available with secondary liquidity sources, as the Bank is not able to pledge nonperforming loans and OREO as collateral for borrowings from these sources. FDIC expense has increased significantly due to the deterioration in asset quality as a direct result of one large nonperforming loan relationship, which is a component used to determine the assessment.

During the second quarter of 2023, the Company placed in nonaccrual status certain commercial loans in the Other segment of the Company's loan portfolio, all relating to the Bank's largest lending relationship, that have an aggregate principal amount of $301.9 million. Because the Company placed these loans on nonaccrual status, the Company was unable to accrue approximately $30.0 million of interest income related to these loans as of December 31, 2023.

The Company's level of credit risk is elevated due to relationship exposure to the Company's largest lending relationship.

As of December 31, 2023, the Company's largest lending relationship operates in the hospitality, agriculture and energy sectors and had loans outstanding with an aggregate principal amount of $301.9 million. All such loans are classified in the Other segment of the Company's loan portfolio. During the second quarter of 2023, the Company placed these loans on nonaccrual status due to loan maturities and failure to pay in full. This lending relationship comprises 96.8% of the Company's nonperforming assets and 97.5% of the Company's nonperforming loans and 8.6% of total portfolio loans at December 31, 2023.

The Company has initiated collection processes with respect to such loans and intends to explore all alternatives for repayment or recovery. Although the Company believes it is well secured based on the net carrying value of the credit relationship and appropriately reserved for potential losses with respect to all such loans based on information currently available, we cannot give any assurance as to the timing or amount of future payments or collections on such loans or that the Company will ultimately collect all amounts contractually due under the terms of such loans.

Further deterioration of this lending relationship, including adverse changes in the financial condition of the respective borrowers or guarantors, potential claims by other creditors of the respective borrowers, further litigation with the respective borrowers or guarantors or adverse changes in the value of collateral that secures this lending relationship, could require the Company to increase its allowance for loan losses or result in significant losses to the Company, which could have a material adverse effect on the Company’s business, financial condition and results of operations.

A large percentage of the Company’s commercial loans are secured by real estate, and an adverse change in the real estate market or in economic conditions more generally may result in losses and adversely affect our profitability.

Approximately 86.3% 92.4% of the Company’s commercial loan portfolio as of December 31, 2022 December 31, 2023, was comprised of loans secured by real estate. An adverse change in the economy affecting occupancy and/or rental rates in the investment real estate market areas we serve could increase the likelihood of defaults. Real estate collateral securing the Company's loans are a secondary source of repayment in the event of unremedied defaults. The value of the Company's collateral could be impaired by changes in demand, rental rates and capitalization rates and could be insufficient to recover outstanding principal and interest. As a result, the Company's profitability and financial condition could be negatively impacted by an adverse change in the real estate market.

The Company’s CRE loan portfolio is concentrated predominantly in North Carolina and Virginia, within the retail, multifamily, hospitality, warehouse and office metrics. As a result of this concentration of the company’s loan portfolio, it may be more sensitive, as compared to more diversified institutions, to future disruptions in and deterioration of this market.

The Company relies on independent appraisals to determine the value of the real estate which secures a significant portion of our loans, and the values indicated by such appraisals may not be realizable if foreclosure on such loans is forced.

A significant portion of the Company’s loan portfolio consists of loans secured by real estate. We rely on independent appraisers to provide professional opinions of the value of such real estate. Appraisals are only estimates of value and the independent appraisers may make mistakes of fact or judgment that adversely affect the reliability of their appraisals. In addition, events occurring after the initial appraisal may cause the value of the real estate to increase or decrease. As a result of any of these factors, the real estate securing some of the loans may be more or less valuable than anticipated at the time the loans were made. If a default occurs on a loan secured by real estate that is less valuable than originally estimated, the Company may not be able to recover the outstanding balance of the loan.

Appraisal valuations can be impacted by changes in the equilibrium between supply and demand, changes in occupancy, lease rates and capitalization rates. Appraisals can also be impacted by the information available to the appraiser, including age of industry, market or borrower information, by access to property that is the subject of the appraisal, and by changing economic, industry or market conditions. The bank updates appraisals in connection with defined extensions of credit, which includes but is not limited to requests for additional loan funding, material changes to the loan’s amortization or material extensions of the maturity date. Additionally, the bank will generally update appraisals when the loan is considered collateral dependent and is either subject to Individually Evaluated Loan status or prior to the completion of a foreclosure initiating a collection process.

The Company’s level of credit risk is elevated due to the concentration of commercial real estate loans and commercial real estate construction loans in its portfolio.

As of December 31, 2022 December 31, 2023, the Company’s exposure to loans secured by commercial purpose real estate, including investment real estate loans related to hospitality, retail and multifamily apartments (but excluding construction) equated to $1.6 billion $1.8 billion, or 50.6% 51.2% of its total loan portfolio. The average balance of these loans are generally larger and these loans generally involve a more complex degree of financial and credit risk than loans secured by residential real estate. Repayment of these loans is dependent on the success of the borrower’s underlying business and/or the borrower’s ability to generate leases in order to receive sufficient cash flow to service its debts. The financial and credit risk associated with these loans is a result of several

factors, including, but not limited to, macroeconomic conditions affecting supply, demand and property valuations, as well as larger balances in a smaller population of loans. The ongoing adverse economic effects of the COVID-19 pandemic could potentially exacerbate the financial and credit risk associated with these loans. In addition, a potential downturn in economic conditions could exacerbate the financial and credit risks associated with these loans.

The Company’s exposure to hospitality at December 31, 2022 December 31, 2023 equated to approximately $360.4 million $341.1 million, or 11.4% 9.7% of its total loan portfolio. These were mostly loans secured by upscale or top tier flagged hotels, which have historically exhibited low leverage and strong operating cash flows. In 2020 and 2021, the COVID-19 pandemic significantly impacted demand for both leisure and business travel resulting in overall declines in occupancy and room rates. The Company offered an assistance

program that deferred payments in order to alleviate the financial pressures related to depressed revenues caused by the COVID-19 pandemic. The Company closely monitored these borrowers, identified underperforming operators and de-risked the portfolio through note sales. During 2022, conditions in the hospitality industry, and especially leisure travel, improved despite the fact that the COVID-19 pandemic is ongoing. While we believe business travel is still depressed, but is improving, when compared to conditions prior to COVID-19, we believe borrowers focused on business travel were able to survive, in part due to the Company’s deferral programs. These programs ended on June 30, 2021 and these borrowers have returned to contractual payments and continue to perform. Property values have generally not deteriorated and, in certain circumstances, have increased. These developments, together with widespread labor shortages and additional shocks to economic conditions could generally impact operations and property valuations in hospitality and other commercial real estate exposures. As a result, our capital levels and results of operations could be adversely affected.

The Company's exposure to commercial real estate construction loans at December 31, 2022December 31, 2023 equated to approximately $379.6 million$500.0 million, or 12.1%14.3% of total portfolio loans. Construction loans are inherently risky. These risks include, but are not limited to, potential adverse changes in material costs resulting in cost overruns, and the potential that the general contractors develop financial stress and are unable to complete projects and the speculative nature of lease up risk. A severe downturn in real estate could affect demand for leases, capitalization rates and property valuations, which could adversely affect our financial condition and results of operations.

Our allowance for credit losses may be insufficient.

The measure of our allowance for credit losses is dependent on the interpretation and application of the CECLCurrent Expected Credit Losses ("CECL") methodology, which the Company adopted effective January 1, 2021, and which replaced the incurred loss methodology that was used by the Company and the Bank under GAAP prior to that date. The CECL methodology reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. Accordingly, the implementation of the CECL model changed the Company's current method of providing allowance for credit losses ("ACL") and resulted in material changes in the Company's accounting for credit losses on financial instruments. The CECL model may create more volatility in the Company's level of ACL, which, if materially increased, could adversely affect our business, financial condition, and results of operations.

We have and will continue to implement further enhancements or changes to our methodology, models and the underlying assumptions, estimates and assessments, as needed. If the assumptions or estimates we use in adopting the new standard are incorrect or we need to change our underlying assumptions and estimates, there may be a material adverse impact on our results of operation and financial condition. We maintain an ACL at a level we believe is adequate to absorb expected losses in our loan portfolio as of the corresponding balance sheet date. The process to determine the ACL uses models and assumptions that require us to make difficult and complex judgments that are often interrelated, including how borrowers will perform in changing economic and market conditions. Also, we may fail to accurately identify the appropriate economic indicators, to accurately estimate the timing of future changes in economic or market conditions, or to estimate accurately the impacts of future changes in economic or market conditions on our borrowers. Any of these failures could significantly impact the accuracy of our loss forecasts and allowance estimates and the sufficiency of our ACL.

If the models, estimates, and assumptions we use to establish reserves or the judgments we make in extending credit to our borrowers prove inaccurate in predicting future events, we may suffer unexpected losses. There is no guarantee that our ACL will be sufficient to address credit losses, particularly if the economic outlook deteriorates significantly and quickly. quickly, or if a specific segment of the Company's loan or borrower portfolio is adversely impacted by changing market or other conditions. In such an event, we may need to increase our ACL, which would result in provisions for credit losses that would reduce our earnings. Management evaluates the appropriateness of the ACL for the "Other" segment through the projected discounted cash flow analysis with various assumptions and multiple scenarios. It is difficult to predict the specific resolution of this relationship. As a result, the reserve analysis employs a number of potential outcomes, which are weighted based on probabilities as determined by management based on current information available to us. Additionally, to the extent that credit losses are worse than expected, which could be caused by persistent inflation or an economic recession that negatively impacts borrowers, we may need to increase our provision for loan losses.

Our real estate lending business can result in increased costs associated with Other Real Estate Owned ("OREO").

Because we originate loans secured by real estate, we may have to foreclose on the collateral property to protect our investment and may thereafter own and operate such property, in which case we are exposed to the risks inherent in the ownership of real estate. We use methods for valuing collateral for individually evaluated loans and OREO that are in compliance with Accounting Standards Codification ("ASC") Topic 310 Receivables. The methods require the use of assumptions that are subject to change based on events impacting real estate values. The amount that we may realize after a default is dependent upon factors outside of our control, including, but not limited to, general or local economic conditions, environmental cleanup

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

liability, neighborhood values, interest rates, real estate tax rates, operating expenses of the mortgaged properties, and supply of

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

and demand for properties. Certain expenditures associated with the ownership of income producing real estate, principally real estate taxes and maintenance costs, may adversely affect the net cash flows generated by the real estate. Therefore, the cost of operating income-producing real property may exceed the rental income earned from such property, and we may have to advance funds to protect our investment or we may be required to dispose of the real property at a loss.

Risks Related to Our Operations, Cybersecurity and Technology

A failure in or breach of our operational or security systems or infrastructure, or those of third parties, could disrupt the Company's businesses, and adversely impact our results of operations, liquidity and financial condition, as well as cause reputational harm.

The Company's operational and security systems, infrastructure, including our computer systems, data management, and internal processes, as well as those of third parties, are integral to our business. We rely on our associates and third parties in our day-to-day and ongoing operations, who may, as a result of human error, misconduct or malfeasance, or failure or breach of third-party systems or infrastructure, expose us to risk. We have taken measures to implement backup systems and other safeguards to support our operations, but our ability to conduct business may be adversely affected by any significant disruptions to us or to third parties with whom we interact. In addition, our ability to implement backup systems and other safeguards with respect to third-party systems is more limited than with our own systems.

The Company handles a substantial volume of customer and other financial transactions every day. Our financial, accounting, data processing, check processing, electronic funds transfer, loan processing, online and mobile banking, backup or other operating or security systems and infrastructure may fail to operate properly or become disabled or damaged as a result of a number of factors including events that are wholly or partially beyond our control. This could adversely affect our ability to process these transactions or provide these services. There could be sudden increases in customer transaction volume, electrical, telecommunications or other major physical infrastructure outages, natural disasters, events arising from local or larger scale political or social matters, including terrorist acts, and cyber-attacks. We continuously update these systems to support our operations and growth. This updating entails significant costs and creates risk associated with implementing new systems and integrating them with existing ones. Operational risk exposures could adversely impact our results of operations, liquidity and financial condition, and cause reputational harm.

A cyber-attack, information or security breach, or a technology failure of ours or of a third-party could adversely affect the Company's ability to conduct business or manage exposure to risk, resulting in the disclosure or misuse of confidential or proprietary information, increase costs to maintain and update our operational systems, security systems, and infrastructure, and adversely impact results of operations, liquidity and financial condition, as well as cause reputation harm.

The Company's business is highly dependent on the security and efficacy of our infrastructure, computer and data management systems, as well as those of third parties with whom we interact. interact and rely upon. Cyber security risks for financial institutions have significantly increased in recent years in part because of the proliferation of new technologies, the use of the internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state actors. Our operations rely on the secure processing, transmission, storage and retrieval of confidential, proprietary and other information in our computer and data management systems and networks, and in the computer and data management systems and networks of third parties. We rely on digital technologies, computer, database and email systems, software, and networks to conduct our operations. In addition, to access our network, products and services, our customers and third parties may use personal mobile devices or computing devices that are outside of our network environment.

Financial services institutions have been subject to, and are likely to continue to be the target of, cyber-attacks, including computer viruses, malicious or destructive code, phishing attacks, denial of service or other security breaches that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of confidential, proprietary and other information of the institution, its associates or customers or of third parties, or otherwise materially disrupt network access or business operations. For example, denial of service attacks have been launched against a number of large financial institutions and several large retailers have disclosed substantial cyber security breaches affecting debit and credit card accounts of their customers. We have not experienced material cyber security incidents in the past, but there is no assurance that we will not experience an attack in the future. Technology failures, cyber-attacks or other information or security breaches can cause

material losses or other material consequences, and even with all reasonable security efforts, not every system or network

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

breach can be prevented or even detected. Furthermore, because some of our employees are working remotely from their homes, there is an increased risk of disruption to our operations because our employees' residential networks and infrastructure may not be as secure as our office environment.

In addition to external threats, insider threats also represent a risk to us. Insiders, having legitimate access to our systems and the information contained in them, have the opportunity to make inappropriate use of the systems and information. We have policies, procedures and controls in place designed to prevent or limit this risk, but we cannot guarantee that such policies, procedures and controls fully mitigate this risk.

As cyber threats continue to evolve, we may be required to expend significant additional resources to continue to modify and enhance our protective measures or to investigate and remediate any information security vulnerabilities or incidents. Any of these matters could result in loss of customers and business opportunities, significant disruption to our operations and business, misappropriation or destruction of our confidential information and/or that of our customers, damage to computers or systems of our customers and/or third parties, violation of applicable privacy laws and other laws, litigation, costs associated with customer notification and credit monitoring services, increased insurance premiums, regulatory fines, penalties or intervention, loss of confidence in our security measures, reputational damage, reimbursement or other compensatory costs, and additional compliance costs. In addition, any of the matters described above could adversely impact our results of operations and financial condition.

The Company relies on third-party providers and other suppliers for a number of services that are important to our business. An interruption or cessation of an important service by any third-party could have a material adverse effect on our business.

The Company is dependent for the majority of our technology, including our core operating system, on third-party providers. If these companies were to discontinue providing services to us, we may experience significant disruptions to our business. In addition, each of these third parties faces the risk of a cyber-attack, information breach or loss, or technology failure and there is no assurance that they have not or will not experience a system or network breach. If any of our third-party service providers experience such difficulties, or if there is any other disruption in our relationships with them, we may be required to find alternative sources of such services, which may not be on comparable or commercially reasonable terms. We are dependent on these third-party providers securing their information systems, over which we have no control, and any failure to maintain performance, reliability and security of these systems could have a significant adverse effect on our financial condition or results of operations. A breach of our third-party providers' information systems could adversely affect our ability to process transactions, service our clients or manage our exposure to risk and could result in the disclosure of sensitive, personal customer information, which could have a material adverse impact on our business through damage to our reputation, loss of customer business, remedial costs, additional regulatory scrutiny or exposure to civil litigation and possible financial liability. Assurance cannot be provided that we could negotiate terms with alternative service sources that are as favorable or could obtain services with similar functionality as found in our existing systems without the need to expend substantial resources, if at all, thereby resulting in a material adverse impact on our business and results of operations.

The Company is dependent on its management team, and the loss of its any senior executive officers or other key associates personnel could impair its relationship with its customers and adversely affect its business and financial results.

We believe that our growth and future success will depend in large part on the skills of our executive officers. We also depend upon the experience of the senior executive officers and other key personnel and their relationship with the communities they serve. The loss of the services of one or more of these officers or key personnel could have an adverse impact on the business of the Company because of their skills, knowledge of the market, years of industry experience and the difficulty promptly finding qualified replacement personnel.

The success of our business strategies depends on our ability to identify and recruit individuals with experience and relationships in our primary markets.

The successful implementation of our business strategy will require us to continue to attract, hire, motivate and retain skilled personnel to develop new customer relationships as well as new financial products and services. The market for qualified management personnel is competitive, which has contributed to salary and employee benefit costs that have risen and are expected to continue to rise, which may have an adverse effect on the Company's net income (loss). In addition, the process of

identifying and recruiting individuals with the combination of skills and attributes required to carry out our strategy is often lengthy, and we may not be able to effectively integrate these individuals into our operations. Our inability to identify, recruit

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

and retain talented personnel to manage our operations effectively and in a timely manner could limit our growth or impair our ability to implement our business strategy effectively and efficiently, which could materially adversely affect our business.

Risks Related to Market Conditions, Interest Rates and Investments

The Company's business is subject to interest rate risk and fluctuations in interest rates may adversely affect its earnings and capital levels.

The majority of our assets are monetary in nature and, as a result, we are subject to significant risk from changes in interest rates. Changes in interest rates can impact our net interest income as well as the valuation of our assets and liabilities. Also, our earnings are significantly dependent on net interest income, which is the difference between interest income on interest-earning assets, such as loans and securities, and interest expense on interest-bearing liabilities, such as deposits and borrowings. We expect we will experience "gaps" in the interest rate sensitivities of our assets and liabilities, meaning that either our interest-bearing liabilities will be more sensitive to changes in market interest rates than our interest-earning assets, or vice versa. In either event, if market interest rates should move contrary to our position, this "gap" will work against us and our earnings may be negatively affected.

To combat rising inflation, in April, May, June, between March of 2022 and July September, November and December of 2022, 2023, the Federal Reserve raised the federal funds benchmark rate by 25 basis point, 50 basis points, 75 basis points, 75 basis points and 75 basis points, 75 basis points and 50 basis points, respectively, for a total of 425 525 basis points in 2022. The Federal Reserve further raised the federal funds target range to 4.5% to 4.75% in February 2023. points. Although further increases to the target federal funds rate by the Federal Reserve are expected has held rates steady since July 2023 and signaled the potential for rate cuts in 2023 to combat recent inflationary trends, 2024, if interest rates do not rise, or if the Federal Reserve lowers the target federal funds rate to below 0%, such low rates could limit our interest rate spread and may adversely affect our business forecasts. Moreover, if the interest rates on our interest-bearing liabilities increase at a faster pace than the interest rates on our interest-earning assets, the result would be a reduction in net interest income and with it, a reduction in net earnings. Further increases in the general level of interest rates, to combat inflation or otherwise, may also, among other things, result in a change in the mix of noninterest and interest-bearing accounts, reduce the demand for loans or increase the rate of default on existing loans. Conversely, a decrease in the general level of interest rates may, among other things, lead to an increase in prepayments on loans and increased competition for deposits. Accordingly, changes in the general level of market interest rates may affect net yield on interest-earning assets, loan origination volume, loan portfolios, and funding costs which impact our overall results.

Although our asset-liability management strategy is designed to control our risk from changes in the general level of market interest rates, market interest rates will be affected by many factors outside of our control, including inflation, recession, changes in unemployment, other economic conditions, money supply and international disorder and instability in domestic and foreign financial markets. We are unable to predict changes in interest rates, which are affected by factors beyond our control, including inflation, deflation, recession, unemployment, money supply and other changes in financial markets. It is possible that significant or unexpected changes in interest rates may take place in the future, and we cannot always accurately predict the nature or magnitude of such changes or how such changes may affect our business or results of operations.

The Value value of our Investment Securities Could Decline. investment securities could decline.

Changes in interest rates could cause the value of our investment securities to decline. We hold available-for-sale investment securities, which are carried at fair value, the majority of which are high-quality, liquid fixed income securities. The determination of fair value for certain of these securities requires significant judgment of management. Therefore, the market price we receive for our investment securities could be less than the carrying value for such securities. Further, the value of our investment portfolio could decline for numerous reasons, many of which are outside our control, including general market conditions, volatility in the securities market, changes in market interest rates, and inflation rates or expectations of inflation. For example, increases in interest rates or changes in interest rate spreads may negatively impact the fair value of our investment securities and may adversely affect accumulated other comprehensive income and, thus, our equity levels.

Changes in interest rates could adversely affect our income and cash flows and may result in higher defaults and lower collateral values in a rising rate environment.

Changes in interest rates will influence the origination of loans, the prepayment of loans, the fair value of existing assets and liabilities, the purchase of investments, the retention and generation of deposits, the rates received on loans and investment

securities, and the rates paid on deposits or other sources of funding. In general, periods of rising interest rates and other

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

inflationary pressures can have a significant negative effect on our borrowers, and particularly on borrowers that operate businesses that generate revenue to pay principal and interest on commercial loans. Periods of rising interest rates and other inflationary pressures could cause the values of collateral securing our loans to decline. If either our borrowers are negatively impacted by rising interest rates or other inflationary pressures, or if the value of collateral securing our loans declines, our financial performance may be negatively impacted.

The replacement of LIBOR as a financial benchmark presents risk Inflation could negatively impact our business, our profitability, and our stock price.

Volatility and uncertainty related to certain financial instruments that we own or to which we are a party.

By June 2023, the LIBOR interest rate index is scheduled to be discontinued inflation and the continued availability effects of inflation, may lead to increased costs for businesses and consumers and potentially contribute to poor business and economic conditions. For example, higher inflation, or volatility and uncertainty related to inflation, could reduce demand for the Company's products, which could affect the creditworthiness of the LIBOR index is no longer guaranteed. We cannot predict whether Company's borrowers, result in lower values for the Company's investment securities and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or will provide LIBOR quotations to market participants, or whether any additional reforms to LIBOR or other reference rates may be enacted. The market transition away from LIBOR to alternative reference rates is a complex process and could have a range of effects on our business, financial condition, and results of operations, including but not limited to by (i) adversely affecting the interest rates received or paid on the revenues and expenses associated with, or the value of our LIBOR-based interest-earning assets and liabilities; (ii) adversely affecting increase expense related to talent acquisition and retention. If significant inflation continues the interest rates paid on or received from other securities or financial arrangements, or (iii) resulting in disputes, litigation or other actions with borrowers or other counterparties about the interpretation or enforceability of certain fallback language contained in LIBOR-based loans, securities or other contracts. The discontinuation of LIBOR Company could also result in operational, legal missed earnings and compliance risks, and if we are unable budgetary projections causing our stock price to adequately manage such risks, they could have an adverse effect on our financial condition and results of operations. suffer.

We have multiple alternative reference rates that we can use when entering into financial transactions with our customers and other counterparties. However, because there can be no assurances regarding which reference rate may become the primary replacement to LIBOR for all purposes, following LIBOR's discontinuation there may be uncertainty or differences in the calculation of applicable interest rates or payment amounts, and we may incur significant additional costs associated with the transition away from LIBOR to a new reference rate.

Risks Related to Liquidity

Adverse developments affecting the financial services industry, such as actual events or concerns involving liquidity, defaults, or non-performance by financial institutions or transactional counterparties, may have a material adverse effect on our financial condition and results of operations.

Actual events involving limited liquidity, defaults, non-performance or other adverse developments that affect financial institutions, transactional counterparties or other companies in the financial services industry or the financial services industry generally, or concerns or rumors about any events of these kinds or other similar risks, which may be compounded by the reach and depth of media attention, including social media, have in the past and may in the future lead to market-wide liquidity problems. Liquidity is essential to the Company's banking business, and the Company's business strategies are largely based on access to funding from customer deposits and supplemental funding provided by secondary liquidity sources, including wholesale funding facilities.

Deposit levels may be impacted by industry factors, market interest rates, rates paid for deposits by other financial institutions and market interest rates generally, inflationary conditions, general economic conditions than can impact savings rates, and banking industry conditions that can impact customers perceptions of the safety and soundness of the banking industry generally or of specific financial institutions. The failures of Silicon Valley Bank, Signature Bank and First Republic Bank in the first quarter of 2023, and the resulting industry turmoil, have underscored the importance of maintaining diversified funding sources to ensure the safety and soundness of a financial institution. In response to these failures, the Treasury Department, the Federal Reserve Board ("FRB") and the FDIC approved actions enabling the FDIC to complete its resolution of Silicon Valley Bank, Signature Bank and First Republic Bank in a manner that fully protected depositors by utilizing the FDIC Deposit Insurance Fund, and the Federal Reserve took actions to make available additional term funding for eligible financial institutions to help ensure continued liquidity in the banking industry. It is uncertain whether these additional steps will be sufficient to address the turmoil in the banking industry, ensure continued funding and liquidity, reduce the risk of deposit outflows, and particularly sudden outflows, from banks. Should any of these conditions materialize, our liquidity, financial condition and results of operations could be materially and adversely impacted.

The Company's liquidity could be impaired by an inability to access short-term funding or the inability to monetize liquid assets.

If significant volatility or disruptions occur in the wholesale funding or investment securities markets, the Company's ability to access short-term liquidity could be materially impaired. In addition, other factors outside of the Company's control could limit the Company's ability to access short-term funding or to monetize liquid assets, including by selling investment securities at an attractive price or at all, operational issues that impact third parties in the funding or securities markets or unforeseen significant deposit outflows. The Company's inability to access short-term funding or inability to monetize liquid assets could impair the

Company's ability to make new loans or meet existing lending commitments, and could adversely impact the Company's overall financial condition, liquidity and regulatory capital.

We rely substantially on deposits obtained from customers in our target markets to provide liquidity and support growth, and impairment of our access to funding may negatively affect our financial performance.

Our primary funding and liquidity source to support our business strategies is a stable customer deposit base. Deposit levels may be affected by a number of factors, including interest rates paid by competitors, general interest rate levels, returns available to customers on alternative investments and general economic conditions. If our deposit levels fall, we could lose a relatively low-cost source of funding and our interest expense would likely increase as we obtain alternative funding to replace lost deposits. If local customer deposits are not sufficient to fund our normal operations and growth, we will look to outside sources, such as fed funds lines with other financial institutions or borrowings with the FHLB and we have access to the institutional CD market and the brokered deposit market. We may also seek to raise funds through the issuance of shares of our common stock, or other equity or equity-related securities, or debt securities including subordinated notes as additional sources of liquidity. A number of factors, many of which are outside the Company's control, could make accessing such financing more difficult or more expensive, or could make such financing unavailable altogether, including the financial condition of the Company, rate disruptions in the capital markets, the attractiveness of investing in or lending to financial services companies generally, and competition for funding from other banks, holding companies or similar financial service companies, some of which could be substantially larger or have stronger credit ratings or profiles. If we are unable to access funding sufficient to support our business operations and growth strategies or are only able to access such funding on unattractive terms, we may not be able to implement our business strategies which may negatively affect our financial performance.

Our ability to meet contingency funding needs, in the event of a crisis that causes a disruption to our core deposit base, is dependent on access to wholesale markets, including funds provided by the FHLB of Atlanta.

We own stock in the FHLB of Atlanta, in order to qualify for membership in the FHLB system, which enables us to borrow on our line of credit with the FHLB that is secured by a blanket lien on select commercial loans, multifamily loans, residential mortgages and investment securities available-for-sale and is estimated to be equal to 25% of our assets approximating $1.0 billion $1.1 billion, with available borrowing capacity subject to the amount of eligible collateral pledged at any given time. Changes or

disruptions to the FHLB or the FHLB system in general may materially impact our ability to meet short and long-term liquidity needs or meet growth plans. Additionally, we cannot be assured that the FHLB will be able to provide funding to us when needed, nor can we be certain that the FHLB will provide funds specifically to us, should our financial condition and/or our regulators prevent access to our line of credit. The inability to access this source of funds could have a materially adverse effect on our ability to meet our customer's needs. Our financial flexibility could be severely constrained if we were unable to maintain our access to funding or if adequate financing is not available at acceptable interest rates.

Other wholesale market sources of liquidity include the Fed discount window, the brokered CD market, and our four fed funds lines totaling $95.0 million with correspondent banks. Additionally, we have a large bond portfolio that can be used for liquidity purposes, including pledging or outright sales. It should also be noted that our customer base is very diversified and granular, which should minimize any unexpected deposit outflows. Average commercial deposit account balances are $42 thousand, and average consumer retail deposit account balances are $14 thousand.

We rely on dividends from our subsidiaries for most of our revenue.

The Company is a separate and distinct legal entity from the Bank. A substantial portion of the Company's revenue comes from dividends from the Bank. Various federal and Virginia laws and regulations limit the amount of dividends that the Bank may pay to us. Also, in the event the Bank is unable to pay dividends to the Company, the Company may not be able to service any debt that is outstanding, pay obligations, or pay any future dividends on its common stock. The inability to receive dividends from the Bank could have a material adverse effect on our business, financial condition, and results of operations.

Risks Related to Owning Our Stock

The market price of our common stock may fluctuate significantly in response to a number of factors.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing U.S. economic environment and changes in the commercial and residential real estate market, any of which may cause our stock price to fluctuate. If our operating results fall below the expectation of investors or securities analysts, the price of our common stock could decline substantially.

Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- volatility of stock market prices and volumes in general;
- changes in market valuations of similar companies;
- changes in the conditions of credit markets;
- changes in accounting policies or procedures as required by the Financial Accounting Standards Board, or other regulatory agencies;
- legislative and regulatory actions, including the impact of the Dodd-Frank Act and related regulations, that may subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the FRB;
- additions or departures of key members of management;
- fluctuations in our quarterly or annual operating results; and
- changes in analysts' estimates of financial performance.

Future issuances of the Company's common stock could adversely affect the market price of the common stock and could be dilutive.

The Company is not restricted from issuing additional shares of common stock, and may issue securities that are convertible into or exchangeable for, or that represent the right to receive, shares of common stock. Issuances of a substantial number of shares of common stock, or the expectation that such issuances might occur, including in connection with acquisitions by the Company, could materially adversely affect the market price of the shares of common stock and could be dilutive to shareholders. Because the Company's decision to issue equity securities in the future will depend on market conditions and other factors, it cannot predict or estimate the amount, timing, or nature of possible future stock issuances. Accordingly, the Company's shareholders bear the risk that future stock issuances will reduce market prices and dilute their stock holdings in the Company.

Common stock is equity and is subordinate to the Company's existing and future indebtedness and effectively subordinated to all the indebtedness and other non-equity claims against the Bank.

Shares of the Company's common stock are equity interests and do not constitute indebtedness. As such, shares of the common stock will rank junior to all of the Company's indebtedness and to other non-equity claims against the Company and its assets available to satisfy claims against it, including in the event of the Company's liquidation. The Company is permitted to incur additional debt. Upon liquidation, lenders and holders of the Company's debt securities would receive distributions of the Company's available assets prior to holders of the Company's common stock. Furthermore, the Company's right to participate in a distribution of assets upon the Bank's liquidation or reorganization is subject to the prior claims of the Bank's creditors, including holders of any depositors of the Bank or any debt issued by the Bank.

Risks Related to Our Business Strategy

Our profitability depends significantly on economic conditions.

Our success depends primarily on the general economic conditions of the geographic markets in which we operate, primarily in Virginia and North Carolina. The local economic conditions in the areas where we operate have a significant impact on our

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ITEM 1A. RISK FACTORS - (continued)

commercial, real estate and construction loans, the ability of our borrowers to repay their loans and the value of the collateral securing these loans and on customer demand for loans, deposits and other bank products. A significant decline in general economic conditions, including a decline caused by pandemics or significant health hazards (such as the COVID-19 pandemic, pandemic), inflation, recession, acts of terrorism, outbreak of hostilities (including the military conflict between Russia and Ukraine) Ukraine and between Israel and Palestine) or other international or domestic calamities, unemployment or other factors, all of which are beyond our control, could impact economic conditions and negatively affect our financial results.

We face strong competition from financial services companies and other companies that offer banking services which could negatively affect our business.

We conduct our banking operations primarily in Virginia and North Carolina, including Fredericksburg, Charlottesville, Lynchburg, Roanoke, Blacksburg, Martinsville, and Danville in Virginia, and Greensboro, Charlotte, Raleigh and Mooresville in North Carolina. Increased competition in these markets may result in reduced loans and deposits. Ultimately, we may not be able to compete successfully against current and future competitors. Many competitors offer the same banking services that we offer in our service area. These competitors include national banks, regional banks and other community banks. We also face competition from many other types of financial institutions, including without limitation, savings and loan institutions, finance companies, brokerage firms, insurance companies, credit unions, mortgage banks and other financial intermediaries. In particular, our competitors include several major financial companies whose greater resources may afford them a marketplace advantage by enabling them to maintain numerous banking locations and ATMs, conduct extensive promotional and advertising campaigns and offer a wider range of products, services and technologies.

Additionally, banks and other financial institutions with larger capitalization and financial intermediaries not subject to bank regulatory restrictions have larger lending limits and are thereby able to serve the credit needs of larger customers. Areas of competition include interest rates for loans and deposits, efforts to obtain deposits, and range and quality of products and services provided, including new technology-driven products and services. Technological innovation continues to contribute to greater competition in domestic and international financial services markets as technological advances enable more companies to provide financial services, products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. We also face competition from out-of-state financial intermediaries that have opened loan production offices or that solicit deposits in our market areas. If we are unable to attract and retain banking customers, we may be unable to continue to grow our loan and deposit portfolios or may be required to increase the rates we pay on deposits or lower the rates we offer on loans and results of operations and financial condition may otherwise be adversely affected.

Our customers may increasingly decide not to use the Bank to complete their financial transactions, which would have a material adverse impact on our financial condition and operations.

Technology and other changes are allowing parties to complete financial transactions through alternative methods that have historically involved banks. For example, customers can now maintain funds that would have historically been held as bank deposits in brokerage accounts, mutual funds, or general-purpose reloadable prepaid cards. Customers can also complete transactions such as paying bills and/or transferring funds directly without the assistance of banks. We face increasing competition from fintech companies, as trends toward digital financial transactions have accelerated during since the COVID-19 pandemic. The process of eliminating banks as intermediaries, known as “disintermediation,” could result in the loss of fee income, as well as the loss of customer deposits and the related income generated from those deposits. The loss of these

revenue streams and the lower cost of deposits as a source of funds could have a material adverse effect on our financial condition and results of operations.

Risks Related to Regulatory Compliance and Legal Matters

We are subject to extensive government regulation and supervision.

Banking regulations are primarily intended to protect depositors’ funds, federal deposit insurance funds and the banking system as a whole, not security holders. These regulations affect our lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies, including changes in interpretation or implementation of statutes, regulations or policies, could affect us in substantial and unpredictable ways. Such changes could subject us to additional costs, limit the types of financial services and products we may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. For example, we currently derive a portion of our

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

noninterest income from consumer overdraft fees, which have recently come under scrutiny by banking regulators and politicians. Such regulators or politicians could act to impose additional restrictions on overdraft fee programs which could reduce our noninterest income, increase our compliance costs, or increase our exposure to regulatory and legal claims related to our overdraft program.Moreover, on August 16, 2022, the Inflation Reduction Act of 2022 was signed into law and it imposes a 1% excise tax on net repurchases of stock by certain publicly traded corporations. The excise tax is imposed on the value of net stock repurchased or treated as repurchased and will apply to stock repurchases occurring after December 31, 2022. Failure to comply with laws, regulations, policies or supervisory guidance could result in enforcement and other legal actions by Federal or state authorities, including criminal and civil penalties, the loss of FDIC insurance, the revocation of a banking charter, other sanctions by regulatory agencies, civil money penalties and/or reputational damage. In this regard, government authorities, including the bank regulatory agencies, are pursuing aggressive enforcement actions with respect to compliance and other legal matters involving financial activities, which heightens the risks associated with actual and perceived compliance failures. See “Supervision and Regulation” included in Item 1, Business, of this Annual Report on Form 10-K for a more detailed description of the certain regulatory requirements applicable to the Bank.

The Regulatory capital standards may require the Company is subject and the Bank to more stringent maintain higher levels of capital and liquidity, requirements as a result of the Basel III regulatory capital reforms and the Dodd-Frank Act, which could adversely affect its return on equity and otherwise affect its business.

The Company and the Bank are each subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital, which each must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. In addition, regulators may require the Company to maintain higher levels of regulatory capital based on the Company’s condition, risk profile, or growth plans or conditions in the banking industry or economy. The Basel III capital adequacy standards applicable to the Company and the Bank impose stricter capital requirements and leverage limits than the requirements to which the Company and the Bank were subject in the past.

The application of more stringent capital requirements could, among other things, result in lower returns on equity, require the raising of additional capital, and result in regulatory actions if the Company were to be unable to comply with such requirements. Furthermore, the imposition of liquidity requirements in connection with the implementation of Basel III capital adequacy standards could result in the Company having to lengthen the term of its funding, restructure its business models, and/or increase its holdings of liquid assets.

Implementation of changes to asset risk weightings for risk-based capital calculations, items included or deducted in calculating regulatory capital and/or additional capital conservation buffers could result in management modifying its business strategy, and could limit the Company's ability to make distributions, including paying out dividends or buying back shares. If the Company and the Bank fail to meet these minimum capital guidelines and/or other regulatory requirements, the Company's financial condition would be materially and adversely affected.

Failure to maintain effective systems of internal control over financial reporting and disclosure controls and procedures could have a material adverse effect on our results of operation and financial condition.

Effective internal controls over financial reporting and disclosure controls and procedures are necessary for us to provide reliable financial reports and effectively prevent fraud and to operate successfully as a public company. We are required to establish and maintain an adequate internal control structure over financial reporting. If we cannot provide reliable financial reports or prevent fraud, our reputation and operating results would be harmed. As part of our ongoing monitoring of internal control, we may discover material weaknesses or significant deficiencies in our internal control that require remediation. A "material weakness" is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis.

Our inability to maintain the operating effectiveness of the controls described above could result in a material misstatement to our financial statements or other disclosures, which could have an adverse effect on our business, financial condition or results of operations. In addition, any failure to maintain effective controls or to timely effect any necessary improvement of our internal and disclosure controls could, among other things, require significant investments of management time, funds and other resources in remediation efforts, result in losses from fraud or error or harm to our reputation, or cause investors to lose confidence in our reported financial information, all of which could have a material adverse effect on our results of operation and financial condition.

The Claims and litigation against the Company may be involved could result in a variety of litigation and other actions, significant expenses or losses or damage to our reputation, which may have a material adverse effect on its financial condition, results of operation or business.

The Company operates in a business, legal and regulatory environment that exposes the Company to potential significant litigation risk, and the risk. The Company may be involved from time to time in a variety of litigation arising out of its business. business, and the

outcome of litigation and other legal matters is frequently uncertain. Litigation and claims against the Company can arise from the Company's lending activities, commercial agreements, compliance programs, and other general business matters. Such litigation and claims have involved and could involve large amounts in controversy and substantial legal costs necessary for the Company's defense or to recover amounts owed to the Company, and substantial legal liability, which may or may not be insured, against the Company could materially and adversely impact the Company's financial condition and results of operations. Even if the Company has insurance coverage for certain claims or legal or administrative actions against it, the Company's insurance may not cover all claims that may be asserted against it in legal or administrative actions or costs that it may incur defending such actions, and any claims asserted against it, regardless of merit or eventual outcome, may harm the Company's reputation. reputation which may harm the Company's business. Should the ultimate judgments or settlements and/or costs incurred in any litigation exceed any applicable insurance coverage, they could have a material adverse effect on the Company's financial condition and results of operation for any period. Litigation may also divert management resources, which may adversely impact the Company's business and results of operations.

The Company is currently involved in significant pending litigation. Please see the information contained in Part II, Item 8. Financial Statements and Supplementary Data – Note 18, "Commitments and Contingencies," under the heading "Legal Proceedings".

Our risk management framework may not be effective in mitigating risk and loss.

We maintain an enterprise risk management program that is designed to identify, quantify, monitor, report and control the risks we face. These risks include, but are not limited to, interest rate, credit, liquidity, operational, reputation, legal, compliance, economic and litigation risk. Although we assess our risk management program on an ongoing basis and make identified improvements to it, we can offer no assurances that this approach and risk management framework (including related controls) will effectively mitigate the risks listed above or limit losses that we may incur. If our risk management program has flaws or gaps, or if our risk management controls do not function effectively, our results of operations, financial condition or business may be adversely affected.

Our earnings are significantly affected by the fiscal and monetary policies of the federal government and its agencies.

The policies of the FRB affect us significantly. The FRB regulates the supply of money and credit in the United States. Its policies directly and indirectly influence the rate of interest earned on loans and paid on borrowings and interest-bearing deposits and can also affect the value of financial instruments we hold. Those policies determine, to a significant extent, our cost of funds for lending and investing, and can significantly impact the levels of inflation in the United States. Changes in those policies are beyond our control and are difficult to predict. FRB policies can also affect our borrowers, potentially increasing the risk that they may fail to repay their loans. For example, a tightening of the money supply by the FRB could reduce the demand for a borrower's products and services. This could adversely affect the borrower’s earnings and ability to repay a loan, which could have a material adverse effect on our financial condition and results of operations.

Increased scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to environmental, social and governance (“ESG”) practices may impose additional costs on the Company or expose it to new or additional risks.

As a regulated financial institution and a publicly traded company, we are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to ESG practices and disclosure. Investor advocacy groups, investment funds, and influential investors are increasingly focused on these practices, especially as they relate to climate risk, hiring practices, the diversity of the work force, and racial and social justice issues. Failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards could negatively impact the Company’s reputation, ability to do business with certain partners, and stock price. New government regulations could also result in new or more stringent forms of ESG oversight and expanding mandatory and voluntary reporting, diligence, and disclosure. ESG-related costs, including with respect to compliance with any additional regulatory or disclosure requirements or expectations, could adversely impact our results of operations.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 1A. RISK FACTORS - (continued)

Risks Related to Owning Our Stock

The market price of our common stock may fluctuate significantly in response to a number of factors.

Our operating results may fluctuate due to a variety of factors, many of which are outside of our control, including the changing U.S. economic environment and changes in the commercial and residential real estate market, any of which may cause our stock price to fluctuate. If our operating results fall below the expectation of investors or securities analysts, the price of our common stock could decline substantially.

Our stock price can fluctuate significantly in response to a variety of factors including, among other things:

- volatility of stock market prices and volumes in general;
- changes in market valuations of similar companies;
- changes in the conditions of credit markets;
- changes in accounting policies or procedures as required by the Financial Accounting Standards Board, or other regulatory agencies;
- legislative and regulatory actions, including the impact of the Dodd-Frank Act and related regulations, that may subject us to additional regulatory oversight which may result in increased compliance costs and/or require us to change our business model;
- government intervention in the U.S. financial system and the effects of and changes in trade and monetary and fiscal policies and laws, including the interest rate policies of the FRB;
- additions or departures of key members of management;
- fluctuations in our quarterly or annual operating results; and
- changes in analysts’ estimates of financial performance.

Future issuances of the Company’s common stock could adversely affect the market price of the common stock and could be dilutive.

The Company is not restricted from issuing additional shares of common stock, and may issue securities that are convertible into or exchangeable for, or that represent the right to receive, shares of common stock. Issuances of a substantial number of shares of common stock, or the expectation that such issuances might occur, including in connection with acquisitions by the Company, could materially adversely affect the market price of the shares of common stock and could be dilutive to shareholders. Because the Company’s decision to issue equity securities in the future will depend on market conditions and other factors, it cannot predict or estimate the amount, timing, or nature of possible future stock issuances. Accordingly, the Company’s shareholders bear the risk that future stock issuances will reduce market prices and dilute their stock holdings in the Company.

Common stock is equity and is subordinate to the Company’s existing and future indebtedness and effectively subordinated to all the indebtedness and other non-equity claims against the Bank.

Shares of the Company’s common stock are equity interests and do not constitute indebtedness. As such, shares of the common stock will rank junior to all of the Company’s indebtedness and to other non-equity claims against the Company and its assets available to satisfy claims against it, including in the event of the Company’s liquidation. The Company is permitted to incur additional debt. Upon liquidation, lenders and holders of the Company’s debt securities would receive distributions of the Company’s available assets prior to holders of the Company’s common stock. Furthermore, the Company’s right to participate in a distribution of assets upon the Bank’s liquidation or reorganization is subject to the prior claims of the Bank’s creditors, including holders of any depositors of the Bank or any debt issued by the Bank.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 1C. CYBERSECURITY

Cybersecurity Risk Management and Strategy

The Company has developed and implemented a Cybersecurity and Information Technology Incident Response Plan intended to ensure the confidentiality, integrity, and availability of the Company's critical systems and information.

The Company has designed this Cybersecurity and Information Technology Incident Response Plan based in part on the National Institute of Standards and Technology Cybersecurity Framework ("NIST"). Use of the framework does not imply that the Company meets any particular technical standards, specifications, or requirements, but rather the NIST is used as a guide to help identify, assess, and manage cybersecurity risks relevant to the Company's business. The Company's Cybersecurity and Information Technology Response Plan is led by our Chief Operations Officer, ("COO") who is responsible for the oversight and implementation of such plan. Additionally, the COO and the Information Security Manager meet with the Information Technology Steering Committee ("IT Steering Committee") on a monthly basis or more frequently as necessary to discuss, among other things, cybersecurity matters.

The Cybersecurity and Information Technology Incident Response Plan is aligned to the Company's business strategy. It shares common methodologies, reporting channels and governance processes that apply to other areas of enterprise risk management, including legal, compliance, strategic, operational, and financial risk. In the event of a material or potentially material cybersecurity event, senior members of management, which includes the Chief Financial Officer, are promptly informed of the event and status update, response, and disclosure efforts following the terms of a documented incident response plan. Key elements of the Cybersecurity and Information Technology Incident Response Plan include:

- risk assessments designed to help identify material cybersecurity risks to our critical systems, information, products, services, and our broader information technology ("IT") environment;
- an incident response team principally responsible for managing cybersecurity risk assessment processes, security controls, and responses to cybersecurity incidents;
- the use of external service providers, where appropriate, to assess, test or otherwise assist with aspects of our security controls;
- training and awareness programs for team members that include periodic and ongoing assessments to drive adoption and awareness of cybersecurity processes and controls;
- a cybersecurity and IT incident response plan that includes procedures for responding to cybersecurity incidents;
- utilization of independent third parties to perform penetration testing of the Company's environment; and
- utilization of a third party to monitor our environment continuously.

The Company has experienced cybersecurity incidents in the past, but none of these incidents, individually or in the aggregate, have had a material adverse effect on our business, financial condition or results of operations. For a discussion of whether and how any risks from cybersecurity threats, including as a result of any previous cybersecurity incidents, have materially affected or are reasonably likely to materially affect the Company, including our business strategy, results of operations or financial condition, refer to Item 1A. Risk Factors – "Risks Related to Our Operations and Technology," which is incorporated by reference into this Item 1C.

Cybersecurity Governance

Management's Role

The Company's management has created an Incident Response Team ("IRT"), that consists of the Chief Operations Officer, a network manager, an application delivery manager, an information security manager, the IT Steering Committee, the regulatory

CARTER BANKSHARES, INC. AND SUBSIDIARIES

risk management director and an internal auditor. Our COO holds multiple cybersecurity industry-recognized certifications and has gained extensive cybersecurity knowledge and skills through over 7 years of work experience on the IT security team at the Company. Our Information Security Manager, who also holds multiple cybersecurity industry-recognized certifications and is a member of the IT Steering Committee, has 20 years of experience working in IT and cybersecurity in various roles and industries throughout his career. Additionally, leaders in the Company's IT function receive periodic training and education on cybersecurity related topics. The IRT is governed by policies and procedures and their proactive responsibilities include implementing awareness programs for the overall cybersecurity risk management plan and for the supervision of vulnerability and penetration testing.

The Company's IRT serves as the central point for all cybersecurity incidents and reporting, including incidents that directly target associates, customers or the Company's internal information systems and incidents originating from third parties. The IRT evaluates each incident in terms of its impact on the Company's operations, ability to conduct business with customers, reputational risk to the Company, reduce legal risk and the speed and degree to which the incident has been contained. The IRT is also responsible for assessing the nature and scope of the incident, and engaging third-party service providers where appropriate to support the Company through the resolution of the incident. The COO escalates incidents to the Company's IT Steering Committee, who is responsible for cybersecurity risk oversight, and also reports to the Board on a monthly basis.

Our information security team and members of IT also monitor the prevention, detection, mitigation, and remediation of cybersecurity risks and incidents through various means, which may include briefings with law enforcement, regulators, and external consultants we may engage, and reports produced by security tools we have deployed in our IT environment.

Board of Director's Role

The Company's Board of Directors recognizes the importance of cybersecurity in safeguarding the Company's sensitive data, including with respect to its associates and customers. The Board is responsible for the consideration and oversight of risk facing the Company and is also responsible for ensuring that material risks are identified and managed appropriately, including cybersecurity risks. The COO gives a monthly report to the Company's IT Steering Committee and Board on various information security issues. The Company has created and designated a separate committee of its Board as the Audit Committee consisting of four independent directors. The Audit Committee meets quarterly and reviews the Company's major financial risk exposures, including cybersecurity risks, and reviews the steps management is taking to monitor and control such exposures, including results of internal and external audits.

ITEM 2. PROPERTIES

The Company's principal executive office is located at 1300 Kings Mountain Road in Martinsville, Virginia. There are also two other corporate administrative locations that house its operations center and various other corporate functions. We As of December 31, 2023, we offer our community banking services through 66 65 combined depository locations in Virginia and North Carolina, at December 31, 2022, and have 53 offices are located in Virginia and 13 are 12 offices located in North Carolina. Three of these depository banking locations are held under lease contracts. In addition, the Bank leases a loan production office, a commercial banking office and another office housing various Bank functions. Management believes the terms of the various leases are consistent with market standards and were arrived at through arm's length bargaining. The leases are described in Note 8, 9, Premises and Equipment, of the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

ITEM 3. LEGAL PROCEEDINGS

In The information contained in Part II, Item 8. Financial Statements and Supplementary Data – Note 18, "Commitments and Contingencies," under the normal course of business, the Company heading "Legal Proceedings," is subject to various legal and administrative proceedings and claims. Legal and administrative proceedings are subject to inherent uncertainties and unfavorable rulings could occur, and the timing and outcome of any legal or administrative proceeding cannot be predicted with certainty. As of December 31, 2022, the Company is not involved in any material pending or threatened legal proceedings other than proceedings occurring in the ordinary course of business. incorporated by reference into this Item 3.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

PART II

Market for Common Stock and Dividends

The Company's common stock trades on NASDAQ, under the ticker symbol "CARE." As of the close of business on March 7, 2023 March 4, 2024, we had 2,309 2,160 shareholders of record.

Dividends

On October 14, 2016, In October 2016, prior to the Reorganization, the board of directors of the Bank (the "Bank Board") determined that it was prudent not to declare a quarterly cash dividend on the Bank's common stock beginning in the fourth quarter of 2016. Notwithstanding the Bank's prior practice of paying a quarterly cash dividend on its common stock, the Bank Board believed this decision was necessary and appropriate as the Bank committed, and now the Company commits, additional resources to assist with regulatory compliance, preserve capital during the COVID-19 pandemic, and make making significant investments in new technology and human resources.

The Bank Board paid a special one-time cash dividend of $0.14 per share on March 3, 2020. The amount and timing of future dividends, if any, remains subject to the discretion of the Board and will depend upon a number of factors, including future earnings, financial condition, liquidity and capital requirements of the Company, applicable governmental regulations and other factors deemed relevant by the Board.

Repurchases of Shares of Common Stock

On March 29, 2023, the Company announced that its Board of Directors (the "Board") authorized, effective May 1, 2023, a common share repurchase program to purchase up to 1,000,000 shares of the Company's common stock in the aggregate over a period of twelve months, (the "2023 Program") subject to receipt of non-objection from the Federal Reserve Bank of Richmond, which was received on April 24, 2023. The 2023 Program authorizes the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the 2023 Program will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The 2023 Program is authorized through May 1, 2024, although it may be modified or terminated by the Board at any time. The 2023 Program does not obligate the Company to purchase any particular number of shares, and was exhausted as of August 31, 2023. During the year ended December 31, 2023, 1,000,000 shares of common stock had been repurchased under this program at a total cost of $14.2 million, or an average price of $14.16 per share.

Previously on June 28, 2022, the Company announced that its Board authorized, effective August 1, 2022, a common share repurchase program to purchase up to 750,000 shares of the Company's common stock in the aggregate over a period of twelve months, subject to non-objection from the Federal Reserve Bank of Richmond, which was received in July 2022 (the "Current "2022 Program"). The Current 2022 Program authorizes authorized the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Exchange Act. The authorization permits permitted management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the Current 2022 Program will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, and applicable legal and regulatory requirements. The Current Program is was originally authorized through August 1, 2023, although it may be modified or terminated by the Board at any time. The Current Program does did not obligate the Company to purchase any particular number of shares. shares, and was exhausted as of March 10, 2023.

Previously on December 13, 2021, the Company announced that its Board authorized, effective December 10, 2021, a common share repurchase program to purchase up to 2,000,000 shares of the Company's common stock in the aggregate over a period of twelve months (the "Prior "2021 Program"). The Prior Program authorized the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b5-1 and/or Rule 10b-18 promulgated under the Exchange Act. The Prior Program permitted management to repurchase shares of the Company's common stock from time to time at management's discretion. The Prior 2021 Program was originally authorized through December 9, 2022, did not obligate the Company to purchase any particular number of shares, and was exhausted as of April 28, 2022.

The following table provides information regarding the Company's purchases of our common stock during the quarter ended December 31, 2022: December 31, 2023.

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs(1)
10/10/2022 - 10/31/2022	—	$—	—	285,792
11/01/2022 - 11/30/2022	56,572	18.19	56,572	229,220
12/01/2022 - 12/31/2022	96,988	18.21	96,988	132,232
Total	153,560	$18.20	153,560	

Period	Total number of shares purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Approximate Dollar Value of Shares That May Yet be Purchased Under the Plan(1)
10/10/2023 - 10/31/2023	—	$—	—	—
11/01/2023 - 11/30/2023	—	—	—	—
12/01/2023 - 12/31/2023	—	—	—	—
Total	—	$—	—	

(1) The number shown represents, Company had no purchases of our common stock during the quarter ended December 31, 2023 as the 2023 Program was fully exhausted as of the end of each period, the approximate number of Common Stock shares that may yet be purchased under publicly-announced share repurchase plan authorizations. The shares may be purchased, from time-to-time, depending on market conditions. August 31, 2023.

Five-Year Cumulative Total Return

The following chart compares the cumulative total shareholder return on our common stock with the cumulative total return of the NASDAQ Composite Index and S&P U.S. BMI Banks Index, which includes the stocks of banks, thrifts and bank and financial holding companies listed on all major exchanges (NYSE, AMEX, NASDAQ) in the S&P Global Market Intelligence's coverage universe.

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Period Ending

		Period Ending							Period Ending					
Index	***Index***	**12/31/17**	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	***Index***	**12/31/18**	**12/31/19**	**12/31/20**	**12/31/21**	**12/31/22**	**12/31/23**
Carter Bankshares, Inc. *(1)*		100.00	85.47	135.16	61.52	88.32	95.21							
Carter Bankshares, Inc.*(1)*														
NASDAQ Composite Index	NASDAQ Composite Index	100.00	97.16	132.81	192.47	235.15	158.65							
S&P U.S. BMI Banks Index	S&P U.S. BMI Banks Index	100.00	83.54	114.74	100.10	136.10	112.89							

(1)An investment in Carter Bankshares, Inc. prior to November 2020 represents an investment in Carter Bank & Trust.

