

REFINITIV

## DELTA REPORT

### 10-Q

CARTER BANKSHARES, INC.

10-Q - JUNE 30, 2024 COMPARED TO 10-Q - MARCH 31, 2024

The following comparison report has been automatically generated

**TOTAL DELTAS** 1307

■ CHANGES	389
■ DELETIONS	411
■ ADDITIONS	507

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

FORM 10-Q

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

For the quarterly period ended **March 31, 2024** **June 30, 2024**

OR

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**

(State or other jurisdiction of incorporation or organization)

**85-3365661**

**1300 Kings Mountain Road**

**Martinsville**

**Virginia**

**24112**

(Address of principal executive offices)

(Zip Code)

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

NA

(Former name, former address and former fiscal year, if changed since last report)

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

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

Indicate by check mark whether the registrant (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 and post 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

Non-accelerated filer  Smaller reporting company

Emerging growth company

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

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

As of **April 30, 2024** **July 30, 2024** there were **23,015,086** **23,072,750** shares of the registrant's common stock issued and outstanding.

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#### CARTER BANKSHARES, INC.

##### PART 1

##### ITEM 1 – FINANCIAL STATEMENTS

#### CONSOLIDATED BALANCE SHEETS

(Dollars in Thousands Except per Share Data)	(Dollars in Thousands Except per Share Data)	March 31, 2024 (unaudited)	December 31, 2023 (audited)	(Dollars in Thousands Except per Share Data)	June 30, 2024 (unaudited)	December 31, 2023 (audited)
<b>ASSETS</b>						
Cash and Due From Banks, including Interest-bearing Deposits of \$73,218 at March 31, 2024 and \$14,853 at December 31, 2023						
Cash and Due From Banks, including Interest-bearing Deposits of \$73,218 at March 31, 2024 and \$14,853 at December 31, 2023						
Cash and Due From Banks, including Interest-bearing Deposits of \$73,218 at March 31, 2024 and \$14,853 at December 31, 2023						
Cash and Due From Banks, including Interest-bearing Deposits of \$21,364 at June 30, 2024 and \$14,853 at December 31, 2023						
Cash and Due From Banks, including Interest-bearing Deposits of \$21,364 at June 30, 2024 and \$14,853 at December 31, 2023						
Cash and Due From Banks, including Interest-bearing Deposits of \$21,364 at June 30, 2024 and \$14,853 at December 31, 2023						
Securities Available-for-Sale, at Fair Value (amortized cost of \$858,256 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$835,535 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$858,256 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$835,535 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$858,256 and \$870,546, respectively)						
Securities Available-for-Sale, at Fair Value (amortized cost of \$835,535 and \$870,546, respectively)						
Portfolio Loans						
Equity Securities						
Portfolio Loans						
Equity Securities						
Equity Securities						

Portfolio Loans
Allowance for Credit Losses
<b>Portfolio Loans, net</b>
Bank Premises and Equipment, net
Bank Premises and Equipment, net
Bank Premises and Equipment, net
Other Real Estate Owned, net
Other Real Estate Owned, net
Other Real Estate Owned, net
Federal Home Loan Bank Stock, at Cost
Bank Owned Life Insurance
Other Assets
<b>Total Assets</b>
<b>LIABILITIES</b>
<b>LIABILITIES</b>
<b>LIABILITIES</b>
Deposits:
Deposits:
Deposits:
Noninterest-Bearing Demand
Noninterest-Bearing Demand
Noninterest-Bearing Demand
Interest-Bearing Demand
Money Market
Savings
Certificates of Deposit
<b>Total Deposits</b>
<b>Total Deposits</b>
<b>Total Deposits</b>
<b>Federal Home Loan Bank Borrowings</b>
Reserve for Unfunded Commitments
Reserve for Unfunded Commitments
Reserve for Unfunded Commitments
Other Liabilities
<b>Total Liabilities</b>
<b>SHAREHOLDERS' EQUITY</b>
<b>SHAREHOLDERS' EQUITY</b>
<b>SHAREHOLDERS' EQUITY</b>
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,020,542 at March 31, 2024 and 22,956,304 at December 31, 2023
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,020,542 at March 31, 2024 and 22,956,304 at December 31, 2023
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,020,542 at March 31, 2024 and 22,956,304 at December 31, 2023
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Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,072,750 at June 30, 2024 and 22,956,304 at December 31, 2023
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,072,750 at June 30, 2024 and 22,956,304 at December 31, 2023
Common Stock, Par Value \$1.00 per share, Authorized 100,000,000 Shares; Outstanding shares 23,072,750 at June 30, 2024 and 22,956,304 at December 31, 2023
Additional Paid-in Capital