CARTER BANKSHARES, INC. AND SUBSIDIARIES

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The following Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help the reader understand Carter Bankshares, Inc., our operations, and our present business environment. The MD&A is provided as a supplement to, and should be read in conjunction with, our Consolidated Financial Statements and the accompanying notes thereto contained in Item 8 of this Annual Report on Form 10-K. The MD&A includes the following sections:

- Explanation of Use of Non-GAAP Financial Measures
- Critical Accounting Policies and Estimates
- Our Business & Strategy
- Results of Operations and Financial Condition
- Capital Resources
- Contractual Obligations
- Off-Balance Sheet Arrangements
- Liquidity
- Inflation
- Stock Repurchase Program

This section reviews our financial condition for each of the past two years and results of operations for each of the past three years. Certain reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. Some tables may include additional time periods to illustrate trends within our Consolidated Financial Statements and notes thereto. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods.

Explanation of Use of Non-GAAP Financial Measures

In addition to the results of operations presented in accordance with generally accepted accounting principles in the United States ("GAAP"), management uses, and this annual report references, interest and dividend income, yield on interest earnings assets, net interest income and net interest margin on a fully taxable equivalent, ("FTE") basis, which are non-GAAP financial measures. Management believes these measures provide information useful to investors in understanding our underlying business, operational performance and performance trends as it facilitates comparisons with the performance of other companies in the financial services industry. The Company believes the presentation of interest and dividend income, yield on interest earnings assets, net interest income and net interest margin on an FTE basis ensures the comparability of interest and dividend income, yield on interest earning assets, net interest income and net interest margin arising from both taxable and tax-exempt sources and is consistent with industry practice. Interest and dividend income (GAAP) per the Consolidated Statements of Income is reconciled to interest and dividend income adjusted on an FTE basis, yield on interest earning assets (GAAP) is reconciled to yield on interest earning assets adjusted on an FTE basis, net interest income (GAAP) is reconciled to net interest income adjusted on an FTE basis and net interest margin (GAAP) is reconciled to net interest margin adjusted on an FTE basis in the "Results of Operations and Financial Condition - Net Interest Income" section of this MD&A for the years ended 2023, 2022 2021 and 2020.

2021.

Although management believes that this non-GAAP financial measure enhances investors' understanding of our business and performance, this non-GAAP financial measure should not be considered an alternative to GAAP or considered to be more relevant than financial results determined in accordance with GAAP, nor is it necessarily comparable with similar non-GAAP measures which may be presented by other companies.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Critical Accounting Estimates

The Company's preparation of financial statements in accordance with GAAP requires management to make estimates, assumptions and judgments that affect the amounts reported in the financial statements and accompanying notes. Over time, these estimates, assumptions and judgments may prove to be inaccurate or vary from actual results and may significantly affect our reported results and financial position for the periods presented or in future periods. We currently view the determination of the allowance for credit losses to be critical, because it is made in accordance with GAAP, is highly dependent on subjective or complex judgments, assumptions and estimates made by management and have had or is reasonably likely to have a material impact on the Company's financial condition and results of operations.operations.

We have identified the following critical accounting estimate:

Allowance for Credit Losses ("ACL")

The ACL represents an amount which, in management's judgment, is adequate to absorb expected credit losses over the life of outstanding loans as of the balance sheet date based on the evaluation of current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts of future economic conditions and prepayment experience. The ACL is measured and recorded upon the initial recognition of a financial asset. The ACL is reduced by charge-offs, net of recoveries of previous losses, and is increased by a provision or decreased by a recovery for credit losses, which is recorded as a current period operating expense.

Determination of an appropriate ACL is inherently complex and requires the use of significant and highly subjective estimates. The reasonableness of the ACL is reviewed quarterly by management.

Management believes it uses relevant information available to make determinations about the ACL and that it has established the existing allowance in accordance with GAAP. However, the determination of the ACL requires significant judgment, and estimates of expected credit losses in the loan portfolio can vary from the amounts actually observed. While management uses available information to recognize expected credit losses, future additions to the ACL may be necessary based on changes in the loans comprising the portfolio, changes in the current and forecasted economic conditions, changes to the interest rate environment which may directly impact prepayment and curtailment rate assumptions, and changes in the financial condition of borrowers.

Management will periodically assess what adjustments are necessary to qualitatively adjust the ACL based on their assessment of current expected credit losses and other economic factors. Various regulatory agencies also review the allowance for credit losses as an integral part of their examination process. The Company periodically engages a third party to validate the model. We believe the level of the allowance for credit losses is appropriate as recorded in the consolidated financial statements as of December 31, 2023. As future events cannot be determined with precision, actual results could differ significantly from our estimates.

The ACL "base case" model is derived from various economic forecasts provided by widely recognized sources. Management evaluates the variability of market conditions by examining the peak and trough of economic cycles. These peaks and troughs are used to stress the base case model to develop a range of potential outcomes. Management then determines the appropriate reserve through an evaluation of these various outcomes relative to current economic conditions and known risks in the portfolio. For the year ended December 31, 2022 December 31, 2023 the range of outcomes would produce a 17% 16.98% reduction or a 27% 18.80% increase in reserves based on the best and worst case scenarios, respectively.

Refer to Note 1, Summary of Significant Accounting Policies, for further detailed descriptions of our estimation process and methodology related to the ACL and Note 6, Allowance for Credit Losses, of this Annual Report on Form 10-K.

Our Business and Strategy

Carter Bankshares, Inc. (the "Company") is a bank holding company headquartered in Martinsville, Virginia with assets of $4.2 billion $4.5 billion at December 31, 2022 December 31, 2023. The Company conducts is the parent company of its business solely through the wholly owned subsidiary, Carter Bank an & Trust (the "Bank"). The Bank is a Federal Deposit Insurance Corporation, ("FDIC") insured, Virginia state-chartered bank. bank, which operates 65 branches in Virginia and North Carolina. The Company provides a full range of financial services with retail, and commercial banking products and insurance. Our common stock trades on the Nasdaq Global Select Market under the ticker symbol "CARE."

commercial banking products and insurance. Our common stock trades on the Nasdaq Global Select Market under the ticker symbol "CARE".

The Company earns revenue primarily from interest on loans and securities and fees charged for financial services provided to our customers. The Company incurs expenses for the cost of deposits, provision for credit losses and other operating costs such as salaries and employee benefits, data processing, occupancy and income tax expense. provision.

For the 2023-2025 fiscal year periods,Beginning in 2023, and continuing into 2024 and 2025, the Company will be is focusing on refining and enhancing its brand image and position in the Bank's markets it serves. To strengthen and further shape the culture of the Company, a new set of guiding principles were introduced to better align with the future of the Company. A associates in June 2023. The guiding principles include a new mission, vision, purpose statement: *To create opportunities for more people* and *businesses to prosper*; supported by our new set of core values are in development values: *Build Relationships, Earn Trust* and *Take Ownership.* We believe these new guiding principles will help create alignment to support future growth by empowering our associates and igniting a passion for the Company expects to rollout this plan in 2023. The Company's current mission is to strive to be the preferred lifetime financial partner for its customers and shareholders, and the employer of choice in the communities the Company is privileged to serve. The vision and purpose of the Company is to enrich lives and enhance communities today, to build a better tomorrow, with values of loyalty, care, optimism, trustworthiness and innovation. Company.

The Company's Board of Directors and management believe that the Bank goal is at a turning point in its evolution and transformation. The Company's focus will to shift from restructuring the balance sheet to pursuing a prudent growth strategy that focuses on organic growth. Another area of focus when appropriate. We believe this strategy will be to primarily targeted at organic growth, but will also consider opportunistic acquisitions that the Company believes will fit with its this strategic vision.

Our focus continues We believe that the Bank's strong capital and liquidity positions support this strategy. In addition to be on loan and deposit growth, as well as, implementing opportunities the Company will seek to increase fee income while closely monitoring our operating expenses.

The Company is focused on executing this strategy to successfully build our new brand and grow our business in our current markets as well as any new markets.

markets we may enter. As part of executing this strategy, the Company continues to dedicate significant resources to resolving the Company's nonaccrual loans, the significant majority of which are related to a single large lending relationship that the Company placed on nonaccrual status in the second quarter of 2023 due to loan maturities and failure to pay in full, in a manner that best protects the Company, the Bank and shareholders. The Company is also dedicating significant resources to resolving pending litigation related to this single large lending relationship in a manner that best protects the Company, the Bank and shareholders.

Results of Operations and Financial Condition

Earnings Summary

2022 2023 Highlights

- Net interest income increased $28.7 million decreased $17.6 million, or 25.9% 12.6%, to $139.9 million $122.3 million for the full year 2022 ended December 31, 2023 compared to $111.2 million for the full year 2021 same period in 2022 primarily due to an increase of 61 156 basis points in funding costs and the $30.0 million year-to-date negative impact of placing the Bank's largest lending relationship in nonaccrual status during the second quarter of 2023, partially offset by an increase of 59 basis points in the yield on earning assets due to the rising higher interest rate environment and by a reduction of nine basis points in funding costs; environment;
- The provision for credit losses decreased $0.9 million increased $3.1 million to $2.4 million $5.5 million for the year ended December 31, 2022 December 31, 2023, compared to the full year ended December 31, 2021; same period in 2022;
- Total noninterest income decreased $7.2 million $3.4 million to $21.7 million $18.3 million for the full year 2022 ended December 31, 2023 compared to $28.9 million for the full year 2021 due primarily to a reduction same period in gains on sales of securities; 2022;
- Total noninterest expense decreased $5.3 million increased $8.5 million to $97.0 million $105.5 million for the full year 2022 ended December 31, 2023 compared to $102.3 million for the full year 2021 primarily resulting from our retail branch optimization project and the reversal of tax credit amortization due to an in-service date extension to 2023; same period in 2022; and
- Provision for income taxes increased $7.5 million decreased $6.3 million to $11.6 million $5.3 million for the full year 2022 ended December 31, 2023 compared to $4.1 million for the full year 2021.

Balance Sheet Highlights (period-end balances, December 31, 2022 compared to December 31, 2021)

- The securities portfolio decreased $86.1 million and is currently 19.9% of total assets compared to 22.3% of total assets. The decrease is due to the Company's strategy of redeploying securities maturities into higher yielding loan growth and the continued decline same period in fair value due to rising market interest rates;
- Total portfolio loans increased $336.8 million, or 12.0%, primarily due to consistent loan growth in 2022;
- The portfolio loans to deposit ratio was 86.7%, compared to 76.0%, since deposits decreased;
- Total deposits decreased $68.2 million to $3.6 billion at December 31, 2022 compared to December 31, 2021; 2022.

Balance Sheet Highlights (period-end balances, December 31, 2023 compared to December 31, 2022)

- The securities portfolio decreased $57.3 million and is currently 17.3% of total assets compared to 19.9% of total assets;
- Total portfolio loans increased $357.0 million, or 11.3%, primarily due to loan growth in the commercial real estate ("CRE"), residential mortgage and construction segments during the year ended December 31, 2023;
- The portfolio loans to deposit ratio was 94.2%, compared to 86.7%, due to loan growth;
- Nonperforming loans as a percentage of total portfolio loans were 8.83% compared to 0.21% at December 31, 2022. The significant increase is due to loans contained in the Other segment with an aggregate principal balance of $301.9 million that were placed into nonaccrual status due to loan maturities and failure to pay in full during the second quarter of 2023. These loans comprise 97.5% of nonperforming loans at December 31, 2023;
- Total deposits increased $89.4 million or 2.5% to $3.7 billion at December 31, 2023 due to increases of $29.4 million in money market accounts and $325.1 million in CDs, offset by a total decrease of $265.1 million in noninterest-bearing demand, interest-bearing demand and savings accounts; and
- The ACL to total portfolio loans ratio was 2.98% 2.77% compared to 3.41% 2.98%. The ACL on portfolio loans totaled $93.9 million $97.1 million at December 31, 2022 December 31, 2023, compared to $95.9 million with the decrease driven by declines in the other segment due to principal pay-downs, offset by loan growth and increased qualitative reserves;
- During 2022, the Company repurchased 2,587,361 shares totaling $42.9 million under its stock repurchase program $93.9 million at a weighted average cost of $16.59. There were 132,232 shares available for repurchase at December 31, 2022 under the current repurchase program. .

The Company reported net income of $50.1 million$23.4 million, or $1.00 diluted earnings per share for the year ended December 31, 2023 compared to net income of $50.1 million, or $2.03 diluted earnings per share, for the year ended December 31, 2022 compared to net income of $31.6 million, or $1.19 diluted earnings per share, for the year ended December 31, 2021.

		Years Ended December 31,						
		Years Ended December 31,				Years Ended December 31,		
PERFORMANCE RATIOS	PERFORMANCE RATIOS	2022	2021	2020	PERFORMANCE RATIOS	2023	2022	2021
Return on Average Assets	Return on Average Assets	1.21 %	0.76 %	(1.12)%	Return on Average Assets	0.53 %	1.21 %	0.76 %
Return on Average Shareholders' Equity	Return on Average Shareholders' Equity	14.30 %	7.92 %	(9.78)%	Return on Average Shareholders' Equity	6.79 %	14.30 %	7.92 %
Portfolio Loans to Deposit Ratio	Portfolio Loans to Deposit Ratio	86.74 %	76.03 %	79.99 %	Portfolio Loans to Deposit Ratio	94.20 %	86.69 %	76.03 %
Allowance for Credit Losses to Total Portfolio Loans	Allowance for Credit Losses to Total Portfolio Loans	2.98 %	3.41 %	1.83 %	Allowance for Credit Losses to Total Portfolio Loans	2.77 %	2.98 %	3.41 %
Nonperforming Loans to Total Portfolio Loans					Nonperforming Loans to Total Portfolio Loans	8.83 %	0.21 %	0.26 %

Net Interest Income

Our principal source of revenue is net interest income. Net interest income represents the difference between the interest and fees earned on interest-earning assets and the interest paid on interest-bearing liabilities. Net interest income is affected by changes in the average balance of interest-earning assets, interest-bearing liabilities, as well as changes in interest rates and spreads. The level and mix of interest-earning assets and interest-bearing liabilities is managed by our Asset and Liability Committee ("ALCO"), in order to mitigate interest rate and liquidity risks of the balance sheet. A variety of ALCO strategies were implemented, within prescribed ALCO risk parameters, to produce what the Company believes is an acceptable level of net interest income.

Net interest income and the net interest margin are presented on an FTE basis. The FTE basis (non-GAAP) adjusts net interest income and net interest margin for the tax benefit of income on certain tax-exempt loans and securities using the applicable federal statutory tax rate for each period (which was 21% for the periods presented) and the dividend-received deduction for equity securities. The Company believes this FTE basis presentation provides a relevant comparison between taxable and non-taxable sources of interest income. Refer to the “Explanation of Use of Non-GAAP Financial Measures” above for additional discussion regarding the non-GAAP measures used in this Annual Report on Form 10-K.

The following table reconciles interest and dividend income (GAAP), yield on interest-earning assets (GAAP), net interest margin (GAAP) and net interest income per the Consolidated Statements of Income (Loss) to interest and dividend income on an FTE

basis (non-GAAP), yield on interest-earning assets on an FTE basis (non-GAAP), net interest margin on an FTE basis (non-GAAP) and net interest income on an FTE basis (non-GAAP), respectively, for the periods presented:

(Dollars in Thousands)	**(Dollars in Thousands)**	**Years Ended December 31,**				**Years Ended December 31,**		
		2022	**2021**	**2020**	**(Dollars in Thousands)**	**2023**	**2022**	**2021**
Interest and Dividend Income (GAAP)	Interest and Dividend Income (GAAP)	$ 160,182	$ 133,897	$ 140,941				
Tax Equivalent Adjustment	Tax Equivalent Adjustment	1,143	1,492	2,375				
Interest and Dividend Income (FTE) (Non-GAAP)	**Interest and Dividend Income (FTE) (Non-GAAP)**	**161,325**	**135,389**	**143,316**				
Average Earning Assets	Average Earning Assets	4,023,634	3,971,640	3,833,681				
Yield on Interest-earning Assets (GAAP)	**Yield on Interest-earning Assets (GAAP)**	**3.98 %**	**3.37 %**	**3.68 %**	**Yield on Interest-earning Assets (GAAP)**	**4.57 %**	**3.98 %**	**3.37 %**
Yield on Interest-earning Assets (FTE) (Non-GAAP)	**Yield on Interest-earning Assets (FTE) (Non-GAAP)**	**4.01 %**	**3.41 %**	**3.74 %**	**Yield on Interest-earning Assets (FTE) (Non-GAAP)**	**4.60 %**	**4.01 %**	**3.41 %**
Net Interest Income		139,928	111,183	105,115				
Net Interest Income (GAAP)								
Net Interest Income (GAAP)								
Net Interest Income (GAAP)								
Tax Equivalent Adjustment	Tax Equivalent Adjustment	1,143	1,492	2,375				

Net Interest Income (FTE) (Non-GAAP)	**Net Interest Income (FTE) (Non-GAAP)**	**$ 141,071**	**$ 112,675**	**$ 107,490**							
Average Earning Assets	Average Earning Assets	4,023,634	3,971,640	3,833,681							
Net Interest Margin (GAAP)	**Net Interest Margin (GAAP)**	**3.48 %**	**2.80 %**	**2.74 %**	**Net Interest Margin (GAAP)**	**2.85**	**%**	**3.48**	**%**	**2.80**	**%**
Net Interest Margin (FTE) (Non-GAAP)	**Net Interest Margin (FTE) (Non-GAAP)**	**3.51 %**	**2.84 %**	**2.80 %**	**Net Interest Margin (FTE) (Non-GAAP)**	**2.87**	**%**	**3.51**	**%**	**2.84**	**%**

Average Balance Sheet and Net Interest Income Analysis (FTE)

Total net interest income decreased $17.6 million, or 12.6% to $122.3 million for the year ended December 31, 2023 compared to the same period in 2022. The decrease for the year ended December 31, 2023 compared to the same period in 2022 was a result of the higher funding costs in 2023 as a result of the higher interest rate environment and the $30.0 million negative impact on interest income during the year ended December 31, 2023 related to the Company placing its largest lending relationship with an aggregate principal balance of $301.9 million on nonaccrual status in the second quarter of 2023. These decreases were partially offset by higher yields on new loan originations and investment securities.

Net interest income, on an FTE basis (non-GAAP), decreased $17.8 million, or 12.6%, to $123.3 million for the year ended December 31, 2023 compared to $141.1 million for the same period in 2022. The decreases in net interest income, on an FTE basis (non-GAAP), was driven by higher interest expense of $53.9 million for the year ended December 31, 2023 when compared to the same period in 2022, offset by an increase in interest income of $36.1 million. Net interest margin decreased 63 basis points to 2.85% for the year ended December 31, 2023 compared to 3.48% for the same period in 2022. Net interest margin, on an FTE basis (non-GAAP), decreased 64 basis points to 2.87% for the year ended December 31, 2023 compared to 3.51% for the same period in 2022.

The Company's net interest income and net interest margin will continue to be negatively impacted in future periods by the Company's largest lending relationship being placed on nonaccrual status until it is ultimately resolved.

During 2023, there has been more pressure on our cost of funds due to the shift from non-maturing deposits to higher yielding money market and certificates of deposits and higher-cost borrowings, which has negatively impacted our net interest margin. We believe this trend is beginning to stabilize and will continue to stabilize in the coming quarters. Our balance sheet is currently exhibiting characteristics of a slightly liability sensitive balance sheet due to the short-term nature of our deposit portfolio. Specifically, 75.9% of our time deposit portfolio will mature and reprice over the next twelve months which gives us flexibility to manage the structure and pricing of our deposit portfolio to reduce funding costs, should the Federal Open Market Committee ("FOMC") begin cutting short-term rates during 2024.

During the year ended December 31, 2023, the Company's yield on earning assets continued to benefit from the higher interest rate environment. However, the impacts of higher yields on earning assets may not be sufficient to offset the negative impacts of increased funding costs in the higher rate environment and the negative impacts on interest income related to the Company's largest lending relationship being placed in nonaccrual status.

Positively impacting the year ended December 31, 2023 was the asset sensitivity of our balance sheet for the majority of the year. Yields on a large portion of our loan and securities portfolios adjusted upward as rates rise at a quicker rate than the rates on our deposits and other funding sources adjusted upward during the recent rising interest rate cycle. Yields on our loan

Average Balance Sheet portfolio consist of 24.8% floating rates and Net Interest Income Analysis (FTE)

Total net interest income increased $28.7 million, or 25.9% to $139.9 million for 41.9% variable rates, while 47.2% of the year ended December 31, 2022 compared to the same period in 2021. The increase for the year ended December 31, 2022 compared to the same period in 2021 was primarily due to an increase in average interest-earning assets of $52.0 million securities portfolio is floating rate and higher interest rate yields on interest-earning assets of 61 basis points due to the rising interest rate environment during fiscal year 2022. Net interest income, on an FTE basis (non-GAAP), increased $28.4 million, or 25.2%, to $141.1 million for the year ended December 31, 2022 compared to $112.7 million for the same period in 2021. The increases in net interest income, on an FTE basis (non-GAAP), was driven by an increase in interest income of $25.9 million and lower interest expense of $2.5 million for the year ended December 31, 2022 when compared to the same period in 2021. Net interest margin increased 68 basis points to 3.48% for the year ended December 31, 2022 compared to 2.80% for the same period in 2021. Net interest margin, on an FTE basis (non-GAAP), increased 67 basis points to 3.51% for the year ended December 31, 2022 compared to 2.84% for the same period in 2021.

The Company continues to focus on the expansion of net interest income and net interest margin. The full year of 2022 was positively impacted by an increase in the yield on loans and investment securities due to the rising interest rate environment adjust as well as the continued decline in funding costs. The full year of 2022 was also positively impacted by enhanced pricing on loans related to one large credit relationship. Certain of these loans may not be renewed at maturity and/or may not otherwise impact the net interest income and net interest margin as significantly in future periods. In addition, rising market interest rates may begin to increase the Company's increase. This positively impacts revenue and helps mitigate increased funding costs in future periods.

costs.

The following table provides information regarding the average balances, interest and rates earned on interest-earning assets and the average balances, interest and rates paid on interest-bearing liabilities for the years ended December 31:

		2022				2021				2020			
(Dollars in Thousands)	**(Dollars in Thousands)**	**Average Balance**	**Income/ Expense**	**Yield/Rate**		**Average Balance**	**Income/ Expense**	**Yield/Rate**		**Average Balance(3)**	**Income/ Expense**	**Yield/Rate**	
ASSETS	**ASSETS**												
Interest-Bearing Deposits with Banks													
Interest-Bearing Deposits with Banks													
Interest-Bearing Deposits with Banks	Interest-Bearing Deposits with Banks	$ 50,797	$ 341	0.67	%	$ 194,492	$ 271	0.14	%	$ 104,526	$ 302	0.29	%
Tax-Free Investment Securities (2)	Tax-Free Investment Securities (2)	30,109	877	2.91	%	34,171	1,116	3.27	%	47,364	1,567	3.31	%
Taxable Investment Securities	Taxable Investment Securities	950,557	20,330	2.14	%	798,672	12,442	1.56	%	697,408	14,264	2.05	%
Total Securities	**Total Securities**	**980,666**	**21,207**	**2.16**	**%**	**832,843**	**13,558**	**1.63**	**%**	**744,772**	**15,831**	**2.13**	**%**
Tax-Free Loans (1)(2)	Tax-Free Loans (1)(2)	144,617	4,569	3.16	%	189,716	5,991	3.16	%	307,023	9,739	3.17	%
Taxable Loans (1)	Taxable Loans (1)	2,844,303	135,054	4.75	%	2,751,169	115,448	4.20	%	2,672,435	117,226	4.39	%
Total Loans	**Total Loans**	**2,988,920**	**139,623**	**4.67**	**%**	**2,940,885**	**121,439**	**4.13**	**%**	**2,979,458**	**126,965**	**4.26**	**%**
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	3,251	154	4.74	%	3,420	121	3.54	%	4,925	218	4.43	%
Total Interest-Earning Assets	**Total Interest-Earning Assets**	**4,023,634**	**161,325**	**4.01**	**%**	**3,971,640**	**135,389**	**3.41**	**%**	**3,833,681**	**143,316**	**3.74**	**%**
Noninterest Earning Assets	Noninterest Earning Assets	117,135				170,856				276,473			
Total Assets	**Total Assets**	**4,140,769**				**4,142,496**				**4,110,154**			
Total Assets													
Total Assets													
LIABILITIES AND SHAREHOLDERS' EQUITY	**LIABILITIES AND SHAREHOLDERS' EQUITY**												
LIABILITIES AND SHAREHOLDERS' EQUITY													
LIABILITIES AND SHAREHOLDERS' EQUITY													

	2023					
(Dollars in Thousands)	**Average Balance**			**Income/ Expense**		**Yie**
	$ 20,414	$	$1,066	5.22		5.22
Tax-Free Investment Securities (2)	27,271	803		803	2.94	
Taxable Investment Securities	900,972	30,804		30,804	3.42	
Total Securities	**928,243**	**31,607**		**31,607**	**3.41**	
Tax-Free Loans (1)(2)	123,847	3,978		3,978	3.21	
Taxable Loans (1)	3,200,992	159,317		159,317	4.98	
Total Loans	**3,324,839**	**163,295**		**163,295**	**4.91**	
Federal Home Loan Bank Stock	20,342	1,456		1,456	7.16	
Total Interest-Earning Assets	**4,293,838**	**$**		**$197,424**	**4.60**	

Interest-Bearing Demand															
Interest-Bearing Demand															
Interest-Bearing Demand	Interest-Bearing Demand	489,298	1,578	0.32 %	$ 413,714	$ 1,007	0.24 %	$ 321,036	$ 1,140	0.36 %		$483,048	$	$2,729	0.56 0.56
Money Market	Money Market	521,269	1,842	0.35 %	383,391	1,130	0.29 %	197,225	924	0.47 %	Money Market	448,324	8,868	8,868	1.98
Savings	Savings	720,682	742	0.10 %	663,382	682	0.10 %	599,637	632	0.11 %	Savings	544,938	586	586	0.11
Certificates of Deposit	Certificates of Deposit	1,271,548	14,454	1.14 %	1,484,436	19,427	1.31 %	1,818,837	32,695	1.80 %	Certificates of Deposit	1,428,646	40,445	40,445	2.83
Total Interest-Bearing Deposits	**Total Interest-Bearing Deposits**	**3,002,797**	**18,616**	**0.62 %**	**2,944,923**	**22,246**	**0.76 %**	**2,936,735**	**35,391**	**1.21 %**	**Total Interest-Bearing Deposits**	**2,904,956**	**52,628**	**52,628**	**1.81**
FHLB Borrowings	FHLB Borrowings	29,849	1,163	3.90 %	25,986	313	1.20 %	30,628	361	1.18 %	FHLB Borrowings	402,675	20,822	20,822	5.17
Federal Funds Purchased	Federal Funds Purchased	5,711	188	3.29 %	—	—	— %	55	1	1.82 %	Federal Funds Purchased	7,023	368	368	5.24
Other Borrowings	Other Borrowings	5,885	287	4.88 %	3,167	155	4.89 %	1,408	73	5.18 %	Other Borrowings	6,337	292	292	4.61
Total Borrowings	**Total Borrowings**	**41,445**	**1,638**	**3.95 %**	**29,153**	**468**	**1.61 %**	**32,091**	**435**	**1.36 %**	**Total Borrowings**	**416,035**	**21,482**	**21,482**	**5.16**
Total Interest-Bearing Liabilities	**Total Interest-Bearing Liabilities**	**3,044,242**	**20,254**	**0.67 %**	**2,974,076**	**22,714**	**0.76 %**	**2,968,826**	**35,826**	**1.21 %**	**Total Interest-Bearing Liabilities**	**3,320,991**	**74,110**	**74,110**	**2.23**
Noninterest-Bearing Liabilities	Noninterest-Bearing Liabilities	746,117			769,401			667,914							
Shareholders' Equity	Shareholders' Equity	350,410			399,019			473,414							
Shareholders' Equity															
Shareholders' Equity															
Total Liabilities and Shareholders' Equity															
Total Liabilities and Shareholders' Equity															
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**4,140,769**			**4,142,496**			**4,110,154**							
Net Interest Income (2)	**Net Interest Income** (2)		**$141,071**			**$112,675**			**$107,490**						
Net Interest Income (2)															
Net Interest Income (2)															
Net Interest Margin (2)	**Net Interest Margin** (2)			**3.51 %**			**2.84 %**			**2.80 %**					
Net Interest Margin (2)															
Net Interest Margin (2)															

(1) *Nonaccruing loans are included in the daily average loan amounts outstanding.*

(2) *Tax-exempt income is on an FTE basis using the statutory federal corporate income tax rate of 21 percent.*

(3) *Loan and deposit balances include held-for-sale transactions in connection with sale of Bank branches.*

Interest income increased $26.3 million $36.2 million, or 19.6% 22.6% for 2022 2023 compared to 2021. 2022. Interest income, on an FTE basis (non-GAAP), increased $25.9 million $36.1 million, or 19.2% 22.4%, for 2022 2023 compared to 2021. 2022. The change was primarily due to increases in average interest-earning assets of $52.0 million $270.2 million for 2022, 2023, and higher interest rate yields on interest-earning assets of 60 59 basis points compared to 2021 2022 due to the rising higher interest rate environment in fiscal year 2022. 2023. These changes were offset by the negative impact of $30.0 million to interest income for the year ended December 31, 2023 related to the Company placing its largest lending relationship on nonaccrual status, as noted above. Average interest-bearing deposits with banks decreased $143.7 million $30.4 million in 2022, 2023, and the average rate paid increased 53 455 basis points for 2022 2023 compared to 2021 2022 as funds were deployed into higher yielding loans and securities. loans.

Average loan balances increased $48.0 million $335.9 million primarily influenced by the consistent loan growth in 2022 2023 as compared to 2021. 2022. Loans provide the greatest impact on interest income and the yield on earning assets as they have the largest balance and the highest yield within major earning asset categories. The average rate earned on loans increased 54 24 basis points for 2022 the year ended December 31, 2023 compared to 2021 primarily due to increased short-term interest rates during 2022. the same period in 2022 despite the negative impact caused by the Company placing its largest lending relationship on nonaccrual status, as noted above. At December 31, 2022 December 31, 2023, the loan portfolio was comprised of 26.8% 24.8% floating rate loans which reprice monthly, 41.2% 41.9% variable rate loans that reprice at least once during the life of the loan and 32.0% 33.3% fixed rate loans that do not reprice during the life of the loan.

Average investment securities increased $147.8 million decreased $52.4 million and the average rate earned increased 53 125 basis points for 2022 2023 compared to 2021. 2022. The change in investment securities is the result of active balance sheet management to deploy excess cash combined with the continued decline in fair value. proceeds from securities maturities and principal payments into higher yielding loans, rather than reinvesting those proceeds back into the securities portfolio. The portfolio has been diversified as to bond types, maturities, and interest rate structures. As of December 31, 2022 December 31, 2023, the securities portfolio was comprised of 47.3% 47.2% variable rate securities with approximately 45.8% 99.3% that will reprice at least once over the next 12 months. Having We believe having a significant percentage of variable rate securities is an important strategy during times of rising interest rates because fixed-rate bond prices generally fall when interest rates increase, which can result in unrealized losses. However, variable rate securities do not carry as much interest rate risk so there is much less price volatility. This variable rate structure strategy is expected to limit the impact of rising rates on the Company's unrealized losses on debt securities.

Interest expense decreased $2.5 million increased $53.9 million for 2022 2023 compared to 2021. 2022. The decrease increase was primarily due to increases in the intentional runoff cost of all interest-bearing liability categories, except savings accounts, in the higher rate environment. Also contributing to the increased interest expense was the shift to higher cost certificates deposits and borrowings due to a decline and change in mix of deposits ("CDs") in 2021 and the first half Company's use of 2022. Interest expense on deposits decreased $3.6 million for 2022 compared higher-cost borrowings to 2021 primarily due to fund growth in the loan portfolio, including a $97.8 million decline in the average balance of CDs and the reduction in average rates paid on CDs. The decrease of $212.9 million or 14.3% in the average balance of CDs for 2022 compared to 2021 was primarily due to the aforementioned intentional runoff of these higher cost CDs. The average balances on our interest-bearing core deposits including money market accounts, interest-bearing demand accounts and savings accounts increased by $137.9 million, $75.6 million and $57.3 million, respectively, for the year ended December 31, 2022, December 31, 2023 compared to the same period in 2021. 2022. Interest expense on deposits increased $34.0 million for 2023 compared to 2022 primarily due to the rates on these deposits increasing 119 basis points to 1.81%. The increase in rates for the year ended December 31, 2023 compared to the same period last year included interest-bearing demand deposits up by 24 basis points, money market accounts up by 163 basis points, and CDs up by 169 basis points, in response to competitive pressures from higher market rates compared to the same period in 2022.

The average rates paid balance on interest-bearing demand accounts borrowings increased eight $374.6 million for the year ended December 31, 2023 compared to the year ended 2022. The cost of borrowings increased 121 basis points for the year ended December 31, 2022 and the average rate paid on money market accounts increased six basis points for the year ended December 31, 2022, when December 31, 2023 compared to the same period in 2021. The average rates paid on savings accounts for the year ended December 31, 2022 compared 2022, largely due to the same period in 2021 remained unchanged. Overall, the cost of interest-bearing liabilities decreased nine basis points for 2022 compared to 2021. Due to historically low market interest rates during 2021 increased balances and the first half of 2022, the Company was able to migrate away from higher interest rate CDs and grow lower yielding, more liquid products. During the second half of 2022 market interest rates increased quickly providing new incentives for customers to seek out higher yielding CDs. environment.

The following table sets forth for the periods presented a summary of the changes in interest earned and interest paid resulting from changes in volume and changes in rates:

		2022 Compared to 2021			**2021 Compared to 2020**									
		2023 Compared to 2022							**2023 Compared to 2022**			**2022 Compared to 2021**		
(Dollars in Thousands)	**(Dollars in Thousands)**	**Volume(3)**	**Rate(3)**	**Increase/ (Decrease)**	**Volume(3)**	**Rate(3)**	**Increase/ (Decrease)**	**(Dollars in Thousands)**	**Volume(3)**	**Rate(3)**	**Increase/ (Decrease)**	**Volume(3)**	**Rate(3)**	**Increase/ (Decrease)**
Interest Earned on:	**Interest Earned on:**													
Interest-Bearing Deposits with Banks	Interest-Bearing Deposits with Banks	$ (324)	$ 394	$ 70	$ 177	$ (208)	$ (31)							
Tax-Free Investment Securities (2)		(125)	(114)	(239)	(431)	(20)	(451)							
Interest-Bearing Deposits with Banks														

Interest-Bearing Deposits with Banks							
Tax-free Investment Securities(2)							
Taxable Investment Securities	Taxable Investment Securities	2,664	5,224	7,888	1,884	(3,706)	(1,822)
Total Securities	**Total Securities**	**2,539**	**5,110**	**7,649**	**1,453**	**(3,726)**	**(2,273)**
Tax-Free Loans (1)(2)		(1,425)	3	(1,422)	(3,705)	(43)	(3,748)
Tax-free Loans(1)(2)							
Taxable Loans (1)	Taxable Loans (1)	4,013	15,593	19,606	3,393	(5,171)	(1,778)
Total Loans	**Total Loans**	**2,588**	**15,596**	**18,184**	**(312)**	**(5,214)**	**(5,526)**
Federal Home Loan Bank Stock	Federal Home Loan Bank Stock	(6)	39	33	(58)	(39)	(97)
Total Interest-Earning Assets	**Total Interest-Earning Assets**	**$ 4,797**	**$21,139**	**$ 25,936**	**$ 1,260**	**$(9,187)**	**$ (7,927)**
Interest Paid on:	**Interest Paid on:**						
Interest Paid on:							
Interest Paid on:							
Interest-Bearing Demand							
Interest-Bearing Demand							
Interest-Bearing Demand	Interest-Bearing Demand	$ 205	$ 366	$ 571	$ 280	$ (413)	$ (133)
Money Market	Money Market	458	254	712	640	(434)	206
Savings	Savings	59	1	60	66	(16)	50
Certificates of Deposit	Certificates of Deposit	(2,595)	(2,378)	(4,973)	(5,352)	(7,916)	(13,268)
Total Interest-Bearing Deposits	**Total Interest-Bearing Deposits**	**(1,873)**	**(1,757)**	**(3,630)**	**(4,366)**	**(8,779)**	**(13,145)**
Federal Home Loan Bank Borrowings							
Federal Funds Purchased	Federal Funds Purchased	188	—	188	—	(1)	(1)
FHLB Borrowings		53	797	850	(56)	8	(48)
Other Borrowings	Other Borrowings	133	(1)	132	86	(4)	82
Total Borrowings	**Total Borrowings**	**374**	**796**	**1,170**	**30**	**3**	**33**
Total Interest-Bearing Liabilities	**Total Interest-Bearing Liabilities**	**$ (1,499)**	**$ (961)**	**$ (2,460)**	**$ (4,336)**	**$(8,776)**	**$ (13,112)**
Change in Net Interest Margin	**Change in Net Interest Margin**	**$ 6,296**	**$22,100**	**$ 28,396**	**$ 5,596**	**$ (411)**	**$ 5,185**

(1) *Nonaccruing loans are included in the daily average loan amounts outstanding.*

(2) *Tax-exempt income is on an FTE basis (non-GAAP) using the statutory federal corporate income tax rate of 21 percent.*

(3) *Changes to rate/volume are allocated to both rate and volume on a proportionate dollar basis.*

Provision (Recovery) for Credit Losses

The Company recognizes provision (recovery) for the ACL based on the difference between the existing balance of ACL reserves and the ACL reserve balance necessary to adequately absorb expected credit losses associated with the Company's financial instruments. Similarly, the Company recognizes provision (recovery) expense for unfunded commitments based on the difference between the existing balance of reserves for unfunded commitments and the reserve balance for unfunded commitments necessary to adequately absorb expected credit losses associated with those commitments. The Company adopted ASU 2016-03 on January 1, 2021, and increased the ACL by $64.5 million, for the Day 1 adjustment which included $61.6 million to the ACL and $2.9 million related to the life-of-loan reserve on unfunded loan commitments.

The ACL as a percentage of total portfolio loans was 2.77% at December 31, 2023 and 2.98% at December 31, 2022 and 3.41% at December 31, 2021. The provision (recovery) for credit losses decreased $0.9 million increased $3.1 million to $5.5 million for the year ended 2023 compared to $2.4 million for the year ended 2022 compared to year ended 2021. 2022. The decrease increase in the provision for credit losses was primarily driven by loan growth.

The provision for unfunded commitments for the full year 2023 was a provision of $0.9 million compared to a provision of $0.5 million for the full year 2022, was an increase of $0.4 million primarily driven by due to an increase in construction commitments.

Net charge-offs were $2.3 million for the release of $7.0 million of reserves that full year 2023 compared to $4.5 million for the full year 2022. During 2023, net charge-offs were allocated to concentrated in the other segment due to principal pay-downs, partially offset by strong consumer loan growth, increased qualitative reserves segment. As a percentage of $3.0 million, and average portfolio loans, on an annualized basis, net charge-offs were 0.07% and 0.15% for the years ended 2023 and 2022, respectively. See the "Allowance for Credit Losses" section of $4.5 million. The increase in qualitative reserves were factors attributable to the residential mortgage and commercial construction portfolios. Project costs continue to escalate due to supply chain and labor disruptions as well as increased material costs. Supply chain and labor disruptions cause the overall construction duration to increase, increasing interest costs to the borrower. The Bank has observed a handful of significant cost overruns on Commercial Real Estate, ("CRE") projects. To date, these cost overruns have either been funded by the borrower and/or project sponsors orthis MD&A for additional details regarding our charge-offs.

partially funded by the Bank within acceptable underwriting guidelines. The Company continues to monitor these trends by diligently collecting data on commercial construction projects and analyzing risk presented to the Company's loan portfolio.

A provision of $0.5 million was recorded in 2022 related to the provision for unfunded commitments primarily related to increases in construction commitments.

Net charge-offs were $4.5 million for the full year 2022 compared to $23.1 million for the full year 2021. During 2022, net charge-offs were primarily included in the commercial and industrial, ("C&I"), and other consumer segments. Net charge-offs of $23.1 million during the full year 2021 was primarily attributable to the resolution of five problem relationships, in which the majority of losses were anticipated and previously reserved. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 0.15% and 0.79% for the years ended 2022 and 2021, respectively. See the "Allowance for Credit Losses" section of this MD&A for additional details regarding our charge-offs.

Nonperforming loans ("NPLs") decreased increased at December 31, 2022 December 31, 2023 by $0.8 million, or 10.2% $302.9 million to $309.5 million compared to $6.6 million compared at December 31, 2022. During the second quarter of 2023, the Company placed commercial loans that reside in the Other segment of the Company's loan portfolio, relating to $7.4 million at December 31, 2021. The decrease was primarily a single lending relationship which has an aggregate principal amount of $301.9 million, on nonaccrual status due to loan maturities and failure to pay in full. In connection with our adoption of Topic 326 "Financial Instruments – Credit Losses" on January 1, 2021, the bank segmented this relationship in the CECL model, along with select other loans, into a segment labeled Other. As of December 31, 2023 and December 31, 2022, those Other segment reserves were $54.4 million and $54.7 million, respectively. As of December 31, 2023, the Company utilized discounted cash flow valuation techniques to evaluate the current condition of certain of the borrowers' operating businesses, those borrowers' capacity to repay and scenarios through which the Company may ultimately resolve this nonaccrual relationship, which resulted in individually evaluated reserves related to that single lending relationship. The bank established a reserve of $51.3 million for this relationship as of January 1, 2021 with the adoption of CECL. As a result of the discounted cash flow analysis and the reserves that were established for this relationship as of December 31, 2022, the classification of these commercial loans in nonaccrual status did not have a significant reduction of our largest NPL relationship in addition to pay-downs impact on other existing NPLs, all offset by a new NPL in the amount of $1.2 million Company's provision for credit losses during the year ended December 31, 2023. NPLs as a percentage of total portfolio loans were 8.83% at December 31, 2023 compared to 0.21% at December 31, 2022 compared to 0.26% at December 31, 2021. See the "Credit Quality" section of this MD&A for more detail on our NPLs.

Discussion of net interest income for the year ended December 31, 2020 December 31, 2021 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Net Interest Income" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021 December 31, 2021, which was filed with the SEC on March 11, 2022, and is incorporated herein by reference.

Noninterest Income

		Years Ended December 31,								
										Years Ended December 31,
		Years Ended December 31,								
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	$ Change	% Change	(Dollars in Thousands)	2023	2022	$ Change	% Change

Gain on Sales of Securities, net		$ 46	$ 6,869	$(6,823)	(99.3)%								
(Losses) Gains on Sales of Securities, net						(Losses) Gains on Sales of Securities, net	$ (1,521)		$ 46		$(1,567)		NM
Service Charges, Commissions and Fees	Service Charges, Commissions and Fees	7,168	6,662	506	7.6 %	Service Charges, Commissions and Fees	7,155	7,168	7,168	(13)	(13)	(0.2)	(0.2)%
Debit Card Interchange Fees	Debit Card Interchange Fees	7,427	7,226	201	2.8 %	Debit Card Interchange Fees	7,828	7,427	7,427	401	401	5.4	5.4 %
Insurance Commissions	Insurance Commissions	1,961	1,901	60	3.2 %	Insurance Commissions	1,945	1,961	1,961	(16)	(16)	(0.8)	(0.8)%
Bank Owned Life Insurance Income	Bank Owned Life Insurance Income	1,357	1,380	(23)	(1.7)%	Bank Owned Life Insurance Income	1,381	1,357	1,357	24	24	1.8	1.8 %
Gains on Sales and Write-downs of Bank Premises, net	Gains on Sales and Write-downs of Bank Premises, net	73	—	73	NM	Gains on Sales and Write-downs of Bank Premises, net	—	73	73	(73)	(73)	(100.0)	(100.0)%
Other Real Estate Owned Income		50	90	(40)	(44.4)%								
Commercial Loan Swap Fee Income													
Commercial Loan Swap Fee Income													
Commercial Loan Swap Fee Income	Commercial Loan Swap Fee Income	774	2,416	(1,642)	(68.0)%		139	774	774	(635)	(635)	(82.0)	(82.0) %
Other	Other	2,862	2,337	525	22.5 %	Other	1,351	2,912	2,912	(1,561)	(1,561)	(53.6)	(53.6)%
Total Noninterest Income	**Total Noninterest Income**	**$21,718**	**$28,881**	**$(7,163)**	**(24.8)%**	**Total Noninterest Income**	**$18,278**	**$**	**$ 21,718**	**$**	**$(3,440)**	**(15.8)**	**(15.8) %**

NM - percentage not meaningful

Total For the full year 2023, total noninterest income decreased $7.2 million was $18.3 million, a decrease of $3.4 million, or 24.8% 15.8%, to $21.7 million for from the full year ended December 31, 2022 when compared to December 31, 2021. 2022. The decrease was primarily related to declines net losses on sales of $6.8 million in net security gains for the year ended December 31, 2022 when compared to December 31, 2021. The decline in security gains during 2022 was due to the rising interest rate environment resulting in lower securities prices in the market that discouraged sales.

Changes in total noninterest income for the year ended December 31, 2022 also included of $1.5 million, a decrease of $1.6 million in other noninterest income, a decrease of $0.6 million in commercial loan swap fee income, as well as a decrease of $0.1 million in gains on sales and write-downs of bank premises, net. These decreases were offset by an increase of $0.4 million in debit card interchange fees due to higher volume during 2023.

The net losses on sales of securities were driven by the timing sale of approximately $30.0 million of available-for-sale securities during the fourth quarter of 2023 to reposition the securities portfolio and demand for this product reinvest the proceeds in the current rising interest rate environment. Offsetting the decreases were increases of $0.5 million in higher earning assets. The decrease within other noninterest income related to the unwind of two completed historic tax credit partnerships, which resulted in a $0.5 million increase gain of $1.2 million during the fourth quarter of 2022 and lower fair value adjustment of our interest rate swap contracts with commercial customers. The decrease in service charges on deposit accounts primarily driven by volume, and $0.2 million in debit card interchange fees driven by higher customer activity. commercial loan swap fee income was due to the changing interest rate environment.

Discussion of noninterest income for the year ended December 31, 2020 December 31, 2021 has been omitted as such discussion was provided in Part II, Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” under the heading “Noninterest Income” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 11, 2022, and is incorporated herein by reference.

Noninterest Expense

		Years Ended December 31,					Years Ended December 31,							
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	$ Change	% Change	(Dollars in Thousands)	2023		2022		$ Change		% Change	
Salaries and Employee Benefits	Salaries and Employee Benefits	$52,399	$ 54,157	$(1,758)	(3.2)%	Salaries and Employee Benefits	$ 55,856	$	$ 52,399	$	$3,457	6.6	6.6	%
Occupancy Expense, net	Occupancy Expense, net	13,527	13,556	(29)	(0.2)%	Occupancy Expense, net	14,028	13,527	13,527	501	501	3.7	3.7 %	
FDIC Insurance Expense	FDIC Insurance Expense	2,015	2,157	(142)	(6.6)%	FDIC Insurance Expense	4,904	2,015	2,015	2,889	2,889	143.4	143.4 %	
Other Taxes	Other Taxes	3,319	3,129	190	6.1 %	Other Taxes	3,282	3,319	3,319	(37)	(37)	(1.1)	(1.1)%	
Advertising Expense	Advertising Expense	1,434	952	482	50.6 %	Advertising Expense	1,693	1,434	1,434	259	259	18.1	18.1 %	
Telephone Expense	Telephone Expense	1,781	2,208	(427)	(19.3)%	Telephone Expense	1,842	1,781	1,781	61	61	3.4	3.4 %	
Professional and Legal Fees	Professional and Legal Fees	5,818	5,255	563	10.7 %	Professional and Legal Fees	6,210	5,818	5,818	392	392	6.7	6.7 %	
Data Processing Expense		4,051	3,758	293	7.8 %									
Data Processing						Data Processing	3,920		4,051		(131)		(3.2)	%
Losses on Sales and Write-downs of Other Real Estate Owned, net	Losses on Sales and Write-downs of Other Real Estate Owned, net	432	3,622	(3,190)	(88.1)%	Losses on Sales and Write-downs of Other Real Estate Owned, net	1,100	432	432	668	668	154.6	154.6 %	
Losses on Sales and Write-downs of Bank Premises, net		—	231	(231)	(100.0)%									
Debit Card Expense														
Debit Card Expense														
Debit Card Expense	Debit Card Expense	2,750	2,777	(27)	(1.0)%		2,875	2,750	2,750	125	125	4.5	4.5	%
Tax Credit Amortization	Tax Credit Amortization	621	1,708	(1,087)	(63.6)%	Tax Credit Amortization	—	621	621	(621)	(621)	(100.0)	(100.0)%	
Other Real Estate Owned Expense		343	407	(64)	(15.7)%									
Other														
Other														
Other	Other	8,511	8,368	143	1.7 %		9,756	8,854	8,854	902	902	10.2	10.2	%
Total Noninterest Expense	**Total Noninterest Expense**	**$97,001**	**$102,285**	**$(5,284)**	**(5.2)%**	**Total Noninterest Expense**	**$105,466**	**$**	**$ 97,001**	**$**	**$8,465**	**8.7**	**8.7**	**%**

Total For the full year 2023, total noninterest expense decreased $5.3 million to $97.0 million for was $105.5 million, an increase of $8.5 million, or 8.7%, from the full year 2022 when compared primarily due to the full year 2021. For the full year 2022 the most significant decrease for the period was a decline higher salaries and employee benefits of $3.2 million $3.5 million, an increase of $2.9 million in FDIC insurance expenses, an increase of $0.9 million in other noninterest expense, an increase in losses on sales and write-downs of other real estate owned, (“OREO”), net due to nonrecurring write-downs related to closed bank branches of $0.7 million, an increase in 2021. Also impacting the decrease occupancy expenses of $0.5 million, an increase in professional and legal fees of $0.4 million, and an increase in advertising expenses of $0.3 million. Offsetting these increases was a $1.8 million decline in tax credit amortization of $0.6 million and a decrease on $0.1 million in data processing expenses.

The increase in salaries and employee benefits $1.1 million was primarily related to higher salary expense of $4.5 million due to fewer open positions in retail, job grade assessment increases and normal merit increases, increases of $0.2 million in restricted stock expense, increased Federal Insurance Contributions Act expenses of $0.4 million, offset by a decrease in tax credit amortization, $0.4 million decrease medical claims of $0.3 million and lower performance based incentives of $1.4 million in telephone 2023.

The increase in FDIC insurance expenses was due to a final rule adopted by the FDIC to all insured depository institutions, to increase initial base deposit insurance assessment rate schedules uniformly by two basis points, beginning in the first quarterly assessment period of 2023, as well as the deterioration in asset quality as a direct result of the large NPL relationship, which is a component used to determine the assessment.

The increase in other noninterest expense relates to immaterial amounts resulting from various operating and $0.2 million decrease administrative expenses including business development expenses (i.e. travel and entertainment, donations and club dues), insurance, supplies and printing, equipment rent, and software support and maintenance.

The increase in losses on sales and write-downs of bank premises, net. Offsetting these decreases OREO, net related to three legacy OREO properties that sold in the fourth quarter of 2023, and $0.5 million in write-downs on three closed retail branches. These branches were closed in 2023, transferred to OREO and marketed for sale.

The increases of $0.6 million in occupancy expenses primarily related to additional seasonal services performed during the year ended 2023. The increase in professional and legal fees $0.5 million in advertising relates to higher legal expenses incurred from the large NPL relationship and $0.3 million in data processing expenses. new consulting engagements. Advertising expenses increased due to marketing initiatives during the full year 2023.

The decrease in salaries and employee benefits related to lower salaries of $1.3 million, lower medical expenses of $1.7 million, the impact from our retail branch optimization project, offset by a $1.0 million one-time inflationary bonus for associates in 2022. The decrease decline in tax credit amortization was primarily due to reversing amortization expense as a result of updated information from the developer which extended the in-service date to 2023 for one of the Company's historic tax credit partnerships during the third quarter of 2022. The $0.4 million decline in telephone expenses is due to the implementation early adoption of Accounting Standard Update 2023-02 Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method. Under the proportional amortization modified retrospective basis, the amortization of tax credit investments is recorded as a new telephone system during component of income tax expense instead of through noninterest expense as previously recorded in 2022. The increases for the full year 2022 compared to the same period of 2021 included $0.6 million in professional and legal fees which was due to increased consulting fees in our retail and operations areas, the increase of $0.5 million in advertising expenses due to marketing efforts and timing of various promotions, as well as an increase of $0.3 million decrease in data processing expenses related to additional expenses incurred during the full year 2022 for our online banking platform.

Discussion of noninterest expense for the year ended December 31, 2020 December 31, 2021 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Noninterest Expense" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 11, 2022, and is incorporated herein by reference.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Provision for Income Taxes

The provision for income taxes increased $7.5 million decreased $6.3 million to $11.6 million $5.3 million for the year ended December 31, 2022 December 31, 2023 compared to $4.1 million $11.6 million for December 31, 2021 December 31, 2022. Pre-tax income increased $26.0 million decreased $33.0 million for the year ended 2022 2023 compared to 2021. 2022. Our effective tax rate was 18.8% 18.6% for the year ended December 31, 2022 December 31, 2023 compared to 11.5% 18.8% for December 31, 2021 December 31, 2022. The increase decrease in the effective tax rate is for the year ended December 31, 2023 compared to the same period in 2022 was primarily due related to a higher level of changes in pre-tax income, and lower level of tax-exempt interest income and updated information from partially offset by increases to the developer extending the in-service date on a new tax credit from 2022 to valuation allowance in 2023. The Company ordinarily generates an annual effective tax rate that is less than the statutory rate of 21% due to benefits resulting from tax-exempt interest income, tax credit projects and Bank Owned Life Insurance bank owned life insurance ("BOLI").

Discussion of provision for income taxes for the year ended December 31, 2020 December 31, 2021 has been omitted as such discussion was provided in Part II, Item 7. "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Provision for Income Taxes" in the Company's Annual Report on Form 10-K for the year ended December 31, 2021, which was filed with the SEC on March 11, 2022, and is incorporated herein by reference.

Financial Condition
December 31, 2022 2023

Total assets increased $70.8 million $308.0 million, or 1.7%, to $4.5 billion at December 31, 2023 compared to $4.2 billion at December 31, 2022. Total portfolio loans increased $357.0 million, or 11.3% to $3.5 billion at December 31, 2023 compared to December 31, 2021. Federal Reserve Bank excess reserves decreased $170.9 million 2022 primarily due to $5.3 million at loan growth in the CRE, residential mortgage and construction segments during the year ended December 31, 2022 2023 from $176.2 million at December 31, 2021 due to redeploying excess cash into higher yielding loans and securities.

Total portfolio loans increased $336.8 million, or 12.0%, to $3.1 billion at December 31, 2022 compared to December 31, 2021 primarily due to consistent loan growth during the year. . The variances in loan segments for portfolio loans related to increases of $200.0 million $200.1 million in commercial real estate loans, $130.0 million in residential mortgages, $147.3 million in CRE loans, and $70.6 million $82.8 million in construction loans, offset by decreases of $45.4 million $38.3 million in commercial and industrial ("C&I") loans, $10.3 million in other consumer loans and $7.3 million in the other category, $35.6 million in C&I loans category.

The securities portfolio decreased $57.3 million and $0.1 million in other consumer loans. is currently 17.3% of total assets at At January 1, 2021, the initial break-out December 31, 2023 compared to 19.9% of Other loans related to the adoption of Topic 326 totaled $379.9 million consisting of $140.8 million of CRE, $78.1 million of C&I, $50.8 million of Residential Mortgages and $110.2 million of Construction. This segment of loans has unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this segment resulted in an expected credit loss of $51.3 million at adoption. The Company had no loans held-for-sale total assets at December 31, 2022 and $0.2 million at December 31, 2021.

Other real estate owned, ("OREO"), decreased $2.5 million at December 31, 2022 compared to December 31, 2021 due to sales and payments of OREO. Closed retail bank office carrying values increased $0.1 million and have a remaining book value of $1.1 million at December 31, 2022 compared to $1.0 million at December 31, 2021. During 2022, $1.9 million in properties were sold and two properties totaling $0.9 million were closed and moved to OREO, but remain to be sold. OREO related to foreclosed assets decreased $2.6 million at December 31, 2022 compared to December 31, 2021.

The securities portfolio decreased $86.1 million and is currently 19.9% of total assets at December 31, 2022 compared to 22.3% of total assets at December 31, 2021. The decrease is due to the Company's strategy of redeploying securities $92.2 million in security sales, curtailments and maturities deployed into higher yielding loan growth as well as or to curtail wholesale funding, partially offset by security purchases of $24.9 million and the continued decline positive changes in fair value due to rising interest rates. of securities during 2023. As of December 31, 2023, the securities portfolio was comprised of 47.2% variable rate securities with approximately 99.3% that will reprice at least once over the next 12 months. At December 31, 2022 December 31, 2023, total gross unrealized gains in the available-for-sale portfolio were $0.3 million $0.7 million, offset by $109.7 million $92.3 million of gross unrealized losses. Refer to the "Securities" "Securities Activity" section below for further discussion of unrealized losses in the available-for-sale securities portfolio.

Total deposits decreased $68.2 million Federal Home Loan Bank ("FHLB") stock, at cost increased $11.9 million to $3.6 billion $21.6 million at December 31, 2022 2023 compared to December 31, 2021 2022. The decreases included $82.8 million decrease in CDs increase is due to the intentional runoff FHLB requirement to hold a specified level of higher cost CDs, stock based upon level of borrowings. OREO decreased $5.9 million at December 31, 2023 compared to December 31, 2022 due to the sale of one OREO property in June 2023. During the year ended 2023, the Bank closed three retail banking offices and moved $1.4 million at fair value to OREO. These properties are currently being marketed for sale. Closed retail bank offices had a decline book value of $44.6 million in noninterest-bearing demand accounts $2.3 million at December 31, 2023 and a decrease of $6.3 million in savings accounts. These decreases were offset by $1.1 million at December 31, 2022.

Total deposits increased $89.4 million to $3.7 billion at December 31, 2023 compared to December 31, 2022. The increase primarily related to an increase of $44.3 million $325.1 million in interest-bearing demand accounts certificate of deposits ("CDs") and an increase of $21.2 million $29.4 million in money market accounts. accounts offset by declines of $265.1 million in savings and demand deposits due to customers migrating to higher-yielding CD products driven by high market interest rates. At December 31, 2022, 2023, noninterest-bearing deposits comprised 19.4% 18.4% of total deposits compared to 20.2% 19.4% at December 31, 2021 December 31, 2022. CDs comprised 42.6% and 34.7% of total deposits at December 31, 2022 December 31, 2023 and 36.3% at December 31, 2021. The decline in deposit balances can be attributed December 31, 2022, respectively. As of December 31, 2023, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 82.6% of our total deposits of $3.7 billion were insured under standard FDIC insurance coverage limits, and approximately 17.4% of our total deposits were uninsured deposits over the competitive market given the rising interest rate environment. standard FDIC

insurance coverage limit. The Company's deposit base is diversified and granular and is comprised of approximately 78.9% of retail deposits.

Total capital decreased by $79.0 million or 19.4% of $351.2 million at December 31, 2023, reflects an increase of $22.6 million compared to $328.6 million at December 31, 2022 compared to $407.6 million at . The increase in total capital from December 31, 2021 2022. The decrease in equity was is primarily due to a $87.3 million net income of $23.4 million for the year ended December 31, 2023, other comprehensive income of $14.2 million increased due to changes in fair value of investment securities, an increase of $1.5 million related to restricted stock activity during the year, as well as, the transitional adjustment of $0.1 million, net of tax for the adoption of ASU 2023-02. Offsetting these increases was a decrease in other comprehensive loss due to declines in the fair value of available-for-sale securities, a $42.9 million decrease $16.6 million related to the repurchase of common stock through December 31, 2022, partially offset by net income of $50.1 million for and the year ended December 31, 2022 that was retained by the Company. The remaining difference of $1.1 million is related to stock-based compensation expense during 2022. 1% excise tax on stock repurchases.

The ACL was 2.98% 2.77% of total portfolio loans at December 31, 2022 2023 compared to 3.41% 2.98% as of December 31, 2021 2022. General reserves as a percentage of total portfolio loans were 1.22% at December 31, 2023 compared to 2.96% at December 31, 2022 compared to 3.38% at December 31, 2021. The decrease in the general reserves as a percentage of total portfolio loans was primarily driven by the release of $7.0 million of reserves that were allocated largest lending relationship's movement from the general pool to the other segment individually evaluated loans due to principal pay-downs, throughout 2022, partially the transfer to nonaccrual during the second quarter of 2023, offset by strong loan growth, increased qualitative reserves of $3.0 million, and net charge-offs of $4.5 million. growth. Management believes the ACL is adequate to absorb expected losses inherent in the loan portfolio. See the sections of this MD&A titled “Provision for Credit Losses,” “Credit Quality” and “Allowance for Credit Losses” for information about the factors that impacted the ACL and the provision for credit losses.

The Company remains well capitalized. Our The Tier 1 capital ratio decreased to 11.08% at December 31, 2023 compared to 12.61% at December 31, 2022 compared to 14.21%. The leverage ratio was 9.48% at December 31, 2021 2023. Our leverage ratio was, compared to 10.29% at December 31, 2022, compared to 10.62% and the total risk-based capital ratio was 12.34% at December 31, 2021 2023 and total risk-based capital ratio was compared to 13.86% at December 31, 2022 compared to 15.46% at December 31, 2021.The. The decrease is primarily related to the aforementioned repurchase of common stock of $42.9 million through $16.6 million and the 1% excise tax on stock repurchases and loan growth during the year ended December 31, 2023. Another significant factor driving the ratios downward was the Company placing the above mentioned large lending relationship on nonaccrual status, which resulted in a $30.0 million year-to-date negative impact on interest income, combined with the movement of nonaccrual assets to higher risk rating categories.

The Bank also remained well capitalized as of December 31, 2023. The Bank’s Tier 1 capital ratio was 10.99% at December 31, 2023 compared to 12.42% at December 31, 2022. We adopted Current Expected Credit Losses The Bank’s leverage ratio was 9.41% at (“CECL”) December 31, 2023 effective January 1, 2021 and elected compared to implement the regulatory agencies’ 10.13% at December 31, 2022. The Bank’s total risk-based capital transition relief over the permissible three-year period. ratio was 12.25% at December 31, 2023 compared to 13.68% at December 31, 2022.

Securities

The following table presents the composition of available-for-sale securities for the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	$ Change
U.S. Treasury Securities	U.S. Treasury Securities	$ 17,866	$ 4,413	$ 13,453
U.S. Government Agency Securities	U.S. Government Agency Securities	49,764	73,534	(23,770)
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	103,685	110,013	(6,328)
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	34,675	43,026	(8,351)
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	22,399	14,146	8,253
Asset Backed Securities	Asset Backed Securities	141,383	151,450	(10,067)
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	176,622	203,881	(27,259)
States and Political Subdivisions	States and Political Subdivisions	228,146	262,202	(34,056)
Corporate Notes	Corporate Notes	61,733	59,735	1,998
Total Debt Securities	**Total Debt Securities**	**$836,273**	**$922,400**	**$(86,127)**

(Dollars in Thousands)	2023	2022	$ Change

The balances and average rates of our securities portfolio are presented below as of December 31:

(Dollars in Thousands)	(Dollars in Thousands)	2022 Balance	2022 Weighted-Average Yield	2021 Balance	2021 Weighted-Average Yield	(Dollars in Thousands)	2023 Balance		2023 Weighted-Average Yield	2022 Balance		2022 Weighted-Average Yield
U.S. Treasury Securities	U.S. Treasury Securities	$ 17,866	1.43 %	$ 4,413	1.35 %	U.S. Treasury Securities	$ —	—	— %	$ 17,866	1.43	1.43 %
U.S. Government Agency Securities	U.S. Government Agency Securities	49,764	4.29 %	73,534	1.37 %	U.S. Government Agency Securities	43,827	5.79	5.79 %	49,764	4.29	4.29 %
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	103,685	2.90 %	110,013	0.44 %	Residential Mortgage-Backed Securities	99,150	3.62	3.62 %	103,685	2.90	2.90 %
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	34,675	4.52 %	43,026	1.72 %	Commercial Mortgage-Backed Securities	31,163	5.95	5.95 %	34,675	4.52	4.52 %
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	22,399	2.65 %	14,146	2.02 %	Other Commercial Mortgage-Backed Securities	21,856	2.74	2.74 %	22,399	2.65	2.65 %
Asset Backed Securities	Asset Backed Securities	141,383	4.04 %	151,450	1.70 %	Asset Backed Securities	140,006	4.49	4.49 %	141,383	4.04	4.04 %
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	176,622	3.56 %	203,881	0.69 %	Collateralized Mortgage Obligations	161,533	4.39	4.39 %	176,622	3.56	3.56 %
States and Political Subdivisions	States and Political Subdivisions	228,146	2.38 %	262,202	2.41 %	States and Political Subdivisions	222,108	2.36	2.36 %	228,146	2.38	2.38 %
Corporate Notes	Corporate Notes	61,733	3.87 %	59,735	4.08 %	Corporate Notes	59,360	3.87	3.87 %	61,733	3.87	3.87 %
Total Securities Available-for-Sale	**Total Securities Available-for-Sale**	**$836,273**	**3.24 %**	**$922,400**	**1.65 %**	**Total Securities Available-for-Sale**	**$ 779,003**	**3.73**	**3.73 %**	**$ 836,273**	**3.24**	**3.24 %**

The Company invests in various securities in order to maintain a source of liquidity, to satisfy various pledging requirements, to increase net interest income and as a tool of the ALCO to diversify and reposition the balance sheet for interest rate risk purposes. Securities are subject to market risks that could negatively affect the level of liquidity available to the Company. us. Security purchases are subject to the Company's Investment Policy our investment policy that is approved annually by the our Board and administered through ALCO and the Company's our treasury function.

The securities portfolio decreased $86.1 million $57.3 million to $779.0 million at December 31, 2022 December 31, 2023 compared to December 31, 2021 $836.3 million at December 31, 2022. Securities comprise 19.9% 17.3% of total assets at December 31, 2022 December 31, 2023 compared to 22.3% 19.9% at December 31, 2021 December 31, 2022. The The decrease is primarily due to the Company's strategy of redeploying securities $92.2 million in security sales, curtailments and maturities deployed into higher yielding loan growth or to curtail wholesale funding, as well as partially offset by security purchases of $24.9 million and the continued decline positive changes in fair value due to rising interest rates. We have further diversified of securities during 2023. As of December 31, 2023, the securities portfolio as to bond types, maturities and interest was comprised of 47.2% variable rate structures. securities with approximately 99.3% that will reprice at least once over the next 12 months.

At December 31, 2023, total gross unrealized gains in the available-for-sale portfolio were $0.7 million offset by $92.3 million of gross unrealized losses. At December 31, 2022, total gross unrealized gains in the available-for-sale portfolio were $0.3 million offset by $109.7 million of gross unrealized losses. At December 31, 2021, total gross unrealized gains in the available-for-sale portfolio were $10.0 million offset by $7.8 million of gross unrealized losses.

The unrealized losses on debt securities are believed to be temporary primarily because these unrealized losses are due to reductions in market value caused by upward movement in interest rates since the securities purchase (as applicable), and not related to the credit quality of these securities. Our portfolio consists of 49.2% 48.7% of securities issued by United States government sponsored entities and carry an implicit government guarantee. States and political subdivisions comprise 29.8% of the portfolio and largely general obligation or sponsored entities and carry an implicit government guarantee. States and political subdivisions comprise 28.5% of the portfolio and are largely general obligations or essential purpose revenue bonds, which have performed very well historically over all business cycles, and are rated AA and AAA. We have the intent and ability to hold these securities to maturity and expect full recovery of the amortized cost. From time to time we may sell securities to take advantage of market opportunities or as part of a strategic initiative.

The Company’s investment securities with intermediate and long-term maturities were the largest driver of these gross unrealized losses, as the market values of these securities are significantly impacted by the Treasury yield curve for similar durations (i.e., 5-year 5- and 10-year Treasury securities). This portion of the Treasury yield curve has moved significantly upward lower over the past year, three months, driving unrealized losses on these securities higher. Although lower. The Company believes that the Federal Reserve continues System, (“FRB”) is at or near the end of its aggressive effort to raise strategy of raising short-term interest rates to combat inflation, inflation. Some market information indicates that the Company does not expect higher FRB may start lowering short-term interest rates in 2024. Changes in short-term interest rates can affect the yield on floating rate securities. Therefore, yields on floating rate securities may begin to adversely impact fall should the fair values FRB begin lowering short rates. Changes in intermediate and long-term interest rates, which are market driven, affect the market value of the Company’s investment fixed rate securities to with similar maturities. Thus, the same extent as increases in longer-term rates. The Company expects that higher short-term rates may improve yields market values on certain of the Company’s variable rate securities within the next six Bank’s intermediate and long-term maturity holdings will continue to twelve months. fluctuate in large part driven by treasury yield changes.

At December 31, 2021, December 31, 2023 the 5-year and 10-year U.S. Treasury yields were 1.26% 3.84% and 1.52% 3.88%, respectively. At December 31, 2022, those same bond yields were 3.99% and 3.88%, respectively. Therefore, this increase The flatness in 10-year treasury yields was neutral to bond market values, while the decrease of 273 and 236 15 basis points respectively in the 5-year treasury in the intermediate part of the yield curve largely caused helped drive the reduction decrease in bond prices unrealized losses for fixed rate bonds in that maturity range. the year ended December 31, 2023. The effects were generally greater for longer maturity bonds, such as municipal bonds. On the other hand, floating rate bonds largely held consistent values, as those interest rates adjust in line with Federal Reserve interest rate hikes.

Should the impairment of any of these securities become credit related, the cost basis of the investment will be reduced and the resulting loss impairment will be recognized in net income by establishing an ACL through provision for credit losses in the period the credit related impairment is identified, while any non-credit loss will be recognized in accumulated other comprehensive loss. loss, net of applicable taxes. At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had no credit related net investment impairment losses. impairment.

The Basel rules also permit most banking organizations to retain, through a one-time election, existing treatment for accumulated other comprehensive loss, which currently does not affect regulatory capital. The Company elected to retain this treatment which reduces the volatility of regulatory capital levels.

The following table sets forth the maturities of securities at December 31, 2022 December 31, 2023 and the weighted average yields of such securities.

Available-for-Sale Securities

	Maturing							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Treasury Securities	$ —	— %	$ 14,080	1.46 %	$ 3,786	1.35 %	$ —	— %
U.S. Government Agency Securities	—	— %	1,745	4.14 %	48,019	4.30 %	—	— %
Residential Mortgage-Backed Securities(2)	—	— %	—	— %	—	— %	103,685	2.90 %
Commercial Mortgage-Backed Securities(2)	—	— %	631	5.70 %	10,013	4.01 %	24,031	4.72 %
Other Commercial Mortgage-Backed Securities(2)	—	— %	—	— %	—	— %	22,399	2.65 %
Asset Backed Securities(2)	—	— %	—	— %	70,943	3.10 %	70,440	5.04 %
Collateralized Mortgage Obligations(2)	—	— %	—	— %	5,354	1.34 %	171,268	3.63 %
States and Political Subdivisions	200	5.21 %	3,453	2.19 %	82,829	2.19 %	141,664	2.49 %
Corporate Notes	—	— %	—	— %	61,733	3.87 %	—	— %
Total	**$ 200**		**$ 19,909**		**$ 282,677**		**$ 533,487**	
Weighted Average Yield(1)		**5.21 %**		**1.94 %**		**3.14 %**		**3.34 %**

	Maturing							
	Within One Year		After One But Within Five Years		After Five But Within Ten Years		After Ten Years	
(Dollars in Thousands)	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
U.S. Government Agency Securities	$ —	— %	$ 2,898	6.07 %	$ 40,929	5.77 %	$ —	— %
Residential Mortgage-Backed Securities(2)	—	— %	—	— %	—	— %	99,150	3.62 %
Commercial Mortgage-Backed Securities(2)	—	— %	1,069	7.32 %	7,358	4.52 %	22,736	6.38 %

Other Commercial Mortgage-Backed Securities(2)	—	— %	—	— %	1,967	1.52 %	19,889	2.87 %
Asset Backed Securities(2)	—	— %	25,606	1.89 %	64,773	4.43 %	49,627	6.00 %
Collateralized Mortgage Obligations(2)	—	— %	—	— %	4,409	1.40 %	157,124	4.48 %
States and Political Subdivisions	—	— %	8,948	1.99 %	127,827	2.28 %	85,333	2.52 %
Corporate Notes	—	— %	—	— %	59,360	3.87 %	—	— %
Total	**$ —**		**$ 38,521**		**$ 306,623**		**$ 433,859**	
Weighted Average Yield(1)		**— %**		**2.34 %**		**3.48 %**		**4.04 %**

(1)Weighted -average yields are calculated on a taxable-equivalent basis using the federal statutory tax rate of 21 percent.

(2) Securities not due at a single maturity date

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

At December 31, 2022 December 31, 2023 the Company had no held-to-maturity securities; however, if at a future date we classify securities as held-to-maturity, our disclosures will show the weighted average yield for each range of maturities.

At December 31, 2022 December 31, 2023, the Company held 54.2% 52.8% fixed rate and 45.8% 47.2% floating rate securities.The floating rate securities may have a stated maturity greater than ten years, but the interest rate generally adjusts monthly.Therefore, the duration on these securities is short, generally less than one year, and will therefore not be as sensitive to interest rate changes.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Refer to Note 4, Investment Securities, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our securities.

Loan Composition

The following table summarizes our loan portfolio as of the periods presented:

		December 31,				
		December 31,				
(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**2020**	**2019**	**2018**
Commercial	**Commercial**					
Commercial Real Estate						
Commercial Real Estate						
Commercial Real Estate	Commercial Real Estate	$ 1,470,562	$ 1,323,252	$ 1,453,799	$ 1,365,310	$ 1,359,036
Commercial and Industrial	Commercial and Industrial	309,792	345,376	557,164	621,667	661,870
Total Commercial Loans	**Total Commercial Loans**	**1,780,354**	**1,668,628**	**2,010,963**	**1,986,977**	**2,020,906**
Consumer	**Consumer**					
Residential Mortgages						
Residential Mortgages						
Residential Mortgages	Residential Mortgages	657,948	457,988	472,170	514,538	397,280
Other Consumer	Other Consumer	44,562	44,666	57,647	73,688	73,058

	December 31,				
(Dollars in Thousands)	**2023**	**2022**	**2021**	**2020**	**2019**

Total Consumer Loans	**Total Consumer Loans**	**702,510**	**502,654**	**529,817**	**588,226**	**470,338**
Construction	Construction	353,553	282,947	406,390	309,563	212,548
Other	Other	312,496	357,900	—	—	—
Total Portfolio Loans	**Total Portfolio Loans**	**3,148,913**	**2,812,129**	**2,947,170**	**2,884,766**	**2,703,792**
Loans Held-for-Sale	Loans Held-for-Sale	—	228	25,437	19,714	2,559
Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower of cost or fair value	Loans Held-for-Sale in Connection with Sale of Bank Branches, at the lower of cost or fair value	—	—	9,835	—	—
Total Loans	**Total Loans**	**$ 3,148,913**	**$ 2,812,357**	**$ 2,982,442**	**$ 2,904,480**	**$ 2,706,351**

Our loan portfolio represents our most significant source of interest income. The risk that borrowers are unable to pay such obligations is inherent in the loan portfolio. Other conditions such as downturns in the borrower's industry or the overall economic climate can significantly impact the borrower's ability to pay. For a discussion of the risk factors relevant to our business and operations, please refer to Part I, Item 1A, "Risk Factors," contained in this Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023.

Total portfolio loans increased $336.8 million $357.0 million, or 12.0% 11.3%, to $3.1 billion $3.5 billion at December 31, 2022 December 31, 2023 compared to $2.8 billion at December 31, 2021 December 31, 2022 with strong production primarily in our CRE, residential mortgage and construction portfolios. We experienced a decline in total loans during 2021 primarily due to large commercial loan payoffs, $62.2 million of loan sales and mortgage refinancing sold in the secondary markets.

The commercial CRE portfolio is monitored for potential concentrations of credit risk by market, property type and tenant concentrations. The Bank Given the continued rising rate environment our mortgage portfolio experienced strong growth in the residential mortgage loan portfolio during 2022. However, given the expectation of continued higher mortgage rates next year, we expect more modest growth during future periods. in 2023 compared to 2022. At December 31, 2022 December 31, 2023, the loan portfolio was comprised of 26.8% 24.8% floating rate loans rates which reprice monthly, 41.2% 41.9%, variable rate loans rates that reprice at least once during the life of the loan of which a majority of this loan population has one or more repricing events and the remaining before maturity, and 32.0% 33.3% are fixed rate loans. The Company continues to carefully monitors monitor the loan portfolio during 2023, including the potential in light of market conditions that impact on repayment capacity that our borrowers may experience given and the interest rate environment.

Our exposure to the hospitality industry at December 31, 2022 equated to approximately $360.4 million, or 11.4%, Total CRE represented 47.7% of total portfolio loans. These were mostly loans secured by upscale or top tier flagged hotels, which have historically exhibited low leverage at December 31, 2023 compared to 46.7% at December 31, 2022. The Company's CRE loan portfolio is concentrated predominantly in North Carolina, Virginia, South Carolina, West Virginia and strong operating cash flows. Beginning in Georgia within the second quarter of 2021, we observed improvements in occupancy retail, multifamily, hospitality, warehouse and the average daily rates for our hotel clients following sharp declines as a result of the pandemic. However, our clients continue to face challenges with respect to labor, which we believe impedes their ability to turnover rooms resulting in occupancy constraints. This has caused, or may cause, them to operate with lower levels of liquidity and an inability to reserve for capital improvements and could adversely affect their ability to pay property expenses, capital improvements and/or repay existing indebtedness. Contractual payments have been restored since the expiration of our deferral program on June 30, 2021. These developments, together with the current economic conditions, generally, may adversely impact the value of real estate office metrics.

collateral in hospitality and other commercial real estate exposure. As a result, our financial condition, capital levels and results of operations could be adversely affected.

Aggregate commitments to our top 10 credit relationships were $652.5 million at December 31, 2022. The largest relationship of the top 10 represents 47.4% of the aggregate commitments of our top 10 credit relationships.

The following table summarizes our top 10 relationships presents the Company's CRE breakout by segment, the segment amounts included in special mention and a description substandard and the related percentages by segment to total CRE and total portfolio loans as of industries represented for the periods presented: indicated:

Dollars in Thousands	**For the Periods Ending**				
Top Ten (10) Relationships	**12/31/2022**	**12/31/2021**	**Change**	**2022 % of Gross Loans**	**2022 % of RBC**
1. Hospitality, agriculture & energy	$ 309,107	$ 350,010	$ (40,903)	9.82 %	63.94 %
2. Retail real estate & food services	55,625	56,073	(448)	1.77 %	11.51 %
3. Industrial & retail real estate	41,725	45,653	(3,928)	1.32 %	8.63 %

4. Multifamily development	40,000	36,720	3,280	1.27 %	8.27 %
5. Retail real estate	37,679	38,250	(571)	1.20 %	7.79 %
6. Hospitality	35,255	35,664	(409)	1.12 %	7.29 %
7. Multifamily & student housing	33,998	35,405	(1,407)	1.08 %	7.03 %
8. Special / limited use	33,736	33,736	—	1.07 %	6.98 %
9. Hospitality	33,587	34,463	(876)	1.06 %	6.95 %
10. Multifamily development	31,790	29,389	2,401	1.01 %	6.58 %
Top Ten (10) Relationships	**652,502**	**695,363**	**(42,861)**	**20.72 %**	**134.97 %**
Total Gross Loans	**3,148,913**	**2,812,357**	**336,556**		
% of Total Gross Loans	**20.72 %**	**24.73 %**	**(4.01)%**		
Concentration (25% of RBC)	$ 120,863	$ 120,781			

	December 31,							
	2023				2022			
(Dollars in Thousands)	CRE Portfolio	CRE Balance in Special Mention/Substandard Risk Rating	% of Each Segment to Total CRE Loans	% of Each Segment to Total Portfolio Loans	CRE Portfolio	CRE Balance in Special Mention/Substandard Risk Rating	% of Each Segment to Total CRE Loans	% of Each Segment to Total Portfolio Loans
Commercial Real Estate								
Retail	$ 396,831	$ 62	23.8 %	11.3 %	$ 319,557	$ 155	21.7 %	10.1 %
Multifamily	386,123	—	23.1 %	11.0 %	289,667	9,964	19.7 %	9.2 %
Warehouse	373,812	—	22.4 %	10.7 %	264,705	85	18.0 %	8.4 %
Hospitality	289,553	72	17.3 %	8.3 %	308,856	—	21.0 %	9.8 %
Office	222,160	1,349	13.3 %	6.3 %	225,930	2,898	15.4 %	7.2 %
Other	2,152	119	0.1 %	0.1 %	61,847	120	4.2 %	2.0 %
Total CRE Loans	**$ 1,670,631**	**$ 1,602**	**100.0 %**	**47.7 %**	**$ 1,470,562**	**$ 13,222**	**100.0 %**	**46.7 %**

Unfunded commitments on lines of credit were $512.7 million at December 31, 2022 as compared to $433.1 million at December 31, 2021. CRE loans represent a portfolio concentration risk. The majority of unused commitments our CRE loans are for made in the above noted geographies and granted to experienced developers and sponsors with loan guaranty structures that provide recourse to individuals with access to financial resources. We believe our knowledge of CRE and our operating knowledge at the local and regional level of these markets allows us to effectively manage concentration risk. Our operating knowledge at the local and regional level is derived from our front-line connection to the customer and our understanding of their business model. We also have access to research tools that inform us about market statistics such as occupancy, lease growth rates and new construction projects that will be drawn as the construction completes. Total utilization was 50.3% at December 31, 2022 starts. This data is reviewed frequently by our credit officers and 52.2% at December 31, 2021. Unfunded commitments disseminated to our lenders. The bank's underwriting process includes multiple shock scenarios primarily focused on commercial operating lines of credit was 49.7% at December 31, 2022 cash flow and 51.7% at December 31, 2021. leverage in order to determine a supportable loan amount.

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry while actively managing concentrations. When concentrations exist in certain segments, we seek to mitigate this risk is mitigated by reviewing the relevant economic indicators and internal risk rating trends of the loans in these segments. The Company established transaction, relationship and specific loan segment limits in its loan policy. Total commercial real estate balances should not exceed the combination of 300% of total risk-based capital and growth in excess of 50% over the previous thirty-six months and construction loan balances should not exceed 100% of total risk-based capital. Investment real estate property types and purchased loan programs have individual dollar limits that should not be exceeded in the portfolio and are based on management's risk tolerance relative to capital. In addition, there are specific limits in place targets for various categories of real estate loans with regards respect to debt service coverage ratios, loan-to-value ratios, loan terms, and amortization periods. We also have policy limits on loan-to-cost for construction projects. Although leverage is important, the Company is also focused focuses on cash flow generation and uses multiple metrics employs stress testing to calculate a supportable loan amount. Supportable loan amounts have generally been

Aggregate commitments to our top 10 credit relationships were $636.7 million at December 31, 2023. The Other segment represents 47.4% of the top 10 credit relationships and the Company has since transferred its largest lending relationship of $301.9 million to nonaccrual during the second quarter of 2023, as described in more challenging given detail below under "Credit Quality" in this MD&A.

The following table summarizes our top 10 relationships and a description of industries represented for the increases in commodities pricing. periods presented:

Dollars in Thousands	For the Periods Ending 12/31/2023	For the Periods Ending 12/31/2022	Change	2023 % of Gross Loans	2023 % of RBC
1. Hospitality, Agriculture & Energy	$ 301,913	$ 309,107	$ (7,194)	8.61 %	62.26 %
2. Retail Real Estate & Food Services	53,576	55,625	(2,049)	1.53 %	11.05 %
3. Multifamily Development	40,000	40,000	—	1.14 %	8.25 %
4. Retail Real Estate	38,972	37,679	1,293	1.11 %	8.04 %
5. Hospitality	37,502	35,255	2,247	1.07 %	7.73 %
6. Industrial & Retail Real Estate	33,885	41,725	(7,840)	0.97 %	6.99 %
7. Non-Owner Occupied / Commercial Real Estate	33,752	17,308	16,444	0.96 %	6.96 %
8. Multifamily & student housing	32,747	33,998	(1,251)	0.94 %	6.75 %
9. Hospitality	32,328	33,587	(1,259)	0.92 %	6.66 %
10. Multifamily / Commercial Real Estate	32,000	24,000	8,000	0.91 %	6.60 %
Top Ten (10) Relationships	**636,675**	**628,284**	**8,391**	**18.16 %**	**131.29 %**
Total Gross Loans	**3,505,910**	**3,148,913**	**356,997**		
% of Total Gross Loans	**18.16 %**	**19.95 %**	**(1.79)%**		
Concentration (25% of RBC)	$ 121,231	$ 120,863			

Unfunded commitments on lines of credit were $568.7 million at December 31, 2023 as compared to $512.7 million at December 31, 2022. The majority of unused commitments are for construction projects that will be drawn as the construction completes. Total utilization was 53.8% at December 31, 2023 and 50.3% at December 31, 2022. Unfunded commitments on commercial operating lines of credit was 53.7% at December 31, 2023 and 49.7% at December 31, 2022.

Unsecured loans pose higher risk for the Company due to the lack of a well-defined secondary source of repayment. Commercial unsecured loans are reserved for the best quality customers with well-established businesses that operate with low financial and operating leverage. The repayment capacity of the borrower should exceed the policy and guidelines for secured loans. The Company significantly increased the standards for consumer unsecured lending by adjusting upward the required qualifying Fair Isaac Corporation ("FICO") scores and restricting loan amounts at lower FICO scores.

Deferred costs and fees included in the portfolio balances above were $7.2 million and $8.2 million at December 31, 2023 and $4.5 million at December 31, 2022 and December 31, 2021, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were $133.4 thousand and $161.2 thousand at December 31, 2023 and $190.6 thousand at December 31, 2022 and December 31, 2021, respectively.

From time to time, we have mortgage loans held-for-sale derived from two sources. First, we purchase mortgage loans on a short-term basis from a partner financial institution that has fully executed sales contracts to end investors. Second, we originate and close mortgages with fully executed contracts with investors to purchase shortly after closing. We then hold these mortgage loans from both sources until funded by the investor, typically a two-week period. There were no mortgage loans held-for-sale at December 31, 2022 and $0.2 million at December 31, 2021.

The following tables present the maturity schedule of portfolio loan types at December 31, 2022 December 31, 2023:

(Dollars in Thousands)	(Dollars in Thousands)	Maturity Within One Year	Maturity After One But Within Five Years	Maturity After Five But Within 15 Years	Maturity After 15 Years	Maturity Total
Fixed interest rates	**Fixed interest rates**					
Commercial Real Estate	Commercial Real Estate	$ 79,588	$246,838	$ 65,901	$ 9,372	$ 401,699

(Dollars in Thousands)	Maturity Within One Year	Maturity After One But Within Five Years	Maturity After Five But Within 15 Years	Maturity After 15 Years	Maturity Total
Commercial Real Estate					
Commercial Real Estate					

Commercial and Industrial	Commercial and Industrial	5,958	67,284	152,868	2,985	229,095
Residential Mortgages	Residential Mortgages	11,086	7,308	71,857	23,853	114,104
Other Consumer	Other Consumer	2,485	40,758	984	—	44,227
Construction	Construction	102,720	113,521	2,892	—	219,133
Other	Other	—	—	—	—	—
Portfolio Loans with Fixed Interest Rates	**Portfolio Loans with Fixed Interest Rates**	**$ 201,837**	**$ 475,709**	**$ 294,502**	**$ 36,210**	**$ 1,008,258**
Variable interest rates	**Variable interest rates**					
Commercial Real Estate	Commercial Real Estate	$ 47,898	$ 79,053	$ 665,031	$ 276,881	$ 1,068,863
Commercial Real Estate						
Commercial Real Estate						
Commercial and Industrial	Commercial and Industrial	27,176	27,310	22,867	3,344	80,697
Residential Mortgages	Residential Mortgages	1,910	1,475	25,788	514,671	543,844
Other Consumer	Other Consumer	335	—	—	—	335
Construction	Construction	49,313	76,025	7,540	1,542	134,420
Other	Other	309,107	—	—	3,389	312,496
Portfolio Loans with Variable Interest Rates	**Portfolio Loans with Variable Interest Rates**	**$ 435,739**	**$ 183,863**	**$ 721,226**	**$ 799,827**	**$ 2,140,655**
Total Portfolio Loans	**Total Portfolio Loans**	**$ 637,576**	**$ 659,572**	**$ 1,015,728**	**$ 836,037**	**$ 3,148,913**

Refer to Note 5, Loans and Loans Held-For-Sale, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our loans.

Credit Quality

On a monthly basis, a Criticized Asset Committee meets to review certain watch, special mention and substandard risk rated loans within prescribed policy thresholds. These loans typically represent the highest risk of loss to the Company. Action plans are established and these loans are monitored through regular contact with the borrower and loan officer, review of current financial information and other documentation, review of all loan or potential loan restructures or modifications and the regular re-evaluation of assets held as collateral.

On a quarterly basis, the Credit Risk Committee of the Board meets to review our loan portfolio metrics, approve segment limits, approve the adequacy of ACL, and review the findings from Loan Review identified in the previous quarter. Annually, this same committee approves credit related policies policy changes and policy enhancements as they become available.

Additional credit risk management practices include continuous reviews of trends in our lending footprint and our lending policies and procedures to support sound underwriting practices, concentrations, delinquencies and annual portfolio stress testing. Our Loan Review department serves as a mechanism to independently monitor credit quality and assess the effectiveness of credit risk management practices to provide oversight of all lending activities. The loan review function has the primary responsibility for assessing commercial credit administration and credit decision functions of consumer and mortgage underwriting, as well as determining the appropriateness of risk ratings for those loans reviewed and providing input to the loan risk rating process. Our policy is to place loans in all categories in nonaccrual status when collection of interest or principal is doubtful, or generally when interest or principal payments are 90 days or more past due based on contractual terms. Consumer unsecured loans and secured loans are evaluated for charge-off after the loan becomes 90 days past due. Loans past due 90 days are automatically transferred to nonaccrual status. Management reserves the right to exercise discretion at the individual loan level. For example, we may elect to transfer a loan to nonaccrual regardless of the delinquency status if we believe the collection in full of both principal and interest to be unlikely.

We may also elect to retain a loan that is 90 or more days' delinquent in accrual status if we believe the loan is well secured and in the process of collection. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

The ability of borrowers to repay commercial loans is dependent upon the success of their business and general economic conditions. Due to the greater potential for loss within our commercial portfolio, we monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans rated special mention or substandard have potential or well-defined weaknesses not generally found in high quality, performing loans, and require attention from management to limit loss.

Nonperforming assets consist of nonaccrual loans and OREO. The following tables represent table summarizes nonperforming assets for the dates presented:

(Dollars in Thousands)	December 31, 2023	December 31, 2022	Change
Nonaccrual Loans			
Commercial Real Estate	$ 1,324	$ 2,304	$ (980)
Commercial and Industrial	52	204	(152)
Residential Mortgages	3,283	3,265	18
Other Consumer	59	8	51
Construction	2,904	864	2,040
Other	301,913	—	301,913
Total Nonperforming Loans	**309,535**	**6,645**	**302,890**
Other Real Estate Owned	2,463	8,393	(5,930)
Total Nonperforming Assets	**$ 311,998**	**$ 15,038**	**$ 296,960**
Nonperforming Loans to Total Portfolio Loans	8.83 %	0.21 %	
Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	8.89 %	0.48 %	

Nonperforming assets increased $297.0 million to $312.0 million at December 31, 2023 compared to December 31, 2022. During the second quarter of 2023, the Company placed commercial loans that resided in the Other segment of the Company's loan portfolio, relating to the Bank's largest lending relationship which has an aggregate principal amount of $301.9 million, on nonaccrual status due to loan maturities and failure to pay in full. These nonperforming loans are 97.5% of the Company's total nonperforming loans and 96.8% of the Company's total nonperforming assets.

Based on analyses of the credit exposures relationship and various discounted cash flow valuation techniques utilized in the alternative modeling, which resulted in a valuation allowance with respect to these loans of $54.3 million at December 31, 2023, representing 18.0% of these loans aggregate principal amount. At December 31, 2023, all of the Bank's loans related to this lending relationship are on nonaccrual status.

The Company believes it is well secured based on the net carrying value of the credit relationship and appropriately reserved for potential losses with respect to all such loans based on information currently available. As the borrowers on these loans operate in the hospitality, agriculture, and energy sectors, this credit relationship is secured by, internally assigned risk ratings as among other collateral, commercial real estate properties in these sectors including but not limited to top-tier hospitality properties. When evaluating the net carrying value of December 31, 2022 and 2021:

	December 31, 2022						
(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Pass	$ 1,457,340	$ 303,893	$ 653,044	$ 44,495	$ 352,516	$ 180,745	$ 2,992,033
Special Mention	10,796	2,887	983	—	69	—	14,735
Substandard	2,426	3,012	3,921	67	968	131,751	142,145
Total Portfolio Loans	**$ 1,470,562**	**$ 309,792**	**$ 657,948**	**$ 44,562**	**$ 353,553**	**$ 312,496**	**$ 3,148,913**
Performing Loans	$ 1,468,258	$ 309,588	$ 654,683	$ 44,554	$ 352,689	$ 312,496	$ 3,142,268
Nonaccrual Loans	2,304	204	3,265	8	864	—	6,645
Total Portfolio Loans	**$ 1,470,562**	**$ 309,792**	**$ 657,948**	**$ 44,562**	**$ 353,553**	**$ 312,496**	**$ 3,148,913**

	December 31, 2021

(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgages	Other Consumer	Construction	Other	Total
Pass	$ 1,314,576	$ 337,294	$ 453,894	$ 44,554	$ 281,241	$ 185,247	$ 2,616,806
Special Mention	5,260	8	553	—	604	3,281	9,706
Substandard	3,416	8,074	3,541	112	1,102	169,372	185,617
Total Portfolio Loans	**$ 1,323,252**	**$ 345,376**	**$ 457,988**	**$ 44,666**	**$ 282,947**	**$ 357,900**	**$ 2,812,129**
Performing Loans	$ 1,319,915	$ 344,925	$ 455,437	$ 44,593	$ 281,962	$ 357,900	$ 2,804,732
Nonaccrual Loans	3,337	451	2,551	73	985	—	7,397
Total Portfolio Loans	**$ 1,323,252**	**$ 345,376**	**$ 457,988**	**$ 44,666**	**$ 282,947**	**$ 357,900**	**$ 2,812,129**

At December 31, 2022 and December 31, 2021 this credit relationship at December 31, 2023, the Company had no utilized discounted cash flow valuation techniques to estimate the timing and magnitude of potential recoveries resulting from various collection processes.

The following is an analysis of nonperforming loans that were risk rated as doubtful. Special mention by loan portfolio segment for the dates presented, and substandard loans at December 31, 2022 decreased $38.4 million each segment's relative contribution to $156.9 million compared to $195.3 million at December 31, 2021, with an increase of $5.0 million in special mention and a decrease of $43.4 million in substandard. The largest variance in special mention was primarily related to a CRE project totaling $9.9 million that was downgraded, offset by the payment in full on two CRE projects totaling $6.0 million and an upgraded credit to pass status in the amount of $1.5 million. In addition to CRE, the Company downgraded a syndicated C&I loan totaling $2.9 million. The decrease in substandard loans primarily related to the Other loan segment due to principal paydowns during 2022. total nonperforming loans:

	December 31, 2023		December 31, 2022	
(Dollars in Thousands)	Amount	% of NPLs	Amount	% of NPLs
Commercial Real Estate	$ 1,324	0.4 %	$ 2,304	34.7 %
Commercial and Industrial	52	— %	204	3.1 %
Residential Mortgages	3,283	1.1 %	3,265	49.1 %
Other Consumer	59	— %	8	0.1 %
Construction	2,904	1.0 %	864	13.0 %
Other	301,913	97.5 %	—	— %
Balance End of Period	**$ 309,535**	**100.0 %**	**$ 6,645**	**100.0 %**

Nonperforming assets consist of nonaccrual The Company has initiated collection processes with respect to such loans and OREO. The following table summarizes nonperforming assets intends to explore all alternatives for repayment. However, we cannot give any assurance as to the dates presented: timing or amount of future payments or collections on such loans or that we will ultimately collect all amounts contractually due under the terms of such loans. For a discussion of collection proceedings with respect to these loans, see the information contained in Part II, Item 8. Financial Statements and Supplementary Data – Note 18, "Commitments and Contingencies," under the heading "Legal Proceedings" of this Annual Report on Form 10-K.

	December 31,	
(Dollars in Thousands)	2022	2021
Nonperforming Loans		
Commercial Real Estate	$ 2,304	$ 3,337
Commercial and Industrial	204	451
Residential Mortgages	3,265	2,551
Other Consumer	8	73
Construction	864	985
Other	—	—
Total Nonperforming Loans	**6,645**	**7,397**
Other Real Estate Owned	8,393	10,916
Total Nonperforming Assets	**$ 15,038**	**$ 18,313**
Nonperforming Loans to Total Portfolio Loans	0.21 %	0.26 %

Nonperforming Assets to Total Portfolio Loans plus Other Real Estate Owned	0.48 %	0.65 %

Nonperforming assets decreased $3.3 million, or 17.9% to $15.0 million at December 31, 2022 compared to December 31, 2021. The decrease was primarily due to a $2.5 million decrease in OREO, driven primarily by sales and payments. Closed retail bank offices have a remaining book value of $1.1 million$2.3 million at December 31, 2022 compared to December 31, 2023 and $1.0 1.1 million at December 31, 2021. December 31, 2022, and are recorded in OREO on the Company's balance sheet. During 2022, six branch closures were completed the year ended 2023, the Bank closed three retail banking offices and moved $1.4 million at fair value to OREO as part of our branch network optimization project that aligns with our strategic goals to enhance franchise value and improve operating efficiency. Nine OREO. These properties were sold totaling $1.9 million sold and two properties totaling $0.9 million were closed, but remain to be sold. Organic OREO decreased $2.6 million at December 31, 2022 compared to December 31, 2021 marketed for sale as of December 31, 2023.

NPLs decreased by $0.8 million at December 31, 2022 compared to December 31, 2021. NPLs as a percentage of total portfolio loans were 0.21% at December 31, 2022 compared to 0.26% at December 31, 2021.

Past Company legacy underwriting standards relied heavily on loan to value and did not necessarily consider the income characteristics of the borrower. borrower or the repayment capacity of collateral with respect to speculative land financing. An overreliance on value as a primary repayment source can become compromised during real estate cycles. As a result, management has worked through these legacy credits and has installed a number of underwriting guardrails that consider the global cash flows and repayment capability of borrowers and/or guarantors, the proportion of speculation, transaction limits and introduced sensitivity analysis in order to determine supportable loan amounts. While these guardrails do not insulate the Company from credit cycles, we believe it should reduce the experience of defaults. Despite economic uncertainty, increased costs and interest rates, credit quality remains favorable.

There were no nonaccrual loans related to loans held-for-sale at December 31, 2022 and December 31, 2021, respectively.

Refer to Note 6, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our nonperforming loans and OREO.

The following table summarizes past due loans for the dates presented:

	December 31,	
(Dollars in Thousands)	**2022**	**2021**
Loans 30 to 89 Days Past Due		
Commercial		
Commercial Real Estate	$ 104	$ 229
Commercial and Industrial	283	297
Total Commercial Loans	**387**	**526**
Consumer		
Residential Mortgages	445	683
Other Consumer	541	461
Total Consumer Loans	**986**	**1,144**
Construction	3,464	—
Other	—	—
Total Loans 30 to 89 Days Past Due	**$ 4,837**	**$ 1,670**

Portfolio loans past due 30 to 89 days and still accruing increased $3.2 million to $4.8 million at December 31, 2022 compared to December 31, 2021, primarily in the construction segment due to two relationships with an aggregate principal balance of $2.9 million at December 31, 2022. There were no loans during the year ended December 31, 2022 and December 31, 2021 that were past due more than 90 days and still accruing.

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more. We monitor delinquency on a monthly basis, including loans that are at risk for becoming delinquent and early stage delinquencies in order to identify emerging patterns and potential problem loans.

The following table summarizes past due loans for the dates presented:

	December 31,	
(Dollars in Thousands)	**2023**	**2022**
Loans 30 to 89 Days Past Due		

Commercial		
Commercial Real Estate	$ 319	$ 104
Commercial and Industrial	39	283
Total Commercial Loans	**358**	**387**
Consumer		
Residential Mortgages	1,881	445
Other Consumer	405	541
Total Consumer Loans	**2,286**	**986**
Construction	3,388	3,464
Other	—	—
Total Loans 30 to 89 Days Past Due	**$ 6,032**	**$ 4,837**

Portfolio loans past due 30 to 89 days and still accruing increased $1.2 million to $6.0 million at December 31, 2023 compared to December 31, 2022, primarily in the residential mortgage segment. There were no loans during the year ended December 31, 2023 and December 31, 2022 that were past due more than 90 days and still accruing.

The following tables represent credit exposures by internally assigned risk ratings as of December 31, 2023 and 2022:

	December 31, 2023						
(Dollars in Thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other**	**Total**
Pass	$ 1,669,029	$ 268,622	$ 784,090	$ 34,202	$ 433,321	$ 3,300	$ 3,192,564
Special Mention	278	2,837	525	—	60	—	3,700
Substandard	1,324	52	3,314	75	2,968	301,913	309,646
Total Portfolio Loans	**$ 1,670,631**	**$ 271,511**	**$ 787,929**	**$ 34,277**	**$ 436,349**	**$ 305,213**	**$ 3,505,910**
Performing Loans	$ 1,669,307	$ 271,459	$ 784,646	$ 34,218	$ 433,445	$ 3,300	$ 3,196,375
Nonaccrual Loans	1,324	52	3,283	59	2,904	301,913	309,535
Total Portfolio Loans	**$ 1,670,631**	**$ 271,511**	**$ 787,929**	**$ 34,277**	**$ 436,349**	**$ 305,213**	**$ 3,505,910**

	December 31, 2022						
(Dollars in Thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other**	**Total**
Pass	$ 1,457,340	$ 303,893	$ 653,044	$ 44,495	$ 352,516	$ 180,745	$ 2,992,033
Special Mention	10,796	2,887	983	—	69	—	14,735
Substandard	2,426	3,012	3,921	67	968	131,751	142,145
Total Portfolio Loans	**$ 1,470,562**	**$ 309,792**	**$ 657,948**	**$ 44,562**	**$ 353,553**	**$ 312,496**	**$ 3,148,913**
Performing Loans	$ 1,468,258	$ 309,588	$ 654,683	$ 44,554	$ 352,689	$ 312,496	$ 3,142,268
Nonaccrual Loans	2,304	204	3,265	8	864	—	6,645
Total Portfolio Loans	**$ 1,470,562**	**$ 309,792**	**$ 657,948**	**$ 44,562**	**$ 353,553**	**$ 312,496**	**$ 3,148,913**

At December 31, 2023 and December 31, 2022, the Company had no loans that were risk rated as doubtful. Special mention and substandard loans at December 31, 2023 increased $156.5 million to $313.3 million compared to December 31, 2022, with an increase of $167.5 million in substandard and a decrease of $11.0 million in special mention. The increase of $167.5 million in substandard loans is primarily related to the above mentioned $301.9 million nonaccrual lending relationship in the other loan category. The $301.9 million of loans related to the Bank's largest lending relationship was nonperforming and rated as substandard at December 31, 2023. At December 31, 2022 the largest lending relationship in the other segment loans were all accruing and totaled $309.1 million of which, $177.3 million of those loans were pass-rated and $131.8 million of those loans were substandard-rated. The decrease of $11.0 million in special mention is primarily due to the upgrade of a CRE credit totaling $9.9 million to a pass rating.

Refer to Note 6, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our nonperforming loans and OREO.

Troubled Debt Restructuring Disclosures Prior to Our Adoption of ASU No. 2022-02

Prior to our adoption of ASU No. 2022-02, the Company accounted for Troubled Debt Restructuring ("TDR") as a loan which, for economic or legal reasons related to a borrower's financial difficulties, granted a concession to the borrower that we would not otherwise grant. The Company strives strived to identify borrowers in financial difficulty early and work with them to modify terms and conditions before their loan defaults and/or is transferred to nonaccrual status. Modified terms that might have been considered a TDR generally included extension of maturity dates at a stated interest rate lower than the current market rate for a new loan with similar characteristics, reductions in contractual interest rates or principal deferment. While unusual, there may have been instances of principal forgiveness. Short-term modifications that were considered insignificant were generally not considered a TDR unless there were other concessions granted. On April 1, 2022, the Company adopted ASU 2022-02, which eliminated TDR accounting prospectively for all restructurings occurring on or after January 1, 2022. Refer to Note 1, Summary of Significant Accounting Polices, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to ASU No. 2022-02.

Generally, the Company individually evaluates all loans experiencing financial difficulty, that are nonaccrual or considered a restructured loan, with a commitment greater than or equal to $1.0 million or greater and/or based on management's discretion; for individually evaluated loan reserves.

In addition, the Company may individually evaluate credits that have complex loan structures, even if the commitment is less than $1.0 million. Nonaccrual loans can be returned to accruing status if the ultimate collectability of all contractual amounts due, according to the restructured agreement, is not in doubt and there is a period of a minimum of six months of satisfactory payment performance by the borrower either immediately before or after the restructuring.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

Allowance for Credit Losses

The following summarizes our allowance for credit loss experience at December 31 for each of the years presented:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands)	2023		2022		2021	
Balance Beginning of Year	Balance Beginning of Year	$ 95,939	$ 54,074	$38,762	Balance Beginning of Year	$ 93,852	$	$ 95,939	$	$ 54,074	
Impact of CECL Adoption	Impact of CECL Adoption	—	61,642	—	Impact of CECL Adoption	—	—	—	61,642		61,642
Provision for Credit Losses	Provision for Credit Losses	2,419	3,350	18,006	Provision for Credit Losses	5,500	2,419	2,419	3,350		3,350
Charge-offs:	Charge-offs:										
Commercial Real Estate											
Commercial Real Estate											
Commercial Real Estate	Commercial Real Estate	—	19,662	40		—	—	—	19,662		19,662
Commercial and Industrial	Commercial and Industrial	3,436	374	66	Commercial and Industrial	63	3,436	3,436	374		374
Residential Mortgages	Residential Mortgages	46	273	258	Residential Mortgages	203	46	46	273		273
Other Consumer	Other Consumer	1,677	2,256	3,991	Other Consumer	2,665	1,677	1,677	2,256		2,256
Construction	Construction	—	1,859	—	Construction	42	—	—	1,859		1,859
Other	Other	—	—	—	Other	—	—	—	—		—
Total Charge-offs	**Total Charge-offs**	**5,159**	**24,424**	**4,355**	**Total Charge-offs**	**2,973**	**5,159**	**5,159**	**24,424**		**24,424**

Recoveries:	Recoveries:							
Commercial Real Estate								
Commercial Real Estate								
Commercial Real Estate	Commercial Real Estate	—	159	707			—	159
Commercial and Industrial	Commercial and Industrial	1	291	2	Commercial and Industrial	88	1	291
Residential Mortgages	Residential Mortgages	99	168	27	Residential Mortgages	110	99	168
Other Consumer	Other Consumer	404	586	737	Other Consumer	475	404	586
Construction	Construction	149	93	188	Construction	—	149	93
Other	Other	—	—	—	Other		—	
Total Recoveries	**Total Recoveries**	**653**	**1,297**	**1,661**	**Total Recoveries**	**673**	**653**	**1,297**
Total Net Charge-offs	**Total Net Charge-offs**	**4,506**	**23,127**	**2,694**	**Total Net Charge-offs**	**2,300**	**4,506**	**23,127**
Balance End of Year	**Balance End of Year**	**$93,852**	**$95,939**	**$54,074**	**Balance End of Year**	**$ 97,052**	**$ 93,852**	**$ 95,939**
Net Charge-offs to Average Portfolio Loans	**Net Charge-offs to Average Portfolio Loans**	**0.15%**	**0.79%**	**0.09%**				
Net Charge-offs to Average Portfolio Loans								
Net Charge-offs to Average Portfolio Loans						**0.07%**	**0.15%**	**0.79%**
Allowance for Credit Losses to Total Portfolio Loans	**Allowance for Credit Losses to Total Portfolio Loans**	**2.98%**	**3.41%**	**1.83%**	**Allowance for Credit Losses to Total Portfolio Loans**	**2.77%**	**2.98%**	**3.41%**

Total net charge-offs decreased to $2.3 million for the year ended December 31, 2023 compared to $4.5 million for the year ended December 31, 2022 compared to $23.1 million for the year ended December 31, 2021 primarily in the CRE C&I segment. The largest charge-off in 2022 was $3.4 million on a purchased syndicated C&I loan in the amount of $4.9 million, which was previously reserved for $2.6 million, transferred to held-for-sale in the third quarter of 2022 in the amount of $1.5 million and then sold in the fourth quarter of 2022. The net charge-offs of $23.1 million for the full year 2021 was primarily attributable to the resolution of five problem relationships during 2021, in which the majority of losses were anticipated and previously reserved.

The following is the allocation of the ACL balance by segment as of December 31 for the years presented below:

		2022		**2021**			**2023**			**2022**		
		2023										
(Dollars in Thousands)	**(Dollars in Thousands)**	**Amount**	**% of Loans**	**Amount**	**% of Loans**	**(Dollars in Thousands)**	**Amount**		**% of Loans in each Category to Total Portfolio Loans**	**Amount**		**% of Loans in each Category to Total Portfolio Loans**
Commercial Real Estate	Commercial Real Estate	$17,992	46.7 %	$17,297	47.0 %	Commercial Real Estate	$19,873	47.7	47.7 %	$17,992	46.7	46.7 %

Commercial & Industrial	Commercial & Industrial	3,980	9.9 %	4,111	12.3 %	Commercial & Industrial	3,286	7.7	7.7 %	3,980	9.9	9.9 %
Residential Mortgages	Residential Mortgages	8,891	20.9 %	4,368	16.3 %	Residential Mortgages	10,879	22.5	22.5 %	8,891	20.9	20.9 %
Other Consumer	Other Consumer	1,329	1.4 %	1,493	1.6 %	Other Consumer	868	1.0	1.0 %	1,329	1.4	1.4 %
Construction	Construction	6,942	11.2 %	6,939	10.1 %	Construction	7,792	12.4	12.4 %	6,942	11.2	11.2 %
Other	Other	54,718	9.9 %	61,731	12.7 %	Other	54,354	8.7	8.7 %	54,718	9.9	9.9 %
Balance End of Year	**Balance End of Year**	**$93,852**	**100.0 %**	**$95,939**	**100.0 %**	**Balance End of Year**	**$97,052**	**100.0**	**100.0 %**	**$93,852**	**100.0**	**100.0 %**

The declines increase in the other segment were ACL was primarily due to principal pay-downs increases in the CRE, residential mortgage and construction segments as a result of loan growth in these segments during 2022. 2023. The ACL was $93.9 million $97.1 million, or 2.98% 2.77%, of total portfolio loans at December 31, 2022 December 31, 2023 compared to $95.9 million $93.9 million, or 3.41% 2.98% of total portfolio loans at December 31, 2021 December 31, 2022.