Retained Earnings
Accumulated Other Comprehensive Loss
<b>Total Shareholders' Equity</b>
<b>Total Liabilities and Shareholders' Equity</b>

See accompanying notes to unaudited consolidated financial statements.

#### CARTER BANKSHARES, INC.

##### PART 1

##### ITEM 1 – FINANCIAL STATEMENTS (continued)

##### CONSOLIDATED STATEMENTS OF INCOME

(Dollars in Thousands Except per Share Data)	(Dollars in Thousands Except per Share Data)	Three Months Ended June 30, 2024	Six Months Ended June 30, 2023	Three Months Ended June 30, 2024	Six Months Ended June 30, 2023
<b>(Dollars in Thousands Except per Share Data)</b>					
		2024		2023	
		2024		2024	
<b>INTEREST INCOME</b>					
<b>INTEREST INCOME</b>					
<b>INTEREST INCOME</b>					
Loans, including fees					
Loans, including fees					
Loans, including fees					
Taxable					
Taxable					
Taxable					
Non-Taxable					
Non-Taxable					
Non-Taxable					
Investment Securities					
Investment Securities					
Investment Securities					
Taxable					
Taxable					
Taxable					
Non-Taxable					
Non-Taxable					
Non-Taxable					
Federal Reserve Bank Excess Reserves					
Federal Reserve Bank Excess Reserves					
Federal Reserve Bank Excess Reserves					
Interest on Bank Deposits					
Interest on Bank Deposits					
Interest on Bank Deposits					
Dividend Income					
Dividend Income					
Dividend Income					
<b>Total Interest Income</b>					
<b>Total Interest Income</b>					
<b>Total Interest Income</b>					
<b>Interest Expense</b>					
<b>Interest Expense</b>					

<b>Interest Expense</b>
Interest Expense on Deposits
Interest Expense on Deposits
Interest Expense on Deposits
Interest Expense on Federal Funds Purchased
Interest Expense on Federal Funds Purchased
Interest Expense on Federal Funds Purchased
Interest on Other Borrowings
Interest on Other Borrowings
Interest on Other Borrowings
<b>Total Interest Expense</b>
<b>Total Interest Expense</b>
<b>Total Interest Expense</b>
<b>NET INTEREST INCOME</b>
<b>NET INTEREST INCOME</b>
<b>NET INTEREST INCOME</b>
Provision for Credit Losses
Provision for Credit Losses
Provision for Credit Losses
(Recovery) Provision for Unfunded Commitments
(Recovery) Provision for Unfunded Commitments
(Recovery) Provision for Unfunded Commitments
<b>Net Interest Income After Provision for Credit Losses</b>
<b>Net Interest Income After Provision for Credit Losses</b>
<b>Net Interest Income After Provision for Credit Losses</b>
<b>NONINTEREST INCOME</b>
<b>NONINTEREST INCOME</b>
<b>NONINTEREST INCOME</b>
Losses on Sales of Securities, net
Losses on Sales of Securities, net
Losses on Sales of Securities, net
Service Charges, Commissions and Fees
Service Charges, Commissions and Fees
Gains (Losses) on Sales of Securities, net
Gains (Losses) on Sales of Securities, net
Gains (Losses) on Sales of Securities, net
Service Charges, Commissions and Fees
Debit Card Interchange Fees
Debit Card Interchange Fees
Debit Card Interchange Fees
Insurance Commissions
Insurance Commissions
Bank Owned Life Insurance Income
Bank Owned Life Insurance Income
Bank Owned Life Insurance Income
Commercial Loan Swap Fee Income
Commercial Loan Swap Fee Income
Commercial Loan Swap Fee Income
Other
Other