The following table summarizes the credit quality ratios and their components as of December 31 for the years presented below:

(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**(Dollars in Thousands)**	**2023**		**2022**	
Allowance for Credit Losses to Total Portfolio Loans	**Allowance for Credit Losses to Total Portfolio Loans**							
Allowance for Credit Losses								
Allowance for Credit Losses								
Allowance for Credit Losses	Allowance for Credit Losses	$ 93,852	$ 95,939					
Total Portfolio Loans	Total Portfolio Loans	3,148,913	2,812,129					
Allowance for Credit Losses to Total Portfolio Loans	**Allowance for Credit Losses to Total Portfolio Loans**	**2.98 %**	**3.41 %**	**Allowance for Credit Losses to Total Portfolio Loans**	**2.77**	**%**	**2.98**	**%**
Nonperforming Loans to Total Portfolio Loans	**Nonperforming Loans to Total Portfolio Loans**							
Nonperforming Loans to Total Portfolio Loans								
Nonperforming Loans to Total Portfolio Loans								
Nonperforming Loans								
Nonperforming Loans								
Nonperforming Loans	Nonperforming Loans	$ 6,645	$ 7,397					
Total Portfolio Loans	Total Portfolio Loans	3,148,913	2,812,129					
Nonperforming Loans to Total Portfolio Loans	**Nonperforming Loans to Total Portfolio Loans**	**0.21 %**	**0.26 %**	**Nonperforming Loans to Total Portfolio Loans**	**8.83**	**%**	**0.21**	**%**
Allowance for Credit Losses to Nonperforming Loans	**Allowance for Credit Losses to Nonperforming Loans**							
Allowance for Credit Losses to Nonperforming Loans								

Allowance for Credit Losses to Nonperforming Loans

Allowance for Credit Losses

Allowance for Credit Losses

Allowance for Credit Losses	Allowance for Credit Losses	$ 93,852	$ 95,939					
Nonperforming Loans	Nonperforming Loans	6,645	7,397					
Allowance for Credit Losses to Nonperforming Loans	**Allowance for Credit Losses to Nonperforming Loans**	**1,412.37 %**	**1,297.00 %**	**Allowance for Credit Losses to Nonperforming Loans**	**31.35**	**%**	**1,412.37**	**%**
Net Charge-offs to Average Portfolio Loans	**Net Charge-offs to Average Portfolio Loans**							

Net Charge-offs to Average Portfolio Loans

Net Charge-offs to Average Portfolio Loans

Net Charge-offs

Net Charge-offs

Net Charge-offs	Net Charge-offs	$ 4,506	$ 23,127					
Average Total Portfolio Loans	Average Total Portfolio Loans	2,988,785	2,927,083					
Net Charge-offs to Average Portfolio Loans	**Net Charge-offs to Average Portfolio Loans**	**0.15 %**	**0.79 %**	**Net Charge-offs to Average Portfolio Loans**	**0.07**	**%**	**0.15**	**%**

The provision (recovery) for credit losses, which includes a provision (recovery) for losses on loans and on unfunded commitments, is a charge to earnings to maintain the ACL at a level consistent with management's assessment of expected losses over in the life of loans as of loan portfolio at the balance sheet date. The provision for credit losses decreased $0.9 million increased $3.1 million to $2.4 million $5.5 million for the year ended 2022 2023 compared to the same period in 2021. 2022. The reductions increase in the Other provision for credit losses was primarily driven by loan growth, net charge-offs and an increase in the other segment reserves due reserve related to principal paydowns were partially offset by charge-offs in 2022 and reserves associated with loan growth. the large NPL relationship.

The provision (recovery) for unfunded commitments increased $1.8 million $0.4 million to $0.9 million for the year ended 2023 when compared to a provision of $0.5 million for the year ended 2022 when compared to a recovery of $1.3 million for the year ended 2021 2022. The increase was primarily due to the level of an increase in construction commitments as well as changes in reserve rates. commitments. The reserve for unfunded commitments is largely comprised of unfunded commitments related to real estate construction loans. loans and pressure on the reserve rates. There are three basic factors that influence the reserve rates associated with unfunded commitments for real estate construction loans. First, the reserve rate is extrapolated from the reserve rates calculated for certain commercial real estate funded loans within the ACL model. These reserve rates are influenced by the same factors cited in the ACL model such as economic forecasts, average portfolio life, etc. Refer to Note 1, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional

Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to the ACL Policy and the discussion of these factors. Second, since the category of construction is generic, management applies a weighting of the reserve rates associated with certain CRE loans. The proportion of these segments affect the weighting. Third, volume changes impact the total reserve calculation.

As a percentage of average total portfolio loans net charge-offs were 0.15% 0.07% for the year ended December 31, 2022 compared to 0.79% 2023 and 0.15% for the same period in 2021. 2022. At December 31, 2022 December 31, 2023 NPLs decreased $0.8 million increased $302.9 million at December 31, 2022 December 31, 2023 since December 31, 2021 December 31, 2022. NPLs as a percentage of total portfolio loans were 0.21% 8.83% and 0.26% 0.21% as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

Refer to Note 6, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our ACL.

Deposits

The daily average balance of deposits and rates paid on deposits are summarized in the following table for the years ended December 31:

		2023 / 2022		2021	
(Dollars in Thousands)	(Dollars in Thousands)	Average Balance	Rate	Average Balance	Rate
Noninterest-Bearing Demand	Noninterest-Bearing Demand	$ 716,645	—	$ 736,974	—
Interest-Bearing Demand	Interest-Bearing Demand	489,298	0.32 %	413,714	0.24 %
Money Market	Money Market	521,269	0.35 %	383,391	0.29 %
Savings	Savings	720,682	0.10 %	663,382	0.10 %
Certificates of Deposit		1,271,548	1.14 %	1,484,436	1.31 %
Certificate of Deposits					
Total Interest-Bearing Deposits	**Total Interest-Bearing Deposits**	**3,002,797**	**0.62 %**	**2,944,923**	**0.76 %**
Total Average Deposits	**Total Average Deposits**	**$3,719,442**	**0.50 %**	**$3,681,897**	**0.60 %**

	2023			2022		
(Dollars in Thousands)	Average Balance		Rate	Average Balance		Rate
Interest-Bearing Demand	483,048	0.56	0.56 %	489,298	0.32	0.32 %
Money Market	448,324	1.98	1.98 %	521,269	0.35	0.35 %
Savings	544,938	0.11	0.11 %	720,682	0.10	0.10 %
Certificate of Deposits	1,428,646		2.83 %	1,271,548		1.14 %
Total Interest-Bearing Deposits	**2,904,956**	**1.81**	**1.81 %**	**3,002,797**	**0.62**	**0.62 %**
Total Average Deposits	**$ 3,585,845**	**1.47**	**1.47 %**	**$ 3,719,442**	**0.50**	**0.50 %**

For the year ended December 31, 2022 December 31, 2023, total average deposits grew $37.5 million declined $133.6 million, including an increase in average money market accounts of $137.9 million, or 36.0%, an increase in average interest-bearing deposits of $75.5 million, or 18.3%, and an increase which included decreases in average savings accounts of $57.3 million $175.7 million, or 8.6%. The increases were partially offset by 24.4%, a managed decrease in average CDs money market accounts of $212.9 million $72.9 million, or 14.3% 14.0%, due to the intentional runoff of higher cost CDs, through the first half of the year, and a decline in average noninterest-bearing demand deposits of $20.3 million. Due 35.8 million and a decrease in average interest-bearing deposits of $6.3 million, or 1.3% offset by an average increase in CDs of $157.1 million, or 12.4%. The decrease in average deposits was primarily due to historically low market the banking industry disruption in March 2023 and inflationary pressures on customers. Additionally, customers preferences have shifted to higher-yielding deposit products as interest rates during 2021 and the first half of 2022, the Company was able to migrate away from higher rate CDs and grow lower yielding, more liquid products. During the second half of 2022, market interest rates increased quickly providing new incentives for customers to seek out higher yielding CDs. increased.

The following table presents additional information about our year-end deposits:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021
Deposits from the Certificate of Deposit Account Registry Services (CDARS)		$ 922	$ 139
Deposits from the Certificate of Deposit Account Registry Services ("CDARS")			
Noninterest-Bearing Public Funds Deposits	Noninterest-Bearing Public Funds Deposits	27,086	58,393

(Dollars in Thousands)	2023	2022

Interest-Bearing Public Funds Deposits	Interest-Bearing Public Funds Deposits	180,243	123,968
Total Deposits not Covered by Deposit Insurance(1)	Total Deposits not Covered by Deposit Insurance(1)	378,175	396,626
Certificates of Deposits not Covered by Deposit Insurance	Certificates of Deposits not Covered by Deposit Insurance	159,030	147,134
Deposits from Certain Directors, Executive Officers and their Affiliates		2,910	3,032
Deposits for Certain Directors, Executive Officers and their Affiliates			

(1) *These deposits are presented on an estimated basis. This estimate was determined based on the same methodologies and assumptions used for regulatory reporting requirements.*

Maturities of CDs over $250,000 or more, excluding brokered deposits, not covered by deposit insurance at December 31, 2022 December 31, 2023 are summarized as follows:

(Dollars in Thousands)	(Dollars in Thousands)	Amount	Percent	(Dollars in Thousands)		Amount		Percent	
Three Months or Less	Three Months or Less	$ 16,002	10.1 %	Three Months or Less	$	94,424	31.0	31.0	%
Over Three Months Through Twelve Months	Over Three Months Through Twelve Months	72,505	45.6 %	Over Three Months Through Twelve Months		109,217	35.8	35.8	%
Over Twelve Months Through Three Years	Over Twelve Months Through Three Years	62,836	39.5 %	Over Twelve Months Through Three Years		80,122	26.3	26.3	%
Over Three Years	Over Three Years	7,687	4.8 %	Over Three Years		21,205	6.9	6.9	%
Total	**Total**	**$ 159,030**	**100.0 %**	**Total**	**$**	**304,968**	**100.0**	**100.0**	**%**

Refer to Note 11, 12, Deposits, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our deposits.

Federal Home Loan Bank ("FHLB") Borrowings and Federal Funds Purchased

Information pertaining to FHLB borrowings and federal funds purchased at December 31 is summarized in the table below:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands)	2023	2022	2021

Balance at Period End	Balance at Period End							
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	$180,550	$7,000	$35,000				
Federal Home Loan Bank Borrowings								
Federal Home Loan Bank Borrowings								
Federal Funds Purchased	Federal Funds Purchased	17,870	—	—				
Average Balance during Period								
Average Balance during the Period								
Federal Home Loan Bank Borrowings								
Federal Home Loan Bank Borrowings								
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	29,849	25,986	30,628				
Federal Funds Purchased	Federal Funds Purchased	5,711	—	55				
Average Interest Rate during the Period	Average Interest Rate during the Period							
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	3.90 %	1.20 %	1.18 %				
Federal Home Loan Bank Borrowings								
Federal Home Loan Bank Borrowings						5.17 %	3.90 %	1.20 %
Federal Funds Purchased	Federal Funds Purchased	3.29 %	— %	1.82 %	Federal Funds Purchased	5.24 %	3.29 %	— %
Maximum Month-end Balance during the Period	Maximum Month-end Balance during the Period							
Federal Home Loan Bank Borrowings								
Federal Home Loan Bank Borrowings								

Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	180,550	35,000	35,000						
Federal Funds Purchased	Federal Funds Purchased	23,020	—	—						
Average Interest Rate at Period End	Average Interest Rate at Period End									
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	4.48 %	1.61 %	1.13 %						
Federal Home Loan Bank Borrowings										
Federal Home Loan Bank Borrowings						5.20	%	4.48	%	1.61 %
Federal Funds Purchased	Federal Funds Purchased	4.65 %	— %	— %	Federal Funds Purchased	—	%	4.65	%	— %

The Company had $180.6 million $393.4 million of FHLB borrowings at December 31, 2022 and $7.0 million at December 31, 2021 December 31, 2023 an increase of $173.6 million $212.9 million compared to December 31, 2022. The Company had $17.9 million in no overnight federal funds purchased at December 31, 2022 December 31, 2023 and had no $17.9 million outstanding overnight federal funds purchased at December 31, 2021 December 31, 2022. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan growth, investment securities, deposit growth and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity.

The Company held FHLB of Atlanta stock of $21.6 million and $9.7 million at December 31, 2023 and $2.4 million at December 31, 2022 and December 31, 2021, respectively. Dividends recorded on this restricted stock were $154 thousand $1.5 million and $121 thousand $0.2 million for the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. The investment is carried at cost and evaluated for impairment based on the ultimate recoverability of the par value. We hold FHLB stock because we are a member of the FHLB of Atlanta. The FHLB requires members to purchase and hold a specified level of FHLB stock based upon the members' asset values, level of borrowings and participation in other programs offered. Stock in the FHLB is non-marketable and is redeemable at the discretion of the FHLB. Members do not purchase stock in the FHLB for the same reasons that traditional equity investors acquire stock in an investor-owned enterprise. Rather, members purchase stock to obtain access to the products and services offered by the FHLB. Unlike equity securities of traditional for-profit enterprises, the stock of the FHLB does not provide its holders with an opportunity for capital appreciation because, by regulation, FHLB stock can only be purchased, redeemed and transferred at par value.

Refer to Note 12, 13, Federal Home Loan Bank Borrowings and Federal Funds Purchased, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our borrowings.

Capital Resources

The following table summarizes ratios for the Company and Bank for December 31:

	2022	2021					
	2023			2023		2022	
Leverage Ratio							
Carter Bankshares, Inc.							
Carter Bankshares, Inc.							
Carter Bankshares, Inc.				9.48	%	10.29	%
Carter Bank and Trust			Carter Bank and Trust	9.41	%	10.13	%

Common Equity Tier 1	**Common Equity Tier 1**							
Carter Bankshares, Inc.								
Carter Bankshares, Inc.								
Carter Bankshares, Inc.	Carter Bankshares, Inc.	12.61 %	14.21 %		11.08	%	12.61	%
Carter Bank and Trust	Carter Bank and Trust	12.42 %	14.04 %	Carter Bank and Trust	10.99	%	12.42	%
Tier 1 Ratio	**Tier 1 Ratio**							
Carter Bankshares, Inc.	Carter Bankshares, Inc.	12.61 %	14.21 %					
Carter Bankshares, Inc.								
Carter Bankshares, Inc.					11.08	%	12.61	%
Carter Bank and Trust	Carter Bank and Trust	12.42 %	14.04 %	Carter Bank and Trust	10.99	%	12.42	%
Total Risk-Based Capital Ratio	**Total Risk-Based Capital Ratio**							
Carter Bankshares, Inc.	Carter Bankshares, Inc.	13.86 %	15.46 %					
Carter Bank and Trust		13.68 %	15.29 %					
Leverage Ratio								
Carter Bankshares, Inc.								
Carter Bankshares, Inc.	Carter Bankshares, Inc.	10.29 %	10.62 %		12.34	%	13.86	%
Carter Bank and Trust	Carter Bank and Trust	10.13 %	10.49 %	Carter Bank and Trust	12.25	%	13.68	%

Total shareholders' equity decreased by $79.0 million capital of $351.2 million at December 31, 2023, reflects an increase of $22.6 million compared to $328.6 million at December 31, 2022 compared to $407.6 million at December 31, 2021December 31, 2022. The decrease was increase in total capital from December 31, 2022 is primarily due to $87.3 million net income of $23.4 million for the year ended December 31, 2023, other comprehensive income of $14.2 million increased due to changes in fair value of investment securities, an increase of $1.5 million related to restricted stock activity during the year, as well as, the transitional adjustment of $0.1 million, net of tax for the adoption of ASU 2023-02. Offsetting these increases was a decrease in other comprehensive loss due to changes in the fair value of available-for-sale securities and $42.9 million $16.6 million related to the repurchase of common stock partially offset by net income of $50.1 million. The remaining difference of $1.1 million is related to stock-based compensation during and the year ended December 31, 2022. 1% excise tax on stock repurchases.

The Company and the Bank are subject to various capital requirements administered by the federal banking regulators. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, we must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulations to ensure capital adequacy require us to maintain minimum amounts and ratios.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company continues to maintain its capital position with a leverage ratio of 10.29% 9.48% as compared to the regulatory guideline of 5.00% to be well-capitalized and a risk-based Common Equity Tier 1 ratio of 12.61% 11.08% compared to the regulatory guideline of 6.50% to be well-capitalized. Our risk-based Tier 1 and Total Capital ratios were 12.61% 11.08% and 13.86% 12.34%, respectively, which places the Company above the federal bank regulatory agencies' well-capitalized guidelines of 8.00% and 10.00%, respectively. We believe that we have the ability to raise additional capital, if necessary.

The Basel rules also permit banking organizations with less than $15.0 billion in assets to retain, through a one-time election, existing treatment for accumulated other comprehensive income, which currently does not affect regulatory capital. The Company elected to retain this treatment which reduces the volatility of regulatory capital levels.

The Basel III Capital Rules require the Company and the Bank to maintain minimum Common Equity Tier 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common

Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank.

In December 2018, the Office of the Comptroller of the Currency, (the "OCC"), the Federal Reserve System, ("FRB"), FRB, and the Federal Deposit Insurance Corporation, ("FDIC"), FDIC, approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations' implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the Day 1 adverse effects on regulatory capital that may result from the adoption of the new accounting standard. On March 27, 2020, the regulators issued interim final rule ("IFR"), "Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances" in response to the disrupted economic activity from the spread of COVID-19. The IFR maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL's effect on regulatory capital, relative to the incurred loss methodology's effect on regulatory capital, followed by a three-year transition period (five-year transition option). We adopted CECL effective January 1, 2021 and elected to implement the capital transition relief over the permissible three-year period.

Refer to Note 20, 21, Capital Adequacy, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information related to our capital.

Contractual Obligations

ContractualIn the normal course of business, we have entered into contractual obligations that represent future cash commitments and liabilities under agreements with third parties and exclude contingent contractual liabilities for which we cannot reasonably predict future payments. The Company has various financial obligations, including contractual obligations and commitments that may require future cash payments. The following table presents, as of December 31, 2022, significant fixed and determinable contractual obligations Refer to third parties by payment date:

	Payments Due In				
(Dollars in Thousands)	**Less Than One Year**	**One to Three Years**	**Three to Five Years**	**More Than five Years**	**Total**
Deposits without a Stated Maturity *(1)*	$ 2,368,807	$ —	$ —	$ —	$ 2,368,807
Certificates of Deposits *(1)*	637,771	487,827	134,345	1,583	1,261,526
Federal Home Loan Bank Borrowings	180,550	—	—	—	180,550
Federal Funds Purchased	17,870	—	—	—	17,870
Operating and Capital Leases	675	1,287	1,247	9,975	13,184
Purchase Obligations	4,674	8,719	8,089	2,983	24,465
Total	**$ 3,210,347**	**$ 497,833**	**$ 143,681**	**$ 14,541**	**$ 3,866,402**

(1)Excludes Interest

Lease contracts are described in Note 8, Premises and Equipment, of the accompanying Notes to Consolidated Financial Statements included in Item 8 of this Annual Report on Form 10-K for the expected timing of such payments as of December 31, 2023. These include payments related to (i) operating and finance leases referenced in Note 8, Right-of-Use ("ROU") Assets and Lease Liabilities, (ii) time deposits with stated maturity dates in Note 12 – Deposits, (iii) Federal Home Loan Borrowings in Note 13, Federal Home Loan Bank Borrowings and Federal Funds Purchased, and (iv) commitments to extend credit, standby letters of credit and purchase obligations in Note 18, Commitments and Contingencies in Item 8 of this Annual Report on Form 10-K. Purchase obligations primarily represent obligations under agreement with a our third-party data processing vendor and communications charges. provider.

Off-Balance Sheet Arrangements

In the normal course of business, the Company offers our customers lines of credit and letters of credit to meet their financing objectives. The undrawn or unfunded portion of these facilities do not represent outstanding balances and therefore are not reflected in our financial statements as loans receivable. The Company provides lines of credit to our clients to memorialize the commitment to finance the completion of construction projects and revolving lines of credit to operating companies to finance their working capital needs. Lines of credit for construction projects represent $452.2 million, or 64.4% and $373.2 million, or 59.2% and $283.9 million, or 55.3% of the commitments to extend credit identified in the table below at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. The Company provides letters of credit, generally, for the benefit or our customers to provide assurance to various municipalities that construction projects will be completed according to approved plans and specifications. These instruments involve elements of credit and interest rate risk and our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, could be equal to the contractual amount of the obligation less the value of any collateral. The Company analyzes this risk and calculates a reserve for unfunded commitments. The same credit policies are applied in granting these facilities as those used for underwriting loans. Lines of credit to finance construction projects include a construction end date, at which time the loan is expected to convert to a mini-perm loan. A department independent of our lending group monitors construction commitments of $1.0 million or more. greater and/or based on management’s discretion.. Lines of credit to operating companies to finance working capital include a maturity date and may include various financial covenants. Letters of credit include an expiration date unless it is a standby letter of credit which automatically renews but generally provide for a termination clause on an annual basis given sufficient notice to the beneficiary. The Company typically

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

charges an annual fee for the issuance of letters of credit. Because letters of credit are expected to expire without being drawn upon, these commitments do not necessarily represent future cash requirements of the Company.

The following table sets forth the commitments and letters of credit as of December 31:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	(Dollars in Thousands)	2023	2022
Commitments to Extend Credit	Commitments to Extend Credit	$630,619	$513,482			
Standby Letters of Credit	Standby Letters of Credit	25,739	27,083			
Total	**Total**	**$656,358**	**$540,565**			

Estimates of the fair value of these off-balance sheet items were not made because of the short-term nature of these arrangements and the credit standing of the counterparties.

For more details, see Note 17 - 18, Commitments and Contingencies, in Part II, Item 8. Financial Statements and Supplementary Data 8 of this Annual Report on Form 10-K.

Liquidity

Liquidity is defined as a financial institution’s ability to meet its cash and collateral obligations at a reasonable cost. This includes the ability to satisfy the financial needs of depositors who want to withdraw funds or borrowers needing to access funds to meet their credit needs. In order to manage liquidity risk the Company’s Board has delegated authority to the ALCO for formulation, implementation and oversight of liquidity risk management for the Company. The ALCO’s goal is to maintain adequate levels of liquidity at a reasonable cost to meet funding needs in both a normal operating environment and for potential liquidity stress events. The ALCO closely monitors and manages liquidity through various ratios, by reviewing cash flow projections, performing balance sheet stress tests and by having maintaining a detailed contingency funding plan. The plan that includes specific liquidity measures that are reviewed by the ALCO monthly. Our liquidity policy guidelines define and contingency funding plan provide graduated risk tolerance levels. levels for multiple liquidity measures and potential liquidity environments. If our liquidity position moves to a level that has been defined as high risk, specific actions are required, such as increased monitoring or the development of an action plan to reduce the risk position.

The Company’s primary funding and liquidity source is a stable customer deposit base. Management believes that we have the ability to retain existing deposits and attract new deposits, mitigating any potential funding dependency on other more volatile sources. Although deposits are the primary source of funds, the Company has identified various other funding sources that can be used as part of our normal funding program when either a structure or cost efficiency has been identified. Additional funding sources accessible to the Company include borrowing availability at the FHLB, equal to 25% of the Company’s assets or approximating $1.0 billion $1.1 billion, subject to the amount of eligible collateral pledged, of which the Company is eligible to borrow up to an additional $480.3 million. The Company has unsecured federal funds lines facilities with six three other correspondent financial institutions in the amount of $145.0 million, totaling $50.0 million, access to the institutional CD market, and the brokered deposit market. The Company did not have outstanding borrowings on these fed funds lines as of December 31, 2023. In addition to the lines referenced above funding resources, the Company also has $611.8 million $563.5 million of unpledged available-for-sale investment securities, at fair value, as an additional source of liquidity. Please refer to the Liquidity Sources table below for available funding with the FHLB and our unsecured lines of credit with correspondent banks.

The Company closely monitors changes in the industry and market conditions that may impact the Company’s liquidity and will use other borrowing means or other liquidity and funding strategies sources to fund its liquidity needs as needed. The Company is also closely tracking the potential impacts on the Company’s liquidity of declines in the fair value of the Company’s securities portfolio due to rising market interest rates and developments in the banking industry that may change the availability of traditional sources of liquidity or market expectations with respect to available sources and amounts of additional liquidity.

An important component of our ability to effectively respond to potential liquidity stress events is maintaining a cushion of highly liquid assets. Highly liquid assets are those that can be converted to cash quickly, with little or no loss in value, to meet financial obligations. ALCO policy guidelines define a ratio of highly liquid assets to total assets by graduated risk tolerance levels of minimal, moderate and high. At December 31, 2022 December 31, 2023, the Bank had $616.3 million $578.4 million in highly liquid assets, which consisted of FRB Excess Reserves Federal Reserve Board excess reserves and interest-bearing deposits in other financial institutions of $4.5 million, and $611.8 million in unpledged securities. This resulted in highly liquid assets to total assets ratio of 14.7% at December 31, 2022. $14.9 million

and $563.5 million in unpledged securities. This resulted in highly liquid assets to total assets ratio of 12.8% at December 31, 2023.

If an extended recession caused large numbers of our deposit customers to withdraw their funds, we might become more reliant on volatile or more expensive sources of funding.

The following table provides detail of liquidity sources as of December 31:

(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**(Dollars in Thousands)**	**2023**	**2022**
Cash and Due From Banks, including Interest-bearing Deposits	Cash and Due From Banks, including Interest-bearing Deposits	$ 46,869	$ 277,799			
Unpledged Investment Securities	Unpledged Investment Securities	611,845	743,836			
				Unpledged Investment Securities		
				Unpledged Investment Securities		
Excess Pledged Securities	Excess Pledged Securities	46,305	28,417			
FHLB Borrowing Availability	FHLB Borrowing Availability	676,746	667,307			
Unsecured Lines of Credit Availability	Unsecured Lines of Credit Availability	127,130	145,000			
Total Liquidity Sources	**Total Liquidity Sources**	**$ 1,508,895**	**$ 1,862,359**			

The following table provides total liquidity sources and ratios as of December 31:

(Dollars in Thousands)	**2023**	**2022**
Total Liquidity Sources	$ 1,210,106	$ 1,508,895
Highly Liquid Assets(1) to Total Assets	12.8 %	14.7 %
Highly Liquid Assets(1) to Uninsured Deposits	89.4 %	89.2 %
Total Available Liquidity to Uninsured Deposits	187.0 %	218.3 %

(1 *Highly liquid assets consist of $14.9 million in Federal Reserve Board excess reserves and interest-bearing deposits in other financial institutions and $563.5 million in unpledged securities.*

Inflation

Management is aware of the significant effect inflation has on interest rates and can have on financial performance. The Company’s ability to cope with this is best determined by analyzing its capability to respond to changing interest rates and its ability to manage noninterest income and expense. The mix of interest-rate sensitive assets and liabilities is monitored through ALCO in order to reduce the impact of inflation on net interest income. The effects of inflation are controlled by reviewing the prices of our products and services, by introducing new products and services and by controlling overhead expenses. Unlike most industrial companies, virtually all the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates have a more significant impact on a financial institution's performance than the effects of general levels of inflation.

Stock Repurchase Plan

On March 29, 2023, the Company announced that its Board of Directors (the "Board") has authorized, effective May 1, 2023, a common share repurchase program to purchase up to 1,000,000 shares of the Company's common stock in the aggregate over a period of twelve months, (the "2023 Program") subject to receipt of non-objection from the Federal Reserve Bank of Richmond, which was received on April 24, 2023. The 2023 Program authorizes the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Securities Exchange Act of 1934, as amended. The authorization permits management to repurchase shares of the Company's common stock from time to time at management's discretion. The actual means and timing of any shares purchased under the 2023 Program will depend on a variety of factors, including the market price of the Company's common stock, general market and economic conditions, management's evaluation of the Company's financial condition and liquidity position and applicable legal and regulatory requirements. The 2023 Program is authorized through May 1, 2024, although it may be modified or terminated by the Board at any time. The 2023 Program does not obligate the Company to purchase any particular number of shares, and was exhausted as of August 31, 2023. During the year ended December 31,

2023, the 1,000,000 shares of common stock had been repurchased under this program at a total cost of $14.2 million, or an average price of $14.16 per share.

Previously on June 28, 2022, the Company's Company announced that its Board authorized, the adoption of effective August 1, 2022, a new common stock share repurchase program for the to purchase of up to an additional 750,000 shares of the Company's common stock in the aggregate over a period of twelve months, subject to non-objection from the Federal Reserve Bank of Richmond, which was received in July 2022 (the "2022 Program"). The 2022 Program authorized the purchase of the Company's common stock in open market transactions or privately negotiated transactions, including pursuant to a trading plan in accordance with Rule 10b-18 promulgated under the Exchange Act. The authorization permitted management to repurchase shares of the Company's common stock from time-to-time on the open market ("2022 program"), time to time at management's discretion, which discretion. The 2022 Program was originally authorized through August 1, 2023, did not obligate the Company to purchase any particular number of shares, and was exhausted as of March 10, 2023.

Previously on December 13, 2021, the Company announced that its Board authorized, effective December 10, 2021, a common share repurchase program to purchase up to 2,000,000 shares of the Company's common stock in addition to the existing plan approved by the Board on December 10, 2021 ("prior program", and together with the 2022 program, the "Company Stock Repurchase Programs." aggregate over a period of twelve months (the "2021 Program") The prior program was completed on April 28, 2022. The Company purchased 2,587,361 shares of its outstanding common stock on the open market at a total cost of $42.9 million 2021 Program was originally authorized through December 9, 2022, or $16.59 per share during the year ended December 31, 2022 under did not obligate the Company Stock Repurchase Programs. The remaining to purchase any particular number of shares, authorized to be purchased under the 2022 program totaled 132,232 shares at December 31, 2022.

The Company Stock Repurchase Programs are described in Item 5, Market for the Registrant's Common Equity, Related Stockholder Matters, and Issuer Purchases was exhausted as of Equity Securities, of this Annual Report on Form 10-K. April 28, 2022.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

Market risk is defined as the degree to which changes in interest rates, foreign exchange rates, commodity prices, or equity prices can adversely affect a financial institution's earnings or capital. For financial institutions, market risk arises primarily reflects exposures to from interest rate risk inherent in lending, investment, and deposit-taking activities. Interest rate risk can arise from timing differences in the repricing and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time, depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve, where interest rates. rates increase or decrease in a non-parallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

Interest rate fluctuations affect earnings by changing net interest income and other interest-sensitive income and expense levels. Interest rate changes affect capital by changing the net present value of a financial institution's future cash flows, and the cash flows themselves, as rates change. Accepting this risk is a normal part of banking and can be an important source of profitability and enhancement of shareholder value. However, excessive interest rate risk can threaten a financial institution's earnings, capital, liquidity, and solvency. Our sensitivity to changes in The Company's ALCO is responsible for the reviewing the interest rate movements is continually monitored sensitivity position of the institution, establishing policies to monitor and limit exposure to this type of risk, and employing strategies to ensure our asset-liability structure produces the maximum yield-cost spread available based on current market conditions. The Company's Investment / Interest Rate Risk Committee, a committee of the Board of Directors, reviews and approves the policies established by the ALCO.

Earnings Simulation Modeling

The ALCO utilizes uses an asset liability model ("ALM") to monitor and manage market risk by simulating various rate shock scenarios and analyzing forecast earning simulations that measure the results sensitivity of the rate shocks on the Company's projected net interest income ("NII") to changes in interest rates. The ALM calculates an earnings estimate based on current and economic value projected balances and rates. This method is subject to the accuracy of equity ("EVE"). the assumptions that support the ALM process. The rate shock scenarios ALCO derives the assumptions used in the ALM span over multiple time horizons from historical trends and management's outlook, including expected loan growth, loan prepayment rates, deposit growth rates, changes to deposit product betas and non-maturity deposit decay rates, and projected yields and rates. The ALM assumes that all maturities, calls, and prepayments in the securities portfolio are reinvested in like instruments. These assumptions may not be realized and unanticipated events and circumstances may also occur that cause the assumptions to be inaccurate. The ALM also does not take into account any future actions management may take to mitigate the impact of unforeseen interest rate changes. A sensitivity analysis for deposit betas, deposit decay rates and loan prepayment speeds is performed at least annually within the ALM to help ALCO better understand the impact of these critical assumptions on the ALM results. The ALCO reviews the assumptions of the ALM at least quarterly and periodically adjusts them when deemed appropriate.

The ALCO also uses different interest rate scenarios and shifts in yield curve shapes and include parallel and non-parallel shifts to ensure the ALCO can mitigate future earnings and market value fluctuations due to changes in market interest rates.

Within the context of the ALM, NII rate shock simulations explicitly measure the exposure sensitivity of earnings to earnings from changes various interest rate environments. Interest rates on unique asset and liability accounts move differently when the short-term market rate changes. These differences are reflected in market rates of interest over a defined time horizon. These robust simulations include assumptions of how the balance sheet will react in different rate environments including loan prepayment speeds, scenarios utilized by the average life of non-maturing deposits, and how sensitive each interest-earning asset and interest-bearing liability is to changes in the market rates (betas). Under simulation analysis, ALM. For earning simulations, our current financial position is combined with assumptions regarding future business to calculate net interest income under various hypothetical rate scenarios. Reviewing these various measures provides us with a more comprehensive view of our interest rate risk profile.

NII rate shock simulation results are compared to a base case NII result to provide an estimate of the impact that simulated market rate changes may have on 12 months and 24 months of pretax NII. The base case earnings scenario together with various rate shock earning scenarios are modeled utilizing both a static and growth balance sheet. A static balance sheet is a no-growth balance sheet in which all maturing and/or repricing cash flows are reinvested in the same product at the existing product spread over a prescribed index. Parallel rate shock analyses assume an immediate parallel shift in market interest rates across all horizons of the yield curve and also include management's assumptions regarding the impact of interest rate changes on non-maturity deposit products (noninterest-bearing demand, interest-bearing demand, money market, and savings) and changes in the prepayment behavior of loans and securities with embedded optionality. Our policy guidelines limit the change in pretax NII net interest income over a 12-month and 24-month horizon using rate shocks of +/- 100, 200, 300, and 400 basis points.

To monitor points and for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to FOMC's slowing future rate increase projections coupled with the recent increase in the Fed Funds Target Rate of 5.25% since March 17, 2022, we believe the impact to net interest income when evaluating the + 300 and +400 basis point rate shock scenarios do not provide meaningful insight into our interest rate risk beyond the 24-month time horizon of rate shocks, we also perform EVE rate shock simulations using the same assumptions used in the NII rate shock simulations discussed above. EVE represents the present value of all asset cash flows discounted with related market interest rates minus the present value of all liability cash flows which are also discounted with related market interest rates. The impact of position nor does it project a changing probable interest rate environment on for the Company's projected EVE is analyzed by shocking market interest rates, then modeling the impact of the rate shock on both the cash flow of assets and liabilities, and the underlying discount rate utilized in the present value calculation of the assets and liabilities. Market rate shock results are then compared to base case simulation results to determine the impact that market rate changes may have on our EVE. As with NII rate shock analyses, EVE rate shock analyses incorporate management's assumptions regarding prepayment behavior of fixed rate loans and securities with embedded optionality and the behavior and value of non-maturity deposit products. Our policy guidelines limit the change in EVE given changes in rates of +/- 100, 200, 300, and 400 basis points. foreseeable future.

The following tables reflect the NII rate shock analyses and EVE analyses earnings simulation results for the periods presented utilizing a forecasted static balance sheet over the next twelve months. All percentage changes presented are within prescribed ranges set by management. ALCO.

	December 31, 2023		December 31, 2023	December 31, 2022
Change in Interest Rate (basis points)		Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Pretax Net Interest Income

	December 31, 2022		December 31, 2021	
Change in Interest Rate (basis points)	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity	% Change in Pretax Net Interest Income	% Change in Economic Value of Equity
400	14.5 %	(4.7) %	43.6 %	24.6 %

	300	11.2 %	(2.1) %	33.1 %	20.6 %					
	200									
	200									
200	200	7.7 %	(0.2) %	22.5 %	15.4 %		(1.1)%		7.7%	
100	100	4.1 %	0.8 %	11.4 %	8.6 %	100		(0.3)%		4.1%
-100	-100	(5.1)%	(3.4) %	(2.4)%	(7.0) %	-100		2.4%		(5.1)%
-200	-200	(10.7)%	(8.5) %	(3.2)%	(11.5) %	-200		4.4%		(10.7)%
-300	-300	(17.3)%	(16.0) %	(3.3)%	0.9 %	-300		5.6%		(17.3)%
-400	-400	(23.5)%	(28.0) %	(3.3)%	14.3 %	-400		6.7%		(23.5)%

The results from the net interest income rate shock analysis are consistent with having earnings simulation imply that the Company's balance sheet has shifted from an asset sensitive balance sheet at December 31, 2022 to a slightly liability sensitive balance sheet when adjusted for repricing correlations (betas) at December 31, 2023. The above table indicates that, in a rising interest rate environment, the Company is positioned to have increased pretax a minimum increase in net interest income for the same asset base and liability mix due to the balance sheet composition, related maturity structures, and repricing correlations to market interest rates for assets and liabilities. Conversely, However, in a declining interest rate environment, we are positioned to have decreased pretax a slightly more advantageous increase in net interest income for the same reasons discussed above.

Based on the ALM results presented above for the quarters ending December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company's balance sheet is less asset slightly liability sensitive at December 31, 2022 than it previously was December 31, 2023 versus assets sensitive at December 31, 2021 December 31, 2022. This migration in from asset sensitivity to slightly liability sensitivity is due to 1) lower yielding, floating rate excess cash positions held in federal reserve bank and interest-bearing deposits in other financial institutions, that are more sensitive to future market interest rate changes which were deployed into higher yielding, fixed and floating variable rate securities and portfolio loans that are less sensitive to future market interest rate changes, 2) the addition of the Company's largest lending relationship, with an aggregate principal amount of $301.9 million being placed on nonaccrual status as of June 30, 2023, 3) shortening maturities of the time deposit portfolio due to shorter term time deposit promotional campaigns related to the inverted yield curve, and 2) 4) the recent shifts in the shape of the yield curve between the two periods presented above.

In addition Economic Value of Equity Modeling

Economic value of equity simulation is used to calculate the estimated fair value of assets and liabilities over different interest rate environments. The ALM calculates the economic value of equity based on discounted cash flow analysis. The net economic value of equity is the economic value of all assets minus the economic value of all liabilities. The change in net economic value of equity over different rate environments is an indication of the longer-term earnings capability of the balance sheet. The Company uses the same assumptions in the economic value of equity simulation model as in the earnings simulation model. The economic value of equity simulation model uses instantaneous rate shocks to the balance sheet. For economic value of equity simulation, our policy guidelines limit the change in economic value of equity given changes in rates of +/- 100, 200, 300, 400 basis points and EVE analyses, sensitivity analyses for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to FOMC's slowing future rate increase projections coupled with the recent increase in the Fed Funds Target Rate of 5.25% since March 17, 2022, we believe the impact to net interest income when evaluating the + 300 and +400 basis point rate shock scenarios do not provide meaningful insight into our interest rate risk position nor does it project a probable interest rate environment for the foreseeable future.

Results for the economic value of equity modeling are performed driven primarily by the shape of the underlying yield curves and option-adjusted spreads used to help us identify which model assumptions are critical discount the projected cash flows of assets and cause the greatest impact on pretax NII. Sensitivity analyses include changing prepayment behavior of loans and securities with optionality, repricing correlations, liabilities, and the impact assumed life span of interest rate the assets and liabilities being discounted.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK - (continued)

The following tables reflect the economic value of equity analyses results for the periods presented. All percentage changes on non-maturity deposit products (decay rates). presented are within prescribed ranges set by management.

	December 31, 2023	December 31, 2022
Change in Interest Rate (basis points)	% Change in Economic Value of Equity	% Change in Economic Value of Equity
200	(4.7)%	(0.2)%
100	(1.8)%	0.8%
-100	0.9%	(3.4)%
-200	0.5%	(8.5)%
-300	(2.7)%	(16.0)%
-400	(10.9)%	(28.0)%

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Consolidated Financial Statements

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - (continued)

CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except Per Share Data)		December 31, 2022	December 31, 2021			
(Dollars in Thousands Except per Share Data)				(Dollars in Thousands Except per Share Data)	December 31, 2023	December 31, 2022
ASSETS	**ASSETS**					
Cash and Due From Banks, including Interest-Bearing Deposits of $4,505 at December 31, 2022 and $241,101 at December 31, 2021		$ 46,869	$ 277,799			
Cash and Due From Banks, including Interest-Bearing Deposits of $14,853 at December 31, 2023 and $4,505 at December 31, 2022						
Cash and Due From Banks, including Interest-Bearing Deposits of $14,853 at December 31, 2023 and $4,505 at December 31, 2022						
Cash and Due From Banks, including Interest-Bearing Deposits of $14,853 at December 31, 2023 and $4,505 at December 31, 2022						
Securities Available-for-Sale, at Fair Value		836,273	922,400			
Securities Available-for-Sale, at Fair Value (amortized cost of $870,546 and $945,707, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of $870,546 and $945,707, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of $870,546 and $945,707, respectively)						
Loans Held-for-Sale	Loans Held-for-Sale	—	228			

Portfolio Loans	Portfolio Loans	3,148,913	2,812,129
Portfolio Loans			
Portfolio Loans			
Allowance for Credit Losses	Allowance for Credit Losses	(93,852)	(95,939)
Portfolio Loans, net	**Portfolio Loans, net**	**3,055,061**	**2,716,190**
Bank Premises and Equipment, net			
Bank Premises and Equipment, net			
Bank Premises and Equipment, net	Bank Premises and Equipment, net	72,114	75,297
Other Real Estate Owned, net	Other Real Estate Owned, net	8,393	10,916
Other Real Estate Owned, net			
Other Real Estate Owned, net			
Federal Home Loan Bank Stock, at Cost	Federal Home Loan Bank Stock, at Cost	9,740	2,352
Bank Owned Life Insurance	Bank Owned Life Insurance	56,734	55,378
Other Assets	Other Assets	119,335	73,186
Total Assets	**Total Assets**	**$ 4,204,519**	**$ 4,133,746**
LIABILITIES	**LIABILITIES**		
LIABILITIES			
LIABILITIES			
Deposits:	Deposits:		
Deposits:			
Deposits:			
Noninterest-Bearing Demand			
Noninterest-Bearing Demand			
Noninterest-Bearing Demand	Noninterest-Bearing Demand	$ 703,334	$ 747,909
Interest-Bearing Demand	Interest-Bearing Demand	496,948	452,644
Money Market	Money Market	484,238	463,056
Savings	Savings	684,287	690,549
Certificates of Deposit	Certificates of Deposit	1,261,526	1,344,318
Total Deposits	**Total Deposits**	**3,630,333**	**3,698,476**
Total Deposits			
Total Deposits			
Federal Home Loan Bank Borrowings	Federal Home Loan Bank Borrowings	180,550	7,000
Federal Funds Purchased	Federal Funds Purchased	17,870	—

Reserve for Unfunded Loan Commitments			
Other Liabilities	Other Liabilities	47,139	20,674
Total Liabilities	**Total Liabilities**	**3,875,892**	**3,726,150**
SHAREHOLDERS' EQUITY			
Commitment and Contingencies - see NOTE 18.			
Commitment and Contingencies - see NOTE 18.			
Commitment and Contingencies - see NOTE 18.			
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
SHAREHOLDERS' EQUITY			
Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;	Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;		
Outstanding - 23,956,772 shares at December 31, 2022, and 26,430,919 shares at December 31, 2021		23,957	26,431
Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;			
Common Stock, Par Value $1.00 Per Share, Authorized 100,000,000 Shares;			
Outstanding - 22,956,304 shares at December 31, 2023, and 23,956,772 shares at December 31, 2022			
Outstanding - 22,956,304 shares at December 31, 2023, and 23,956,772 shares at December 31, 2022			
Outstanding - 22,956,304 shares at December 31, 2023, and 23,956,772 shares at December 31, 2022			
Additional Paid-in Capital	Additional Paid-in Capital	104,693	143,988
Retained Earnings	Retained Earnings	285,593	235,475
Accumulated Other Comprehensive (Loss) Income		(85,616)	1,702
Total Shareholders' Equity		**328,627**	**407,596**
Total Liabilities and Shareholders' Equity		**$ 4,204,519**	**$ 4,133,746**
Accumulated Other Comprehensive Loss			
Total Shareholders' Equity			
Total Liabilities and Shareholders' Equity			

See accompanying notes to audited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (LOSS)

	Years Ended December 31,		
(Dollars in Thousands except, Per Share Data)	2022	2021	2020
INTEREST INCOME			
Loans, including fees			
Taxable	$ 135,055	$ 115,448	$ 117,226
Non-Taxable	3,609	4,733	7,694
Investment Securities			
Taxable	20,330	12,442	14,263
Non-Taxable	693	882	1,238
FRB Excess Reserves	312	169	224
Interest on Bank Deposits	29	102	78
Dividend Income	154	121	218
Total Interest Income	**160,182**	**133,897**	**140,941**
Interest Expense			
Interest Expense on Deposits	18,616	22,246	35,391
Interest Expense on Federal Funds Purchased	188	—	1
Interest on Other Borrowings	1,450	468	434
Total Interest Expense	**20,254**	**22,714**	**35,826**
NET INTEREST INCOME	**139,928**	**111,183**	**105,115**
Provision for Credit Losses	2,419	3,350	18,006
Provision (Recovery) for Unfunded Commitments	509	(1,269)	—
Net Interest Income After Provision (Recovery) for Credit Losses	**137,000**	**109,102**	**87,109**
NONINTEREST INCOME			
Gain on Sales of Securities, net	46	6,869	6,882
Service Charges, Commissions and Fees	7,168	6,662	4,668
Debit Card Interchange Fees	7,427	7,226	5,857
Insurance Commissions	1,961	1,901	1,728
Bank Owned Life Insurance Income	1,357	1,380	1,400
Gains on Sales and Write-downs of Bank Premises, net	73	—	—
Other Real Estate Owned Income	50	90	340
Commercial Loan Swap Fee Income	774	2,416	4,051
Other	2,862	2,337	1,654
Total Noninterest Income	**21,718**	**28,881**	**26,580**
NONINTEREST EXPENSE			
Salaries and Employee Benefits	52,399	54,157	52,390
Occupancy Expense, net	13,527	13,556	13,369
FDIC Insurance Expense	2,015	2,157	2,313
Other Taxes	3,319	3,129	3,151
Advertising Expense	1,434	952	1,633
Telephone Expense	1,781	2,208	2,303
Professional and Legal Fees	5,818	5,255	5,006
Data Processing	4,051	3,758	2,648
Losses on Sales and Write-downs of Other Real Estate Owned, net	432	3,622	1,435
Losses on Sales and Write-downs of Bank Premises, net	—	231	99
Debit Card Expense	2,750	2,777	2,565
Tax Credit Amortization	621	1,708	1,088
Unfunded Loan Commitment Expense	—	—	(252)

Other Real Estate Owned Expense	343	407	657
Goodwill Impairment Expense	—	—	62,192
Other	8,511	8,368	8,178
Total Noninterest Expense	**97,001**	**102,285**	**158,775**
Income (Loss) Before Income Taxes	**61,717**	**35,698**	**(45,086)**
Income Tax Provision	11,599	4,108	772

Net Income (Loss)	**$ 50,118**	**$ 31,590**	**$ (45,858)**
Earnings (Loss) per Common Share:			
Basic Earnings (Loss) per Common Share	$ 2.03	$ 1.19	$ (1.74)
Diluted Earnings (Loss) per Common Share	$ 2.03	$ 1.19	$ (1.74)
Average Shares Outstanding-Basic	24,595,789	26,342,729	26,379,774
Average Shares Outstanding-Diluted	24,595,789	26,342,729	26,379,774

	Years Ended December 31,		
(Dollars in Thousands Except per Share Data)	**2023**	**2022**	**2021**
INTEREST INCOME			
Loans, including fees			
Taxable	$ 159,317	$ 135,055	$ 115,448
Non-Taxable	3,143	3,609	4,733
Investment Securities			
Taxable	30,804	20,330	12,442
Non-Taxable	634	693	882
Federal Reserve Bank Excess Reserves	1,002	312	169
Interest on Bank Deposits	64	29	102
Dividend Income	1,456	154	121
Total Interest Income	**196,420**	**160,182**	**133,897**
Interest Expense			
Interest Expense on Deposits	52,628	18,616	22,246
Interest Expense on Federal Funds Purchased	368	188	—
Interest on Other Borrowings	21,114	1,450	468
Total Interest Expense	**74,110**	**20,254**	**22,714**
NET INTEREST INCOME	**122,310**	**139,928**	**111,183**
Provision for Credit Losses	5,500	2,419	3,350
Provision (Recovery) for Unfunded Commitments	901	509	(1,269)
Net Interest Income After Provision (Recovery) for Credit Losses	**115,909**	**137,000**	**109,102**
NONINTEREST INCOME			
(Losses) Gains on Sales of Securities, net	(1,521)	46	6,869
Service Charges, Commissions and Fees	7,155	7,168	6,662
Debit Card Interchange Fees	7,828	7,427	7,226
Insurance Commissions	1,945	1,961	1,901
Bank Owned Life Insurance Income	1,381	1,357	1,380
Gains on Sales and Write-downs of Bank Premises, net	—	73	—
Commercial Loan Swap Fee Income	139	774	2,416
Other	1,351	2,912	2,427

Total Noninterest Income	**18,278**	**21,718**	**28,881**
NONINTEREST EXPENSE			
Salaries and Employee Benefits	55,856	52,399	54,157
Occupancy Expense, net	14,028	13,527	13,556
FDIC Insurance Expense	4,904	2,015	2,157
Other Taxes	3,282	3,319	3,129
Advertising Expense	1,693	1,434	952
Telephone Expense	1,842	1,781	2,208
Professional and Legal Fees	6,210	5,818	5,255
Data Processing	3,920	4,051	3,758
Losses on Sales and Write-downs of Other Real Estate Owned, net	1,100	432	3,622
Debit Card Expense	2,875	2,750	2,777
Tax Credit Amortization	—	621	1,708
Other	9,756	8,854	9,006
Total Noninterest Expense	**105,466**	**97,001**	**102,285**
Income Before Income Taxes	**28,721**	**61,717**	**35,698**
Income Tax Provision	5,337	11,599	4,108
Net Income	**$ 23,384**	**$ 50,118**	**$ 31,590**
Earnings per Common Share:			
Basic Earnings per Common Share	$ 1.00	$ 2.03	$ 1.19
Diluted Earnings per Common Share	$ 1.00	$ 2.03	$ 1.19
Average Shares Outstanding-Basic	23,240,543	24,595,789	26,342,729
Average Shares Outstanding-Diluted	23,240,543	24,595,789	26,342,729

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) INCOME

	Years Ended December 31,		
(Dollars in Thousands)	**2022**	**2021**	**2020**
Net Income (Loss)	$ 50,118	$ 31,590	$ (45,858)
Other Comprehensive (Loss) Income:			
Net Unrealized (Losses) Gains on Securities Available-for-Sale:			
Net Unrealized (Losses) Gains Arising during the Period	(111,542)	(10,877)	26,621
Reclassification Adjustment for Gains included in Net Income (Loss)	(46)	(6,869)	(6,882)
Tax Effect	24,270	3,727	(4,145)
Net Unrealized (Losses) Gains Recognized in Other Comprehensive (Loss) Income	(87,318)	(14,019)	15,594
Other Comprehensive (Loss) Income:	(87,318)	(14,019)	15,594
Comprehensive (Loss) Income	**$ (37,200)**	**$ 17,571**	**$ (30,264)**

	Years Ended December 31,		
(Dollars in Thousands)	**2023**	**2022**	**2021**
Net Income	$ 23,384	$ 50,118	$ 31,590
Other Comprehensive Income (Loss):			
Net Unrealized Gains (Losses) on Securities Available-for-Sale:			
Net Unrealized Gains (Losses) Arising during the Period	16,370	(111,542)	(10,877)

Reclassification Adjustment for Losses (Gains) included in Net Income	1,521	(46)	(6,869)
Tax Effect	(3,714)	24,270	3,727
Net Unrealized Gains (Losses) Recognized in Other Comprehensive Income (Loss)	14,177	(87,318)	(14,019)
Other Comprehensive Income (Loss):	14,177	(87,318)	(14,019)
Comprehensive Income (Loss)	**$ 37,561**	**$ (37,200)**	**$ 17,571**

See accompanying notes to audited Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Years Ended December 31,				
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance January 1, 2020	**$ 26,334**	**$ 142,492**	**$ 304,158**	**$ 127**	**$ 473,111**
Net Loss	—	—	(45,858)	—	(45,858)
Other Comprehensive Income, Net of Tax	—	—	—	15,594	15,594
Dividends Declared ($0.14 per share)	—	—	(3,689)	—	(3,689)
Forfeiture of Restricted Stock (4,344 shares)	(4)	4	—	—	—
Issuance of Restricted Stock (55,156 shares)	55	(55))	—	—	—
Recognition of Restricted Stock Compensation Expense	—	1,016	—	—	1,016
Balance December 31, 2020	**$ 26,385**	**$ 143,457**	**$ 254,611**	**$ 15,721**	**$ 440,174**

	Years Ended December 31,				
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholder's Equity
Balance at December 31, 2020					
Cumulative Effect of the Adoption of ASU 2016-13					
Balance January 1, 2021					
Net Income	—	—	31,590	—	31,590
Other Comprehensive Loss, Net of Tax	—	—	—	(14,019)	(14,019)
Cumulative Effect For Adoption of Credit Losses	—	—	(50,726)	—	(50,726)
Repurchase of Common Stock (30,407 shares)	(30)	(433)	—	—	(463)

Forfeiture of Restricted Stock (6,205 shares)	Forfeiture of Restricted Stock (6,205 shares)	(6))	6	—	—	—
Issuance of Restricted Stock (82,490 shares)	Issuance of Restricted Stock (82,490 shares)	82	(82))	—	—	—
Recognition of Restricted Stock Compensation Expense	Recognition of Restricted Stock Compensation Expense	—	1,040	—	—	1,040
Balance December 31, 2021	**Balance December 31, 2021**	**$ 26,431**	**$ 143,988**	**$ 235,475**	**$ 1,702**	**$ 407,596**
Net Income	Net Income	—	—	50,118)	—	50,118
Other Comprehensive Loss, Net of Tax	Other Comprehensive Loss, Net of Tax	—	—	—	(87,318)	(87,318)
Repurchase of Common Stock (2,587,361 shares)	Repurchase of Common Stock (2,587,361 shares)	(2,587)	(40,340)	—	—	(42,927)
Forfeiture of Restricted Stock (14,141 shares)	Forfeiture of Restricted Stock (14,141 shares)	(14))	(142)	—	—	(156)
Issuance of Restricted Stock (127,355 shares)	Issuance of Restricted Stock (127,355 shares)	127	(127)	—	—	—
Recognition of Restricted Stock Compensation Expense	Recognition of Restricted Stock Compensation Expense	—	1,314	—	—	1,314
Balance December 31, 2022	**Balance December 31, 2022**	**$ 23,957**	**$ 104,693**	**$ 285,593**	**$ (85,616)**	**$ 328,627**
Cumulative Effect of the Adoption of ASU 2023-02						
Balance at January 1, 2023						
Net Income						
Other Comprehensive Income, Net of Tax						
1% Excise Tax on Stock Buybacks						
Repurchase of Common Stock (1,132,232 shares)						
Forfeiture of Restricted Stock (5,333 shares)						

Issuance of Restricted Stock (137,097 shares)
Recognition of Restricted Stock Compensation Expense
Balance December 31, 2023