Other
<b>Total Noninterest Income</b>
Total Noninterest Income
Total Noninterest Income
<b>NONINTEREST EXPENSE</b>
<b>NONINTEREST EXPENSE</b>
<b>NONINTEREST EXPENSE</b>
Salaries and Employee Benefits
Salaries and Employee Benefits
Salaries and Employee Benefits
Occupancy Expense, net
Occupancy Expense, net
Occupancy Expense, net
FDIC Insurance Expense
FDIC Insurance Expense
FDIC Insurance Expense
Other Taxes
Other Taxes
Other Taxes
Advertising Expense
Advertising Expense
Advertising Expense
Telephone Expense
Telephone Expense
Telephone Expense
Professional and Legal Fees
Professional and Legal Fees
Professional and Legal Fees
Data Processing
Data Processing
Data Processing
Debit Card Expense
Debit Card Expense
Debit Card Expense
Other
Other
Other
<b>Total Noninterest Expense</b>
<b>Total Noninterest Expense</b>
<b>Total Noninterest Expense</b>
<b>Income Before Income Taxes</b>
<b>Income Before Income Taxes</b>
<b>Income Before Income Taxes</b>
Income Tax Provision
Income Tax Provision
Income Tax Provision
<b>Net Income</b>
<b>Net Income</b>
<b>Net Income</b>
Earnings per Common Share
Earnings per Common Share

**Earnings per Common Share**

Basic Earnings per Common Share

Basic Earnings per Common Share

Basic Earnings per Common Share

Diluted Earnings per Common Share

Diluted Earnings per Common Share

Diluted Earnings per Common Share

Average Shares Outstanding – Basic &amp; Diluted

Average Shares Outstanding – Basic &amp; Diluted

Average Shares Outstanding – Basic &amp; Diluted

See accompanying notes to unaudited consolidated financial statements.

**CARTER BANKSHARES, INC.****PART 1****ITEM 1 – FINANCIAL STATEMENTS (continued)****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

(Dollars in Thousands)	Three Months Ended March 31,	
	2024	2023
Net Income	\$ 5,811	\$ 15,941
Other Comprehensive Income:		
Net Unrealized Gains on Securities Available-for-Sale:		
Net Unrealized Gains Arising during the Period	2,119	15,633
Reclassification Adjustment for Losses included in Net Income	—	12
Tax Effect	(476)	(3,393)
Net Unrealized Gains Recognized in Other Comprehensive Income	1,643	12,252
Other Comprehensive Income	1,643	12,252
<b>Comprehensive Income</b>	<b>\$ 7,454</b>	<b>\$ 28,193</b>

(Dollars in Thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2024	2023	2024	2023
Net Income	\$ 4,803	\$ 5,704	\$ 10,614	\$ 21,645
Other Comprehensive Income (Loss):				
Net Unrealized Gains (Losses) on Securities Available-for-Sale:				
Net Unrealized Gains (Losses) Arising during the Period	250	(11,036)	2,369	4,597
Reclassification Adjustment for (Gains) Losses included in Net Income	(36)	(3)	(36)	9
Tax Effect	(51)	2,418	(527)	(975)
Net Unrealized Gains (Losses) Recognized in Other Comprehensive Income (Loss)	163	(8,621)	1,806	3,631
Other Comprehensive Income (Loss)	163	(8,621)	1,806	3,631
<b>Comprehensive Income (Loss)</b>	<b>\$ 4,966</b>	<b>\$ (2,917)</b>	<b>\$ 12,420</b>	<b>\$ 25,276</b>

See accompanying notes to unaudited consolidated financial statements.