See accompanying notes to audited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended December 31,						
		Years Ended December 31,						Years Ended December 31,
(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**2020**	**(Dollars in Thousands)**	**2023**	**2022**	**2021**
OPERATING ACTIVITIES	**OPERATING ACTIVITIES**							
Net Income (Loss)		$ 50,118	$ 31,590	$ (45,858)				
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by Operating Activities								
Net Income								
Net Income								
Net Income								
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities								
Provision for Credit Losses, including Provision (Recovery) for Unfunded Commitments	Provision for Credit Losses, including Provision (Recovery) for Unfunded Commitments	2,928	2,081	18,006				
Goodwill Impairment		—	—	62,192				
Provision for Credit Losses, including Provision (Recovery) for Unfunded Commitments								
Provision for Credit Losses, including Provision (Recovery) for Unfunded Commitments								
Origination of Loans Held-for-Sale								
Origination of Loans Held-for-Sale								
Origination of Loans Held-for-Sale	Origination of Loans Held-for-Sale	(8,047)	(480,372)	(800,053)				
Proceeds From Loans Held-for-Sale	Proceeds From Loans Held-for-Sale	10,184	505,946	794,592				
Depreciation/Amortization of Bank Premises and Equipment	Depreciation/Amortization of Bank Premises and Equipment	6,063	6,229	6,142				
Provision (Benefit) for Deferred Taxes		3,630	3,114	(1,627)				
Provision for Deferred Taxes								

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Net Amortization of Securities	Net Amortization of Securities	5,749	4,798	3,441
Tax Credit Amortization	Tax Credit Amortization	621	1,708	1,088
Gains on Sales of Loans Held-for-Sale	Gains on Sales of Loans Held-for-Sale	(396)	(365)	(262)
Gains on Sales of Securities, net		(46)	(6,869)	(6,882)
Losses (Gains) on Sales of Securities, net				
Write-downs of Other Real Estate Owned	Write-downs of Other Real Estate Owned	741	3,472	1,483
(Gains) Losses on Sales of Other Real Estate Owned, net	(Gains) Losses on Sales of Other Real Estate Owned, net	(309)	150	(48)
(Gains) Losses on Sales and Write-downs of Bank Premises, net		(73)	231	99
Change in Fair Market Value of Commercial Loan Swap Derivative		(605)	(89)	214
Losses (Gains) on Sales and Write-downs of Bank Premises, net				
Commercial Loan Swap Derivative Income				
Premiums on Branch Sales	Premiums on Branch Sales	—	(506)	—
Increase in the Value of Life Insurance Contracts	Increase in the Value of Life Insurance Contracts	(1,357)	(1,380)	(1,400)
Recognition of Restricted Stock Compensation Expense	Recognition of Restricted Stock Compensation Expense	1,314	1,040	1,016
(Increase) Decrease in Other Assets	(Increase) Decrease in Other Assets	(3,273)	8,361	(18,723)
Increase (Decrease) in Other Liabilities	Increase (Decrease) in Other Liabilities	3,549	(1,601)	(5,716)
Net Cash Provided By Operating Activities	**Net Cash Provided By Operating Activities**	**70,791**	**77,538**	**7,704**
INVESTING ACTIVITIES	**INVESTING ACTIVITIES**			
Securities Available-for-Sale:	Securities Available-for-Sale:			
Securities Available-for-Sale:				
Securities Available-for-Sale:				
Proceeds from Sales				
Proceeds from Sales				
Proceeds from Sales	Proceeds from Sales	19,777	197,056	188,169
Proceeds from Maturities, Redemptions, and Pay-downs	Proceeds from Maturities, Redemptions, and Pay-downs	84,693	110,196	78,852
Purchases	Purchases	(135,634)	(466,648)	(277,644)
Purchase of Bank Premises and Equipment, Net	Purchase of Bank Premises and Equipment, Net	(5,890)	(8,484)	(10,120)
Proceeds from Sales of Bank Premises and Equipment, net	Proceeds from Sales of Bank Premises and Equipment, net	408	—	—

Net Cash Paid in Branch Sales	Net Cash Paid in Branch Sales	—	(73,923)	—
Proceeds from Sale of Portfolio Loans	Proceeds from Sale of Portfolio Loans	—	52,320	—
(Purchase) Redemption of Federal Home Loan Bank Stock, net	(Purchase) Redemption of Federal Home Loan Bank Stock, net	(7,388)	2,741	(980)
Loan (Originations) and Payments, net	Loan (Originations) and Payments, net	(342,877)	67,131	(75,688)
Other Real Estate Owned Improvements		—	—	(19)
Proceeds from Sales and Payments of Other Real Estate Owned				
Proceeds from Sales and Payments of Other Real Estate Owned				
Proceeds from Sales and Payments of Other Real Estate Owned	Proceeds from Sales and Payments of Other Real Estate Owned	4,840	13,256	4,162
Net Cash Used In Investing Activities	**Net Cash Used In Investing Activities**	**(382,071)**	**(106,355)**	**(93,268)**
FINANCING ACTIVITIES	**FINANCING ACTIVITIES**			
Net Change in Demand, Money Markets and Savings Accounts	Net Change in Demand, Money Markets and Savings Accounts	14,649	369,730	469,507
Decrease in Certificates of Deposits		(82,792)	(276,899)	(289,124)
Net Change in Demand, Money Markets and Savings Accounts				
Net Change in Demand, Money Markets and Savings Accounts				
Increase (Decrease) in Certificates of Deposits				
Proceeds (Repayments) from Federal Home Loan Bank Borrowings, net	Proceeds (Repayments) from Federal Home Loan Bank Borrowings, net	173,550	(28,000)	25,000
Proceeds (Repayments) from Federal Funds Purchased, net		17,870	—	—
(Repayments) Proceeds from Federal Funds Purchased, net				
Repurchase of Common Stock	Repurchase of Common Stock	(42,927)	(157)	—
Cash Dividends Paid		—	—	(3,689)
Net Cash Provided By Financing Activities	**Net Cash Provided By Financing Activities**	**80,350**	**64,674**	**201,694**
Net (Decrease) Increase in Cash and Cash Equivalents		(230,930)	35,857	116,130
Net Cash Provided By Financing Activities				
Net Cash Provided By Financing Activities				
Net Increase (Decrease) in Cash and Cash Equivalents				
Cash and Cash Equivalents at Beginning of Period	Cash and Cash Equivalents at Beginning of Period	277,799	241,942	125,812

Cash and Cash Equivalents at End of Period	Cash and Cash Equivalents at End of Period	$ 46,869	$ 277,799	$ 241,942

See accompanying notes to audited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA - (continued)

CONSOLIDATED STATEMENTS OF CASH FLOWS - (continued)

		Years Ended December 31,						
		Years Ended December 31,				Years Ended December 31,		
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands)	2023	2022	2021
SUPPLEMENTARY DATA	SUPPLEMENTARY DATA							
Cash Interest Paid								
Cash Interest Paid								
Cash Interest Paid	Cash Interest Paid	$19,338	$23,467	$36,696				
Cash Paid for Income Taxes	Cash Paid for Income Taxes	5,793	2,720	416				
Transfer from Loans to Other Real Estate Owned	Transfer from Loans to Other Real Estate Owned	74	59	755				
Transfer from Fixed Assets to Other Real Estate Owned								
Transfer from Fixed Assets to Other Real Estate Owned								
Transfer from Fixed Assets to Other Real Estate Owned								
Right-of-use Asset Recorded in Exchange for Lease Liabilities								
Stock Repurchase Excise Tax Settled in Subsequent Period								
Stock Repurchases Settled in Subsequent Period								
Loans Transferred to Held-for-Sale	Loans Transferred to Held-for-Sale	1,513	—	—				
Transfer from Fixed Assets to Other Real Estate Owned		2,675	12,013	2,221				
Security (Purchases) Settled in Subsequent Period		—	—	(2,259)				

Right-of-use Asset Recorded in Exchange for Lease Liabilities	3,391	2,027	621
Loans Held-for-Sale in Connection with Sale of Bank Branches	—	—	9,835
Bank Premises and Equipment Held-for-Sale	—	—	2,293
Deposits Held for Assumption in Connection with Sale of Bank Branches	—	—	84,717
Stock Repurchases Settled in Subsequent Period	—	(306)	—

See accompanying notes to audited Consolidated Financial Statements.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: Operations and Principles of Consolidation: Carter Bankshares, Inc. (the "Company") is a holding company headquartered in Martinsville, Virginia. The Company is the parent company of its wholly owned subsidiary of Carter Bank & Trust (the "Bank"). The holding company is regulated by the Federal Reserve Bank ("FRB"). The Bank is an insured, Virginia state-chartered commercial bank which operates branches in Virginia and North Carolina. The Bank is regulated by the Federal Deposit Insurance Corporation ("FDIC") and Bureau of Financial Institutions of the Virginia State Corporation Commission. The Bank has one wholly owned subsidiary, CB&T Investment Company (the "Investment Company").

The Company was incorporated on October 7, 2020, by and at the direction of the Bank Board, for the sole purpose of acquiring the Bank and serving as the Bank's parent bank holding company pursuant to a corporate reorganization transaction (the "Reorganization"). The Reorganization was completed on November 20, 2020 pursuant to an Agreement and Plan of Reorganization among the Bank, the Company and CBT Merger Sub, Inc., and the Bank survived the Reorganization as a wholly-owned subsidiary of the Company. In the Reorganization, each of the outstanding shares of the Bank's common stock were converted into and exchanged for one newly issued share of the Company's common stock.

Our market coverage is primarily in Virginia and North Carolina, including Fredericksburg, Charlottesville, Lynchburg, Roanoke, Christiansburg, Martinsville, Danville, Greensboro, Fayetteville, and Mooresville. Charlotte. The Company provides a full range of financial services with retail and commercial banking products and insurance.

Accounting Policies: Our financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles ("GAAP"). In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities as of the dates of the balance sheets and revenues and expenses for the periods then ended. Actual results could differ from those estimates. Our significant accounting policies are described below.

Principles of Consolidation: The Consolidated Financial Statements include the accounts of Carter Bankshares, Inc. and its wholly owned subsidiary. The Investment Company is a subsidiary of the Bank. All significant intercompany transactions have been eliminated in consolidation.

Reclassification: Amounts in prior years' financial statements and footnotes are reclassified whenever necessary to conform to the current year's presentation. Reclassifications had no material effect on prior year net income or shareholders' equity.

Use of Estimates: To prepare financial statements in conformity with GAAP, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the Consolidated Financial Statements and the disclosures provided, and actual results could differ from those estimates. Information available which could affect these judgments include, but are not limited to, changes in interest rates, changes in the performance of the economy, including COVID-19-related changes, and changes in the financial condition of borrowers.

Operating Segments: The chief decision-makers of our operating segments monitor the revenue streams of the various products and services, operations are managed and financial performance is evaluated on a Company-wide basis, and operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Cash and Cash Equivalents: The Company considers all cash on hand, amounts due from banks, federal funds sold, and FRB excess reserves as cash equivalents for the purposes of the Consolidated Statements of Cash Flows with all items having original maturities fewer than 90 days. Federal funds are customarily sold for one-day periods. The FRB pays the target fed funds rate on the FRB excess reserves.

Restrictions on Cash: Cash on hand or on deposit with the FRB is required to meet regulatory reserve and clearing requirements.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and financial standby and performance letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Comprehensive Income (Loss) Income: : Comprehensive income (loss) income consists of net income (loss) and other comprehensive income (loss) income. . Other comprehensive income (loss) income includes unrealized gains (losses) gains on securities available-for-sale, net of tax.

Securities: The Company classifies securities into either the held-to-maturity or available-for-sale categories at the time of purchase. All securities were classified as available-for-sale at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. Securities classified

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

as available-for-sale include securities which can be sold for liquidity, investment management, or similar reasons even if there is not a present intention of such a sale. Available-for-sale securities are reported at fair value, with unrealized gains (losses) gains, , net of tax included in other comprehensive income (loss) income. .

Premium amortization is deducted from, and discount accretion is added to, interest income on securities using the level yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Gains and losses are recognized upon the sale of specific identified securities on the completed trade date.

Management evaluates debt securities for impairment on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. In determining impairment, management considers many factors, including: (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Company has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. The assessment of whether an impairment decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

When an impairment occurs, the amount of impairment recognized in earnings depends on whether an entity intends to sell the security or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss. If an entity intends to sell or it is more likely than not it will be required to sell the security before recovery of its amortized cost basis, less any current-period credit loss, the impairment shall be recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If an entity does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis less any current-period loss, the impairment shall be separated into the amount representing the credit loss and the amount related to all other factors. Credit-related impairment is recognized as an allowance for credit losses ("ACL") on the balance sheet with a corresponding adjustment to provision for credit losses in the Consolidated Statements of Net Income (Loss). Income. Both the allowance and the adjustment to net income (loss) can be reversed if conditions change.

Loans Held-for-Sale: Loans held-for-sale arise primarily from two sources. First, we purchase mortgage loans on a short-term basis from a partner financial institution that have fully executed sales contracts to end investors. Second, we originate and close mortgages with fully executed contracts with investors to purchase shortly after closing. We then hold these mortgage loans from both sources until funded by the investor, typically a two-week period. Gains and losses on sales of mortgage loans held-for-sale are determined using the specific identification method and are included in other noninterest income in the Consolidated Statements of Net Income (Loss). Income.

From time to time, certain loans are transferred from the loan portfolio to loans held-for-sale, which are carried at the lower of cost or fair value. If a loan is transferred from the loan portfolio to the held-for-sale category, any write-down in the carrying amount of the loan at the date of transfer is recorded as a charge-off against the ACL. Subsequent declines in fair value are recognized as a charge to noninterest income. The remaining unamortized fees and costs are recognized as part of the cost basis of the loan at the time it is sold. Gains and losses on sales of loans held-for-sale are included in other noninterest income in the Consolidated Statements of Net Income (Loss). Income.

Loans and Allowance for Credit Losses: Loans: Loans that management have the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, discounts, and an allowance for credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

An individually evaluated loan analysis is conducted for loans that are either or both nonperforming or a restructured loan with a commitment of $1.0 million or greater than and/or equal to $1.0 million. The ACL related to loans individually evaluated is primarily based on the excess of the loan's current outstanding principal balance compared to the estimated fair value of the related collateral, less cost to sell. For a loan that is not collateral-dependent, the allowance is recorded at the amount by which the outstanding principal balance exceeds the current estimate of the future cash flows on the loan discounted at the loan's original effective interest rate.

management's discretion. Loans, including individually evaluated loans, are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days based on contractual terms, unless such loans are well-secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual, if repayment in full of principal and/or interest is unlikely. Any interest that is accrued, but not collected is reversed against interest income when a loan is placed on nonaccrual status, which typically occurs prior to charging off all, or a portion, of a loan.

While a loan is classified as nonaccrual and the probability of collecting the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding. Payments collected on a nonaccrual loan are first applied to principal, secondly to any existing charge-offs, thirdly to interest, and lastly to any outstanding fees owed to the Company.

Loans may be returned to accrual status when all principal and interest amounts contractually due are reasonably assured of repayment within an acceptable period of time, and there is a period of a minimum of six months of satisfactory payment performance by the borrower in accordance with the contractual terms of interest and principal.

Allowance for Credit Losses

Losses: On January 1, 2021, we adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments-Credit Losses ("Topic 326"), which replaced the incurred loss impairment model with an The allowance for credit losses represents management's estimate of expected loss model. As part of adoption our model introduced a segmented pool of "other" loans for discrete analysis. This segmented pool included unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this pool resulted in an increase credit losses inherent in the Current Expected Credit Losses loan portfolio, and consists of an allowance for credit losses for pooled loans. Management estimates the allowance for credit losses for pooled loans utilizing a Discounted Cash Flow ("CECL" DCF") and method. The ACL related to loans individually evaluated is disclosed in primarily based on the Other line item in the portfolio loan segments. As a result excess of the CECL adoption we recorded a transition adjustment of $50.7 million loan's current outstanding principal balance compared to retained earnings as of January 1, 2021 for the cumulative effect estimated fair value of the adoption related collateral, less cost to sell. For a loan that is not collateral-dependent, the allowance is recorded at the amount by which the outstanding principal balance exceeds the current estimate of ASU 2016-13. the present value of future cash flows on the loan discounted at the loan's original effective interest rate.

Our CECL methodology introduced a modified discounted cash flow methodology based on expected cash flow changes in the future for the Other segment. A significant population of the Other segment was not impaired under the probable incurred loss model and therefore not subject to a collateral dependent specific reserve analysis. For the population of the Other segment that was impaired under the incurred loss model, based on collateral values, the specific reserves totaled zero. The CECL model was developed with subjective assumptions that is driven by the following key factors: prepayment speeds, timing of prepayments, loss given defaults as well as other factors including the discount rate based upon the cost of capital and ultimately the timing of future cash flows.

For periods prior to the adoption of the CECL standard, we recognized credit losses for loans that were collectively evaluated for impairment based on an incurred loss approach, which limited our measurement of credit losses to credit events that were estimated to have already occurred. The allowance for credit losses under the incurred loss model was a valuation allowance for probable incurred losses inherent in the loan portfolio. Management made the determination by taking into consideration historical loan loss experience, diversification of the loan portfolio, amounts of secured and unsecured loans, banking industry standards and averages, and general economic conditions. Credit losses were charged against the allowance when the loan balance was confirmed uncollectible. Subsequent recoveries, if any, were credited to the allowance. Ultimate losses varied from current estimates. The estimates were reviewed periodically and as adjustments become necessary, they were reported in earnings in the periods in which they become reasonably estimable.

For more details, see Note 6 - Allowance for Credit Losses, in Item 8 of this Annual Report on Form 10-K.

Allowance for Credit Losses Policy

The adoption of CECL accounting did not result in a significant change to any other credit risk management and monitoring process, including identification of past due or delinquent borrowers, nonaccrual practices, assessment of troubled debt restructurings or charge-off policy.

The Company's methodology for estimating the ACL includes:

Segmentation. The Company's loan portfolio is segmented by homogeneous loan types that behave similarly to economic cycles.

Specific Analysis. A specific reserve analysis is applied to certain individually evaluated loans. These loans are evaluated quarterly generally based on collateral value, observable market value or the present value of expected future cash flows. A specific reserve is established if the fair value is less than the loan balance. A charge-off is recognized when the loss is quantifiable. quantifiable and confirmed. Individually evaluated loans not specifically analyzed receive a quantitative and qualitative analysis, as described below.

Quantitative Analysis. The Company elected to use Discounted Cash Flow ("DCF"). Economic forecasts include but are not limited to unemployment, the Consumer Price Index, the Housing Price Index and Gross Domestic Product. These forecasts are assumed to revert to the long-term average and are utilized in the model to estimate the probability of default and loss given default through regression. Model assumptions include, but are not limited to the discount rate, prepayments and curtailments. The product of the probability of default and the loss given default is the estimated loss rate, which varies over time. The estimated loss rate is applied within the appropriate periods in the cash flow model to determine the net present value. Net present value is also impacted by assumptions related to the duration between default and recovery. The reserve is based on the difference between the summation of the principal balances taking amortized costs into consideration and the summation of the net present values.

Qualitative Analysis. Based on management's review and analysis of internal, external and model risks, management may adjust the model output. Management reviews the peaks and troughs of the model's calibration, taking into account economic forecasts to develop guardrails that serve as the basis for determining the reasonableness of the model's output and makes adjustments as necessary. This process challenges unexpected variability resulting from outputs beyond the model's calibration that appear to be unreasonable. Additionally, management may adjust the economic forecast if it is incompatible with known market conditions based on management's experience and perspective.

"Other" Segmented Pool

CECL provides for the flexibility to model loans differently compared to the prior model. With the adoption of CECL management elected to evaluate certain loans based on shared but unique risk attributes. The loans included in the Other segment of the model were underwritten and approved based on standards that are inconsistent with our current underwriting standards. The model for the Other segment was developed with subjective assumptions that may cause volatility driven by the following key factors: prepayment speeds, timing of contractual payments, discount rate, as well as other factors. The discount rate is reflective of the inherent risk in the Other segment. A substantial change in these assumptions could cause a significant impact to the model causing volatility. Management reviews the model output for appropriateness and subjectively makes adjustments as needed. The analysis applied to this pool resulted in an allowance of $51.3 million upon $51.3 million at adoption on January 1, 2021 and is disclosed in the Other segment line item.

Our charge-off policy for loans requires that loans and other obligations that are not collectible be promptly charged-off when the loss becomes probable, regardless of the delinquency status of the loan. The Company may elect to recognize a partial charge-off when management has determined that the value of collateral is less than the remaining investment in the loan. A loan or obligation does not need to be charged-off, regardless of delinquency status, if (i) management has determined there exists sufficient collateral to protect the remaining loan balance and (ii) there exists a strategy to liquidate the collateral. Management may also consider a number of other factors to determine when a charge-off is appropriate. These factors may include, but are not limited to:

- The status of a bankruptcy proceeding
- The value of collateral and probability of successful liquidation; and/or

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

- The status of adverse proceedings or litigation that may result in collection

Consumer unsecured loans and secured loans are evaluated for charge-off after the loan becomes 90 days past due. Unsecured loans are fully charged-off and secured loans are charged-off to the estimated fair value of the collateral less the cost to sell.

Closed-end installment loans, amortizing loans secured by real estate and any other loans with payments scheduled monthly are reported past due when the borrower is in arrears two or more monthly payments. Other multi-payment obligations with payments scheduled other than monthly are reported past due when one scheduled payment is due and unpaid for 30 days or more. We monitor delinquency on a monthly basis, including early stage delinquencies of 30 to 89 days past due for early identification of potential problem loans.

Refer to the "Credit Quality" and the "Allowance for Credit Losses" sections in the MD&A and Note 6, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K for more details.

Loan Restructurings: On April 1, 2022, the Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2022, which eliminates the recognition and measurement of a TDR. Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status, foreclosure or repossession of the collateral to minimize economic loss to the Company.

Concentration of Credit Risk: The majority of the Company's loans, commitments and lines of credit have been granted to customers in the Company's market area. The concentrations of credit by loan classification are set forth in Note 5.

Advertising Costs: We expense all marketing-related costs, including advertising costs, as incurred. Advertising expense was $1.4 million $1.7 million, $1.0 million $1.4 million, and $1.6 million $1.0 million for the years ended 2023, 2022, 2021, and 2020, 2021, respectively.

Bank Owned Life Insurance: The Company has purchased life insurance policies on certain executive officers and associates. We receive the cash surrender value of each policy upon its termination or benefits are payable to us upon the death of the insured. Changes in net cash surrender value are recognized in noninterest income in the Consolidated Statements of Income (Loss). Income.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

Bank Premises and Equipment: Bank premises and equipment acquired are stated at cost, less accumulated depreciation. Depreciation is charged to operating expenses over the estimated useful life of the assets by the straight-line method. Land is carried at cost. Costs of maintenance or repairs are charged to expense as incurred and improvements are capitalized. Upon retirement or disposal of an asset, the asset and related allowance account are eliminated. Any gain or loss on such transactions is included in current operations. Depreciation expense is included under occupancy expense, net in the Consolidated Statements of Income (Loss) totaling $6.2 million in 2023, $6.1 million in 2022, and $6.2 million in 2021, and $6.1 million in 2020. 2021. The estimated useful life for bank premises ranges from 5 to 40 years and equipment depreciates over a 3 to 10-year period.

Land and Land Improvements	Non-depreciating assets
Buildings	25 years 25 - 40 years
Furniture and Fixtures	5 years
Computer Equipment and Software	5 years or term of license
Other Equipment	5 years
Vehicles	5 years
Leasehold Improvements	Lesser of estimated useful life of the asset (generally 15 years unless established otherwise) or the remaining term of the lease, including renewal options in the lease that are reasonably assured of exercise

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

Leases: Operating and finance leases are recorded as a right of use (“ROU”) asset and operating lease liability, included in other assets and other liabilities, respectively. Operating and finance lease ROU assets represent the right to use an underlying asset during the lease term and operating and finance lease liabilities represent our obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at lease commencement based on the present value of the remaining lease payments using a discount rate that represents our incremental borrowing rate at the lease commencement date. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term, and is recorded primarily in other expense in the Consolidated Statements of Income. Finance lease expense is comprised of interest expense and amortization of the ROU asset, which are recorded in interest on other borrowings and other expense, respectively, in the Consolidated Statements of Income.

Federal Home Loan Bank (“FHLB”) Stock: The Company is a member of the FHLB. Members are required to own a certain amount of stock based on the level of borrowings and other factors such as asset base. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Cash dividends are reported as dividend income in the Consolidated Statements of Income (Loss). Income.

Earnings (Loss) per Common Share: Basic earnings (loss) per common share is calculated by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the period. All outstanding unvested restricted stock awards are considered participating shares for the earnings (loss) per common share calculation. Diluted earnings (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

Other Real Estate Owned (“OREO”): Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at fair value less estimated selling cost at the date of foreclosure, which establishes a new cost basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the ACL. After foreclosure, these assets are carried at the lower of their new cost basis or fair value less cost to sell. In addition, any retail branch locations closed for branch operations and marketed for sale are also moved to OREO from bank premises and equipment. This real estate is initially valued based on recent comparative market values received from a real estate broker and any necessary write-downs are charged to operations. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. Valuations are periodically performed by management, and any write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its carrying value or fair value less cost to sell. OREO assets are revalued every twelve 12 months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing carrying values less than $0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four 24 months based on the size of the exposure. Operating costs after acquisition are expensed.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for

deductible temporary differences, operating losses, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the Consolidated Statements of Income (Loss). Income.

The Company is a limited partner in several tax-advantaged limited partnerships whose purpose is to invest in approved new market and historic rehabilitation projects. During 2023, the Company adopted the proportional amortization method of accounting for all qualifying equity investments within these limited partnerships. These investments are included in other assets on the Consolidated Balance Sheets. These partnership investments generate a return through the realization of federal income tax credits, as well as other tax benefits, such as tax deductions from net operating losses of the investments over a period of time. The investments are accounted for under the equity method, with the expense included within noninterest expense provision for income taxes on the Consolidated Statements of Income (Loss). Income. All of the Company's tax credit investments are evaluated for impairment at the end of each reporting period.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

Transfer of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity, or the ability to unilaterally cause the transferee to return specific assets.

Retirement Benefits: The Company has established an employee benefit plan as described in Note 13. 14. The Company does not provide any other post-retirement benefits.

Goodwill: Goodwill represents the excess of the purchase price over the sum of the estimated fair values of tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. Long-lived assets are those that provide the Bank with a future economic benefit beyond the current year or operating period. Long-lived assets are reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset is greater than the fair value of the asset. Assets to be disposed of are reported at the lower of the cost or the fair value, less costs to sell.

Effective January 1, 2020, the Company adopted ASU No. 2017-04, “Intangibles – Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment”, which simplified the subsequent measurement of goodwill by eliminating Step 2 from the goodwill impairment test. The goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount. An impairment charge would be recognized for the amount by which the carrying amount exceeds the reporting unit’s fair value, to the extent that the loss recognized does not exceed the amount of goodwill allocated to that reporting unit.

During 2020, with the volatility in the financial services industry and in the economic environment the Company determined it prudent to have a full goodwill impairment analysis performed on a quarterly basis. The Company monitored its performance due to the COVID-19 pandemic and continued to experience declines in the stock price in relation to other bank indices and the length of time that the market value of the reporting unit had been below its book value. As of September 30, 2020, the analysis estimated fair value of the reporting unit to be less than the carrying value, therefore, a goodwill impairment charge of $62.2 million was recorded. This impairment charge represented the entire amount of goodwill allocated to the reporting unit. This non-cash charge to earnings had no impact to the Company’s regulatory capital ratios, cash flows, liquidity position, or our overall financial strength.

Allowance for Unfunded Commitments: In the normal course of business, we offer off-balance sheet credit arrangements to enable our customers to meet their financing objectives. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the financial statements. Our exposure to credit loss, in the event the customer does not satisfy the terms of the agreement, equals the contractual amount of the obligation less the value of any collateral. We apply the same credit policies in making commitments and standby and performance letters of credit that are used for the underwriting of loans to customers. Commitments generally have fixed expiration dates, annual renewals or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The ACL on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur, and is included in other liabilities on the Company's Consolidated Balance Sheets.

Stock-Based Compensation: The Company has issued both restricted stock to executive officers, associates and non-associate directors and performance based stock units to its executive officers. Compensation expense for restricted stock awards is based on the fair value of these awards at the date of the grant. The market price of the Company's common stock at the date of the grant is the fair value of the award.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company recognizes forfeitures as they occur.

For the performance stock units ("PSUs"), management evaluates the criteria quarterly to determine the probability of the performance goals being met and recognizes compensation based upon the this evaluation. The PSUs vest on the third anniversary of the grant date.

Loss Contingencies: Loss contingencies, including claims As disclosed in Note 18 to the Consolidated Financial Statements, the Company and its subsidiaries are involved in various legal actions arising proceedings incidental to their business in the ordinary course, of business, are recorded as liabilities when and the likelihood of loss disclosure set forth in Note 18 relating to certain legal matters is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are any such matters that will have a material effect on the financial statements. Legal costs related to loss contingencies are expensed as incurred. incorporated by reference.

Fair Value Measurements

The Company uses fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale and derivative financial instruments are recorded at fair value on a recurring basis. Additionally, from time to time, we may be required to record other assets at fair value on a nonrecurring basis, such as loans held-for-sale, individually evaluated loans, OREO, and certain other assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants at the measurement date. An orderly transaction is a transaction that assumes exposure to the market for a period prior to the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities; it is not a forced transaction. In determining fair value, we use various valuation approaches, including market, income and cost approaches. The fair value standard establishes a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing an asset or liability, which are developed based on market data we have obtained from independent sources. Unobservable inputs reflect our estimates of assumptions that market participants would use in pricing an asset or liability, which are developed based on the best information available in the circumstances.

The fair value hierarchy gives the highest priority to unadjusted quoted market prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that an entity has the ability to access as of the measurement date, or observable inputs.

Level 2: Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, and other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. We recognize transfers between any of the fair value hierarchy levels at the end of the reporting period in which the transfer occurred.

The following are descriptions of the valuation methodologies that the Company uses for financial instruments recorded at fair value on either a recurring or nonrecurring basis.

Recurring Basis

Securities Available-for-Sale: The fair values of securities available-for-sale are determined by obtaining quoted prices on nationally recognized securities exchanges, if available. This valuation method is classified as Level 1 in the fair value hierarchy. For securities where quoted prices are not available, fair values are calculated on market prices of similar securities, or matrix pricing, which is a mathematical technique, used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Matrix pricing relies on the securities' relationship to similarly traded securities, benchmark curves, and the benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades,

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

benchmarking of like securities. Matrix pricing utilizes observable market inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers, reference data, and industry and economic events. In instances where broker quotes are used, these quotes are obtained from market makers or broker-dealers recognized to be market participants. This valuation method is classified as Level 2 in the fair value hierarchy. For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. This valuation method is classified as Level 3 in the fair value hierarchy.

Derivative Financial Instruments and Hedging Activities: The Company uses derivative instruments such as interest rate swaps for commercial loans with our customers. Upon entering into swaps with the borrower, the Company entered into offsetting positions with counterparties to minimize risk to the Company. The back-to-back swaps qualify as derivatives, but are not designated as hedging instruments. Interest rate swap contracts involve the risk of dealing with borrower and counterparties and their ability to meet contractual terms. We calculate the fair value for derivatives using accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. Each valuation considers the contractual terms of the derivative, including the period to maturity, and uses observable market-based inputs, such as interest rate curves and implied volatilities. When the fair value of a derivative instrument contract is positive, this generally indicates that the counterparty or customer owes the Company, and results in credit risk to the Company. When the fair value of a derivative instrument contract is negative, the Company owes the customer or counterparty, and, therefore, has no risk. Accordingly, interest rate swaps for commercial loans are classified as Level 2.

The Company also enters into commitments to originate mortgage loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans to be held-for-sale are considered to be derivatives. The period of time between issuance of a loan commitment and closing and sale of the loan generally ranges from 15 to 90 days. The Company protects itself from changes in interest rates through the use of best efforts forward delivery commitments, whereby the Company commits to sell a loan at the time the borrower commits to an interest rate with the intent that the buyer has assumed interest rate risk on rate lock commitments due to changes in interest rates.

Nonrecurring Basis

Individually Evaluated Loans: Individually evaluated loans with commitments of $1.0 million or greater than and/or equal to $1.0 million based on management's discretion are evaluated for potential specific reserves and adjusted, if a shortfall exists, to fair value less costs to sell. Fair value is measured based on the value of the underlying collateral securing the loan if repayment is expected solely from the sale or operation of the collateral or present value of estimated future cash flows discounted at the loan's contractual interest rate if the loan is not determined to be collateral dependent. All loans with a specific reserve are classified as Level 3 in the fair value hierarchy.

Fair value for individually evaluated loans is determined using several methods. Generally, the fair value of real estate is determined based on appraisals by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. These routine adjustments are made to adjust the value of a specific property relative to comparable properties for variations in qualities such as location, size, and income production capacity relative to the subject property of the appraisal. Such adjustments are typically significant and result in a Level 3 classification of the inputs for determining fair value.

Subsequent to the initial impairment date, existing individually evaluated loans are reevaluated quarterly for additional impairment and adjustments to fair value less costs to sell are made, where appropriate. For individually evaluated loans, the first stage of our impairment analysis involves inspection of the property in question to affirm the condition has not deteriorated since the previous impairment analysis date. Management also engages in conversations with local real estate professionals and market participants to determine the likely marketing time and value range for the property. The second stage involves an assessment of current trends in the regional market. After thorough consideration of these factors, management will order a new appraisal.

For non-individually evaluated loans, the fair value is determined by updating the present value of estimated future cash flows using the loan's existing rate to reflect the payment schedule for the remaining life of the loan.

OREO is evaluated at the time of acquisition and is recorded at fair value as determined by an appraisal or evaluation, less costs to sell. After acquisition, most OREO assets are revalued every twelve months, or more frequently when deemed necessary by management based upon changes in market or collateral conditions. For smaller OREO assets with existing

carrying values less than $0.5 million, management may elect to re-value the assets, at minimum, once every twenty-four months based on the size of the exposure. Fair value, when recorded, is generally based upon appraisals by approved, independent state certified appraisers. Appraisals on OREO may be discounted based on our historical knowledge, changes in market conditions from the time of appraisal or other information available to us. OREO and other repossessed assets marked to fair value are classified as Level 3. At December 31, 2022 December 31, 2023 OREO assets were in compliance with the OREO policy as set forth above, and substantially all of the assets were listed for sale with credible third-party real estate brokers.

Financial Instruments

In addition to financial instruments recorded at fair value in our financial statements, fair value accounting guidance requires disclosure of the fair value of all of an entity's assets and liabilities that are considered financial instruments. The majority of our assets and liabilities are considered financial instruments. Many of these instruments lack an available trading market as characterized by a willing buyer and willing seller engaged in an exchange transaction. Also, it is our general practice and intent to hold our financial instruments to maturity and to not engage in trading or sales activities with respect to such financial instruments. For fair value disclosure purposes, we substantially utilize the fair value measurement criteria as required and explained above. In cases where quoted fair values are not available, we use present value methods to determine the fair value of our financial instruments.

Recent Accounting Pronouncements and Developments

Newly Adopted Pronouncements in 2022 2023

In March 2022, 2023, the FASB Financial Accounting Standards Board ("FASB") issued ASU Accounting Standards ("ASU") No. 2022-02, which eliminates 2023-02, Investments Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the troubled debt restructuring ("TDR") accounting model for creditors that have adopted Topic 326, "Financial Instruments - Credit Losses." Due to the removal of the TDR accounting model, all loan modifications were evaluated to determine if they resulted in a new loan or a continuation of the existing loan. Proportional Amortization Method. The amendments in this ASU also required expands the use of the proportional amortization method of accounting, previously only allowable for Low Income Tax Housing Credits, ("LITHC") investments, to equity investments in other tax credit structures that meet certain criteria. This guidance is effective for public business entities disclose current-period gross charge-offs by year of origination for loans and leases. The amendments fiscal years including interim periods within those fiscal years, beginning after December 15, 2023. Early adoption is permitted in this ASU are effective January 1, 2023, with early adoption permitted. any interim period. The Company reviewed its existing tax equity investment portfolios and evaluated the impact of the updated guidance on its Consolidated Financial Statements and elected to early adopt the amendments in this ASU on April 1, 2022 as of June 30, 2023 on a prospective modified retrospective basis, effective dated as of January 1, 2022 January 1, 2023. This change As a result, the Company recorded a transitional adjustment of $0.1 million to retained earnings.

The Company makes equity investments as a limited partner in various partnerships that sponsor historic tax credits ("HTC") as a strategic tax initiative designed to receive tax credits and other tax benefits, such as deductible flow-through losses. The Company has evaluated all of the proportional amortization method qualifying criteria and has elected to apply the proportional amortization method at the HTC program level. The Company records the investment in the HTC as a component of other assets and uses the proportional amortization method to account for the investments in the HTC partnerships. Amortization related to these HTC investments is recorded on a net basis as a component of the provision for income taxes on the Consolidated Statements of Income. Prior to the ASU adoption, amortization was recorded as a component of noninterest expense on the Consolidated Statements of Income. The amendments in this ASU did not have a material effect on materially impact our consolidated financial statements. Refer to Note 5, Loans and Loans Held-For-Sale for disclosures for debtors experiencing financial difficulty and Note 6, Allowance for Credit Losses for vintage disclosures related to gross charge-offs by loan segment by year of origination, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K for additional information on the adoption of these amendments.

Accounting Statements Issued but Not Yet Adopted Statements.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting. The amendments in this ASU provide optional guidance for a limited period of time to ease the potential burden in accounting for, or recognizing the effects of reference rate reform on financial reporting. The amendments provide ASU also provides optional expedients and exceptions for applying GAAP to loan and lease agreements, derivative contracts, and other transactions affected by the anticipated transition away from the London Interbank Offered Rate ("LIBOR") toward new interest rate benchmarks. Modified contracts that meet certain scope guidance are eligible for relief from the modification accounting requirements in U.S. GAAP. The optional guidance generally allows for the modified contract to be accounted for as a continuation of the existing contract and does not require contract remeasurement at the modification date or reassessment of a previous accounting determination. The amendments in this ASU are effective for all entities between March 12, 2020 and December 31, 2022. In December 2022, the FASB issued ASU No 2022-06, Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848. The amendments in this ASU defer the sunset date for applying the reference rate reform relief by two years to December 31, 2024, after which entities will no longer and can be permitted to apply adopted at any time during this period. The Company ceased originating new LIBOR based variable rate loans as of December 31, 2021 per the relief in Topic 848.

Furthermore, the United Kingdom's Financial Conduct Authority ("FCA"), who is the regulator of LIBOR, announced on March 5, 2021 that they will no longer require any panel bank to continue to submit LIBOR after December 31, 2021. As it pertains to the U.S. dollar LIBOR, the FCA will consider the case to require continued publication of a number of LIBOR settings through June 30, 2023. In a joint statement, Bank regulators urged banks to stop using LIBOR for any new transactions by the end of 2021 to avoid the possible creation of safety and soundness risk. ARRC's guidance. The Federal Reserve System, ("FRB"), of New York has created a working group called the Alternative Reference Rate Committee ("ARRC") to assist U.S. institutions in transitioning away from LIBOR as a benchmark interest rate. The ARRC has recommended the use of the Secured Overnight

Financing Rate ("SOFR") as a replacement index for LIBOR, and in March 2022 the U.S. Congress passed, and the U.S. President signed, legislation that provides a uniform approach for replacing LIBOR as a reference rate in legacy contracts that do not contain effective "fall back" provisions for when LIBOR is no longer published or no longer representative, and that instructs the FRB to identify a replacement benchmark based on SOFR.

In response, we have Company created an internal team that is managing our transition away from LIBOR. This transition team is a cross-functional group comprised of representatives from the lending lines of business, as well as representatives from loan operations, information technology, finance in 2021 to identify and modify loans and other support functions. To date, financial instruments with attributes that were either directly or indirectly influenced by LIBOR. The Company has selected one-month term Secured Overnight Financing Rate, ("SOFR"), (published by the transition team has completed an assessment of tasks needed CME Group) as the replacement benchmark for a successful transition, identified contracts that contain LIBOR language, and documented the risks associated with the transition. The team is currently in the process of: i) reviewing existing contract language for the presence of appropriate fallback rate language, ii) developing loan fallback rate language for when LIBOR is retired if needed, and iii) studying industry best practices. We are considering SOFR and other credit-sensitive alternative indices that may gain market acceptance as potential replacements to LIBOR. based loans. The financial impact regarding pricing, valuation and operations of the transition is have been evaluated and were not expected to be material in nature. Our The transition team is was fully committed to working within the guidelines established by the FCA United Kingdom's Financial Conduct Authority and ARRC the Federal Reserve System of New York's Alternative Reference Rate Committee to provide complete a smooth transition away from LIBOR. For LIBOR-based loans, remediation efforts were completed by September 30, 2023.

As Accounting Statements Issued but Not Yet Adopted

On December 14, 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances the required disclosures primarily related to the income tax rate reconciliation and income taxes paid. The ASU requires an entity's income tax rate reconciliation to provide additional information for reconciling items meeting a quantitative threshold, and to disclose certain selected categories within the income tax rate reconciliation. The ASU also requires entities to disclose the amount of December 31, 2022 income taxes paid, disaggregated by federal, state and foreign taxes. The ASU is effective for annual periods beginning after December 15, 2024, approximately 7.4% though early adoption is permitted. We are currently evaluating the impact of this guidance on our loan portfolio consists Consolidated Financial Statements.

On November 27, 2023, the FASB issued ASU 2023-07. Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which changes disclosures relating to reportable segments. The ASU expands the disclosure requirements relating to reportable segments, including requiring entities to disclose information about a reportable segment's significant expenses, among other changes. The ASU does not change how an entity identifies reportable segments or the accounting for segments. The ASU is effective for annual periods beginning after December 15, 2023, and interim periods within annual periods beginning after December 15, 2024, with early adoption permitted. The Company has one reporting segment therefore, will not impact our Consolidated Financial Statements; however, this ASU requires disclosure of loans whose variable rate index is LIBOR. We ceased originating new LIBOR based variable rate loans as the title and position of December 31, 2021 per the ARRC's guidance. chief operating decision maker and an explanation of how resources are allocated.

NOTE 2 – EARNINGS (LOSS) PER COMMON SHARE

Basic earnings (loss) per common share is calculated by dividing net income (loss) allocated to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings (loss) per common share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

The following table reconciles the numerators and denominators of basic and diluted earnings (loss) per common share calculations for the periods presented:

	Years ended December 31,		
(Dollars in Thousands, except share and per share data)	**2022**	**2021**	**2020**
Numerator for Earnings (Loss) per Common Share - Basic and Diluted			
Net Income (Loss)	$ 50,118	$ 31,590	$ (45,858)
Less: Income allocated to participating shares	295	127	—
Net Income (Loss) Allocated to Common Shareholders - Basic & Diluted	**$ 49,823**	**$ 31,463**	**$ (45,858)**
Denominators:			
Weighted Average Shares Outstanding, including Shares Considered Participating Securities	24,741,454	26,449,438	26,379,774
Less: Average Participating Securities	145,665	106,709	—
Weighted Average Common Shares Outstanding - Basic & Diluted	**$ 24,595,789**	**$ 26,342,729**	**$ 26,379,774**
Earnings (Loss) per Common Share-Basic	$ 2.03	$ 1.19	$ (1.74)
Earnings (Loss) per Common Share-Diluted	$ 2.03	$ 1.19	$ (1.74)

	Years ended December 31,		
(Dollars in Thousands, except share and per share data)	**2023**	**2022**	**2021**
Numerator for Earnings per Common Share – Basic and Diluted			
Net Income	$ 23,384	$ 50,118	$ 31,590
Less: Income allocated to participating shares	197	295	127
Net Income Allocated to Common Shareholders - Basic & Diluted	**$ 23,187**	**$ 49,823**	**$ 31,463**
Denominator:			
Weighted Average Shares Outstanding, including Shares Considered Participating Securities	23,438,413	24,741,454	26,449,438
Less: Average Participating Securities	197,870	145,665	106,709
Weighted Average Common Shares Outstanding - Basic & Diluted	**$ 23,240,543**	**$ 24,595,789**	**$ 26,342,729**
Earnings per Common Share – Basic	$ 1.00	$ 2.03	$ 1.19
Earnings per Common Share – Diluted	$ 1.00	$ 2.03	$ 1.19

All outstanding unvested restricted stock awards are considered participating securities for the earnings (loss) per common share calculation. As such, these shares have been allocated to a portion of net income and are excluded from the diluted earnings per common share calculation in the years ended 2022 and 2021. As a result of the net loss for the full year December 31, 2020, all average participating shares outstanding are considered anti-dilutive to loss per common share. calculation.

NOTE 3 - RESTRICTIONS ON CASH AND DUE FROM BANK ACCOUNTS

The Board of Governors of the FRB imposes certain reserve requirements on all depository institutions. These reserves are maintained in the form of vault cash or as an interest-bearing balance with the FRB. The Company had no required reserves for 2023, 2022 and 2021 and averaged $3.7 million for 2020. The average of required reserves declined during 2022 and 2021 as a result of the implementation of a new deposit management tool. 2021.

NOTE 4 - INVESTMENT SECURITIES

The following tables present the amortized cost and fair value of available-for-sale securities as of the dates presented:

		December 31, 2022								
		December 31, 2023								December 31, 2023
(Dollars in Thousands)	(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury	Securities	$ 19,318	$ —	$ (1,452)	$ 17,866					
U.S. Government Agency Securities	U.S. Government Agency Securities	50,334	218	(788)	49,764					
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	115,694	—	(12,009)	103,685					
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	35,538	73	(936)	34,675					
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	24,987	9	(2,597)	22,399					
Asset Backed Securities	Asset Backed Securities	156,552	—	(15,169)	141,383					
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	190,781	—	(14,159)	176,622					
States and Political Subdivisions	States and Political Subdivisions	281,753	—	(53,607)	228,146					
Corporate Notes	Corporate Notes	70,750	—	(9,017)	61,733					
Total Debt Securities	**Total Debt Securities**	**$ 945,707**	**$ 300**	**$(109,734)**	**$836,273**					

		December 31, 2021								
		December 31, 2022								December 31, 2022
(Dollars in Thousands)	(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	(Dollars in Thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury Securities	U.S. Treasury Securities	$ 4,442	$ —	$ (29)	$ 4,413					

U.S. Government Agency Securities	U.S. Government Agency Securities	72,915	707	(88)	73,534
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	112,118	76	(2,181)	110,013
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	43,358	228	(560)	43,026
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	14,136	68	(58)	14,146
Asset Backed Securities	Asset Backed Securities	151,683	968	(1,201)	151,450
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	204,034	1,203	(1,356)	203,881
States and Political Subdivisions	States and Political Subdivisions	257,810	6,344	(1,952)	262,202
Corporate Notes	Corporate Notes	59,750	375	(390)	59,735
Total Debt Securities	**Total Debt Securities**	**$ 920,246**	**$ 9,969**	**$ (7,815)**	**$ 922,400**

The Company did not have securities classified as held-to-maturity at December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022.

The following table shows the composition of gross and net realized gains and losses for the periods presented:

	Years ended December 31,		
(Dollars in Thousands)	**2022**	**2021**	**2020**
Proceeds from Sales of Securities Available-for-Sale	**$ 19,777**	**$ 197,056**	**$ 188,169**
Gross Realized Gains	$ 208	$ 7,080	$ 6,957
Gross Realized Losses	(162)	(211)	(75)
Net Realized Gains	**$ 46**	**$ 6,869**	**$ 6,882**
Tax Impact	**$ 10**	**$ 1,443**	**$ 1,445**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

	Years ended December 31,		
(Dollars in Thousands)	**2023**	**2022**	**2021**
Proceeds from Sales of Securities Available-for-Sale	**$ 43,323**	**$ 19,777**	**$ 197,056**
Gross Realized Gains	$ 129	$ 208	$ 7,080
Gross Realized Losses	(1,650)	(162)	(211)
Net Realized (Losses) Gains	**$ (1,521)**	**$ 46**	**$ 6,869**
Tax Impact	**$ (319)**	**$ 10**	**$ 1,443**

Gains or losses are recognized in earnings on the trade date using the amortized cost of the specific security sold. The net realized (losses) gains above reflect reclassification adjustments in the calculation of Other Comprehensive Income (Loss) Income.. The net realized (losses) gains are included in noninterest income as (losses) gains on sales of securities, net in the Consolidated Statements of Income (Loss). Income. The tax impact is included in income tax provision in the Consolidated Statements of Income (Loss). Income.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

The amortized cost and fair value of available-for-sale debt securities are shown below by contractual maturity as of the date presented. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

		December 31, 2022				
		December 31, 2023				December 31, 2023
(Dollars in Thousands)	(Dollars in Thousands)	Amortized Cost	Fair Value	(Dollars in Thousands)	Amortized Cost	Fair Value
Due in One Year or Less	Due in One Year or Less	$ 200	$ 200			
Due after One Year through Five Years	Due after One Year through Five Years	20,470	19,278			
Due after Five Years through Ten Years	Due after Five Years through Ten Years	224,424	196,367			
Due after Ten Years	Due after Ten Years	177,061	141,664			
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	115,694	103,685			
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	35,538	34,675			
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	24,987	22,399			
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	190,781	176,622			
Asset Backed Securities	Asset Backed Securities	156,552	141,383			
Total Securities	Total Securities	$ 945,707	$ 836,273			

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, there were no holdings of securities of any one issuer, other than those securities issued by or collateralized by the U.S. Government and its Agencies, in an amount greater than 10% of shareholders' equity. The carrying value of securities pledged for various regulatory and legal requirements was $215.5 million at December 31, 2023 and $224.5 million at December 31, 2022 and $178.6 million at December 31, 2021.

Available-for-sale securities with unrealized losses at December 31, 2022 December 31, 2023 and 2021, December 31, 2022, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, were as follows:

	December 31, 2022		
	Less Than 12 Months	12 Months or More	Total
	December 31, 2023		De

(Dollars in Thousands)	Less Than 12 Months			12 Months or More			Total		
	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury Securities	3	$ 14,080	$ (789)	2	$ 3,786	$ (663)	5	$ 17,866	$ (1,452)
U.S. Government Agency Securities	6	5,337	(26)	9	15,576	(762)	15	20,913	(788)
Residential Mortgage-Backed Securities	6	7,601	(372)	37	96,084	(11,637)	43	103,685	(12,009)
Commercial Mortgage-Backed Securities	7	7,843	(307)	49	15,675	(629)	56	23,518	(936)
Other Commercial Mortgage-Backed Securities	2	5,302	(617)	6	14,560	(1,980)	8	19,862	(2,597)
Asset Backed Securities	13	42,173	(2,984)	41	97,210	(12,185)	54	139,383	(15,169)
Collateralized Mortgage Obligations	35	66,362	(4,500)	50	110,260	(9,659)	85	176,622	(14,159)
States and Political Subdivisions	73	112,564	(19,706)	91	115,382	(33,901)	164	227,946	(53,607)
Corporate Notes	8	23,285	(2,965)	13	38,448	(6,052)	21	61,733	(9,017)
Total Debt Securities	**153**	**$ 284,547**	**$ (32,266)**	**298**	**$ 506,981**	**$ (77,468)**	**451**	**$ 791,528**	**$ (109,734)**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

	December 31, 2021								
	Less Than 12 Months			12 Months or More			Total		
	December 31, 2022								
(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses	Number of Securities	Fair Value	Unrealized Losses
U.S. Treasury Securities	2	$ 4,413	$ (29)	—	$ —	$ —	2	$ 4,413	$ (29)
U.S. Government Agency Securities	7	13,847	(68)	2	2,537	(20)	9	16,384	(88)

Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	30	95,749	(2,030)	7	8,706	(151)	37	104,455	(2,181)
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	6	8,686	(208)	51	17,093	(352)	57	25,779	(560)
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	3	8,962	(58)	—	—	—	3	8,962	(58)
Asset Backed Securities	Asset Backed Securities	30	89,756	(1,025)	10	21,895	(176)	40	111,651	(1,201)
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	34	103,007	(990)	11	24,849	(366)	45	127,856	(1,356)
States and Political Subdivisions	States and Political Subdivisions	56	88,746	(1,503)	8	7,874	(449)	64	96,620	(1,952)
Corporate Notes	Corporate Notes	10	29,683	(317)	1	2,427	**(73)**	11	32,110	(390)
Total Debt Securities	**Total Debt Securities**	**178**	**$ 442,849**	**$ (6,228)**	**90**	**$ 85,381**	**$ (1,587)**	**268**	**$ 528,230**	**$ (7,815)**

The Company adopted Topic 326, Financial Instruments—Credit Losses (Topic 326) on January 1, 2021 and did not record an ACL allowance for credit losses, ("ACL"), on its investment securities during the year ended December 31, 2022 December 31, 2023 or December 31, 2021 December 31, 2022 as the Company did not have securities classified as held-to-maturity at December 31, 2022 or December 31, 2021. any related impairment. The Company regularly reviews debt securities for expected credit loss using both qualitative and quantitative criteria, as necessary, based on the composition of the portfolio at period end.

As of December 31, 2022 December 31, 2023, management does not intend to sell any security in an unrealized loss position and it is not more than likely that it will be required to sell any such security before the recovery of its amortized cost basis. The unrealized losses on debt securities are primarily the result of interest rate changes, credit spread fluctuations on agency-issued mortgage-related securities, general financial market uncertainty and unprecedented market volatility. These conditions should not prohibit the Company from receiving its contractual principal and interest payments on its debt securities. The fair value is expected to recover as the securities approach their maturity date or repricing date.

As of December 31, 2022 December 31, 2023, management believes the unrealized losses detailed in the table above are not related to credit; therefore, no ACL has been recognized on the Company's securities. Should the impairment of any of these securities become credit related, the cost basis of the investment will be reduced and the resulting loss impairment will be recognized in net income (loss) by establishing an ACL through provision for credit losses in the period the credit related impairment is identified, while any non-credit loss will be recognized in accumulated other comprehensive (loss) income. loss, net of applicable taxes. During the year ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had no credit related net investment impairment losses. As of December 31, 2020, the Company did not identify or record any other-than-temporary impairment for any investment securities in its portfolio.

NOTE 5 – LOANS AND LOANS HELD-FOR-SALE

The composition of the loan portfolio by dollar amount is shown in the table below:

	December 31,	
(Dollars in Thousands)	**2022**	**2021**
Commercial		
Commercial Real Estate	$ 1,470,562	$ 1,323,252
Commercial and Industrial	309,792	345,376
Total Commercial Loans	**1,780,354**	**1,668,628**
Consumer		

Residential Mortgages	657,948	457,988
Other Consumer	44,562	44,666
Total Consumer Loans	**702,510**	**502,654**
Construction	353,553	282,947
Other(1)	312,496	357,900
Total Portfolio Loans	**3,148,913**	**2,812,129**
Loans Held-for-Sale	—	228
Total Loans	**$ 3,148,913**	**$ 2,812,357**

(1) Refer to Note 1, Summary of Significant Accounting Policies for details of the initial reclassification of our portfolio segments related to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments on January 1, 2021.

	December 31,	
(Dollars in Thousands)	**2023**	**2022**
Commercial		
Commercial Real Estate	$ 1,670,631	$ 1,470,562
Commercial and Industrial	271,511	309,792
Total Commercial Loans	**1,942,142**	**1,780,354**
Consumer		
Residential Mortgages	787,929	657,948
Other Consumer	34,277	44,562
Total Consumer Loans	**822,206**	**702,510**
Construction	436,349	353,553
Other	305,213	312,496
Total Portfolio Loans	**3,505,910**	**3,148,913**
Loans Held-for-Sale	—	—
Total Loans	**$ 3,505,910**	**$ 3,148,913**

We attempt to limit our exposure to credit risk by diversifying our loan portfolio by segment, geography, collateral and industry while actively managing concentrations. When concentrations exist in certain segments, this risk is mitigated by reviewing the relevant economic indicators and internal risk rating trends of the loans in these segments. The Company established transaction, relationship and specific loan segment limits in its loan policy. Total CRE commercial real estate balances should not exceed the combination of 300% of total risk-based capital and growth in excess of 50% over the previous thirty-six months and construction loan balances should not exceed 100% of total risk-based capital. Investment real estate property types and purchased loan programs have individual dollar limits that should not be exceeded in the portfolio and are based on management's risk tolerance relative to capital. In addition, there are specific limits in place targets for various categories of real estate loans with regards respect to debt service coverage ratios, loan-to-value ratios, loan terms, and amortization periods. We also have policy limits on loan-to-cost for construction projects. Although leverage is important, the Company is also focused on cash flow generation and uses multiple metrics employs stress testing to calculate a supportable loan amount. Supportable loan amounts have generally been more challenging given the increases in commodities pricing. pricing and the average loan to cost has decreased over time.

Unsecured loans pose higher risk for the Company due to the lack of a well-defined secondary source of repayment. Commercial unsecured loans are reserved for the best quality customers with well-established businesses that operate with low financial and operating leverage. The repayment capacity of the borrower should exceed the policy and guidelines for secured loans. The Company significantly increased the standards for consumer unsecured lending by adjusting upward the required qualifying Fair Isaac Corporation ("FICO") scores and restricting loan amounts at lower FICO scores.

In connection with our adoption of Topic 326, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Our new segmentation breaks out Other loans from our original loan segments: CRE, commercial & industrial ("C&I"), Construction and Residential Mortgages. At January 1, 2021 related to the adoption of Topic 326, the initial break-out of other loans totaled $379.9 million consisting of loans that would otherwise have been included in the following loan segments: $140.8 million of CRE, $78.1 million of C&I, $50.8 million of Residential Mortgages and $110.2 million of Construction. This segment of loans includes unique risk attributes considered inconsistent with current underwriting standards. The following tables provides the break-out of Other loans as of the dates presented:

(Dollars in Thousands)	**December 31, 2022**	**December 31, 2021**
Commercial Real Estate	$ 123,286	$ 132,582
Commercial and Industrial	76,001	76,001
Residential Mortgages	18,053	40,881
Construction	95,156	108,436
Other	**$ 312,496**	**$ 357,900**

Deferred costs and fees included in the portfolio balances above were $7.2 million and $8.2 million at December 31, 2023 and $4.5 million at December 31, 2022 and December 31, 2021, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were $133.4 thousand and $161.2 thousand at December 31, 2023 and $190.6 thousand at December 31, 2022 and December 31, 2021, respectively.

The Company had no mortgage loans held-for-sale as of December 31, 2022 December 31, 2023 and $0.2 million as of December 31, 2021. December 31, 2022, respectively.

Loan Restructurings

On April 1, 2022, the Company adopted the accounting guidance in ASU No. 2022-02, effective as of January 1, 2022, which eliminates the recognition and measurement of a TDR. Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

A loan that is considered a restructured loan may be subject to the individually evaluated loan analysis if the commitment is $1.0 million or greater; greater and/or based on management's discretion; otherwise, the restructured loan remains in the appropriate

segment in the ACL model and associated reserves are adjusted based on changes in the discounted cash flows resulting from the modification of the restructured loan. model. For a discussion with respect to reserve calculations regarding individually evaluated loans refer to the "Nonrecurring Loans" Basis" section in Note 7, Fair Value Measurements, in the Notes to Consolidated Financial Statements in Item 8 of this Annual Report on Form 10-K.

The following table shows the amortized cost basis as of December 31, 2022 for the year ended December 31, 2023 and December 31, 2022 for the loans restructured during the year twelve months ended December 31, 2023 and December 31, 2022 to borrowers experiencing financial difficulty, disaggregated by portfolio segment:

		Restructured Loans Twelve Months Ended December 31, 2022									
		Restructured Loans Twelve Months Ended December 31, 2023				Restructured Loans Twelve Months Ended December 31, 2023			Restructured Loans Twelve Months Ended December 31, 2022		
(Dollars in Thousands)	(Dollars in Thousands)	Number of Contracts	Amortized Cost Basis(1)	% of Total Class of Financing Receivable	(Dollars in Thousands)	Number of Contracts	Amortized Cost Basis(1)	% of Total Class of Financing Receivable	Number of Contracts	Amortized Cost Basis(1)	% of Total Class of Financing Receivable
Accruing Restructured Loans	**Accruing Restructured Loans**										
Commercial Real Estate											
Commercial Real Estate											
Commercial Real Estate	Commercial Real Estate	1	$ 324	0.02 %		— $	$— —	— %	1	$ $ 324	0.02 0.02 %
Commercial and Industrial	Commercial and Industrial	—	—	— %	Commercial and Industrial	— —	— —	— %	— —	— —	— %
Residential Mortgages	Residential Mortgages	—	—	— %	Residential Mortgages	— —	— —	— %	— —	— —	— %
Other Consumer	Other Consumer	—	—	— %	Other Consumer	— —	— —	— %	— —	— —	— %
Construction	Construction	—	—	— %	Construction	— —	— —	— %	— —	— —	— %
Other	Other	—	—	— %	Other	— —	— —	— %	— —	— —	— %
Total Accruing Restructured Loans	**Total Accruing Restructured Loans**	**1**	**324**	**0.02 %**	**Total Accruing Restructured Loans**	**— —**	**— —**	**— %**	**1 324**	**324 0.02**	**0.02 %**

Nonaccrual Restructured Loans	**Nonaccrual Restructured Loans**														
Nonaccrual Restructured Loans															
Nonaccrual Restructured Loans															
Commercial Real Estate															
Commercial Real Estate															
Commercial Real Estate	Commercial Real Estate	—	$ —	— %		— $	$—	—	—	%	— $	$	—	—	— %
Commercial and Industrial	Commercial and Industrial	—	—	— %	Commercial and Industrial	—	—	—	—	— %	—	—	—	—	— %
Residential Mortgages	Residential Mortgages	—	—	— %	Residential Mortgages	—	—	—	—	— %	—	—	—	—	— %
Other Consumer	Other Consumer	—	—	— %	Other Consumer	—	—	—	—	— %	—	—	—	—	— %
Construction	Construction	—	—	— %	Construction	—	—	—	—	— %	—	—	—	—	— %
Other	Other	—	—	— %	Other	—	—	—	—	— %	—	—	—	—	— %
Total Nonaccrual Restructured Loans	**Total Nonaccrual Restructured Loans**	—	—	— %	**Total Nonaccrual Restructured Loans**	—	—	—	—	— %	—	—	—	—	— %
Total Restructured Loans	**Total Restructured Loans**	1	324	0.02 %	**Total Restructured Loans**	—	—	—	—	— %	1	324	324	0.02	0.02 %

(1) *Excludes accrued interest receivable of $1.5 thousand on restructured loans for the year ended 2022.*

The Company had no loans that were restructured during the three and twelve months ended December 31, 2023. During the third quarter of 2022 the Bank modified a construction loan and considered it a restructured loan as a result of financial difficulty. The borrower is a single family home builder. The purpose of the loan was to finance the construction of a speculative home. The loan matured and was incomplete. The Bank extended the maturity and completion date for five (5) months in order to provide time to complete and sell the home. However, the Bank became aware of a mechanic's lien filed by one of the borrower's subcontractors. This issue was resolved and the loan was restored to accrual status on September 30, 2022. Subsequently, the home was sold and the Bank was paid in full on December 9, 2022. This loan was not considered significant and remained in the general pool of the Bank's ACL model for reserve purposes until it was paid in full. These loans are not considered significant and are included in the Bank's ACL model in the general pool of the construction and commercial real estate ("CRE") segments for reserve purposes.

During the fourth quarter of 2022 the Bank had no new restructured loans. During the third quarter of 2022 the Bank modified a construction loan as a restructured loan. This performing loan was extended to allow the borrower to complete construction and has since paid off during the fourth quarter of 2022. In the first quarter of 2022 the Bank recognized a loan modification of a commercial real estate loan as a restructured loan. The borrower's objective was to redevelop the property for a purpose that temporarily lacked feasibility due to the COVID-19 pandemic. In the interim the property was leased, albeit at a lower rate than originally forecasted. The Bank reduced the regularly scheduled principal and interest payments to accommodate the rental income until the property can be redeveloped. This loan is not considered significant and is included in the Bank's ACL model in the general pool of the CRE segment for reserve purposes.

The Bank closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following table depicts the performance of loans that have been modified during the year ended December 31, 2022:

	Payment Status (Amortized Cost Basis)		
(Dollars in Thousands)	**Current**	**30-89 Days Past Due**	**90+ Days Past Due**
Accruing Restructured Loans			
Commercial Real Estate	$ 324	$ —	$ —
Commercial and Industrial	—	—	—
Residential Mortgages	—	—	—
Other Consumer	—	—	—
Construction	—	—	—
Other	—	—	—
Total Accruing Restructured Loans	**$ 324**	**$ —**	**$ —**
Nonaccrual Restructured Loans			
Commercial Real Estate	$ —	$ —	$ —
Commercial and Industrial	—	—	—
Residential Mortgages	—	—	—
Other Consumer	—	—	—
Construction	—	—	—
Other	—	—	—
Total Nonaccrual Restructured Loans	**$ —**	**$ —**	**$ —**
Total Restructured Loans(1)	**$ 324**	**$ —**	**$ —**

(1) *Excludes accrued interest receivable of $1.5 thousand at December 31, 2022.*

As of December 31, 2023 and December 31, 2022, the Bank had no commitments to lend any additional funds on restructured loans. As of December 31, 2023 and December 31, 2022 the Bank had no loans that defaulted during the period and had been modified preceding the payment default when the borrower was experiencing financial difficulty at the time of modification. For purposes of this disclosure, a default occurs when, within 12 months of the original modification, either a full or partial charge-off occurs or the loan becomes 90 days or more past due.

As of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had $902 thousand $2.0 million and $254 thousand, $0.9 million, respectively, of residential real estate in the process of foreclosure. We also had $62 thousand at December 31, 2023 and $133 thousand at December 31, 2022 and $62 thousand at December 31, 2021 in residential real estate included in OREO.

Loans to principal officers, directors and their affiliates during 2022 2023 were as follows:

(Dollars in Thousands)	**2022 2023**
Beginning Balance	$ 2,625 2,746
Principal Additions	310 353
Repayments	(189) (666)
Balance at End of Year	**$ 2,746 2,433**

NOTE 6 - ALLOWANCE FOR CREDIT LOSSES

The Company maintains an ACL at a level determined to be adequate to absorb expected credit losses associated with the Company's financial instruments over the life of those instruments as of the balance sheet date. The Company develops and documents a systematic ACL methodology based on the following portfolio segments: 1) CRE, 2) Commercial and Industrial, ("C&I, &I"), 3) Residential Mortgages, 4) Other Consumer, 5) Construction and 6) Other. The Company's loan portfolio is segmented by homogeneous loan types that behave similarly to economic cycles. The segmentation in the CECL model is different from the segmentation in the Incurred Loss model. The following is a discussion of the key risks by portfolio segment that management assesses in preparing the ACL.

CRE loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties, for various purposes such as hotels, strip malls and apartments. Operations of the individual projects as well as global cash flows of the debtors are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business.

C&I loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the borrower is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the borrower. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt. These loans are also made to local and state municipalities for various purposes including refinancing existing obligations, infrastructure up-fit and expansion, or to purchase new equipment. These loans may be secured by general obligations from the municipal authority or revenues generated by infrastructure and equipment financed by the Company. The primary repayment source for these loans include the tax base of the municipality, specific revenue streams related to the infrastructure financed, and other business operations of the municipal authority. The health and stability of state and local economies directly impacts each municipality's tax basis and are important indicators of risk for this segment. The ability of each municipality to increase taxes and fees to offset debt service requirements give this type of loan a very low risk profile in the continuum of the Company's loan portfolio.

Residential Mortgages are loans secured by first and second liens such as home equity loans, home equity lines of credit and 1-4 family residential mortgages, including purchase purchased money mortgages. The primary source of repayment for these loans is the income of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this segment because low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Other Consumer loans are made to individuals and may be either secured by assets other than 1-4 family residences or unsecured. This segment includes auto loans and unsecured loans and lines. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

Construction loans include both commercial and consumer. Commercial loans are made to finance construction of buildings or other structures, as well as to finance the acquisition and development of raw land for various purposes. While the risk of these loans is generally confined to the construction period, if there are problems, the project may not be completed, and as such, may not provide sufficient cash flow on its own to service the debt or have sufficient value in a liquidation to cover the outstanding principal. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the type of project and the experience and resources of the developer. Consumer loans are made for the construction of residential homes for which a binding sales contract exists and generally are for a period of time sufficient to complete construction. Residential construction loans to individuals generally provide for the payment of interest only during the construction phase. Credit risk for residential real estate construction loans can arise from construction delays, cost overruns, failure of the contractor to complete the project to specifications and economic conditions that could impact demand for or supply of the property being constructed.

Other loans include unique risk attributes considered inconsistent with our current underwriting standards.

The ACL reserve for the Other segment is based on a discounted cash flow methodology and reserves will fluctuate based on expected cash flow changes in the future. These inconsistencies may include, but are not limited to i) transaction and/or

relationship sizes that exceed limits established in 2018, ii) overreliance on secondary, tertiary or guarantor cash flow, iii) land

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acquisition loans without a defined source of amortization, and iv) loan structures on operating lines of credit dependent on the value of real estate rather than trading assets. assets, and v) indirect liabilities of certain guarantees resulting from the nonpayment of financial obligations. Management continuously assesses underwriting standards, but significantly enhanced these standards in 2018.

Our model is based on our best estimate of facts known with the most current information. Certain portions of the CECL model are inherently subjective and include, but are not limited to estimates with respect to: prepayment speeds, the timing of prepayments, potential losses given default, discount rates and the timing of future cash flows. Management utilizes widely published economic forecasts as the basis for the regression analysis used to estimate the probability of default in the baseline model. The peaks and troughs of these forecasts serve as guardrails for potential subjective adjustments. In addition to considering the outcomes based on the range of forecasts, management recognizes that the assumptions used in economic forecasts may not perfectly align with our market area, risk profile or unique attributes of our portfolio along with other important considerations. Severe changes in forecasts can also create significant variability and management must assess not only the absolute balance of reserves but also consider the appropriateness of the velocity of change. Therefore, management developed a framework to assess the tolerance and reasonableness of the CECL modeling process by challenging certain elements of the forecasts, when appropriate. These outcomes, known as "challenger models," provide opportunities to examine and subjectively adjust the CECL model output and are designed to be counter cyclical, thereby reducing variability.

Credit Quality Indicators:

The Company’s portfolio grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Company’s internal credit risk grading system is based on debt service coverage, collateral values and other subjective factors. Mortgage and consumer loans are defaulted to a pass grade until a loan migrates to past due status.

The Company has a loan review policy and annual scope report that details the level of loan review for loans in a given year. The annual loan review provides the Credit Risk Committee with an independent analysis of the following: 1) credit quality of the loan portfolio, 2) compliance with the loan policy, 3) adequacy of documentation in credit files and 4) validity of risk ratings. Since 2020 and throughout 2022, continuing through 2023, the Company used a five step approach for loan review in the following categories:

- Individual reviews of the top twenty large loan relationships (“LLRs”), which are defined as any individual commercial loan or aggregate commercial relationship totaling $2.0 million or more;
- A sampling of small LLRs, which are defined as individual commercial loans or relationships with aggregate exposure of $2.0 million or more but not included in the top twenty LLRs;
- A sampling review of Credit Risk Committee modifications, including new and existing loans to provide perspective on the appropriateness of the modification in relation to established policies and procedures;
- A sampling review of non-organic commercial loans and those commercial loans approved outside of the Credit Risk Committee; and
- Focus reviews of office and land development to evaluate segment risk rather than individual loan risk. Focus reviews are performed annually on a rotational basis.

The Company’s internally assigned grades are as follows:

Pass – The Company uses six grades of pass, including its watch rating. Generally, a pass rating indicates that the loan is currently performing and is of high quality.

Special Mention – Assets with potential weaknesses that warrant management’s close attention and if left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date.

Substandard – Assets that are inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Assets so classified have a well-defined weakness, or weaknesses that jeopardize the

liquidation of the debt. Such assets are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful – Assets with all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently known facts, conditions, and values, highly questionable and improbable.

Loss – Assets considered of such little value that its continuance on the books is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be affected in the future.

The ability of borrowers to repay commercial loans is dependent upon the success of their business and general economic conditions. Due to the greater potential for loss within our commercial portfolio, we monitor the commercial loan portfolio through an internal risk rating system. Loan risk ratings are assigned based upon the creditworthiness of the borrower and are reviewed on an ongoing basis according to our internal policies. Loans rated special mention or substandard have potential or well-defined weaknesses not generally found in high quality, performing loans, and require attention from management to limit loss.

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The following table presents loan balances by year of origination and internally assigned risk rating for our portfolio segments as of December 31:

					Risk Rating													
					Risk Rating													
					Risk Rating													
					Risk Rating													
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Total Portfolio Loans	(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans

Commercial Real Estate	Commercial Real Estate								
Pass									
Pass									
Pass	Pass	$418,939	$186,226	$139,148	$130,521	$215,498	$335,659	$ 31,349	$1,457,340
Special Mention	Special Mention	—	218	—	—	9,919	659	—	10,796
Substandard	Substandard	—	—	—	—	2,105	321	—	2,426
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Commercial Real Estate	**Total Commercial Real Estate**	**$418,939**	**$186,444**	**$139,148**	**$130,521**	**$227,522**	**$336,639**	**$ 31,349**	**$1,470,562**
YTD Gross Charge-offs	YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial and Industrial	Commercial and Industrial								
Commercial and Industrial									
Commercial and Industrial									
Pass									
Pass									
Pass	Pass	$ 23,104	$ 47,137	$ 35,819	$ 9,022	$ 10,639	$154,473	$ 23,699	$ 303,893
Special Mention	Special Mention	—	—	2,887	—	—	—	—	2,887
Substandard	Substandard	—	56	—	18	97	2,800	41	3,012
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Commercial and Industrial	**Total Commercial and Industrial**	**$ 23,104**	**$ 47,193**	**$ 38,706**	**$ 9,040**	**$ 10,736**	**$157,273**	**$ 23,740**	**$ 309,792**
YTD Gross Charge-offs	YTD Gross Charge-offs	3,432	—	—	—	4	—	—	3,436
Residential Mortgages	Residential Mortgages								
Residential Mortgages									
Residential Mortgages									
Pass									
Pass									
Pass	Pass	$200,725	$184,718	$ 81,446	$ 50,770	$ 70,659	$ 39,411	$ 25,315	$ 653,044
Special Mention	Special Mention	—	—	—	—	429	520	34	983
Substandard	Substandard	—	1,212	—	865	444	1,400	—	3,921
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Residential Mortgages	**Total Residential Mortgages**	**$200,725**	**$185,930**	**$ 81,446**	**$ 51,635**	**$ 71,532**	**$ 41,331**	**$ 25,349**	**$ 657,948**
YTD Gross Charge-offs	YTD Gross Charge-offs	—	—	—	—	22	24	—	46
Other Consumer	Other Consumer								
Other Consumer									
Other Consumer									
Pass									
Pass									
Pass	Pass	$ 24,100	$ 10,006	$ 7,323	$ 1,999	$ 512	$ 256	$ 299	$ 44,495

Special Mention	Special Mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	45	1	—	1	20	—	67
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Other Consumer	**Total Other Consumer**	**$ 24,100**	**$ 10,051**	**$ 7,324**	**$ 1,999**	**$ 513**	**$ 276**	**$ 299**	**$ 44,562**
YTD Gross Charge-offs	YTD Gross Charge-offs	280	625	254	358	39	121	—	1,677
Construction	Construction								
Construction									
Construction									
Pass									
Pass									
Pass	Pass	$149,535	$117,466	$ 41,808	$ 4,938	$ 25,523	$ 7,190	$ 6,056	$ 352,516
Special Mention	Special Mention	—	—	—	—	—	69	—	69
Substandard	Substandard	—	—	—	—	92	876	—	968
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Construction	**Total Construction**	**$149,535**	**$117,466**	**$ 41,808**	**$ 4,938**	**$ 25,615**	**$ 8,135**	**$ 6,056**	**$ 353,553**
YTD Gross Charge-offs	YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Other	Other								
Other									
Other									
Pass									
Pass									
Pass	Pass	$ —	$ —	$ —	$ —	$ —	$180,745	$ —	$ 180,745
Special Mention	Special Mention	—	—	—	—	—	—	—	—
Substandard	Substandard	—	—	—	—	74,050	57,701	—	131,751
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Other Loans	**Total Other Loans**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 74,050**	**$238,446**	**$ —**	**$ 312,496**
YTD Gross Charge-offs	YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total Portfolio Loans	Total Portfolio Loans								
Total Portfolio Loans									
Total Portfolio Loans									
Pass									
Pass									
Pass	Pass	$816,403	$545,553	$305,544	$197,250	$322,831	$717,734	$ 86,718	$2,992,033
Special Mention	Special Mention	—	218	2,887	—	10,348	1,248	34	14,735
Substandard	Substandard	—	1,313	1	883	76,789	63,118	41	142,145
Doubtful	Doubtful	—	—	—	—	—	—	—	—
Total Portfolio Loans	**Total Portfolio Loans**	**$816,403**	**$547,084**	**$308,432**	**$198,133**	**$409,968**	**$782,100**	**$ 86,793**	**$3,148,913**
Current YTD Period:	Current YTD Period:								
YTD Gross Charge-offs	**YTD Gross Charge-offs**	**$ 3,712**	**$ 625**	**$ 254**	**$ 358**	**$ 65**	**$ 145**	**$ —**	**$ 5,159**

YTD Gross Charge-offs

YTD Gross Charge-offs

	Risk Rating							
(Dollars in Thousands)	**2021**	**2020**	**2019**	**2018**	**2017**	**2016 and Prior**	**Revolving**	**Total Portfolio Loans**
Commercial Real Estate								
Pass	$ 195,441	$ 165,100	$ 215,575	$ 292,857	$ 115,024	$ 292,197	$ 38,382	$ 1,314,576
Special Mention	229	—	—	—	4,205	826	—	5,260
Substandard	—	—	314	2,742	215	145	—	3,416
Doubtful	—	—	—	—	—	—	—	—
Total Commercial Real Estate	**$ 195,670**	**$ 165,100**	**$ 215,889**	**$ 295,599**	**$ 119,444**	**$ 293,168**	**$ 38,382**	**$ 1,323,252**
YTD Gross Charge-offs	—	—	10,471	1,424	6,577	1,190	—	19,662
Commercial and Industrial								
Pass	$ 55,173	$ 50,087	$ 15,648	$ 38,298	$ 23,575	$ 150,656	$ 3,857	$ 337,294
Special Mention	—	—	—	8	—	—	—	8
Substandard	14	—	308	4,815	2,798	—	139	8,074
Doubtful	—	—	—	—	—	—	—	—
Total Commercial and Industrial	**$ 55,187**	**$ 50,087**	**$ 15,956**	**$ 43,121**	**$ 26,373**	**$ 150,656**	**$ 3,996**	**$ 345,376**
YTD Gross Charge-offs	—	109	261	3	—	1	—	374
Residential Mortgages								
Pass	$ 155,892	$ 91,023	$ 63,682	$ 73,333	$ 8,640	$ 48,087	$ 13,237	$ 453,894
Special Mention	—	—	—	—	—	553	—	553
Substandard	—	—	1,008	743	188	1,602	—	3,541
Doubtful	—	—	—	—	—	—	—	—
Total Residential Mortgages	**$ 155,892**	**$ 91,023**	**$ 64,690**	**$ 74,076**	**$ 8,828**	**$ 50,242**	**$ 13,237**	**$ 457,988**
YTD Gross Charge-offs	—	—	—	172	—	101	—	273
Other Consumer								
Pass	$ 9,353	$ 10,199	$ 979	$ 450	$ 186	$ 23,048	$ 339	$ 44,554
Special Mention	—	—	—	—	—	—	—	—
Substandard	11	3	11	57	30	—	—	112
Doubtful	—	—	—	—	—	—	—	—
Total Other Consumer	**$ 9,364**	**$ 10,202**	**$ 990**	**$ 507**	**$ 216**	**$ 23,048**	**$ 339**	**$ 44,666**
YTD Gross Charge-offs	152	661	905	247	170	121	—	2,256
Construction								
Pass	$ 140,639	$ 82,523	$ 24,336	$ 9,739	$ 5,328	$ 3,407	$ 15,269	$ 281,241
Special Mention	—	—	175	—	—	429	—	604
Substandard	—	107	809	95	—	91	—	1,102
Doubtful	—	—	—	—	—	—	—	—
Total Construction	**$ 140,639**	**$ 82,630**	**$ 25,320**	**$ 9,834**	**$ 5,328**	**$ 3,927**	**$ 15,269**	**$ 282,947**
YTD Gross Charge-offs	—	—	1,859	—	—	—	—	1,859
Other								
Pass	$ —	$ —	$ —	$ —	$ 122,848	$ 62,399	$ —	$ 185,247
Special Mention	—	—	—	—	—	3,281	—	3,281
Substandard	—	—	—	87,329	40,882	41,161	—	169,372

Doubtful	—	—	—	—	—	—	—	—
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ 87,329**	**$ 163,730**	**$ 106,841**	**$ —**	**$ 357,900**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total Portfolio Loans								
Pass	$ 556,498	$ 398,932	$ 320,220	$ 414,677	$ 275,601	$ 579,794	$ 71,084	$ 2,616,806
Special Mention	229	—	175	8	4,205	5,089	—	9,706
Substandard	25	110	2,450	95,781	44,113	42,999	139	185,617
Doubtful	—	—	—	—	—	—	—	—
Total Portfolio Loans	**$ 556,752**	**$ 399,042**	**$ 322,845**	**$ 510,466**	**$ 323,919**	**$ 627,882**	**$ 71,223**	**$ 2,812,129**
Current YTD Period:								
YTD Gross Charge-offs	**$ 152**	**$ 770**	**$ 13,496**	**$ 1,846**	**$ 6,747**	**$ 1,413**	**$ —**	**$ 24,424**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

	Risk Rating							
(Dollars in Thousands)	**2022**	**2021**	**2020**	**2019**	**2018**	**2017 and Prior**	**Revolving**	**Total Portfolio Loans**
Commercial Real Estate								
Pass	$ 418,939	$ 186,226	$ 139,148	$ 130,521	$ 215,498	$ 335,659	$ 31,349	$ 1,457,340
Special Mention	—	218	—	—	9,919	659	—	10,796
Substandard	—	—	—	—	2,105	321	—	2,426
Total Commercial Real Estate	**$ 418,939**	**$ 186,444**	**$ 139,148**	**$ 130,521**	**$ 227,522**	**$ 336,639**	**$ 31,349**	**$ 1,470,562**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial and Industrial								
Pass	$ 23,104	$ 47,137	$ 35,819	$ 9,022	$ 10,639	$ 154,473	$ 23,699	$ 303,893
Special Mention	—	—	2,887	—	—	—	—	2,887
Substandard	—	56	—	18	97	2,800	41	3,012
Total Commercial and Industrial	**$ 23,104**	**$ 47,193**	**$ 38,706**	**$ 9,040**	**$ 10,736**	**$ 157,273**	**$ 23,740**	**$ 309,792**
YTD Gross Charge-offs	3,432	—	—	—	4	—	—	3,436
Residential Mortgages								
Pass	$ 200,725	$ 184,718	$ 81,446	$ 50,770	$ 70,659	$ 39,411	$ 25,315	$ 653,044
Special Mention	—	—	—	—	429	520	34	983
Substandard	—	1,212	—	865	444	1,400	—	3,921
Total Residential Mortgages	**$ 200,725**	**$ 185,930**	**$ 81,446**	**$ 51,635**	**$ 71,532**	**$ 41,331**	**$ 25,349**	**$ 657,948**
YTD Gross Charge-offs	—	—	—	—	22	24	—	46
Other Consumer								
Pass	$ 24,100	$ 10,006	$ 7,323	$ 1,999	$ 512	$ 256	$ 299	$ 44,495
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	45	1	—	1	20	—	67
Total Other Consumer	**$ 24,100**	**$ 10,051**	**$ 7,324**	**$ 1,999**	**$ 513**	**$ 276**	**$ 299**	**$ 44,562**
YTD Gross Charge-offs	280	625	254	358	39	121	—	1,677
Construction								
Pass	$ 149,535	$ 117,466	$ 41,808	$ 4,938	$ 25,523	$ 7,190	$ 6,056	$ 352,516
Special Mention	—	—	—	—	—	69	—	69
Substandard	—	—	—	—	92	876	—	968
Total Construction	**$ 149,535**	**$ 117,466**	**$ 41,808**	**$ 4,938**	**$ 25,615**	**$ 8,135**	**$ 6,056**	**$ 353,553**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Other								
Pass	$ —	$ —	$ —	$ —	$ —	$ 180,745	$ —	$ 180,745

Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	74,050	57,701	—	131,751
Total Other Loans	**$ —**	**$ —**	**$ —**	**$ —**	**$ 74,050**	**$ 238,446**	**$ —**	**$ 312,496**
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total Portfolio Loans								
Pass	$ 816,403	$ 545,553	$ 305,544	$ 197,250	$ 322,831	$ 717,734	$ 86,718	$ 2,992,033
Special Mention	—	218	2,887	—	10,348	1,248	34	14,735
Substandard	—	1,313	1	883	76,789	63,118	41	142,145
Total Portfolio Loans	**$ 816,403**	**$ 547,084**	**$ 308,432**	**$ 198,133**	**$ 409,968**	**$ 782,100**	**$ 86,793**	**$ 3,148,913**
Current YTD Period:								
YTD Gross Charge-offs	**$ 3,712**	**$ 625**	**$ 254**	**$ 358**	**$ 65**	**$ 145**	**$ —**	**$ 5,159**

At December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, the Company had no loans that were risk rated as doubtful. Special mention and substandard loans at December 31, 2022 decreased $38.4 million December 31, 2023 increased $156.5 million to $156.9 million $313.3 million compared to $195.3 million at December 31, 2021 December 31, 2022, with an increase of $5.0 million $167.5 million in special mention substandard and a decrease of $43.4 million in substandard. The largest variance $11.0 million in special mention was related to a CRE project totaling $9.9 million that was downgraded and yet to be stabilized offset by the payment in full on two CRE projects totaling $6.0 million and an upgraded credit to pass status in the amount mention. The increase of $1.5 million. In addition to CRE, the Company downgraded a syndicated C&I loan totaling $2.9 million. The decrease $167.5 million in substandard loans is primarily related to the Other above mentioned large nonaccrual lending relationship in the other loan category. The $301.9 million of loans related to the Bank's largest lending relationship were nonperforming and rated as substandard at December 31, 2023. At December 31, 2022 the largest lending relationship in the other segment loans were all accruing and totaled $309.1 million of which, $177.3 million of those loans were pass-rated and $131.8 million of those loans were substandard-rated. The decrease of $11.0 million in special mention is primarily due to principal paydowns during 2022. the upgrade of a CRE credit totaling $9.9 million to a pass rating.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

The following table presents loan balances by year of origination and performing and nonperforming status for our portfolio segments as of December 31:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	2019	2018	2017 and Prior	Revolving	Total Portfolio Loans				
(Dollars in Thousands)													
(Dollars in Thousands)											**2023**	**2022**	**2021**
Commercial Real Estate	Commercial Real Estate												
Performing													
Performing													
Performing	Performing	$418,939	$186,444	$139,148	$130,521	$225,416	$336,441	$ 31,349	$1,468,258		$259,171	$ 434,639	$ 173,873 $ 142
Nonperforming	Nonperforming	—	—	—	—	2,106	198	—	2,304	Nonperforming			—
Total Commercial Real Estate	**Total Commercial Real Estate**	**$418,939**	**$186,444**	**$139,148**	**$130,521**	**$227,522**	**$336,639**	**$ 31,349**	**$1,470,562**	**Total Commercial Real Estate**	**$ 259,171**	**$ 434,639**	**$ 173,873 $**
Commercial and Industrial	Commercial and Industrial												
Performing	Performing	$ 23,104	$ 47,147	$ 38,706	$ 9,022	$ 10,639	$157,271	$ 23,699	$ 309,588				
Performing													
Performing											$ 24,863	$ 18,061	$ 37,566
Nonperforming	Nonperforming	—	46	—	18	97	2	41	204	Nonperforming		—	18
Total Commercial and Industrial	**Total Commercial and Industrial**	**$ 23,104**	**$ 47,193**	**$ 38,706**	**$ 9,040**	**$ 10,736**	**$157,273**	**$ 23,740**	**$ 309,792**	**Total Commercial and Industrial**	**$ 24,863**	**$ 18,061**	**$ 37,566 $**

Residential Mortgages	Residential Mortgages													
Performing														
Performing														
Performing	Performing	$200,725	$184,718	$ 81,446	$ 50,770	$ 71,313	$ 40,362	$ 25,349	$ 654,683		$ 79,247	$ 250,603	$ 194,014	$ 77
Nonperforming	Nonperforming	—	1,212	—	865	219	969	—	3,265	Nonperforming	—	1,142	—	
Total Residential Mortgages	**Total Residential Mortgages**	**$200,725**	**$185,930**	**$ 81,446**	**$ 51,635**	**$ 71,532**	**$ 41,331**	**$ 25,349**	**$ 657,948**	**Total Residential Mortgages**	**$ 79,247**	**$ 250,603**	**$ 195,156**	**$**
Other Consumer	Other Consumer													
Performing	Performing	$ 24,100	$ 10,045	$ 7,323	$ 1,999	$ 512	$ 276	$ 299	$ 44,554					
Performing														
Performing											$ 22,809	$ 4,494	$ 2,412	
Nonperforming	Nonperforming	—	6	1	—	1	—	—	8	Nonperforming	14	6	39	
Total Other Consumer	**Total Other Consumer**	**$ 24,100**	**$ 10,051**	**$ 7,324**	**$ 1,999**	**$ 513**	**$ 276**	**$ 299**	**$ 44,562**	**Total Other Consumer**	**$ 22,823**	**$ 4,500**	**$ 2,451**	**$**
Construction	Construction													
Performing														
Performing														
Performing	Performing	$149,535	$117,466	$ 41,808	$ 4,938	$ 25,615	$ 7,271	$ 6,056	$ 352,689		$118,120	$ 162,858	$ 122,087	$ 10
Nonperforming	Nonperforming	—	—	—	—	—	864	—	864	Nonperforming		—	2,090	
Total Construction	**Total Construction**	**$149,535**	**$117,466**	**$ 41,808**	**$ 4,938**	**$ 25,615**	**$ 8,135**	**$ 6,056**	**$ 353,553**	**Total Construction**	**$ 118,120**	**$ 162,858**	**$ 122,087**	**$**
Other	Other													
Performing	Performing	$ —	$ —	$ —	$ —	$ 74,050	$238,446	$ —	$ 312,496					
Performing														
Performing											$ —	$ —	$ —	
Nonperforming	Nonperforming	—	—	—		—	—	—	—	Nonperforming			—	
Total Other Loans	**Total Other Loans**	**$ —**	**$ —**	**$ —**	**$ —**	**$ 74,050**	**$238,446**	**$ —**	**$ 312,496**	**Loans**	**$ —**	**$ —**	**$ —**	**$**
Total Portfolio Loans	Total Portfolio Loans													
Performing	Performing	$816,403	$545,820	$308,431	$197,250	$407,545	$780,067	$ 86,752	$3,142,268					
Performing														
Performing											$504,210	$870,655	$529,952	
Nonperforming	Nonperforming	—	1,264	1	883	2,423	2,033	41	6,645	Nonperforming	14	6	1,181	
Total Portfolio Loans	**Total Portfolio Loans**	**$816,403**	**$547,084**	**$308,432**	**$198,133**	**$409,968**	**$782,100**	**$ 86,793**	**$3,148,913**	**Total Portfolio Loans**	**$ 504,224**	**$ 870,661**	**$ 531,133**	**$**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

(Dollars in Thousands)	**(Dollars in Thousands)**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016 and Prior**	**Revolving**	**Total Portfolio Loans**			
(Dollars in Thousands)												
(Dollars in Thousands)										**2022**	**2021**	**2020**
Commercial Real Estate	Commercial Real Estate											
Performing												

Performing														
Performing	Performing	$195,670	$165,100	$215,575	$292,857	$119,229	$293,102	$ 38,382	$1,319,915		$418,939	$ 186,444	$ 139,148	$ 130,521
Nonperforming	Nonperforming	—	—	314	2,742	215	66	—	3,337	Nonperforming			—	
Total Commercial Real Estate	**Total Commercial Real Estate**	**$195,670**	**$165,100**	**$215,889**	**$295,599**	**$119,444**	**$293,168**	**$ 38,382**	**$1,323,252**	**Total Commercial Real Estate**	**$ 418,939**	**$ 186,444**	**$ 139,148**	**$ 1**
Commercial and Industrial	Commercial and Industrial													
Performing	Performing	$ 55,187	$ 50,087	$ 15,648	$ 43,117	$ 26,373	$150,656	$ 3,857	$ 344,925					
Performing														
Performing												$ 23,104	$ 47,147	$ 38,706
Nonperforming	Nonperforming	—	—	308	4	—	—	139	451	Nonperforming	—	46	—	
Total Commercial and Industrial	**Total Commercial and Industrial**	**$ 55,187**	**$ 50,087**	**$ 15,956**	**$ 43,121**	**$ 26,373**	**$150,656**	**$ 3,996**	**$ 345,376**	**Total Commercial and Industrial**	**$ 23,104**	**$ 47,193**	**$ 38,706**	**$**
Residential Mortgages	Residential Mortgages													
Performing														
Performing														
Performing	Performing	$155,892	$ 91,023	$ 63,682	$ 73,564	$ 8,640	$ 49,399	$ 13,237	$ 455,437		$200,725	$ 184,718	$ 81,446	$ 50,770
Nonperforming	Nonperforming	—	—	1,008	512	188	843	—	2,551	Nonperforming	—	1,212	—	
Total Residential Mortgages	**Total Residential Mortgages**	**$155,892**	**$ 91,023**	**$ 64,690**	**$ 74,076**	**$ 8,828**	**$ 50,242**	**$ 13,237**	**$ 457,988**	**Total Residential Mortgages**	**$ 200,725**	**$ 185,930**	**$ 81,446**	**$**
Other Consumer	Other Consumer													
Performing	Performing	$ 9,364	$ 10,202	$ 979	$ 450	$ 211	$ 23,048	$ 339	$ 44,593					
Performing														
Performing												$ 24,100	$ 10,045	$ 7,323
Nonperforming	Nonperforming	—	—	11	57	5	—	—	73	Nonperforming	—	6	1	
Total Other Consumer	**Total Other Consumer**	**$ 9,364**	**$ 10,202**	**$ 990**	**$ 507**	**$ 216**	**$ 23,048**	**$ 339**	**$ 44,666**	**Total Other Consumer**	**$ 24,100**	**$ 10,051**	**$ 7,324**	**$**
Construction	Construction													
Performing														
Performing														
Performing	Performing	$140,639	$ 82,523	$ 24,511	$ 9,834	$ 5,328	$ 3,858	$ 15,269	$ 281,962		$149,535	$ 117,466	$ 41,808	$ 4,938
Nonperforming	Nonperforming	—	107	809	—	—	69	—	985	Nonperforming				—
Total Construction	**Total Construction**	**$140,639**	**$ 82,630**	**$ 25,320**	**$ 9,834**	**$ 5,328**	**$ 3,927**	**$ 15,269**	**$ 282,947**	**Total Construction**	**$ 149,535**	**$ 117,466**	**$ 41,808**	**$**
Other	Other													
Performing	Performing	$ —	$ —	$ —	$ 87,329	$163,730	$106,841	$ —	$ 357,900					
Performing														
Performing												$ —	$ —	$ —
Nonperforming	Nonperforming	—	—	—		—	—	—	—	Nonperforming		—		
Total Other Loans	**Total Other Loans**	**$ —**	**$ —**	**$ —**	**$ 87,329**	**$163,730**	**$106,841**	**$ —**	**$ 357,900**	**Total Other Loans**	**$ —**	**$ —**	**$ —**	**$**
Total Portfolio Loans	Total Portfolio Loans													
Performing	Performing	$556,752	$398,935	$320,395	$507,151	$323,511	$626,904	$ 71,084	$2,804,732					
Performing														
Performing												$816,403	$545,820	$308,431
Nonperforming	Nonperforming	—	107	2,450	3,315	408	978	139	7,397	Nonperforming	—	1,264	1	
Total Portfolio Loans	**Total Portfolio Loans**	**$556,752**	**$399,042**	**$322,845**	**$510,466**	**$323,919**	**$627,882**	**$ 71,223**	**$2,812,129**	**Total Portfolio Loans**	**$ 816,403**	**$ 547,084**	**$ 308,432**	**$ 1**

Age Analysis of Past-Due Loans by Class

The following tables include an aging analysis of the recorded investment of past-due portfolio loans as the periods presented:

		December 31, 2022					
		December 31, 2023					
(Dollars in Thousands)	(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans
Commercial Real Estate	Commercial Real Estate	$1,468,154	$ 104	$ —	$ 104	$ 2,304	$1,470,562
Commercial & Industrial	Commercial & Industrial	309,305	274	9	283	204	309,792
Residential Mortgages	Residential Mortgages	654,238	445	—	445	3,265	657,948
Other Consumer	Other Consumer	44,013	337	204	541	8	44,562
Construction	Construction	349,225	1,321	2,143	3,464	864	353,553
Other	Other	312,496	—	—	—	—	312,496
Total	**Total**	**$3,137,431**	**$2,481**	**$2,356**	**$4,837**	**$ 6,645**	**$3,148,913**

	December 31, 2023						
(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Past Due 90+ Days Still Accruing	Nonaccrual Loans	Total Portfolio Loans

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		December 31, 2021					
		December 31, 2022					
(Dollars in Thousands)	(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans
Commercial Real Estate	Commercial Real Estate	$1,319,686	$ 229	$ —	$ 229	$ 3,337	$1,323,252
Commercial & Industrial	Commercial & Industrial	344,628	80	217	297	451	345,376
Residential Mortgages	Residential Mortgages	454,754	683	—	683	2,551	457,988
Other Consumer	Other Consumer	44,132	367	94	461	73	44,666
Construction	Construction	281,962	—	—	—	985	282,947
Other	Other	357,900	—	—	—	—	357,900
Total	**Total**	**$2,803,062**	**$1,359**	**$ 311**	**$1,670**	**$ 7,397**	**$2,812,129**

	December 31, 2022					
(Dollars in Thousands)	Current Loans	Loans 30-59 Days Past Due	Loans 60-89 Days Past Due	Total 30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans

Loans past due 90 days or more and still accruing were zero at December 31, 2022 December 31, 2023 and 2021. 2022. Loans past due 90 days are automatically transferred to nonaccrual status. Loans past due 30 to 89 days or more and still accruing increased $3.2 million $1.2 million to $6.0 million at December 31, 2023 compared to $4.8 million at December 31, 2022 compared to $1.7 million at December 31, 2021, primarily in the construction residential mortgage segment due to two relationships with an aggregate principal balance of $2.9 million.

There were no nonaccrual or past due loans related to loans held-for-sale as of December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively.

The following table presents loans on nonaccrual status and loans past due 90 days or more and still accruing by portfolio segment of loan as of December 31, 2022 December 31, 2023. For the twelve months ended December 31, 2022, the amount of interest income on nonaccrual loans was immaterial. There were no loans at December 31, 2022 December 31, 2023 that were past due more than 90 days and still accruing.

As of and for the December 31, 2022

(Dollars in Thousands)	Beginning of Period Nonaccrual	End of Period Nonaccrual	Nonaccrual With No Related Allowance	Past Due 90+ Days Still Accruing
Commercial Real Estate	$ 3,337	$ 2,304	$ —	$ —
Commercial and Industrial	451	204	—	—
Residential Mortgages	2,551	3,265	—	—
Other Consumer	73	8	—	—
Construction	985	864	—	—
Other	—	—	—	—
Total Portfolio Loans	**$ 7,397**	**$ 6,645**	**$ —**	**$ —**

		As of and for the December 31, 2021												
		As of and for the year ended December 31, 2023					As of and for the year ended December 31, 2023						As of and for the year ended December 31, 2022	
(Dollars in Thousands)	(Dollars in Thousands)	Beginning of Period Nonaccrual	End of Period Nonaccrual	Nonaccrual With No Related Allowance	Past Due 90+ Days Still Accruing	(Dollars in Thousands)	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	Past Due 90+ Days Still Accruing	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	Past Due 90+ Days Still Accruing
Commercial Real Estate	Commercial Real Estate	$ 21,891	$ 3,337	$ —	$ —									
Commercial and Industrial	Commercial and Industrial	456	451	—	—									
Residential Mortgages	Residential Mortgages	4,135	2,551	—	—									
Other Consumer	Other Consumer	184	73	—	—									
Construction	Construction	5,331	985	808	—									
Other	Other	—	—	—	—									
Total Portfolio Loans	**Total Portfolio Loans**	**$ 31,997**	**$ 7,397**	**$ 808**	**$ —**									

A loan is considered nonperforming when we transfer the loan interest methodology from accrual to nonaccrual. Nonaccrual status recognizes that the collection in full of both principal and interest is unlikely. Without applying additional scrutiny at a granular level, we believe delinquency to be a leading indicator with respect to the likelihood of collection in full of both principal and interest. Accordingly, we automatically transfer loans to nonaccrual status. A loan is considered nonaccrual when the loan is status if they are 90 days or more days' delinquent. It is also possible that management will Management reserves the right to exercise discretion at the individual loan level. For example, we may elect to transfer a loan to nonaccrual before it is 90 days past due under certain circumstances regardless of the delinquency status if there is a probability that we will not collect all believe the collection in full of both principal and interest due under the contractual terms of to be unlikely. We may also elect to retain a loan that is 90 or more days' delinquent in accrual status if we believe the loan agreement. Loans experiencing financial difficulty that are considered restructured is well secured and in the process of collection. Nonaccrual loans, and nonaccrual loans with a that have been characterized as Restructured Loans may be individually evaluated for credit losses in the Allowance for Credit Losses model if the loan commitment of is $1.0 million or more are individually evaluated for potential credit losses. greater and/or based on management's discretion; unless we elect to maintain the loan in the general pool. During the years ended December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively, no material amount of interest income was recognized on nonperforming loans subsequent to their classification as nonperforming loans.

The following table presents the amortized cost basis of collateral-dependent individually evaluated loans as of December 31. the periods presented. Changes in the fair value of the types of collateral and discounted cash flow modeling for individually evaluated loans, as applicable, are reported as provision for credit loss on loans in the period of change.

	December 31, 2022	December 31, 2021
(Dollars in Thousands)	Real Estate	Real Estate
Commercial Real Estate	$ 2,106	2,742

Commercial and Industrial	—	—
Residential Mortgages	1,212	—
Other Consumer	—	—
Construction	—	808
Other	—	—
Total	**$ 3,318**	**3,550**

The following tables presents the average investment in impaired loans and the interest income recognized at December 31, 2020.

	December 31, 2020	
(Dollars in Thousands)	**Average Investment in Impaired Loans**	**Interest Income Recognized**
Loans without a Specific Valuation Allowance:		
Commercial Real Estate	$ 4,201	$ 128
Construction	56,941	1,871
Residential Mortgages	51,716	1,906
Loans with a Specific Valuation Allowance:		
Commercial Real Estate	27,780	163
Commercial and Industrial	184	—
Construction	1,739	—
Total by Category:		
Commercial Real Estate	31,981	291
Commercial and Industrial	184	—
Construction	58,680	1,871
Residential Mortgages	51,716	1,906
Total Impaired Loans	**$ 142,561**	**$ 4,068**

	December 31, 2023			December 31, 2022
(Dollars in Thousands)	**Fair Value - Real Estate**	**Discounted Cash Flow**	**Total**	**Fair Value - Real Estate**
Commercial Real Estate	$ 453	$ —	$ 453	2,106
Commercial and Industrial	—	—	—	—
Residential Mortgages	1,142	—	1,142	1,212
Other Consumer	—	—	—	—
Construction	2,898	—	2,898	—
Other	—	301,913	301,913	—
Total	**$ 4,493**	**$ 301,913**	**$ 306,406**	**3,318**

The following tables presents activity in the ACL and ALL for the periods presented:

		December 31, 2022														December 31, 2023
		December 31, 2023														
(Dollars in Thousands)	**(Dollars in Thousands)**	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other**	**Total**	**(Dollars in Thousands)**	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other**	**Total**
Allowance for Credit Losses on Loans:	Allowance for Credit Losses on Loans:															
Balance, Beginning of Year	Balance, Beginning of Year	$ 17,297	$ 4,111	$ 4,368	$ 1,493	$ 6,939	$61,731	$95,939								
Balance, Beginning of Year																
Balance, Beginning of Year																
Provision (Recovery) for Credit Losses on Loans																

Provision (Recovery) for Credit Losses on Loans

Provision (Recovery) for Credit Losses on Loans	Provision (Recovery) for Credit Losses on Loans	695	3,304	4,470	1,109	(146)	(7,013)	2,419
Charge-offs	Charge-offs	—	(3,436)	(46)	(1,677)	—	—	(5,159)
Recoveries	Recoveries	—	1	99	404	149	—	653
Net (Charge-offs) / Recoveries	**Net (Charge-offs) / Recoveries**	**—**	**(3,435)**	**53**	**(1,273)**	**149**	**—**	**(4,506)**
Balance, End of Year	**Balance, End of Year**	**$ 17,992**	**$ 3,980**	**$ 8,891**	**$ 1,329**	**$ 6,942**	**$54,718**	**$93,852**

	December 31, 2022						
(Dollars in Thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other**	**Total**
Allowance for Credit Losses on Loans:							
Balance, Beginning of Year	$ 17,297	$ 4,111	$ 4,368	$ 1,493	$ 6,939	$ 61,731	$ 95,939
Provision (Recovery) for Credit Losses on Loans	695	3,304	4,470	1,109	(146)	(7,013)	2,419
Charge-offs	—	(3,436)	(46)	(1,677)	—	—	(5,159)
Recoveries	—	1	99	404	149	—	653
Net (Charge-offs) / Recoveries	**—**	**(3,435)**	**53**	**(1,273)**	**$ 149**	**—**	**(4,506)**
Balance, End of Year	**$ 17,992**	**$ 3,980**	**$ 8,891**	**$ 1,329**	**$ 6,942**	**$ 54,718**	**$ 93,852**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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December 31, 2021

		December 31, 2021						
(Dollars in Thousands)	**(Dollars in Thousands)**	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other(1)**	**Total**
Allowance for Credit Losses on Loans:	Allowance for Credit Losses on Loans:							
Balance, Beginning of Year								
Balance, Beginning of Year								
Balance, Beginning of Year	Balance, Beginning of Year	$ 36,428	$ 5,064	$ 2,099	$ 2,479	$ 8,004	$ —	$54,074
Impact of CECL Adoption	Impact of CECL Adoption	6,587	1,379	3,356	(877)	(80)	51,277	61,642
(Recovery) Provision for Credit Losses on Loans	(Recovery) Provision for Credit Losses on Loans	(6,215)	(2,249)	(982)	1,561	781	10,454	3,350
Charge-offs	Charge-offs	(19,662)	(374)	(273)	(2,256)	(1,859)	—	(24,424)
Recoveries	Recoveries	159	291	168	586	93	—	1,297

							December 31, 2021
(Dollars in Thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Other(1)**	**Total**

Net (Charge-offs) / Recoveries	**Net (Charge-offs) / Recoveries**	**(19,503)**	**(83)**	**(105)**	**(1,670)**	**$ (1766)**	**—**	**(23,127)**
Balance, End of Year	**Balance, End of Year**	**$ 17,297**	**$ 4,111**	**$ 4,368**	**$ 1,493**	**$ 6,939**	**$61,731**	**$95,939**

(1) In connection with our adoption of Topic 326, we made changes to our loan portfolio segments to align with the methodology applied in determining the allowance under CECL. Our new segmentation breaks out Other loans from our original loan segments: CRE, C&I, residential mortgages and construction. The allowance balance at the beginning of period was reclassified to Other from their original loan segments: CRE, C&I, residential mortgages and construction to conform to current presentation.

	December 31, 2020					
(Dollars in Thousands)	**Commercial Real Estate**	**Commercial & Industrial**	**Residential Mortgages**	**Other Consumer**	**Construction**	**Total**
Balance, Beginning of Year	$ 24,706	$ 3,601	$ 1,736	$ 3,299	$ 5,420	$ 38,762
Provision for Loan Losses	11,055	1,527	594	2,434	2,396	18,006
Charge-offs	(40)	(66)	(258)	(3,991)	—	(4,355)
Recoveries	707	2	27	737	188	1,661
Net Recoveries / (Charge-offs)	**667**	**(64)**	**(231)**	**(3,254)**	**188**	**(2,694)**
Balance, End of Year	**$ 36,428**	**$ 5,064**	**$ 2,099**	**$ 2,479**	**$ 8,004**	**$ 54,074**

The adoption of Topic 326 resulted in an increase to our ACL of $61.6 million on January 1, 2021. The Day 1 model introduced a segmented pool of loans for discrete analysis. This segmented pool had an aggregate principal balance of $379.9 million at January 1, 2021, the initial break-out, and included unique risk attributes considered inconsistent with current underwriting standards. The analysis applied to this pool resulted in expected credit losses of $51.3 million, at adoption.

Our CECL methodology introduced a modified discounted cash flow methodology based on expected cash flow changes in the future for the Other segment. A significant population of the Other segment was not impaired under the probable incurred loss model and therefore not subject to a collateral dependent specific reserve analysis. For the population of the Other segment that was impaired under the incurred loss model, based on collateral values, the specific reserves totaled zero. Certain portions of the CECL model are inherently subjective and include, but are not limited to, estimates with respect to: prepayment speeds, the timing of prepayments, potential losses given default, discount rates and the timing of future cash flows. Management utilizes widely published economic forecasts as the basis for the regression analysis used to estimate the probability of default in the baseline model. The peaks and troughs of these forecasts serve as guardrails for potential subjective adjustments. In addition to considering the outcomes based on the range of forecasts, management recognizes that the assumptions used in economic forecasts may not perfectly align with our market area, risk profile or unique attributes of our portfolio along with other important considerations. Severe changes in forecasts can also create significant variability and management must assess not only the absolute balance of reserves but also consider the appropriateness of the velocity of change. Therefore, management developed a framework to assess the tolerance and reasonableness of the CECL modeling process by challenging certain elements of the forecasts, when appropriate. These outcomes, known as “challenger models,” provide opportunities to examine and subjectively adjust the CECL model output and are designed to be counter cyclical, thereby reducing variability. An expected credit loss of $51.3 million upon adoption was established based on the discounted cash flow method with a discount rate, which was quantitatively adjusted.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

NOTE 7 - FAIR VALUE MEASUREMENTS

The following tables present the Company’s financial assets and liabilities that are measured at fair value on a recurring basis by fair value hierarchy level at the dates presented:

		December 31, 2022								
		December 31, 2023							**December 31, 2023**	
(Dollars in Thousands)	**(Dollars in Thousands)**	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**	**(Dollars in Thousands)**	**Carrying Value**	**Quoted Prices In Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets	**Assets**									

Securities Available-for-Sale:	Securities Available-for-Sale:				
U.S. Treasury Securities		$ 17,866	$17,866	$ —	$ —
Securities Available-for-Sale:					
Securities Available-for-Sale:					
U.S. Government Agency Securities					
U.S. Government Agency Securities					
U.S. Government Agency Securities	U.S. Government Agency Securities	49,764	—	49,764	—
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	103,685	—	103,685	—
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	34,675	—	34,675	—
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	22,399	2,538	19,861	—
Asset Backed Securities	Asset Backed Securities	141,383	4,996	136,387	—
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	176,622	—	176,622	—
States and Political Subdivisions	States and Political Subdivisions	228,146	—	228,146	—
Corporate Notes	Corporate Notes	61,733	—	54,216	7,517
Total Securities Available-for-Sale	Total Securities Available-for-Sale	836,273	25,400	803,356	7,517
Derivatives	Derivatives	22,973	—	22,973	—
Total	**Total**	**$ 859,246**	**$ 25,400**	**$ 826,329**	**$ 7,517**
Liabilities	**Liabilities**				
Liabilities					
Liabilities					
Derivatives					
Derivatives					
Derivatives	Derivatives	$ 22,542	$ —	$ 22,542	$ —
Total	**Total**	**$ 22,542**	**$ —**	**$ 22,542**	**$ —**

December 31, 2021

December 31, 2022 **December 31, 2022**

(Dollars in Thousands)	(Dollars in Thousands)	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	(Dollars in Thousands)	Carrying Value	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets	**Assets**									
Securities Available-for-Sale:	Securities Available-for-Sale:									
Securities Available-for-Sale:										
Securities Available-for-Sale:										
U.S. Treasury Securities										
U.S. Treasury Securities										
U.S. Treasury Securities	U.S. Treasury Securities	$ 4,413	$ 4,413	$ —	$ —					
U.S. Government Agency Securities	U.S. Government Agency Securities	73,534	—	73,534	—					
Residential Mortgage-Backed Securities	Residential Mortgage-Backed Securities	110,013	—	110,013	—					
Commercial Mortgage-Backed Securities	Commercial Mortgage-Backed Securities	43,026	—	43,026	—					
Other Commercial Mortgage-Backed Securities	Other Commercial Mortgage-Backed Securities	14,146	—	14,146	—					
Asset Backed Securities	Asset Backed Securities	151,450	—	151,450	—					
Collateralized Mortgage Obligations	Collateralized Mortgage Obligations	203,881	—	203,881	—					
States and Political Subdivisions	States and Political Subdivisions	262,202	—	262,202	—					
Corporate Notes	Corporate Notes	59,735	—	51,177	8,558					
Total Securities Available-for-Sale	Total Securities Available-for-Sale	922,400	4,413	909,429	8,558					
Derivatives	Derivatives	3,508	—	3,508	—					
Total	**Total**	**$ 925,908**	**$ 4,413**	**$ 912,937**	**$ 8,558**					
Liabilities	**Liabilities**									
Liabilities										
Liabilities										
Derivatives										

Derivatives									
Derivatives	Derivatives	$	3,682	$	—	$	3,682	$	—
Total	**Total**	**$**	**3,682**	**$**	**—**	**$**	**3,682**	**$**	**—**

We have invested in subordinated debt of other financial institutions. We have two securities totaling $7.5 million $7.3 million that are considered to be Level 3 securities at December 31, 2022 December 31, 2023 and two totaling $8.6 million $7.5 million at December 31, 2021 December 31, 2022. The change in the fair value of Level 3 securities available-for-sale from $8.6 million at December 31, 2021 to $7.5 million at December 31, 2022 to $7.3 million at December 31, 2023 is attributable to the calculated change in fair value of $1.1 $0.2 million. The Level 3 fair value is benchmarked to other securities that have observable market values in Level 2 using comparable financial ratio analysis specific to the industry in which the underlying company operates. The underwriting includes considerations of capital adequacy, asset quality trends, management's ability to continue efficient and profitable operations, the institution's core earnings ability, liquidity management platform and current on and off-balance sheet interest rate risk exposures.

Financial assets measured at fair value on a nonrecurring basis at December 31, 2022 December 31, 2023 and 2021 2022 are summarized below:

	December 31, 2023			
(Dollars in Thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
OREO	$ —	$ —	$ 2,463	$ 2,463
Individually Evaluated Loans	$ —	$ —	$ —	$ —

	December 31, 2022			
(Dollars in Thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
OREO	$ —	$ —	$ 8,393	$ 8,393
Individually Evaluated Loans	$ —	$ —	$ 2,649	$ 2,649

	December 31, 2021			
(Dollars in Thousands)	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
OREO	$ —	$ —	$ 10,916	$ 10,916
Individually Evaluated Loans	$ —	$ —	$ 1,777	$ 1,777

The Company had no individually evaluated loans measured at fair value on a nonrecurring basis as of December 31, 2023. Individually evaluated loans had a net carrying amount of $2.6 million at December 31, 2022, including a valuation allowance of $0.7 million. Individually The Company's largest lending relationship is classified at December 31, 2023 as an individually evaluated loans had loan with a net carrying amount totaling $247.6 million. The Company utilized various cash flow and discounting assumptions in the alternative modeling, instead of $1.8 million at December 31, 2021, including fair value, which resulted in a valuation allowance of $1.0 million $54.3 million at December 31, 2023. When evaluating the net carrying value of this credit relationship at December 31, 2023, the Company utilized discounted cash flow valuation techniques to estimate the timing and magnitude of potential recoveries resulting from various collection processes.

OREO, which is measured at the lower of carrying or fair value less costs to sell, had a net carrying amount of $8.4 million $2.5 million as of December 31, 2022 December 31, 2023, compared with $10.9 million $8.4 million at December 31, 2021 December 31, 2022, primarily due to sale sales, write-downs on OREO and payments. payments, offset by $1.4 million in fair value of closed retail offices transferred to OREO. Write-downs of $0.7 million $1.1 million were recorded on OREO for the year ended December 31, 2022 December 31, 2023 compared to $3.5 million $0.7 million for the year ended December 31, 2021 December 31, 2022.

The following tables summarize the Company's assets that were measured at fair value on a nonrecurring basis as of December 31, 2022 December 31, 2023 and 2021: 2022:

	December 31, 2023				
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					

	December 31, 2022				
(Dollars in Thousands)	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets					
Individually Evaluated Loans	$ 858	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	14.2%	14.2 %

Individually Evaluated Loans		$1,791	Discounted Appraisals	Estimated Selling Costs	6.0%	6.0 %								
Total Individually Evaluated Loans		**$2,649**												
OREO														
OREO														
OREO	OREO	$7,323	Appraisals	Estimated Selling Costs	10.0%	10.0 %		$130	Appraisals	Appraisals	Estimated Selling Costs		6.0%	6.0 %
OREO	OREO	143	Internal Valuations	Estimated Selling Costs	5.0%	5.0 %	OREO	142	Internal Valuations	Internal Valuations	Estimated Selling Costs		5.0%	5.0 %
OREO	OREO	927	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	0.0% — 5.0%	0.7 %	OREO	2,191	Discounted Internal Valuations	Discounted Internal Valuations	Management's Subject Discount	0.0% — 24.0%		15.6 %
Total OREO	**Total OREO**	**$8,393**												
Total OREO														
Total OREO														

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	December 31, 2021						December 31, 2022					
(Dollars in Thousands)	**(Dollars in Thousands)**	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**	**(Dollars in Thousands)**	**Fair Value**	**Valuation Technique**	**Unobservable Inputs**	**Weighted Range**	**Average**
Assets	**Assets**											
Individually Evaluated Loans	Individually Evaluated Loans	$ 1,777	Discounted Appraisals	Management's Discount & Estimated Selling Costs	53.0%	53.0 %						
Individually Evaluated Loans												
Individually Evaluated Loans								$ 858	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	14.2%	14.2 %
Individually Evaluated Loans												
Individually Evaluated Loans												
Individually Evaluated Loans								1,791	Discounted Appraisals	Estimated Selling Costs	6.0%	6.0 %
Total Individually Evaluated Loans	**Total Individually Evaluated Loans**	**$ 1,777**										
OREO	OREO	$ 9,946	Appraisals	Estimated Selling Costs	10.0%	10.0 %						
OREO	OREO	190	Internal Valuations	Estimated Selling Costs	5.0%	5.0 %						
OREO								$7,323	Appraisals	Estimated Selling Costs	10.0%	10.0 %
OREO												
OREO												

OREO								143		Internal Valuations	Estimated Selling Costs	5.0%	5.0 %
OREO	OREO	780	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	5.0% — 50.7%	20.3 %	OREO	927	Discounted Internal Valuations	Discounted Internal Valuations	Management's Discount & Estimated Selling Costs	0.0% — 5.0%	0.7 %
Total OREO	Total OREO	$10,916											

A baseline discount rate has been established for impairment measurement. This baseline discount rate was back tested against historical OREO sales and therefore represents an average recovery rate based on the transaction sizes and asset types in the population examined. Management considers the unique attributes and characteristics of each specific individually evaluated loan and may use judgementjudgment to adjust the baseline discount rate when appropriate.

The carrying values and estimated fair values of our financial instruments at December 31, 2022December 31, 2023 and December 31, 2021December 31, 2022 are presented in the following tables. Fair values for December 31, 2022December 31, 2023 and December 31, 2021December 31, 2022 are estimated under the exit price notion in accordance with ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities."

GAAP requires disclosure of fair value information about financial instruments carried at book value on the Consolidated Balance Sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

			Fair Value Measurements at December 31, 2022									
			Fair Value Measurements at December 31, 2023									Fair Value Measurements at December 31, 2023
(Dollars in Thousands)	**(Dollars in Thousands)**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**	**(Dollars in Thousands)**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial Assets:	**Financial Assets:**											
Cash and Cash Equivalents												
Cash and Cash Equivalents												
Cash and Cash Equivalents	Cash and Cash Equivalents	$ 46,869	$ 42,364	$ 4,505	$ —	$ 46,869						
Securities Available-for-Sale	Securities Available-for-Sale	836,273	25,400	803,356	7,517	836,273						
Portfolio Loans, net	Portfolio Loans, net	3,055,061	—	—	2,955,489	2,955,489						
Portfolio Loans, net												
Portfolio Loans, net												
Federal Home Loan Bank Stock, at Cost												
Federal Home Loan Bank Stock, at Cost												
Federal Home Loan Bank Stock, at Cost	Federal Home Loan Bank Stock, at Cost	9,740	—	—	NA	NA		21,626	— —	— —	NA	NA
Other Assets-Interest Rate Derivatives	Other Assets-Interest Rate Derivatives	22,973	—	22,973	—	22,973						
Accrued Interest Receivable	Accrued Interest Receivable	19,346	138	4,903	14,305	19,346						

Financial Liabilities:	**Financial Liabilities:**					
Financial Liabilities:						
Financial Liabilities:						
Deposits						
Deposits						
Deposits	Deposits	$3,630,333	$703,334	$1,665,473	$1,264,659	$3,633,466
Other Liabilities- Interest Rate Derivatives						
Other Liabilities- Interest Rate Derivatives						
Other Liabilities- Interest Rate Derivatives	Other Liabilities- Interest Rate Derivatives	22,542	—	22,542	—	22,542
FHLB Borrowings	FHLB Borrowings	180,550	—	—	180,569	180,569
Federal Funds Purchased	Federal Funds Purchased	17,870	—	17,870	—	17,870
Accrued Interest Payable	Accrued Interest Payable	2,294	—	—	2,294	2,294

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

				Fair Value Measurements at December 31, 2021									
		Fair Value Measurements at December 31, 2022											Fair Value Measurements at December 31, 2022
(Dollars in Thousands)	**(Dollars in Thousands)**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**	**(Dollars in Thousands)**	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**	**Total**	
Financial Assets:	**Financial Assets:**												
Cash and Cash Equivalents	Cash and Cash Equivalents	$ 277,799	$ 36,698	$ 241,101	$ —	$ 277,799							
Cash and Cash Equivalents													
Cash and Cash Equivalents													
Securities Available-for-Sale	Securities Available-for-Sale	922,400	4,413	909,429	8,558	922,400							
Loans Held-for-Sale		228	—	—	228	228							
Portfolio Loans, net													
Portfolio Loans, net													
Portfolio Loans, net	Portfolio Loans, net	2,716,190	—	—	2,689,578	2,689,578							
Federal Home Loan Bank Stock, at Cost													

Federal Home Loan Bank Stock, at Cost													
Federal Home Loan Bank Stock, at Cost	Federal Home Loan Bank Stock, at Cost	2,352	—	—	NA	NA	9,740	—	—	—	—	NA	NA
Other Assets- Interest Rate Derivatives	Other Assets- Interest Rate Derivatives	3,508	—	3,508	—	3,508							
Accrued Interest Receivable	Accrued Interest Receivable	17,178	17	3,462	13,699	17,178							
Financial Liabilities:	**Financial Liabilities:**												
Financial Liabilities:													
Financial Liabilities:													
Deposits													
Deposits													
Deposits	Deposits	$3,698,476	$747,909	$1,606,249	$1,369,228	$3,723,386							
Other Liabilities- Interest Rate Derivatives	Other Liabilities- Interest Rate Derivatives	3,682	—	3,682	—	3,682							
Other Liabilities- Interest Rate Derivatives													
Other Liabilities- Interest Rate Derivatives													
FHLB Borrowings	FHLB Borrowings	7,000	—	—	7,035	7,035							
Federal Funds Purchased													
Accrued Interest Payable	Accrued Interest Payable	1,378	—	—	1,378	1,378							

NOTE 8 - RIGHT-OF-USE ("ROU") ASSETS AND LEASE LIABILITIES

The Company has seven lease contracts, including five finance leases and two operating leases at December 31, 2023. These leases are for our branch and loan production facilities. There was one new lease agreement entered into in 2023.

The following table presents our lease expense for finance and operating leases for the periods presented:

	December 31,		
(Dollars in Thousands)	**2023**	**2022**	**2021**
Operating Lease Expense	$ 48	$ —	$ —
Amortization of ROU Assets - finance leases	365	374	234
Interest on lease liabilities - finance leases	292	287	156
Total Lease Expense	**$ 705**	**$ 661**	**$ 390**

ROU assets are included in other assets in the Consolidated Balance Sheets. The following table presents our ROU assets, cash flows, weighted average lease terms, discount rates for finance and operating leases and ROU assets obtained in exchange for lease liabilities for the periods presented:

	December 31,

(Dollars in Thousands)	2023	2022
Operating Leases		
ROU assets	$ 419	$ —
Operating cash flows	$ 87	$ —
Finance Leases		
ROU assets	$ 6,988	$ 6,306
Operating cash flows	$ 292	$ 287
Financing cash flows	$ 185	$ 201
Weighted Average Lease Term - Years		
Operating leases	3.3 years	—
Finance leases	17.9 years	18.5 years
Weighted Average Discount Rate		
Operating leases	6.60 %	— %
Finance leases	5.20 %	4.90 %
ROU Assets obtained in exchange for Lease Liabilities		
Operating leases	$ —	$ —
Finance leases	$ 1,464	$ 3,391

Lease liabilities are included in other liabilities in the Consolidated Balance Sheets. The following table presents the maturity analysis of lease liabilities for finance and operating leases as of December 31, 2023:

(Dollars in Thousands)	Finance	Operating	Total
Maturity Analysis			
2024	$ 529	$ 167	$ 696
2025	540	130	670
2026	563	107	670
2027	577	89	666
2028	589	—	589
Thereafter	8,728	—	8,728
Total	11,526	493 0	12,019
Less: Present value discount	(4,239)	(52)	(4,291)
Lease Liabilities	**$ 7,287**	**$ 441**	**$ 7,728**

NOTE 9 - PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation as follows:

		December 31,				
		December 31,				December 31,
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	(Dollars in Thousands)	2023	2022
Land	Land	$19,703	$20,763			
Bank Premises	Bank Premises	54,872	55,463			
Furniture and Equipment	Furniture and Equipment	34,945	34,529			
Leasehold Improvements	Leasehold Improvements	1,618	854			

Total Premises and Equipment	**Total Premises and Equipment**	**111,138**	**111,609**
Accumulated Depreciation	Accumulated Depreciation	(39,024)	(36,312)
Total	**Total**	**$72,114**	**$75,297**

At both December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, we had no bank premises and equipment held-for-sale.

Depreciation expense is included under occupancy expense, net in the Consolidated Statements of Income (Loss) totaling $6.2 million in 2023, $6.1 million in 2022, $6.2 million in 2021, and $6.1 $6.2 million in 2020. 2021.

Real estate on closed branches was were valued based on recent comparative market values received from a real estate broker. Write-downs The Company had $0.5 million in write-downs in 2023 and write-downs in the amount of $0.6 million, and $3.2 million and $1.1 million were recognized during 2022 2021 and 2020, 2021, respectively. These write-downs on closed branches are included in losses and write-downs on OREO, net in the Consolidated Statements of Income (Loss). Income. The net remaining carrying value of $1.1 million $2.3 million and $1.0 million $1.1 million is classified as held-for-sale in OREO in the Consolidated Balance Sheets as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

The Company leases offices from non-related parties under various terms, some of which contain contingent rentals tied to a price index. Rental expense for these leases was $67 thousand in 2022, $72 thousand in 2021, and $99 thousand for 2020.

The Company currently has three depository locations, a loan production office, a commercial banking office and another office housing various Bank functions under lease contracts. We have included $6.3 million and $3.3 million in right-of-use assets in other assets on its Consolidated Balance Sheets at December 31, 2022 and 2021, respectively. The Company has included $6.6 million and $3.4 million in lease liabilities in other liabilities on its Consolidated Balance Sheets at December 31, 2022 and 2021, respectively.

NOTE 9 10 - OTHER REAL ESTATE OWNED

The following table presents OREO activity as of the dates presented:

		Year Ended December 31,						
		Year Ended December 31,				Year Ended December 31,		
(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**2020**	**(Dollars in Thousands)**	**2023**	**2022**	**2021**
Beginning of Year Balance	Beginning of Year Balance	$10,916	$15,722	$18,324				
Loans Transferred to OREO	Loans Transferred to OREO	74	59	755				
Transfer of Closed Retail Offices to OREO								
Transfer of Closed Retail Offices to OREO								
Transfer of Closed Retail Offices to OREO	Transfer of Closed Retail Offices to OREO	2,675	12,013	2,221				
Capitalized Expenditures	Capitalized Expenditures	—	—	19				
Direct Write-Downs	Direct Write-Downs	(741)	(3,472)	(1,483)				

Cash Proceeds from Pay-downs	Cash Proceeds from Pay-downs	(422)	(452)	(483)
Sales of OREO	Sales of OREO	(4,109)	(12,954)	(3,631)
End of Year Balance	**End of Year Balance**	**$ 8,393**	**$10,916**	**$15,722**

At December 31, 2022 December 31, 2023, 2021, 2022, and 2020, 2021, the balance of OREO includes $7.3 million $0.2 million, $9.9 million $7.3 million, and $13.2 million $9.9 million, respectively, of foreclosed properties recorded as a result of obtaining physical possession of the asset. At December 31, 2022 December 31, 2023 and 2021, 2022, the recorded investment of foreclosed residential real estate was $133 $62 thousand and $62 $133 thousand, respectively. At December 31, 2022 December 31, 2023 and 2021, 2022, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceeds are in process is $902 thousand $2.0 million and $254 thousand, $0.9 million, respectively.

Income and expenses applicable to foreclosed assets include the following:

		Year Ended December 31,						
		Year Ended December 31,				**Year Ended December 31,**		
(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**2020**	**(Dollars in Thousands)**	**2023**	**2022**	**2021**
Provision for Losses	Provision for Losses	$741	$3,472	$1,483				
Operating Expenses, net of Rental Income	Operating Expenses, net of Rental Income	293	317	317				
Net (Gain) Loss on Sales	Net (Gain) Loss on Sales	(309)	150	(48)				
OREO Expense	**OREO Expense**	**$725**	**$3,939**	**$1,752**				

NOTE 10 11 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

In accordance with applicable accounting guidance for derivatives and hedging, all derivatives are recognized as either assets or liabilities on the Consolidated Balance Sheet at fair value. Interest rate swaps are contracts in which a series of interest rate flows (fixed and variable) are exchanged over a prescribed period. The notional amounts on which the interest payments are based are not exchanged. These derivative positions relate to transactions in which the Company enters into an interest rate swap with a commercial customer while at the same time entering into an offsetting interest rate swap with another financial institution, or counterparty. In connection with each transaction, the Company originates a floating rate loan to the customer at a notional amount. In turn, the customer contracts with the counterparty to swap the stream of cash flows associated with the floating interest rate loan with the Company for a stream of fixed interest rate cash flows based on the same notional amount as the Company's loan. The transaction allows the customer to effectively convert a variable rate loan to a fixed rate loan with the Company receiving a variable rate. These agreements could have floors or caps on the contracted interest rates.

Pursuant to agreements with various financial institutions, the Company may receive collateral or may be required to post collateral based upon mark-to-market positions. Beyond unsecured threshold levels, collateral in the form of cash or securities may be made available to counterparties of interest rate swap transactions. Based upon current positions and related future collateral requirements relating to them, management believes any effect on our cash flow or liquidity position to be immaterial.

Derivatives contain an element of credit risk, the possibility that the Company will incur a loss because a counterparty, which may be a financial institution or a customer, fails to meet its contractual obligations. All derivative contracts with financial institutions may be executed only with counterparties approved by the Asset and Liability Committee ("ALCO") and all derivatives with customers are approved by a team of members from senior management who have been trained to understand the risk associated with interest rate swaps and have past industry experience. Interest rate swaps are considered derivatives but are not accounted for using hedge accounting. As such, changes in the estimated fair value of the derivatives are recorded in current earnings in the Consolidated Statements of Income (Loss). Income.

The following table indicates the amounts representing the fair value of derivative assets and derivative liabilities at December 31:

		Fair Values of Derivative Instruments Asset Derivatives (Included in Other Assets)					
		Fair Values of Derivative Instruments Asset Derivatives (Included in Other Assets)					
					Fair Values of Derivative Instruments Asset Derivatives (Included in Other Assets)		
(Dollars in Thousands)	(Dollars in Thousands)	2022			2021		
(Dollars in Thousands)		2023			2022		
		Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
		Number of Transactions					
		Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives not Designated as Hedging Instruments	**Derivatives not Designated as Hedging Instruments**						
Interest Rate Lock Commitments – Mortgage Loans							
Interest Rate Lock Commitments – Mortgage Loans							
Interest Rate Lock Commitments – Mortgage Loans	Interest Rate Lock Commitments – Mortgage Loans	1	$ 200	$ 1	$ —	$ —	$ —
Interest Rate Swap Contracts – Commercial Loans	Interest Rate Swap Contracts – Commercial Loans	62	432,984	22,973	66	446,490	3,508
Total Derivatives not Designated as Hedging Instruments	**Total Derivatives not Designated as Hedging Instruments**	**63**	**$433,184**	**$22,974**	**66**	**$446,490**	**$3,508**

	Fair Values of Derivative Instruments Liability Derivatives (Included in Other Liabilities)					
(Dollars in Thousands)	**2022**			**2021**		
	Number of Transactions	**Notional Amount**	**Fair Value**	**Number of Transactions**	**Notional Amount**	**Fair Value**
Derivatives not Designated as Hedging Instruments						
Forward Sale Contracts – Mortgage Loans	1	$ 200	$ 1	—	$ —	$ —
Interest Rate Swap Contracts – Commercial Loans	62	432,984	22,542	66	446,490	3,682
Total Derivatives not Designated as Hedging Instruments	**63**	**$ 433,184**	**$ 22,543**	**66**	**$ 446,490**	**$ 3,682**

	Fair Values of Derivative Instruments Liability Derivatives (Included in Other Liabilities)					
(Dollars in Thousands)	2023			2022		
	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value
Derivatives not Designated as Hedging Instruments						
Forward Sale Contracts – Mortgage Loans	3	$ 310	$ 3	1	$ 200	$ 1
Interest Rate Swap Contracts – Commercial Loans	58	387,144	17,225	62	432,984	22,542
Total Derivatives not Designated as Hedging Instruments	**61**	**$ 387,454**	**$ 17,228**	**63**	**$ 433,184**	**$ 22,543**

The following table indicates the (loss) income (loss) recognized in the Consolidated Statement Statements of Income (Loss) for derivatives for the years ended December 31:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands)	2023	2022	2021
Derivatives not Designated as Hedging Instruments	**Derivatives not Designated as Hedging Instruments**							
Interest Rate Lock Commitments – Mortgage Loans	Interest Rate Lock Commitments – Mortgage Loans	$ 1	$ —	$ (1)				
Interest Rate Lock Commitments – Mortgage Loans								
Interest Rate Lock Commitments – Mortgage Loans								
Forward Sale Contracts – Mortgage Loans	Forward Sale Contracts – Mortgage Loans	(1)	—	1				
Interest Rate Swap Contracts – Commercial Loans	Interest Rate Swap Contracts – Commercial Loans	605	89	(214)				
Total Derivative Income (Loss)		**$605**	**$ 89**	**$(214)**				
Total Derivative (Loss) Income								

Presenting offsetting derivatives that are subject to legally enforceable netting arrangements with the same party is permitted. For example, we may have a derivative asset and a derivative liability with the same counterparty to a swap transaction and are permitted to offset the asset position and the liability position resulting in a net presentation.

The following table indicates the gross amounts of commercial loan swap derivative assets and derivative liabilities, the amounts offset and the carrying values are included in the Consolidated Balance Sheets at December 31:

		Asset Derivatives (Included in Other Assets)		Liability Derivatives (Included in Other Liabilities)						
		Asset Derivatives (Included in Other Assets)							Asset Derivatives (Included in Other Assets)	Liability Derivatives (Included in Other Liabilities)
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2022	2021	(Dollars in Thousands)	2023	2022	2023	2022
Derivatives not Designated as Hedging Instruments	**Derivatives not Designated as Hedging Instruments**									
Gross Amounts Recognized										
Gross Amounts Recognized										
Gross Amounts Recognized	Gross Amounts Recognized	$ 22,973	$ 3,508	$ 22,542	$ 3,682					
Gross Amounts Offset	Gross Amounts Offset	—	—	—	—					
Net Amounts Presented in the Consolidated Balance Sheets	Net Amounts Presented in the Consolidated Balance Sheets	22,973	3,508	22,542	3,682					
Gross Amounts Not Offset (1)	Gross Amounts Not Offset (1)	—	—	—	(4,080)					
Net Amount	**Net Amount**	**$ 22,973**	**$ 3,508**	**$ 22,542**	**$ (398)**					

(1) *Amounts represent collateral posted for the periods presented.*

NOTE 11 12 – DEPOSITS

The following table presents the composition of deposits at December 31:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	(Dollars in Thousands)	2023	2022
Noninterest-Bearing Demand	Noninterest-Bearing Demand	$ 703,334	$ 747,909			
Interest-Bearing Demand	Interest-Bearing Demand	496,948	452,644			
Money Market	Money Market	484,238	463,056			

Savings	Savings	684,287	690,549
Certificates of Deposits	Certificates of Deposits	1,261,526	1,344,318
Total	**Total**	**$ 3,630,333**	**$ 3,698,476**
Total			
Total			

All deposit accounts are insured by the FDIC up to the maximum amount allowed by law. The Dodd-Frank Act, signed into law on July 21, 2010, makes permanent the $250,000 limit for federal deposit insurance and the coverage limit applies per

depositor, per insured depository institution for each account ownership. Time Certificates of deposits that exceed the FDIC Insurance limit of $250,000 at year-end 2023 and 2022 were $305.0 million and 2021 were $159.0 million and $147.1 million, respectively.

At December 31, 2023 and December 31, 2022, total brokered deposits (excluding the CDARS and ICS two-way) were $70.0 million and zero, respectively.

Certificates of Deposit maturing as of December 31:

(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**(Dollars in Thousands)**	**2023**
2023		$ 637,771		
2024	2024	349,001		
2025	2025	138,826		
2026	2026	82,863		
2027	2027	51,482		
2028				
Thereafter	Thereafter	1,583		
Total	**Total**	**$ 1,261,526**		

Overdrafts reclassified to loans were $0.3 million at December 31, 2022 both December 31, 2023 and $0.5 million at December 31, 2021. December 31, 2022, respectively.

Total deposit dollars from executive officers, directors, and their related interests at December 31, 2022 December 31, 2023 and 2021, 2022, respectively, were $2.9 million $1.8 million and $3.0 million $2.9 million.

NOTE 12 13 – FEDERAL HOME LOAN BANK BORROWINGS AND FEDERAL FUNDS PURCHASED

Borrowings serve as an additional source of liquidity for the Company. The Company had $180.6 million $393.4 million FHLB borrowings at December 31, 2022 December 31, 2023 and $7.0 million $180.6 million at December 31, 2021 December 31, 2022. FHLB borrowings are fixed and variable rate advances for various terms and are secured by a blanket lien on select residential mortgages, select multifamily loans, and select commercial real estate loans. Total loans pledged as collateral were $1.5 billion at December 31, 2022 both December 31, 2023 and $1.1 billion at December 31, 2021. December 31, 2022, respectively. There were no securities available-for-sale pledged as collateral at both December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022. The

At December 31, 2023, funding sources accessible to the Company continues include borrowing availability at the FHLB, equal to methodically pledge additional 25% of the Company's assets or approximately $1.1 billion, subject to the amount of eligible loans and had continued progress in additional pledging throughout collateral pledged, of which the year. The Company is eligible to borrow up to an additional $676.7 million based upon current qualifying collateral $480.3 million. The Company has unsecured facilities with three other correspondent financial institutions totaling $50.0 million and has a maximum borrowing capacity of approximately $1.0 billion, or 25% of access to the Company's assets, institutional CD and brokered deposit markets. The Company did not have outstanding borrowings on these fed funds lines as of December 31, 2022 December 31, 2023. The Company had the capacity to borrow up to an additional $667.3 million $676.7 million from the FHLB at December 31, 2021 December 31, 2022.

The Company had no overnight federal funds purchased at December 31, 2023. There were $17.9 million in outstanding overnight federal funds purchased at December 31, 2022. There were no outstanding overnight federal funds purchased at December 31, 2021.

The available following table represents the balance of FHLB borrowings, the weighted average interest rate, the interest expense and the borrowing capacity under unsecured lines of credit with corresponding banks was $127.1 million and $145.0 million at December 31, 2022 and December 31, 2021, respectively. availability for the years ended December 31:

(Dollars in Thousands)	**2023**	**2022**	**2021**
FHLB Borrowings	$ 393,400	$ 180,550	$ 7,000

Weighted Average Interest Rate		5.20 %		4.48 %		1.61 %
Interest Expense	$	20,822	$	1,163	$	313
FHLB Availability	$	480,266	$	676,746	$	667,307

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The following table represents the balance of FHLB borrowings, the weighted average interest rate, and interest expense for the years ended December 31:

(Dollars in Thousands)		2022		2021		2020
FHLB Borrowings	$	180,550	$	7,000	$	35,000
Weighted Average Interest Rate		4.48 %		1.61 %		1.13 %
Interest Expense	$	1,163	$	313	$	361

The following table represents the balance of federal funds purchased, the weighted average interest rate, and the interest expense and the borrowing availability for the years ended December 31:31:

(Dollars in Thousands)		2022		2021		2020
Federal Funds Purchased	$	17,870	$	—	$	—
Weighted Average Interest Rate		4.65 %		— %		— %
Interest Expense	$	188	$	—	$	1

During the year ending December 31, 2021 the Company repaid four FHLB advances totaling $28.0 million with a weighted average cost to borrow of 1.0%. One FHLB advance totaling $3.0 million was repaid at maturity in the fourth quarter of 2021. The remaining FHLB advances totaling $25.0 million were repaid ahead of their scheduled maturity date and had unamortized prepayment fees related to the early repayment of the borrowings totaling $43 thousand at December 31, 2021. The FHLB borrowing of $7.0 million was prepaid in January 2022 outside of its scheduled maturity and had unamortized prepayment fees related to the early repayment of the borrowing of $18 thousand.

(Dollars in Thousands)		2023		2022		2021
Federal Funds Purchased	$	—	$	17,870	$	—
Weighted Average Interest Rate		— %		4.65 %		— %
Interest Expense	$	368	$	188	$	—
Federal Funds Purchased Availability	$	50,000	$	127,130	$	145,000

Scheduled annual maturities and weighted average interest rates for FHLB borrowings for each of the five years subsequent to December 31, 2022December 31, 2023 and thereafter are as follows:

(Dollars in Thousands)	(Dollars in Thousands)	Balance	Weighted Average Rate	(Dollars in Thousands)	Balance		Weighted Average Rate
2023		$180,550	4.48 %				
2024	2024	—	— %	2024	$ 323,400	5.46	5.46 %
2025	2025	—	— %	2025	25,000	4.13	4.13 %
2026	2026	—	— %	2026	45,000	3.96	3.96 %
2027	2027	—	— %	2027	—	—	— %
2028				2028	—		— %
Thereafter	Thereafter	—	— %	Thereafter	—	—	— %
Total FHLB Borrowings	**Total FHLB Borrowings**	**$180,550**	**4.48 %**	**Total FHLB Borrowings**	**$ 393,400**	**5.20**	**5.20 %**

NOTE 1314 - EMPLOYEE BENEFIT PLANS

The Company has adopted an integrated profit sharing plan, which allows for elective deferrals and non-elective profit sharing contributions. Associates become eligible for the elective deferrals at the beginning of the quarter after they have been employed at least a month and have reached the age of twenty years and six months. Associates are eligible for the non-elective profit sharing contributions at the beginning of the quarter after they have been employed six months and have reached the age of twenty years and six months. Vesting for the non-elective profit sharing contribution is based on years of service to the Company, with a year being any year an employee works a minimum of 1,000 hours.

The following table details the vesting schedule based on years of service for participants:

1 Year of Service	0% 20% Vested
2 Years of Service	20% 40% Vested
3 Years of Service	40% 60% Vested
4 Years of Service	60% 80% Vested
5 Years of Service	100% Vested

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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Any participant who has reached the age of 62 is fully vested regardless of length of service. Each participant in the plan (who has not reached age 62) becomes 100% vested after five (5) years of service. The non-elective contribution to the plan is determined each year by the Company's Board of Directors (the "Board") and thus may fluctuate in amount from year to year. The contribution by the Company, which includes contributions to the nonqualified plan discussed below, was $2.0 million $0.4 million in 2023, $1.0 million in 2022 $1.8 million and $0.9 million in 2021 and $1.0 million in 2020. 2021. These amounts are included in salaries and employee benefits in the Consolidated Statements of Income (Loss). Income.

Beginning in 2020, 2019, our integrated profit sharing plan includes a Company match based upon an associate's elective deferral. This elective deferral is subject to dollar limits announced annually by the Internal Revenue Service ("IRS"). Elective deferrals are matched equal to 100% of the first 3% deferred and 50% of the next 2%, producing a maximum 4% match. Expense for this deferral match was $1.3 million $1.4 million, $1.3 million and $1.2 million $1.3 million for the years ended December 31, 2022 December 31, 2023, 2021 2022 and 2020, 2021, respectively.

The Bank entered into a Nonqualified Profit Sharing Plan originally on December 30, 1996, which was subsequently amended and restated effective December 20, 2007. The purpose of the Nonqualified Profit Sharing Plan was to provide additional benefits to be paid to the executive upon the occurrence of a "Distributable Event," which is either termination or death. The

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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board of directors of the Bank (the "Bank Board") approved the amended plan on December 20, 2007. Since its inception, the Bank's former Chairman and Chief Executive Officer was the only executive who participated in the Nonqualified Profit Sharing Plan. In April 2017, a Distributable Event occurred, in which distributions will occur over 45 quarterly payments. The value of the plan was $0.8 million $0.6 million as of December 31, 2022 December 31, 2023, and was solely comprised of cash. The quarterly distributions began on January 1, 2018 and will continue to be paid out in equal quarterly installments approximating $30 thousand.

On December 15, 2020, the Bank adopted an unfunded, nonqualified deferred compensation plan, called the Nonqualified Deferred Compensation Plan, to provide (i) certain key executives of the Bank (beginning after the date of adoption) the opportunity to defer to a later year on a pre-tax basis certain compensation without being subject to the dollar limits that apply to these associates under the Bank's tax-qualified integrated profit-sharing plan and (ii) the Bank's non-employee directors (beginning in January 2022) the opportunity to defer to a later year on a pre-tax basis certain director fees. The compensation and fees (and related earnings) deferred under this plan are held in a grantor trust until paid to the participants and remain subject to the claims of the creditors of the Bank and Company until paid to the participants. The balance in the nonqualified deferred compensation plan at December 31, 2023 and December 31, 2022 and December 31, 2021 was $269.6 $447.8 thousand and $160.7 $269.6 thousand, respectively.

NOTE 14 15 – INCENTIVE AND RESTRICTED STOCK PLAN

The Bank Board adopted the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan on March 29, 2018 based on the recommendation of the Bank's Nominating and Compensation Committee (now, a committee of the Company, the "Committee"), which became effective on June 27, 2018. In connection with the Reorganization, the Company adopted and assumed the Carter Bank & Trust 2018 Omnibus Equity Incentive Plan as its own (now the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan, or, for purposes of this discussion, the "Plan"). The Plan reserves a total 2,000,000 shares of common stock for issuance and provides for the grant to key associates and non-employee directors of the Company and its subsidiaries of awards that may include one or more of the following: stock options, restricted stock, restricted stock units, stock appreciation rights, stock awards, performance units and performance cash awards (collectively, the "awards"). Subject to accelerated vesting under certain circumstances, the Plan requires a minimum vesting period of one year for awards subject to time-based conditions and a minimum performance period of one year for awards subject to achievement or satisfaction of performance goals. These minimums are applicable to awards other than those granted as part of a retainer for the service of non-employee directors. The Committee will determine the vesting period on the awards. No awards may be granted under the Plan more than ten years from the effective date of the Plan. As of December 31, 2022 December 31, 2023, 1,642,899 1,538,804 shares of common stock were available for issuance under the Plan. For purposes of this Note 14, 15, references to the "Company" mean the "Bank" with respect to actions prior to the Reorganization.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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Restricted Stock

The Company periodically issues restricted stock to non-employee directors and key associates pursuant to the Plan. As of December 31, 2022 December 31, 2023, 341,872 478,969 shares of restricted stock were outstanding had been granted under the Plan.

The Company granted 108,855 116,325 and 50,120 108,855 shares of restricted stock to key associates under the Plan during 2022 2023 and 2021, 2022, respectively. These grants were approved by the Committee as compensation for substantial contributions to the Company's performance. The time-based shares of restricted stock fully granted in 2023 to executives vest in one-third annual installments over three years under the short-term incentive plan. The time-based shares of restricted stock granted in 2022 to executives vest on the fifth anniversary of the grant date for awards granted prior under the long-term incentive plan. The time-based shares of restricted stock to 2023 and beginning with awards granted in 2023 non-executives vest in one-third annual installments over three years after the grant date. years. The closing price of our stock was used to determine the fair value on the date of the grant. grant prior to September 1, 2023. Beginning September 1, 2023 the Company utilizes a 90-day look back period to estimate the average stock price to resolve issues of rapid stock price fluctuations.

The Company granted 18,500 20,772 and 32,370 18,500 shares of restricted stock to non-employee directors under the Plan during 2022 2023 and 2021, 2022, respectively. These grants were approved by the Committee as compensation for Board service. The time-based shares of restricted stock granted in 2022 2023 and 2021 2022 fully vest one year after the grant date. The closing price of our stock was used to determine the fair value on determination price for these grants is the date of the grant. same method as mentioned above.

If any award granted under the Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the award, or if shares issued pursuant to awards are forfeited, any stock subject to such award again shall be available for future awards under the Plan.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
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Compensation expense for restricted stock is recognized ratably over the period of service, generally the entire vesting period, based on fair value on the grant date. The Company recognized compensation expense of $1.3 million $1.6 million, $1.0 million $1.3 million and $1.0 million for 2023, 2022, 2021, and 2020, 2021, respectively, related to restricted stock.

As of December 31, 2022 December 31, 2023 and 2021, 2022, there was $1.6 million $2.1 million and $0.8 million $1.6 million, respectively, of total unrecognized compensation cost related to restricted stock that will be recognized as compensation expense over a weighted average period of 2.30 2.01 years and 1.64 2.30 years, respectively.

The following table provides information about restricted stock granted under the Plan for the years ended December 31:

	Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2020	**85,377**	**$ 18.73**
Granted	82,490	12.81
Forfeited/Vested	(54,232)	17.97

		Restricted Shares	Restricted Shares	Weighted Average Grant Date Fair Value
Non-vested at December 31, 2021	**Non-vested at December 31, 2021**	**113,635**		**14.80**
Granted	Granted	127,355		16.50
Forfeited/Vested	Forfeited/Vested	(80,793)		15.01
Non-vested at December 31, 2022	**Non-vested at December 31, 2022**	**160,197**		**$ 16.05**
Granted				
Forfeited/Vested				
Non-vested at December 31, 2023				

Performance Units

The Company periodically issues grants performance units to executive officers pursuant to the Plan. As of December 31, 2022, 27,848 target amount of The Company did not grant performance units were outstanding under the Plan.

The Company during 2023 but granted 27,848 target amount amounts of performance units in aggregate to executive officers under the Plan during 2022. The closing price of our stock, $15.81 was used during 2022 to determine the fair value on the date of the grant. These grants were are approved by the Committee as compensation for substantial contributions to the Company's performance.

The performance units can be earned up to a maximum of 110% of the target amount. They are subject to a three-year performance period and, if the performance criteria are met, will vest on the payment date which is within 70 days following the end of the performance period. The payout for the performance units will be determined based on three weighted performance based goals: (1) the Company's return on average assets ("ROAA") performance during the performance period compared to its selected peer group, (2) the Company's core efficiency ratio during the performance period compared to its selected peer group,

and (3) the Company's nonperforming assets ratio performance during the performance period compared to its selected peer group. If the performance criteria are met, the Company will pay the performance units that have vested in shares of the Company's common stock.

If any award granted under the Plan terminates, expires, or lapses for any reason other than by virtue of exercise or settlement of the award, or if shares issued pursuant to awards are forfeited, any stock subject to such award again shall be available for future awards under the Plan.

Compensation expense for performance units is based on fair value on the grant date. The performance units are subject to the probability of attainment of meeting the above referenced performance criteria and service requirement. Management has evaluated the performance-based criteria and has determined that, as of December 31, 2023 the criteria was not probable of being met at target, and at December 31, 2022, the criteria were probable of being met at target. The Company reversed compensation expense of $0.3 million for 2023 and recognized compensation expense of $0.3 million for 2022 related to performance units.

As of December 31, 2022, there was $0.2 million of total unrecognized compensation cost at target related to performance units that potentially could be recognized as compensation expense over a weighted average period of 2.2 years.

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NOTE 15 16 - FEDERAL AND STATE INCOME TAXES

The components of the provision for income tax expense were as follows:

(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands)	2023	2022	2021
Current	Current	$ 7,969	$ 994	$2,399				
Deferred	Deferred	3,630	3,114	(1,627)				
Change in Valuation Allowance								
Income Tax Provision	**Income Tax Provision**	**$11,599**	**$4,108**	**$ 772**				

The following is a reconciliation of the differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate to income before taxes:

		2022		2021		2020								
		2023							2023		2022		2021	
(Dollars in Thousands)	**(Dollars in Thousands)**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**	**(Dollars in Thousands)**	**Amount**	**Percent**	**Amount**	**Percent**	**Amount**	**Percent**
Federal Income Tax at Statutory Rate	Federal Income Tax at Statutory Rate	$12,961	21.0	$ 7,497	21.0	$(9,468)	21.0							

State Income Tax, net of Federal Benefit	State Income Tax, net of Federal Benefit	657	1.1	20	0.1	455	(1.0)
Tax-exempt Interest, net of Disallowance	Tax-exempt Interest, net of Disallowance	(873)	(1.4)	(1,131)	(3.2)	(1,757)	3.9
Federal Tax Credits, net of Basis Reduction	Federal Tax Credits, net of Basis Reduction	(625)	(1.0)	(1,559)	(4.4)	(948)	2.2
Change in Valuation Allowance	Change in Valuation Allowance	(309)	(0.5)	(529)	(1.5)	(374)	0.8
Income from Bank Owned Life Insurance	Income from Bank Owned Life Insurance	(285)	(0.5)	(290)	(0.8)	(294)	0.7
Goodwill Impairment		—	—	—	—	13,060	(29.1)
Tax Credit Amortization							
Other	Other	73	0.1	100	0.3	98	(0.2)
Income Tax Provision and Effective Income Tax Rate	**Income Tax Provision and Effective Income Tax Rate**	**$11,599**	**18.8**	**$ 4,108**	**11.5**	**$ 772**	**(1.7)**

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before taxes. The Company ordinarily generates an annual effective tax rate that is less than the statutory rate of 21% due to benefits resulting from tax-exempt interest, tax-exempt income from bank owned life insurance, and tax benefits resulting from certain partnership investments.

The Company elected to adopt the proportional amortization method of accounting for all qualifying equity investments within the HTC program. The Company makes equity investments as a limited partner in various partnerships that sponsor HTC as a strategic tax initiative designed to receive income tax credits and other income tax benefits, such as deductible flow-through losses. As of December 31, 2023, the Company recognized $1.8 million in HTC equity investments recorded as a component of other assets on the Consolidated Balance Sheets.

The Company records income tax credits and other income tax benefits received from its HTC investments as a component of the provision for income taxes on the Consolidated Statements of Income and as a component of operating activities on the Consolidated Statements of Cash Flows.

Investments accounted for using the proportional amortization method are amortized and recorded as a component of the provision for income taxes on the Consolidated Statements of Income.

The Company records non-income-tax-related activity and other returns received from its HTC investments as a component of other noninterest income on the Consolidated Statements of Income and as a component of operating activities on the Consolidated Statements of Cash Flows. As of December 31, 2023, the Company has not recognized any non-income-tax-related activity from its HTC investments.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows:

(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**(Dollars in Thousands)**	**2023**		**2022**
Deferred Tax Assets	**Deferred Tax Assets**						

Allowance for Credit Losses	Allowance for Credit Losses	$20,671	$20,906
Allowance for Credit Losses			
Allowance for Credit Losses			
Net Unrealized Loss on Available-for-sale Securities	Net Unrealized Loss on Available-for-sale Securities	23,818	—
Valuation Adjustments on Other Real Estate Owned	Valuation Adjustments on Other Real Estate Owned	649	1,392
Tax Credit Carryforwards		—	1,781
Equity Investment in Partnerships		—	304
Accrued Interest on Nonaccrual Loans		85	843
Capital Loss Carryforward			
Operating Lease Liabilities			
Operating Lease Liabilities			
Operating Lease Liabilities	Operating Lease Liabilities	1,451	736
Other	Other	2,165	1,765
Gross Deferred Tax Assets	Gross Deferred Tax Assets	48,839	27,727
Less: Valuation Allowance	Less: Valuation Allowance	—	(309)
Total Deferred Tax Assets	**Total Deferred Tax Assets**	**$48,839**	**$27,418**

(Dollars in Thousands)	**(Dollars in Thousands)**	**2022**	**2021**	**(Dollars in Thousands)**	**2023**	**2022**
Deferred Tax Liabilities	**Deferred Tax Liabilities**					
Fixed Asset Depreciation						
Fixed Asset Depreciation						
Fixed Asset Depreciation	Fixed Asset Depreciation	$ (4,523)	$ (4,300)			
Acquisition-Related Fair Value Adjustments	Acquisition-Related Fair Value Adjustments	(2,737)	(3,069)			
Deferred Loan Income	Deferred Loan Income	(1,800)	(1,005)			

Operating Lease Right-of-Use Assets	Operating Lease Right-of-Use Assets	(1,389)	(712)
Equity Investment in Partnerships	Equity Investment in Partnerships	(113)	—
Net Unrealized Gain on Available-for-Sale Securities		—	(452)
Other			
Other			
Other	Other	(312)	(98)
Total Deferred Tax Liabilities	**Total Deferred Tax Liabilities**	**(10,874)**	**(9,636)**
Net Deferred Tax Assets	**Net Deferred Tax Assets**	**$37,965**	**$17,782**

Management assesses all available positive and negative evidence to estimate whether sufficient future taxable income of the appropriate character will be generated to utilize existing deferred tax assets. On the basis of Based on this evaluation, as of December 31, 2022, management has determined that no valuation allowance is necessary, as it is more likely than not that all deferred tax assets will be realized in future periods through future taxable income and future reversals of existing temporary differences. As of December 31, 2021 December 31, 2023, a valuation allowance was of $0.9 million has been recorded on deferred tax assets related to capital loss carryforwards resulting from exits of equity investments in partnerships that generate capital losses upon exiting the investments for which a and sales of securities. The Company has not identified prudent and feasible strategy strategies to generate future capital gains was not identified. The partnerships on which to offset the valuation allowance was based at December 31, 2021, were exited entirety of the capital loss carryforward prior to their expiration in 2022 and all capital losses generated upon exit were realized through carry back to prior tax years. The Company had no federal tax credit carryforwards at December 31, 2022 and $1.8 million at December 31, 2021. The federal tax credits at December 31, 2021 consisted mainly of new market credits and historic rehabilitation credits. 2028.

At December 31, 2022 December 31, 2023 and 2021, 2022, the Company had no ASC 740-10 unrecognized tax benefits or accrued interest and penalties recorded. The Company does not expect the total amount of unrecognized tax benefits to significantly increase within the next twelve months. The Company recognizes interest and penalties on unrecognized tax benefits in income tax noninterest expense.

The Company is subject to U.S. federal income tax as well as various taxation of other state and local jurisdictions. The Company is generally no longer subject to examination by federal, state and local taxing authorities for years prior to December 31, 2019 December 31, 2020.

NOTE 16 17 – TAX EFFECTS ON OTHER COMPREHENSIVE INCOME (LOSS) INCOME

The following table presents the change in components of other comprehensive income (loss) income for the years ended December 31, net of tax effects:

(Dollars in Thousands)	(Dollars in Thousands)	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount	(Dollars in Thousands)	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount
2023								
Net Unrealized Gains Arising during the Period								
Net Unrealized Gains Arising during the Period								
Net Unrealized Gains Arising during the Period								
Reclassification Adjustment for Losses included in Net Income								

Other Comprehensive Income				
2022	**2022**			
2022				
2022				
Net Unrealized Losses Arising during the Period				
Net Unrealized Losses Arising during the Period				
Net Unrealized Losses Arising during the Period	Net Unrealized Losses Arising during the Period	$(111,542)	$ 24,261	$(87,281)
Reclassification Adjustment for Gains included in Net Income	Reclassification Adjustment for Gains included in Net Income	(46)	9	(37)
Other Comprehensive Loss	**Other Comprehensive Loss**	**$(111,588)**	**$ 24,270**	**$(87,318)**
2021	**2021**			
2021				
2021				
Net Unrealized Losses Arising during the Period				
Net Unrealized Losses Arising during the Period				
Net Unrealized Losses Arising during the Period	Net Unrealized Losses Arising during the Period	$ (10,877)	$ 2,284	$ (8,593)
Reclassification Adjustment for Gains included in Net Income	Reclassification Adjustment for Gains included in Net Income	(6,869)	1,443	(5,426)
Other Comprehensive Loss	**Other Comprehensive Loss**	**$ (17,746)**	**$ 3,727**	**$(14,019)**
2020				
Net Unrealized Gains Arising during the Period		$ 26,621	$ (5,590)	$ 21,031
Reclassification Adjustment for Gains included in Net Loss		(6,882)	1,445	(5,437)
Other Comprehensive Income		**$ 19,739**	**$ (4,145)**	**$ 15,594**

NOTE 17 18 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit, which amounted to $702.3 million at December 31, 2023 and $630.6 million at December 31, 2022 and $513.5 million at December 31, 2021, represent agreements to lend to customers with fixed expiration dates or other termination clauses. The Company provides lines of credit to our clients to finance the completion of construction projects and revolving lines of credit to operating companies to finance their working capital needs. Lines of credit for construction projects represented $452.2 million, or 64.4%, and $373.2 million, or 59.2%, and $283.9 million, or 55.3%, of the commitments to extend credit at December 31, 2022 December 31, 2023 and December 31, 2021 December 31, 2022, respectively. Standby letters of credit are conditional commitments issued by the Company guaranteeing the performance of a customer to a third-party. Those guarantees are primarily issued to support public and private borrowing arrangements. The Company had outstanding letters of credit totaling $19.6 million at December 31, 2023 and $25.7 million at December 31, 2022 and $27.1 million at December 31, 2021.

Our exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and unconditional obligations as it does for on-balance sheet instruments. Unless noted otherwise, collateral or other security is required to support financial instruments with credit risk.

Life-of-Loss Reserve on Unfunded Loan Commitments

We maintain a life-of-loss reserve on unfunded commercial lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The life-of-loss reserve is computed using a methodology similar to that used to determine

the ACL for loans, modified to take into account the probability of a draw-down on the commitment. The life-of-loan reserve for unfunded commitments is included in other liabilities on our Consolidated Balance Sheets.

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The following table presents activity in the life-of-loss reserve on unfunded loan commitments as of and for the years ended December 31:

(Dollars in Thousands)	(Dollars in Thousands)	December 31, 2022	December 31, 2021	(Dollars in Thousands)	December 31, 2023	December 31, 2022
Life-of-Loss Reserve on Unfunded Loan Commitments	**Life-of-Loss Reserve on Unfunded Loan Commitments**					
Balance at beginning of period	Balance at beginning of period	$ 1,783	$ 144			
Impact of Adopting ASU 2016-13		—	2,908			
Balance after Adoption of ASU 2016-13		1,783	3,052			
Provision (Recovery) for Unfunded Commitments		509	(1,269)			
Balance at beginning of period						
Balance at beginning of period						
Provision for Unfunded Commitments						
Provision for Unfunded Commitments						
Provision for Unfunded Commitments						
Balance at end of period	**Balance at end of period**	**$ 2,292**	**$ 1,783**			

Amounts are added or subtracted to the provision (recovery) for unfunded commitments through a charge or credit to current earnings in the provision (recovery) for unfunded commitments. An expense of $0.5 million $0.9 million was recorded for the year ended December 31, 2022 December 31, 2023 for the provision (recovery) for unfunded commitments, which resulted in an increase of $1.8 million $0.4 million compared to a recovery the provision of $1.3 million $0.5 million for the year ended December 31, 2021 December 31, 2022.

Litigation We have a future commitment with a third party vendor for data processing charges, which is a ten year contract that will expire at the end of 2028. Data processing expense was $3.9 million, $4.1 million and $3.8 million for 2023, 2022 and 2021, respectively.

Legal Proceedings

In the normal course of business, the Company is subject to various legal and administrative proceedings and claims. Legal and administrative proceedings are subject to inherent uncertainties and unfavorable rulings could occur, and the timing and outcome of any legal or administrative proceeding cannot be predicted with certainty. Further, estimating an amount or range of possible losses that may result from legal or administrative proceedings and claims is inherently difficult and requires an extensive degree of judgment, particularly where the matters involve indeterminate claims for monetary damages, may involve awards that are discretionary in amount, present novel legal theories or policies, are in the early stages of the proceedings, or are subject to appeal. In addition, because legal proceedings may be resolved over an extended period of time, potential losses are subject to change due to the outcome of intermediate procedural and substantive rulings, actions by other parties which may be influenced by their settlement posture or their evaluation of the strength or weakness of their case, and other factors.

For these reasons, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the matters described below, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

Other than as set forth below, as of December 31, 2023, the Company is not involved in any other material pending legal proceedings other than proceedings occurring in the ordinary course of business.

Justice Collection Actions

The Bank is engaged in a variety of collection proceedings (the “Collection Actions”) against various related entities that are owned and/or controlled by James C. Justice, II, Cathy L. Justice and James C. Justice, III (such entities, the “Justice Entities” and collectively with the individuals, the “Collection Defendants”). On April 20, 2023 and May 15, 2023, the Bank filed in the Circuit Court of the City of Martinsville, Virginia (the “Martinsville Circuit Court”) confessions of judgment against the Collection Defendants with respect to amounts owed on matured promissory notes made or guaranteed by the Collection Defendants with an aggregate principal balance of approximately $301 million. On May 12, 2023 and June 7, 2023, the Collection Defendants filed motions to set aside the confessions of judgment on the basis that the Bank allegedly (i) violated anti-tying provisions of the Bank Holding Company Act of 1956, as amended, (ii) breached contractual obligations and fiduciary duties to the Collection Defendants and (iii) tortiously interfered with the Collection Defendants’ business expectancies and relationships, among other allegations. On December 11, 2023, the Martinsville Circuit Court heard oral arguments on the motions to set aside the confessions of judgment filed by the Collection Defendants. On January 22, 2024, the Martinsville Circuit Court issued a letter opinion denying such motions. On February 21, 2024, the Martinsville Circuit Court issued final orders denying such motions. On February 26, 2024, the Collection Defendants filed a notice of appeal regarding the Martinsville Circuit Court’s order denying such motions.

Pursuant to the confessions of judgment that were upheld by the Martinsville Circuit Court, the Bank has initiated collection processes against the Collection Defendants (see “—Justice Foreclosure Litigation”).

The Company and the Bank intend to pursue vigorously the Collection Actions and enforce the confessions of judgment and related agreements, including but not limited to release and affirmation agreements and indemnification agreements. The Company and the Bank vigorously deny the allegations contained in the Collection Defendants’ motions to set aside the confessions of judgment and, based on consultation with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations that it understands may be asserted on appeal. However, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the Collection Actions or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

Justice Federal Court Litigation

On November 10, 2023, the Company, the Bank, and the individual directors of the Company and the Bank were named as defendants in a lawsuit (the “Justice Federal Court Litigation”) filed in the United States District Court for the Southern District of West Virginia by the Collection Defendants. The allegations contained in the Justice Federal Court Litigation relate to the matured promissory notes made or guaranteed by the Collection Defendants that are the subject of the Collection Actions. In the Justice Federal Court Litigation, as plaintiffs the Collection Defendants allege that the Company, the Bank and to a vicarious and limited extent, the individual directors (i) breached an implied covenant of good faith and fair dealing, (ii) breached fiduciary duties, (iii) tortiously interfered with business relations and (iv) violated anti-tying restrictions of the Bank Holding Company Act of 1956, as amended, and allege that the individual directors aided and abetted the same. As plaintiffs in the Justice Federal Court Litigation, the Collection Defendants seek monetary damages of not less than $1.0 billion, additional punitive damages and interest on damages as allowed by law, payment of costs, expenses and attorneys’ fees, and a declaratory judgment from the court that certain confessions of judgment, and certain guarantees, be declared void and unenforceable. The Company and the Bank deny the allegations contained in the Justice Federal Court Litigation and intend to vigorously defend the matter and the validity and enforceability of the confessions of judgment and of each of the Bank’s loan documents, including the guarantees. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Company, the Bank and the individual defendants have meritorious defenses to all allegations contained in the Justice Federal Court Litigation.

Because the Justice Federal Court Litigation is in its early stages, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the Justice Federal Court Litigation or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

Justice Foreclosure Litigation

On February 7, 2024, the Bank was named as a defendant in a lawsuit (the “Justice Foreclosure Litigation”) filed in the Circuit Court of Greenbrier County, West Virginia (the “Greenbrier Circuit Court”) by Greenbrier Sporting Club Development Co., Inc. and The Greenbrier Sporting Club, Inc. (collectively, “Sporting Club”). The Justice Foreclosure Litigation relates to a deed of trust (the “Trust Deed”) granted by Sporting Club in favor of the Bank. The trustee under this deed of trust was also named as a defendant. In the Justice Foreclosure Litigation, Sporting Club requests the Greenbrier Circuit Court to issue declaratory judgments that the Trust Deed is invalid and unenforceable, the Notice of Sale (defined below) is invalid and of no effect, and that the trustee and the Bank may not sell the property described in the Notice of Sale. Sporting Club also requests the Greenbrier Circuit Court to issue a declaratory judgment that the debts secured by the Trust Deed are not payable and therefore no trustee sale is permitted, or alternatively that Sporting Club is entitled to final adjudication of the Justice Federal Court Litigation before any sale of property by the trustee under the Trust Deed may proceed.

On or about February 6, 2024, a notice of sale (the “Notice of Sale”) was published in multiple newspapers regarding the proposed sale by the Trustee of certain real estate encumbered by the Trust Deed. The debts secured by the Trust Deed matured on April 15, 2023 and the Bank filed confessions of judgment with respect to such debts in the Martinsville Circuit Court. See the description of the Justice Collection Litigation above. On February 16, 2024, the Bank cancelled the proposed sale by the Trustee of the real estate encumbered by the Trust Deed.

The Bank disputes all allegations contained in the Justice Foreclosure Litigation and intends to defend vigorously the matter and the validity and enforceability of the Trust Deed, the validity and collectability of the debts owed to the Bank by the Sporting Club. The Bank intends to oppose vigorously the injunctive relief requested by Sporting Club in the Justice

Foreclosure Litigation. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations contained in the Justice Foreclosure Litigation.

Because the Justice Foreclosure Litigation is in its early stages, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the Justice Foreclosure Litigation or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

GLAS Federal Court Litigation

On February 12, 2024, the Bank was named as a defendant in a lawsuit (the “GLAS Federal Court Litigation”) filed in the United States District Court for the Western District of Virginia by GLAS Trust Company LLC (“GLAS”). The allegations contained in the GLAS Federal Court Litigation relate to a series of financing transactions that occurred in 2018 between Bluestone Resources, Inc. (“Bluestone Resources”), its subsidiary Bluestone Coal Sales Corporation (“Bluestone Sales”, and together with Bluestone Resources and their respective affiliates, the “Bluestone Entities”), and Greensill (UK) Limited, Ltd. (“Greensill”). The Bluestone Entities are owned and controlled by James C. Justice, II, Cathy L. Justice and James C. Justice, III. In the GLAS Federal Court Litigation, GLAS alleges that it serves as trustee for investors that acquired notes via a series of securities transactions that repackaged the Bluestone Entities’ obligations to repay Greensill and sold them to those investors. In the GLAS Federal Court Litigation, GLAS alleges that certain transfers to the Bank executed during 2018 by the Bluestone Entities or Greensill, which in the aggregate total approximately $226 million, each constitute either a fraudulent conveyance, or a voluntary conveyance, under Virginia law. In the GLAS Federal Court Litigation, GLAS seeks an award equal to the full amount of such fraudulent conveyances and/or voluntary conveyances plus interest and payment of attorneys’ fees and costs.

The Company and the Bank deny the allegations contained in the GLAS Federal Court Litigation and intend to defend vigorously all claims asserted in the GLAS Federal Court Litigation. Based on information presently available to the Company and the Bank and based on consultation with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations contained in the GLAS Federal Court Litigation.

During the course of the Bank’s lending transactions with James C. Justice, II, Cathy L. Justice and James C. Justice, III, and various Justice Entities, each of James C. Justice, II, Cathy L. Justice and James C. Justice, III and certain Justice Entities agreed (the “Justice Indemnity Agreement”) to indemnify, defend and hold harmless the Bank from damages, claims, liabilities, losses, and expenses incurred in connection with certain claims that may be asserted against the Bank, including the claims that are asserted in the GLAS Federal Court Litigation. These indemnity obligations are supported by substantial pledged collateral. The Company and the Bank intend to pursue vigorously all remedies afforded to the Bank under the Justice Indemnity Agreement.

Because the GLAS Federal Court Litigation is in its early stages, the Company cannot reasonably estimate the ultimate outcome or timing of, or possible losses resulting from, the GLAS Federal Court Litigation or any related legal proceedings that may commence, and cannot conclude if the outcome of any of these matters would have a material impact to the Company.

NOTE 18 19 – REVENUE FROM CONTRACTS WITH CUSTOMERS

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions and return on investment. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Company’s revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts: Service charges on deposit accounts consist of overdraft fees, service charges on returned checks, stop payment fees, check chargeback fees, minimum balance fees, and other deposit account related fees. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on returned checks are recognized at the point in time that a check is returned. Transaction-based fees, which include services such as stop payment fees, check chargeback fees, and other deposit account related fees are recognized at the point in time the Company fulfills the customer’s request. Minimum balance fees are system-assessed at the point in time that a customer's balance is below the required minimum for the product. Service charges on deposits are withdrawn from the customer's account balance.

Other Fees and Other Income: Other fees and other income consists of safe deposit rents, money order fees, check cashing and cashiers' check fees, wire transfer fees, letter of credit fees, check order income, and other miscellaneous fees. These fees are largely transaction-based; therefore, the Company's performance obligation is satisfied and the resultant revenue is recognized at the point in time the service is rendered. Payments for transaction-based fees are generally received immediately or in the following month by a direct charge to a customer's account.

Debit Card Interchange Fees: The Company earns interchange fees from debit cardholder transactions conducted through a card payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Insurance: Commission income is earned based on customer transactions. The commission income is recognized when the transaction is complete. The Company also receives a return on its investment in Bankers Insurance, LLC on an annual basis based on the income of the equity insurance company and percentage of ownership.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

OREO Income: The Company owns properties acquired through foreclosure that are included in other real estate owned, net on the Consolidated Balance Sheet. If the Company rents any of those properties, the resultant income is recognized at the point of receipt since the performance obligation has been satisfied. The rents are generally received monthly.

Gains/Losses on Sales of OREO: The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is disposed and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

The following table summarizes the point of revenue recognition and the income recognized for each of the revenue streams for the years ended December 31:

(Dollars in Thousands)	(Dollars in Thousands)	Point of Revenue Recognition	2022	2021	2020	(Dollars in Thousands)	Point of Revenue Recognition	2023	2022	2021
In-Scope Revenue Streams	**In-Scope Revenue Streams**									
Service Charges on Deposit Accounts	Service Charges on Deposit Accounts	At a point in time	$ 5,537	$ 5,036	$ 3,518					
Service Charges on Deposit Accounts										
Service Charges on Deposit Accounts										
Other Fees and Other Income	Other Fees and Other Income	At a point in time	3,284	3,233	2,497					
Debit Card Interchange Fees	Debit Card Interchange Fees	At a point in time	7,427	7,226	5,857					
Commercial Loan Swap Fee Income		At a point in time	774	2,416	4,051					
Insurance	Insurance									
Customer Commissions										
Customer Commissions										
Customer Commissions	Customer Commissions	At a point in time	104	91	73					

Annual Commission on Investment	Annual Commission on Investment	Over time	1,857	1,681	1,366				
Special Production Payout	Special Production Payout	Over time	—	129	289				
Other Real Estate Owned Income	Other Real Estate Owned Income	At a point in time	50	90	340				
Gains on Sales and Write-downs of Bank Premises, net	Gains on Sales and Write-downs of Bank Premises, net	At a point in time	73	—	—				
Gains (Losses) on Sale of Other Real Estate Owned	Gains (Losses) on Sale of Other Real Estate Owned	At a point in time	***	***	***	Gains (Losses) on Sale of Other Real Estate Owned	At a point in time		***
Total In-Scope Revenue Streams	**Total In-Scope Revenue Streams**		**19,106**	**19,902**	**17,991**				
Out of Scope Revenue Streams	**Out of Scope Revenue Streams**								
Gain on Sales of Securities, net			46	6,869	6,882				
Out of Scope Revenue Streams									
Out of Scope Revenue Streams									
(Losses) Gain on Sales of Securities, net									
(Losses) Gain on Sales of Securities, net									
(Losses) Gain on Sales of Securities, net									
Bank Owned Life Insurance Income	Bank Owned Life Insurance Income		1,357	1,380	1,400				
Commercial Loan Swap Fee Income									
Other	Other		1,209	730	307				
Total Noninterest Income	**Total Noninterest Income**		**$21,718**	**$28,881**	**$26,580**				

****Reported net with Losses on Sales and Write-downs of Other Real Owned in Noninterest Expense*

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

NOTE 19 20 – PARENT COMPANY CONDENSED FINANCIAL INFORMATION

Balance Sheets

		December 31,				
		December 31,			December 31,	
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	(Dollars in Thousands)	2023	2022
ASSETS	ASSETS					
Cash						
Cash						
Cash	Cash	$ 2,199	$ 5,142			
Investment in Bank Subsidiary	Investment in Bank Subsidiary	321,732	402,190			
Other Assets	Other Assets	4,699	571			
Total Assets	**Total Assets**	**$ 328,630**	**$ 407,903**			
LIABILITIES	**LIABILITIES**					
LIABILITIES						
LIABILITIES						
Other Liabilities						
Other Liabilities						
Other Liabilities	Other Liabilities	$ 3	$ 307			
Total Shareholders' Equity	Total Shareholders' Equity	328,627	407,596			
Total Liabilities and Shareholders' Equity	**Total Liabilities and Shareholders' Equity**	**$ 328,630**	**$ 407,903**			

Statements of Net Income (Loss)

	December 31,		
(Dollars in Thousands)	2022	2021	2020
Dividends from Subsidiaries	$ 45,377	$ 6,000	$ 1,000
Total Expenses	(2,696)	(2,238)	(594)
Income Before Income Tax Benefit and Undistributed Net Income (Loss) of Bank Subsidiary	**42,681**	**3,762**	**406**
Income Tax Benefit	(577)	(446)	—
Income Before Undistributed Net Income (Loss) of Bank Subsidiary	**43,258**	**4,208**	**406**
Equity in Undistributed Net Income (Loss) of Bank Subsidiary	6,860	27,382	(46,264)
Net Income (Loss)	**$ 50,118**	**$ 31,590**	**$ (45,858)**
Comprehensive (Loss) Income	**$ (37,200)**	**$ 17,571**	**$ (30,264)**

	December 31,		
(Dollars in Thousands)	2023	2022	2021
Dividends from Subsidiaries	$ 14,029	$ 45,377	$ 6,000
Total Income	418	—	—
Total Expenses	(3,011)	(2,696)	(2,238)
Income Before Income Tax Benefit and Undistributed Net Income of Bank Subsidiary	**11,436**	**42,681**	**3,762**
Income Tax Benefit	(534)	(577)	(446)
Income Before Undistributed Net Income of Bank Subsidiary	**11,970**	**43,258**	**4,208**
Equity in Undistributed Net Income of Bank Subsidiary	11,414	6,860	27,382
Net Income	**$ 23,384**	**$ 50,118**	**$ 31,590**
Comprehensive Income (Loss)	**$ 37,561**	**$ (37,200)**	**$ 17,571**

Statements of Cash Flows

		December 31,					
		December 31,					December 31,
(Dollars in Thousands)	(Dollars in Thousands)	2022	2021	2020	(Dollars in Thousands) 2023	2022	2021
OPERATING ACTIVITIES	OPERATING ACTIVITIES						
Net Income (Loss)		$50,118	$31,590	$(45,858)			
Equity in Undistributed Net (Income) Loss of Bank Subsidiary		(6,860)	(27,382)	46,264			
Adjustments to Reconcile Net Income (Loss) to Net Cash Provided by							
Net Income							
Net Income							
Net Income							
Equity in Undistributed Net Income of Bank Subsidiary							
Adjustments to Reconcile Net Income to Net Cash Provided by							
Operating Activities							
Operating Activities							
Operating Activities	Operating Activities						
Stock Compensation Expense	Stock Compensation Expense	1,314	1,040	215			
Increase in Other Assets		(3,778)	(571)	—			
Stock Compensation Expense							
Stock Compensation Expense							
Decrease (Increase) in Other Assets							
Decrease in Other Liabilities	Decrease in Other Liabilities	(460)	—	—			
(Decrease) Increase in Intercompany Liability		—	(17)	18			
Decrease in Intercompany Liability							
Net Cash Provided by Operating Activities	**Net Cash Provided by Operating Activities**	**40,334**	**4,660**	**639**			
INVESTING ACTIVITIES	**INVESTING ACTIVITIES**						
Equity Investment in Non-Subsidiary, net of distributions							

Equity Investment in Non-Subsidiary, net of distributions				
Equity Investment in Non-Subsidiary, net of distributions	Equity Investment in Non-Subsidiary, net of distributions	(350)	—	—
		(412)	(350)	(350)
Net Cash Used in Investing Activities	**Net Cash Used in Investing Activities**	**(350)**	**—**	**—**
FINANCING ACTIVITIES	**FINANCING ACTIVITIES**			
Repurchase of Common Stock	Repurchase of Common Stock	(42,927)	(157)	—
Repurchase of Common Stock				
Repurchase of Common Stock				
Net Cash Used In Financing Activities				
Net Cash Used In Financing Activities				
Net Cash Used In Financing Activities	**Net Cash Used In Financing Activities**	**(42,927)**	**(157)**	**—**
Net (Decrease) Increase in Cash	Net (Decrease) Increase in Cash	(2,943)	4,503	639
Cash at Beginning of Year	Cash at Beginning of Year	5,142	639	—
Cash at End of Year	**Cash at End of Year**	**$ 2,199**	**$ 5,142**	**$ 639**

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

NOTE 20 21 - CAPITAL ADEQUACY

The Company and the Bank are subject to various capital requirements administered by the federal banking regulators. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies. Quantitative measures established by regulations to ensure capital adequacy require the Company to maintain minimum amounts and ratios.

The Basel rules also permit banking organizations with less than $15.0 billion in assets to retain, through a one-time election, existing treatment for accumulated other comprehensive (loss) income, loss, which currently does not affect regulatory capital. The Company elected to retain this treatment which reduces the volatility of regulatory capital levels.

The Basel III Capital Rules require the Company and the Bank to maintain minimum Common Equity Tier 1, Tier 1 and Total Capital ratios, along with a capital conservation buffer, effectively resulting in new minimum capital ratios (which are shown in the table below). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall. The Basel III Capital Rules also provide for a 2.5% "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or the Bank. The capital conservation buffer was phased in at the rate of 0.625% per year and was 2.5% on January 1, 2019. Management believes as of December 31, 2022 December 31, 2023, the Company and the Bank met all capital adequacy requirements to which the Company is subject and satisfied the applicable capital conservation buffer requirements.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 2023 and 2021, 2022, the most recent regulatory notifications categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

CARTER BANKSHARES, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (continued)

The following table summarizes risk-based capital amounts and ratios for the Company and the Bank: Bank, excluding the 2.5% capital conservation buffer:

	Actual		Minimum Regulatory Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2022						
Leverage Ratio						
Carter Bankshares, Inc.	$ 439,606	10.29 %	$ 170,906	4.00 %	NA	NA
Carter Bank & Trust	432,711	10.13 %	170,857	4.00 %	$ 213,571	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 439,606	12.61 %	$ 156,936	4.50 %	NA	NA
Carter Bank & Trust	432,711	12.42 %	156,722	4.50 %	$ 226,376	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 439,606	12.61 %	$ 209,248	6.00 %	NA	NA
Carter Bank & Trust	432,711	12.42 %	208,962	6.00 %	$ 278,617	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 483,450	13.86 %	$ 278,997	8.00 %	NA	NA
Carter Bank & Trust	476,496	13.68 %	278,617	8.00 %	$ 348,271	10.00 %
As of December 31, 2021						
Leverage Ratio						
Carter Bankshares, Inc.	$ 443,940	10.62 %	$ 167,184	4.00 %	NA	NA
Carter Bank & Trust	438,533	10.49 %	167,170	4.00 %	$ 208,962	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 443,940	14.21 %	$ 140,606	4.50 %	NA	NA
Carter Bank & Trust	438,533	14.04 %	140,580	4.50 %	$ 203,061	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 443,940	14.21 %	$ 187,475	6.00 %	NA	NA
Carter Bank & Trust	438,533	14.04 %	187,441	6.00 %	$ 249,921	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 483,124	15.46 %	$ 249,967	8.00 %	NA	NA
Carter Bank & Trust	477,710	15.29 %	249,921	8.00 %	$ 312,401	10.00 %

The Company was incorporated on October 7, 2020 in connection with the Reorganization. The Reorganization was completed on November 20, 2020 pursuant to an Agreement and Plan of Reorganization among the Bank, the Company and CBT Merger Sub, Inc., and the Bank survived the Reorganization as a wholly-owned subsidiary of the Company. In the Reorganization, each of the outstanding shares of the Bank's common stock was converted into and exchanged for one newly issued share of the Company's common stock.

	Actual		Minimum Regulatory Capital Requirements		To be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in Thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2023						
Leverage Ratio						

Carter Bankshares, Inc.	$ 435,364	9.48 %	$ 183,636	4.00 %	NA	NA
Carter Bank & Trust	431,550	9.41 %	183,427	4.00 %	$ 229,283	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 435,364	11.08 %	$ 176,868	4.50 %	NA	NA
Carter Bank & Trust	431,550	10.99 %	176,716	4.50 %	$ 255,256	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 435,364	11.08 %	$ 235,824	6.00 %	NA	NA
Carter Bank & Trust	431,550	10.99 %	235,621	6.00 %	$ 314,161	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 484,925	12.34 %	$ 314,432	8.00 %	NA	NA
Carter Bank & Trust	481,070	12.25 %	314,161	8.00 %	$ 392,702	10.00 %
As of December 31, 2022						
Leverage Ratio						
Carter Bankshares, Inc.	$ 439,606	10.29 %	$ 170,906	4.00 %	NA	NA
Carter Bank & Trust	432,711	10.13 %	170,857	4.00 %	$ 213,571	5.00 %
Common Equity Tier 1 (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 439,606	12.61 %	$ 156,936	4.50 %	NA	NA
Carter Bank & Trust	432,711	12.42 %	156,722	4.50 %	$ 226,376	6.50 %
Tier 1 Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 439,606	12.61 %	$ 209,248	6.00 %	NA	NA
Carter Bank & Trust	432,711	12.42 %	208,962	6.00 %	$ 278,617	8.00 %
Total Capital (to Risk-Weighted Assets)						
Carter Bankshares, Inc.	$ 483,450	13.86 %	$ 278,997	8.00 %	NA	NA
Carter Bank & Trust	476,496	13.68 %	278,617	8.00 %	$ 348,271	10.00 %

In December 2018, the Office of the Comptroller of the Currency, (the “OCC”), the FRB, and the FDIC, approved a final rule to address changes to credit loss accounting under GAAP, including banking organizations’ implementation of CECL. The final rule provides banking organizations the option to phase in over a three-year period the Day 1 adverse effects on regulatory capital that may result from the adoption of the new accounting standard. On March 27, 2020, the regulators issued interim final rule (“IFR”), “Regulatory Capital Rule: Revised Transition of the Current Expected Credit Losses Methodology for Allowances” in response to the disrupted economic activity from the spread of COVID-19. The IFR maintains the three-year transition option in the previous rule and provides banks the option to delay for two years an estimate of CECL’s effect on regulatory capital, relative to the incurred loss methodology’s effect on regulatory capital, followed by a three-year transition period (five-year transition option). We adopted CECL effective January 1, 2021 and elected to implement the capital transition relief over the permissible three-year period.

NOTE 21 - QUARTERLY FINANCIAL DATA (Unaudited)

The following summarizes the quarterly results of operations for the years ended December 31:

	2022			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 32,678	$ 36,961	$ 42,327	$ 48,216
Total Interest Expense	4,456	4,502	4,602	6,694
Net Interest Income	**28,222**	**32,459**	**37,725**	**41,522**
Provision (Recovery) for Credit Losses	630	1,814	(77)	52
(Recovery) Provision for Unfunded Commitments	(236)	269	157	319
Net Interest Income after Provision (Recovery) for Credit Losses	**27,828**	**30,376**	**37,645**	**41,151**
Total Noninterest Income	5,335	5,604	5,235	5,544
Total Noninterest Expense	22,511	23,410	23,463	27,617
Income Before Income Taxes	**10,652**	**12,570**	**19,417**	**19,078**
Income Tax Provision	1,329	1,792	5,009	3,469

Net Income	**$ 9,323**	**$ 10,778**	**$ 14,408**	**$ 15,609**
Earnings Per Common Share	**$ 0.36**	**$ 0.44**	**$ 0.59**	**$ 0.65**

	2021			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 32,957	$ 33,094	$ 34,913	$ 32,933
Total Interest Expense	6,428	5,891	5,512	4,883
Net Interest Income	**26,529**	**27,203**	**29,401**	**28,050**
Provision (Recovery) for Credit Losses	1,857	967	(413)	939
Recovery for Unfunded Commitments	(282)	(603)	(60)	(324)
Net Interest Income after Provision (Recovery) for Credit Losses	**24,954**	**26,839**	**29,874**	**27,435**
Total Noninterest Income	8,952	7,238	6,915	5,776
Total Noninterest Expense	23,605	27,759	24,685	26,236
Income Before Income Taxes	**10,301**	**6,318**	**12,104**	**6,975**
Income Tax Provision	926	886	931	1,365
Net Income	**$ 9,375**	**$ 5,432**	**$ 11,173**	**$ 5,610**
Earnings Per Common Share	**$ 0.36**	**$ 0.21**	**$ 0.42**	**$ 0.21**

	2020			
(Dollars in Thousands)	**First Quarter**	**Second Quarter**	**Third Quarter**	**Fourth Quarter**
Total Interest Income	$ 37,836	$ 35,617	$ 33,986	$ 33,502
Total Interest Expense	10,572	9,355	8,550	7,349
Net Interest Income	**27,264**	**26,262**	**25,436**	**26,153**
Provision for Credit Losses	4,798	5,473	2,914	4,821
Net Interest Income after Provision for Credit Losses	**22,466**	**20,789**	**22,522**	**21,332**
Total Noninterest Income	6,952	6,064	7,975	5,589
Total Noninterest Expense	24,748	22,886	87,300	23,841
Income (Loss) Before Income Taxes	**4,670**	**3,967**	**(56,803)**	**3,080**
Income Tax Provision (Benefit)	247	(488)	875	138
Net Income (Loss)	**$ 4,423**	**$ 4,455**	**$ (57,678)**	**$ 2,942**
Earnings (Loss) Per Common Share	**$ 0.17**	**$ 0.17**	**$ (2.19)**	**$ 0.11**

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Crowe LLP
Independent Member Crowe Global

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Shareholders and the Board of Directors of Carter Bankshares, Inc. and Subsidiaries

Martinsville, VA

Virginia

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Carter Bankshares, Inc. and Subsidiaries (the "Company") as of December 31, 2022 December 31, 2023 and 2021, 2022, the related consolidated statements of income, comprehensive income (loss), comprehensive (loss) income, changes in shareholders' equity, and cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023, and the related notes (collectively referred to as the "financial statements"). We also have audited the Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 December 31, 2023 and 2021, 2022, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2022 December 31, 2023 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022 December 31, 2023, based on criteria established in Internal Control – Integrated Framework: (2013) issued by COSO.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2021 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles.

Basis for Opinions

The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the financial statements included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such

procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Individually Evaluated Other Pool

Loans

The Company's methodology for estimating the allowance for credit losses includes segmentation, quantitative analysis, qualitative analysis, and qualitative analysis. individually evaluated loans. The Company's loan portfolio is segmented by homogeneous loan types that behave similarly to economic cycles. Further, management elected to evaluate certain loans based on shared but unique risk attributes by segmenting into the Other pool. The loans included in the Other pool of the model were underwritten and approved based on standards that are inconsistent with the Company's current underwriting standards. During 2023, $302 million of the $305 million, or 98.9%, of the Other pool loans were transferred to individually evaluated. The allowance for credit losses as of December 31, 2022 December 31, 2023 was $93.9 million $97.1 million. The reserves associated with $54.7 million, or 58%, being attributed to these individually evaluated loans are $54.4 million and represent 56% of the Other pool.

overall allowance for credit losses.

The model reserves for the individually evaluated loans within the Other pool was are based upon discounted cash flow valuation techniques to estimate the timing and magnitude of potential recoveries resulting from various collection processes. The techniques were developed with subjective assumptions, that may cause volatility driven by including the following key factors: prepayment speeds, timing and magnitude of contractual payments, collections, discount rate, as well as other factors. The discount rate is reflective of the inherent risk in the Other pool. A substantial change in these assumptions could cause a significant impact to the model causing volatility. Management reviews the model output for appropriateness and subjectively makes adjustments adjusts as needed.

We identified the allowance for credit losses – individually evaluated Other pool loans as a critical audit matter because of the extent of auditor judgment applied and significant audit effort to evaluate the significant subjective and complex judgments made by management in the development of the estimate.

The primary procedures performed to address this critical audit matter include:

Testing the effectiveness of internal controls over:

- The Company's affirmation of the key assumptions used in the model, including the discount rate, timing and qualitative magnitude of collections, and other adjustments
- The completeness and accuracy of data used in the model

Substantively testing management's estimate, which included:

- Assessing the reasonableness of management's selection of discount rate, timing and qualitative magnitude of collections, and other adjustments
- Evaluating the mathematical accuracy of the discounted cash flow model used for the Other pool, including evaluating the completeness and accuracy of loan data used in the model

/s/ Crowe LLP

We have served as the Company's auditor since 2019.

Washington, D.C.

March 10, 2023 8, 2024

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURES

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Under the supervision and with the participation of the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") (its principal executive officer and principal financial officer, respectively), management has evaluated the effectiveness of the design and operation of the Company's disclosure controls and procedures as of December 31, 2022 December 31, 2023. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives.

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, is recorded, processed, summarized and reported within the time periods required by the Securities and Exchange Commission, or the SEC, and that such information is accumulated and communicated to the Company's management, including our CEO and CFO as appropriate, to allow timely decisions regarding required disclosure.

Based on and as of the date of such evaluation, our CEO and CFO concluded that the design and operation of our disclosure controls and procedures were effective in all material respects, as of the end of the period covered by this Report.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, (as defined in Exchange Act Rule 13a-15(f)). Our internal control over financial reporting is a process designed by or under the supervision of, our CEO and CFO to provide reasonable assurance to our management and Board of Directors regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. generally accepted accounting principles. A Company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of the effectiveness of specific controls or internal control over financial reporting overall to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Based on this assessment, management concludes that, as of December 31, 2022 December 31, 2023, the Company's system of internal control over financial reporting is effective and meets the criteria of the "Internal Control Integrated Framework (2013)." Crowe LLP, our independent registered public accounting firm, has issued a report on the effectiveness of Company's internal control over financial reporting as of December 31, 2022 December 31, 2023, which is included herein.

Changes in Internal Control Over Financial Reporting

No other changes were made to our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended December 31, 2022 December 31, 2023 that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

CARTER BANKSHARES, INC. AND SUBSIDIARIES

ITEM 9B. OTHER INFORMATION

None During the three months ended December 31, 2023, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934, as amended) adopted, modified or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K of the Securities Act of 1933).

ITEM 9C. DISCLOSURES REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not applicable

CARTER BANKSHARES, INC. AND SUBSIDIARIES

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Part III, Item 10 of Form 10-K is incorporated herein from the sections entitled – “Delinquent Section 16(a) Reports,” Reports” (if applicable), “Proposal 1 -- Election of Directors,” “Independence and Committee Memberships,” “Executive Officers of the Registrant,” and "Corporate Governance - Meetings and Committee of the Board of Directors" in our proxy statement relating to our May 24, 2023 May 22, 2024 annual meeting of shareholders.

Code of Ethics

The Company has adopted a Code of Conduct (the “Code”) that applies to its directors, executive officers and associates and is available on the Company’s website at www.CBTCares.com under “Investor – Corporate Information – Governance Documents.” The Company intends to provide any required disclosure of any amendment to or waiver of the Code that applies to its principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions, on www.CBTCares.com under “Investor – Corporate Information – Governance Documents” promptly following the amendment or waiver. The information contained on or connected to the Company’s website is not incorporated by reference in this Annual Report on Form 10-K and should not be considered part of this or any other report or document that we file or furnish to the SEC.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Part III, Item 11 of Form 10-K is incorporated herein from the sections entitled “Executive Compensation” and “Director Compensation” in our proxy statement relating to our May 24, 2023 22, 2024 annual meeting of shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by Part III, Item 12 of Form 10-K is incorporated herein from the sections entitled “Principal Beneficial Owners of Carter Bankshares, Inc. Common Stock” and “Beneficial Ownership of Carter Bankshares, Inc. Common Stock by Directors and Officers” in our proxy statement relating to our May 24, 2023 22, 2024 annual meeting of shareholders.

Equity Compensation Plan Information

The following table provides summary information as of December 31, 2022 2023 related to the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Plan, the only equity compensation plan under which the Company’s securities are authorized for issuance.

		(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted average exercise price of outstanding options, warrants and rights (1)	(c) Number of securities remaining available for future issuance under equity compensation plan (excluding securities reflected in column (a))
Equity compensation plan approved by shareholders	Equity compensation plan approved by shareholders	30,630 (2)	$—	1,642,899			

Equity compensation plans not approved by shareholders	Equity compensation plans not approved by shareholders	—	—		Equity compensation plans not approved by shareholders	—	—	—
Total	Total	30,630	$—	1,642,899				

(1) The weighted average exercise price does not take into account the outstanding performance unit awards noted in footnote (2) of this table. Performance unit awards do not have an exercise price and are delivered without any payment by the award recipient.

(2) The amount shown reflects the maximum number of shares that may be issued under outstanding performance units if maximum performance goals are achieved. However, the actual number of shares issued under the performance units will depend on the level of performance achieved during a three-year performance period. The award recipient may receive less than the maximum number of shares under the outstanding performance units and may receive no payout under the outstanding performance units.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Part III, Item 13 of Form 10-K is incorporated herein from the sections entitled "Related Person Transactions" and "Corporate Governance -- Director Independence" in our proxy statement relating to our May 24, 2023 22, 2024 annual meeting of shareholders.

ITEM 14. PRINCIPAL ACCOUNTING ACCOUNTANT FEES AND SERVICES

The information required by Part III, Item 14 of Form 10-K is incorporated herein from the section entitled "Independent Registered Public Accounting Firm" in our proxy statement relating to our May 24, 2023 22, 2024 annual meeting of shareholders.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report on Form 10-K and are incorporated by reference and found where noted below. below.

Consolidated Financial Statements: The following Consolidated Financial Statements are included in Part II, Item 8 of this Annual Report on Form 10-K. No financial statement schedules are being filed because the required information is inapplicable or is presented in the Consolidated Financial Statements or related notes.

(b) Exhibits

2.1	Agreement and Plan of Reorganization by and among Carter Bank & Trust, Carter Bankshares, Inc. and CBT Merger Sub, Inc., dated November 9, 2020 (incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
3.1	Articles of Incorporation of Carter Bankshares, Inc., effective October 7, 2020 (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
3.2	Bylaws of Carter Bankshares, Inc., as adopted October 28, 2020 (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
4.1	Description of Common Stock (incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on November 23, 2020)
10.1*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Wendy S. Bell (incorporated by reference to Exhibit 10.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.2*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Litz Van Dyke (incorporated by reference to Exhibit 10.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES – (continued)

10.3*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Phyllis Q. Karavatakis (incorporated by reference to Exhibit 10.3 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.4*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Jane Ann Davis (incorporated by reference to Exhibit 10.4 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.5*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Bradford N. Langs (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.6*	Amended and Restated Employment Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Matthew M. Speare (incorporated by reference to Exhibit 10.6 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7*	Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan, effective November 20, 2020 (incorporated by reference to Exhibit 99.1 to the Company's Registration Statement on Form S-8 filed with the SEC on December 3, 2020)
10.7.1*	Form of Time-Based Restricted Stock Agreement (for employee) for use after November 20, 2020 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.7.1 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7.2*	Form of Time-Based Restricted Stock (for non-employee director) for use after November 20, 2020 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.7.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)
10.7.3*	Form of Time-Based Restricted Stock Agreement (for employee: LTIP) for use after March 2, 2022, under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.7.4*	Form of Performance Unit Agreement (for employee) for use after March 2, 2022 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.7.5*	Form of Time-Based Restricted Stock Agreement (for employee: annual) for use on or after February 17, 2022 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the SEC on March 2, 2022)
10.7.6*	Form of Time-Based Restricted Stock Agreement (for employee: AIP) for use on or after February 14, 2023 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on May 4, 2023)
10.7.7*	Form of Time-Based Restricted Stock Agreement (for employee: LTIP) for use on and after December 14, 2023 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 12, 2023)
10.7.8*	Form of Performance Unit Agreement (for employee: LTIP) for use on and after December 14, 2023 under the Carter Bankshares, Inc. Amended and Restated 2018 Omnibus Equity Incentive Plan (incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the SEC on December 12, 2023)

10.8* Carter Bankshares, Inc. Amended and Restated Annual Incentive Plan as amended and restated effective January 1, 2022January 1, 2022 (incorporated by reference to Exhibit 10.8 to the Company's QuarterlyQuarterly Report on Form 10-Q10-Q filed with the SEC on May5, 2022May 5, 2022)

10.9* Amended and Restated Change of Control Severance Agreement, dated and effective as of November 20, 2020, by and between Carter Bankshares, Inc., Carter Bank & Trust and Arthur Loran Adams (incorporated by reference to Exhibit 10.9 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

10.10* Amended and Restated Change of Control Severance Agreement, dated and effective as of November 20, 2020 by and between Carter Bankshares, Inc., Carter Bank & Trust and Tony E. Kallsen (incorporated by reference to Exhibit 10.10 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES – (continued)

10.11* Carter Bank & Trust Nonqualified Deferred Compensation Plan (executive component) - Virginia Bankers Association Model Plan (for executives) as restated as of January 1, 2018 and incorporating all amendments through November 1, 2020 (incorporated by reference to Exhibit 10.11 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

10.11.1* Adoption Agreement for Virginia Bankers Association Model Plan (for executives) as restated as of January 1, 2018 and updated January 1, 2020, effective as of January 1, 2022 (incorporated(incorporated by reference to Exhibit 10.11.1 to the Company'sCompany's Annual Report on Form 10-K filed with the SEC on March 11, 2022)

10.11.2* 162(m) Amendment to Virginia Bankers Association Model Plan (for executives) adopted November 13, 2020 (incorporated(incorporated by reference to Exhibit 10.11.2 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

10.12* Carter Bank & Trust Nonqualified Deferred Compensation Plan (director component) - Virginia Bankers Association Model Plan (for directors) as restated as of January 1, 2018 and incorporating all amendments through November 1, 2020 (incorporated by reference to Exhibit 10.12 to the Company's Annual Report on Form 10-K filed with the SEC on March 12, 2021)

10.12.1* Adoption Agreement for Virginia Bankers Association Model Plan (for directors) as restated as of January 1, 2018 and updated January 1, 2020, effective as of January 1, 2022 (incorporated(incorporated by reference to Exhibit 10.12.1 to the Company'sthe Company's Annual Report on Form 10-K filed with the SEC on March 11, 2022)

10.13* Carter Bank & Trust Non-Qualified Deferred Compensation Plan (for directors and executives) Virginia Bankers Association Model Nonqualified Supplemental Deferred Compensation Plan Document, adopted on May 19, 2022, effective as of January 1, 2023 (incorporated by reference to Exhibit 10.13 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 3, 2022)

10.13.1* Carter Bank & Trust Non-Qualified Deferred Compensation Plan (for directors and executives) Virginia Bankers Association Model Adoption Agreement, adopted on May 19May 19, 2022, 2022, effective as of January 1, 2023 (incorporated by reference to Exhibit 10.13.1 to the Company's Quarterly Report on Form 10-Q filed with the SEC on August 3, 2022)

97 Clawback Policy (filed herewith)

21.1 Subsidiaries of Carter Bankshares, Inc. (filed herewith)

23.1 Consent of Crowe LLP (filed herewith)

31.1 Certification by principal executive officer pursuant to Rule 13a-14(a) (filed herewith)

31.2 Certification by principal financial officer pursuant to Rule 13a-14(a) (filed herewith)

CARTER BANKSHARES, INC. AND SUBSIDIARIES
ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES – (continued)

32.1	Certification by principal executive officer pursuant to 18 U.S.C. §1350 (filed herewith)
32.2	Certification by principal financial officer pursuant to 18 U.S.C. §1350 (filed herewith)
101.INS	Inline XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation Linkbase
101.DEF	Inline XBRL Taxonomy Extension Definition Linkbase

101.LAB	Inline XBRL Taxonomy Extension Label Linkbase
101.PRE	Inline XBRL Taxonomy Extension Presentation Linkbase
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)

** Denotes management contract.*

ITEM 16. FORM 10-K SUMMARY

None.

CARTER BANKSHARES, INC. AND SUBSIDIARIES

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CARTER BANKSHARES, INC.
(Registrant)

By:	/s/ Litz H. Van Dyke
Name:	Litz H. Van Dyke
Title:	Chief Executive Officer (Principal Executive Officer)
Date:	March 10, 20238, 2024
By:	/s/ Wendy S. Bell
Name:	Wendy S. Bell
Title:	Chief Financial Officer (Principal Financial and Accounting Officer)
Date:	March 10, 20238, 2024

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

By: /s/ James W. Haskins
Name: James W. Haskins
Title: Chairman of the Board
Date: March 10, 2023 8, 2024

By: /s/ Litz H. Van Dyke
Name: Litz H. Van Dyke
Title: Director and Chief Executive Officer
Date: March 10, 2023 8, 2024

By: /s/ Phyllis Q. Karavatakis
Name: Phyllis Q. Karavatakis
Title: Vice Chairman of the Board
Date: March 10, 2023 8, 2024

By: /s/ Michael R. Bird
Name: Michael R. Bird
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Kevin S. Bloomfield
Name: Kevin S. Bloomfield
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Robert M. Bolton
Name: Robert M. Bolton
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Robert W. Conner
Name: Robert W. Conner
Title: Director
Date: March 10, 2023

By: /s/ Gregory W. Feldmann
Name: Gregory W. Feldmann
Title: Director
Date: March 10, 2023

By: /s/ Lanny A. Kyle, O.D.
Name: Lanny A. Kyle, O.D. Gregory W. Feldmann
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Jacob A. Lutz III
Name: Jacob A. Lutz III
Title: Director
Date: March 10, 2023 8, 2024

CARTER BANKSHARES, INC. AND SUBSIDIARIES

By: /s/ E. Warren Matthews
Name: E. Warren Matthews
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Catharine L. Midkiff
Name: Catharine L. Midkiff
Title: Director
Date: March 10, 2023 8, 2024

CARTER BANKSHARES, INC. AND SUBSIDIARIES

By: /s/ Curtis E. Stephens
Name: Curtis E. Stephens
Title: Director
Date: March 10, 2023 8, 2024

By: /s/ Elizabeth Lester Walsh
Name: Elizabeth Lester Walsh
Title: Director
Date: March 10, 2023 8, 2024

Exhibit 21.1

SUBSIDIARIES OF THE REGISTRANT

Carter Bankshares, Inc., a Virginia corporation, is a financial holding company. The table below sets forth all of our subsidiaries and the state or jurisdiction of organization of such subsidiaries.

Subsidiary	State or Jurisdiction of Organization
Carter Bank & Trust	Virginia
CB&T Investment Company	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement No. 333-251098 on Form S-8 of Carter Bankshares, Inc. and Subsidiaries of our report dated March 10 8, 2023 2024 relating to the consolidated financial statements and effectiveness of internal control over financial reporting appearing in this Annual Report on Form 10-K.

/s/ Crowe LLP

Washington, D.C.
March 10, 2023 8, 2024

Exhibit 31.1

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Litz H. Van Dyke, certify that:

1. I have reviewed this annual report on Form 10-K of Carter Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2023 8, 2024

/s/ Litz H. Van Dyke
Litz H. Van Dyke
Chief Executive Officer

Exhibit 31.2

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Wendy S. Bell, certify that:

1. I have reviewed this annual report on Form 10-K of Carter Bankshares, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 10, 2023 8, 2024

/s/ Wendy S. Bell

Wendy S. Bell

Chief Financial Officer

Exhibit 32.1

CARTER BANKSHARES, INC. AND SUBSIDIARIES

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) I, Litz H. Van Dyke, as Principal Executive Officer of Carter Bankshares, Inc., certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K for the period ended December 31, 2022 December 31, 2023, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Carter Bankshares, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: March 10, 2023 8, 2024

/s/ Litz H. Van Dyke

Litz H. Van Dyke

Chief Executive Officer
(Principal Executive Officer)

CARTER BANKSHARES, INC. AND SUBSIDIARIES

Exhibit 32.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER
PURSUANT TO § 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. § 1350)

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) I, Wendy S. Bell, as Principal Financial Officer of Carter Bankshares, Inc., certify that, to the best of my knowledge and belief, the Annual Report on Form 10-K for the period ended December 31, 2022 December 31, 2023, which accompanies this certification fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and the information contained in the periodic report fairly presents, in all material respects, the financial condition and results of operations of Carter Bankshares, Inc. at the dates and for the periods indicated. The foregoing certification is made pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350) and shall not be relied upon for any other purpose. The undersigned expressly disclaims any obligation to update the foregoing certification except as required by law.

Date: March 10, 2023 8, 2024

/s/ Wendy S. Bell

Wendy S. Bell

Chief Financial Officer
(Principal Financial Officer)

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DODD-FRANK CLAWBACK POLICY		
RESPONSIBLE DEPARTMENTS: **Human Resources**	***PREPARED/REVISED BY:*** **Paul Carney, Chief Human Resources Officer**	***DATE PREPARED/REVISED:*** September 20, 2023
NOMINATING AND COMPENSATION COMMITTEE APPROVAL ***DATE: SEPTEMBER 21, 2023 EFFECTIVE OCT 2, 2023***		**Page 1 of 6**

The Nominating and Compensation Committee (the "Compensation Committee") of the Board of Directors of Carter Bankshares, Inc. (the "Company") has adopted the following Dodd-Frank Clawback Policy (this "Policy") on September 21, 2023, effective as of October 2, 2023 (the "Effective Date"). To the extent both this Policy and any pre-existing plan, agreement or policy (an "Existing Agreement") would require recoupment of the same Erroneously Awarded Compensation (as defined in this Policy), this Policy will govern. Any Existing Agreement otherwise continues to apply according to its terms, including to Incentive-Based Compensation (as defined in this Policy) approved, awarded or granted prior to the Effective Date that is not covered by this Policy.

1. **Purpose**. The purpose of this Policy is to provide for the recoupment of certain incentive compensation pursuant to Section 954 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, in the manner required by Section 10D of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), Rule 10D-1 promulgated thereunder, and Nasdaq Listing Rule 5608 (collectively, the "Dodd-Frank Rules").

2. **Administration**. This Policy shall be administered by the Compensation Committee. Any determinations made by the Compensation Committee shall be final and binding on all affected individuals.

3. **Definitions**. For purposes of this Policy, the following capitalized terms shall have the meanings set forth below.

(a) "***Accounting Restatement***" shall mean an accounting restatement of the Company's financial statements due to the material noncompliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement (i) to correct an error in previously issued financial statements that is material to the previously issued financial statements (*i.e.,* a "Big R" restatement), or (ii) that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (*i.e.,* a "little r" restatement).

(b) "Affiliate" shall mean each entity that directly or indirectly controls, is controlled by, or is under common control with the Company.

(c) "***Clawback Eligible Incentive Compensation***" shall mean Incentive-Based Compensation Received by a Covered Executive (i) on or after the Effective Date, (ii) after beginning service as a Covered Executive, (iii) if such individual served as a Covered Executive at any time during the performance period for such Incentive-Based Compensation (irrespective of whether such individual continued to serve as a Covered Executive upon or following the Restatement Trigger Date), (iv) while the Company has a class of securities listed on a national securities exchange or a national securities association, and (v) during the applicable Clawback Period. For the avoidance of doubt, Incentive-Based Compensation Received by a Covered Executive on or after the Effective Date could, by the terms of this Policy, include amounts approved, awarded, or granted prior to such date.

(d) "***Clawback Period***" shall mean, with respect to any Accounting Restatement, the three completed fiscal years of the Company immediately preceding the Restatement Trigger Date and any transition period (that results from a change in the Company's fiscal year) within or immediately following those three completed fiscal years (except that a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of at least nine months shall count as a completed fiscal year).

(e) "***Company Group***" shall mean the Company and its Affiliates.

(f) "***Covered Executive***" shall mean any "executive officer" of the Company as defined under the Dodd-Frank Rules, and, for the avoidance of doubt, includes each individual identified as an executive officer of the Company in accordance with Item 401(b) of Regulation S-K under the Exchange Act.

(g) "***Erroneously Awarded Compensation***" shall mean the amount of Clawback Eligible Incentive Compensation that exceeds the amount of Incentive-Based Compensation that otherwise would have been Received had it been determined based on the restated amounts, computed without regard to any taxes paid. With respect to any compensation plan or program that takes into account Incentive-Based Compensation, the amount contributed to a notional account that exceeds the amount that otherwise would have been contributed had it been determined based on the restated amount, computed without regard to any taxes paid, shall be considered Erroneously Awarded Compensation, along with earnings accrued on that notional amount.

(h) "***Financial Reporting Measures***" shall mean measures that are determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and all other measures that are derived wholly or in part from such measures. Stock price and total shareholder return (and any measures that are derived wholly or in part from stock price or total shareholder return) shall for purposes of this Policy be considered Financial Reporting Measures. For the avoidance of doubt, a measure need not be presented in the Company's financial statements or included in a filing with the U.S. Securities and Exchange Commission (the "SEC") in order to be considered a Financial Reporting Measure.

(i) "***Incentive-Based Compensation***" shall mean any compensation that is granted, earned or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(j) "***Received***" shall mean the deemed receipt of Incentive-Based Compensation. Incentive-Based Compensation shall be deemed received for this purpose in the Company's fiscal period during which the Financial Reporting Measure specified in the applicable Incentive-Based Compensation award is attained, even if payment or grant of the Incentive-Based Compensation occurs after the end of that period.

(k) "***Restatement Trigger Date***" shall mean the earlier to occur of (i) the date the Board, a committee of the Board, or the officer(s) of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement, or (ii) the date a court, regulator or other legally authorized body directs the Company to prepare an Accounting Restatement.

4. Recoupment of Erroneously Awarded Compensation. Upon the occurrence of a Restatement Trigger Date, the Company shall recoup Erroneously Awarded Compensation reasonably promptly, in the manner described below. For the avoidance of doubt, the Company's obligation to recover Erroneously Awarded Compensation under this Policy is not dependent on if or when restated financial statements are filed following the Restatement Trigger Date.

(a) ***Process.*** The Compensation Committee shall use the following process for recoupment:

(i) First, the Compensation Committee will determine the amount of any Erroneously Awarded Compensation for each Covered Executive in connection with such Accounting Restatement. For Incentive-Based Compensation based on (or derived from) stock price or total shareholder return where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in the applicable Accounting Restatement, the amount shall be determined by the Compensation Committee based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was Received (in which case, the Company shall maintain documentation of such determination of that reasonable estimate and provide such documentation to The Nasdaq Stock Market ("Nasdaq")).

(ii) Second, the Compensation Committee will provide each affected Covered Executive with a written notice stating the amount of the Erroneously Awarded Compensation, a demand for recoupment, and the means of recoupment that the Company will accept.

(b) ***Means of Recoupment.*** The Compensation Committee shall have discretion to determine the appropriate means of recoupment of Erroneously Awarded Compensation, which may include without limitation: (i) recoupment of cash or shares of Company stock, (ii) forfeiture of unvested cash or equity awards (including those subject to service-based and/or performance- based vesting conditions), (iii) cancellation of outstanding vested cash or equity awards (including those for which service-based and/or performance-based vesting conditions have been satisfied), (iv) to the extent consistent with Section 409A of the Internal Revenue Code of 1986, as amended

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(“Section 409A”), offset of other amounts owed to the Covered Executive or forfeiture of deferred compensation, (v) reduction of future compensation, and (vi) any other remedial or recovery action permitted by law. Notwithstanding the foregoing, the Company Group makes no guarantee as to the treatment of such amounts under Section 409A, and shall have no liability with respect thereto. For the avoidance of doubt, appropriate means of recoupment may involve amounts approved, awarded, or granted prior to the Effective Date. Except as set forth in Section 4(d) below, in no event may the Company Group accept an amount that is less than the amount of Erroneously Awarded Compensation in satisfaction of a Covered Executive’s obligations hereunder.

(c) ***Failure to Repay.*** To the extent that a Covered Executive fails to repay all Erroneously Awarded Compensation to the Company Group when due (as determined in accordance with Section 4(a) above), the Company shall, or shall cause one or more other members of the Company Group to, take all actions reasonable and appropriate to recoup such Erroneously Awarded Compensation from the applicable Covered Executive. The applicable Covered Executive shall be required to reimburse the Company Group for any and all expenses reasonably incurred (including legal fees) by the Company Group in recouping such Erroneously Awarded Compensation.

(d) ***Exceptions.*** Notwithstanding anything herein to the contrary, the Company shall not be required to recoup Erroneously Awarded Compensation if one of the following conditions is met and the Compensation Committee determines that recoupment would be impracticable:

(i) The direct expense paid to a third party to assist in enforcing this Policy against a Covered Executive would exceed the amount to be recouped, after the Company has made a reasonable attempt to recoup the applicable Erroneously Awarded Compensation, documented such attempts, and provided such documentation to Nasdaq; or

(ii) Recoupment would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees, to fail to meet the requirements of 26U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder.

5. Reporting and Disclosure. The Company shall file all disclosures with respect to this Policy in accordance with the requirements of the Dodd-Frank Rules.

6. Indemnification Prohibition. No member of the Company Group shall be permitted to indemnify any current or former Covered Executive against (i) the loss of any Erroneously Awarded Compensation that is recouped pursuant to the terms of this Policy, or (ii) any claims relating to the Company Group’s enforcement of its rights under this Policy. The Company may not pay or reimburse any Covered Executive for the cost of third-party insurance purchased by a Covered Executive to fund potential recoupment obligations under this Policy.

7. Acknowledgment. To the extent required by the Compensation Committee, each Covered Executive shall be required to sign and return to the Company the acknowledgement form attached hereto as <u>Exhibit A</u> pursuant to which such Covered Executive will agree to be bound by the terms of, and comply with, this Policy. For the avoidance of doubt, each Covered Executive will be fully bound by, and must comply with, the Policy, whether or not such Covered Executive has executed and returned such acknowledgment form to the Company.

8. Interpretation. The Compensation Committee is authorized to interpret and construe this Policy and to make all determinations necessary, appropriate, or advisable for the administration of this Policy. The Compensation Committee intends that this Policy be interpreted consistent with the Dodd-Frank Rules.

9. Amendment; **Termination**. The Compensation Committee or the Board may amend or terminate this Policy from time to time in its discretion, including as and when it determines that it is legally required to do so by any federal securities laws, SEC rule or the rules of any national securities exchange or national securities association on which the Company's securities are listed.

10. Other Recoupment Rights. The Compensation Committee intends that this Policy be applied to the fullest extent of the law. The Compensation Committee or the Board may require that any employment agreement, equity award, cash incentive award, incentive agreement or any other agreement entered into be conditioned upon the Covered Executive's agreement to abide by the terms of this Policy. Any right of recoupment under this Policy is in addition to, and not in lieu of, any other remedies or rights of recoupment that may be available to the Company Group, whether arising under applicable law, regulation or rule, pursuant to the terms of any other policy of the Company Group, pursuant to any employment agreement, equity award, cash incentive award, incentive agreement or other agreement applicable to a Covered Executive, or otherwise (the "Separate Clawback Rights"). Notwithstanding the foregoing, there shall be no duplication of recovery of the same Erroneously Awarded Compensation under this Policy and the Separate Clawback Rights, unless required by applicable law.

11. Successors. This Policy shall be binding and enforceable against all Covered Executives and their beneficiaries, heirs, executors, administrators or other legal representatives.

Exhibit A

CARTER BANKSHARES, INC. DODD-FRANK CLAWBACK POLICY

ACKNOWLEDGEMENT FORM

By signing below, the undersigned acknowledges and confirms that the undersigned has received and reviewed a copy of the Carter Bankshares, Inc. Dodd-Frank Clawback Policy (the "***Policy***"). Capitalized terms used but not otherwise defined in this Acknowledgement Form (this "***Acknowledgement Form***") shall have the meanings ascribed to such terms in the Policy.

By signing this Acknowledgement Form, the undersigned acknowledges and agrees that the undersigned is and will continue to be subject to the Policy and that the Policy will apply both during and after the undersigned's employment with the Company Group. Further, by signing below, the undersigned agrees to abide by the terms of the Policy, including, without limitation, by returning any Erroneously Awarded Compensation to the Company Group reasonably promptly to the extent required by, and in a manner permitted by, the Policy, as determined by the Compensation Committee in its sole discretion.

0001829576-24-000016image_1.jpg Signature: Name:

Date:

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