**CARTER BANKSHARES, INC.****PART 1****ITEM 1 – FINANCIAL STATEMENTS (continued)****CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**

Three Months Ended March 31, 2024

Three Months Ended June 30, 2024

(Dollars in Thousands)	(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Share
Balance at December 31, 2023												
Balance at March 31, 2024												
Net Income												
Other Comprehensive Income, Net of Tax												
Forfeiture of Restricted Stock (5,658 shares)												
Forfeiture of Restricted Stock (6,011 shares)												
Forfeiture of Restricted Stock (5,658 shares)												
Forfeiture of Restricted Stock (6,011 shares)												
Forfeiture of Restricted Stock (5,658 shares)		(6)	(66)	—		(72)						
Issuance of Restricted Stock (69,896 shares)		70	(70)			—						
Forfeiture of Restricted Stock (6,011 shares)		(6)	(40)	—		(46)						
Issuance of Restricted Stock (58,219 shares)		58	(58)			—						
Recognition of Restricted Stock Compensation Expense		Recognition of Restricted Stock Compensation Expense	—	441	—	441	Recognition of Restricted Stock Compensation Expense	—	425	—	—	425
Balance at March 31, 2024	\$ 23,021	\$ 90,947	\$ 314,894	\$ (69,796)		\$ 359,066						
Balance at June 30, 2024	\$ 23,073	\$ 91,274	\$ 319,697	\$ (69,633)		\$ 364,411						

Three Months Ended March 31, 2023						
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	
Balance at December 31, 2022	\$ 23,957	\$ 104,693	\$ 285,593	\$ (85,616)	\$ 328,627	
Cumulative Effect of the Adoption of ASU 2023-02	—	—	106	—	—	106
Balance at January 1, 2023	23,957	104,693	285,699	(85,616)	328,733	
Net Income	—	—	15,941	—	—	15,941
Other Comprehensive Income, Net of Tax	—	—	—	12,252	12,252	
Repurchase of Common Stock (132,232 shares)	(132)	(2,128)	—	—	—	(2,260)
Forfeiture of Restricted Stock (1,687 shares)	(2)	(23)	—	—	—	(25)
Issuance of Restricted Stock (72,690 shares)	73	(73)	—	—	—	—
Recognition of Restricted Stock Compensation Expense	—	345	—	—	—	345
Balance at March 31, 2023	\$ 23,896	\$ 102,814	\$ 301,640	\$ (73,364)	\$ 354,986	

Three Months Ended June 30, 2023						
(Dollars in Thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Shareholders' Equity	
Balance at March 31, 2023	\$ 23,896	\$ 102,814	\$ 301,640	\$ (73,364)	\$ 354,986	
Net Income	—	—	5,704	—	—	5,704
Other Comprehensive Loss, Net of Tax	—	—	—	(8,621)	(8,621)	
1% Excise Tax on Stock Buybacks	—	(93)	—	—	—	(93)

Repurchase of Common Stock (583,824 shares)	(584)	(7,569)	—	—	—	(8,153)
Forfeiture of Restricted Stock (2,007 shares)	(2)	(15)	—	—	—	(17)
Issuance of Restricted Stock (62,123 shares)	62	(62)	—	—	—	—
Recognition of Restricted Stock Compensation Expense	—	431	—	—	—	431
<b>Balance at June 30, 2023</b>	<b>\$ 23,372</b>	<b>\$ 95,506</b>	<b>\$ 307,344</b>	<b>\$ (81,985)</b>	<b>\$ 344,237</b>	

(Dollars in Thousands)	Six Months Ended June 30, 2024							
	Common Stock		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Stock	Capital	Earnings	Loss				
Balance at December 31, 2023	\$ 22,957	\$ 90,642	\$ 309,083	\$ (71,439)	\$ 351,243			
Net Income	—	—	10,614	—	—	10,614		
Other Comprehensive Income, Net of Tax	—	—	—	—	1,806	1,806		
Forfeiture of Restricted Stock (11,669 shares)	(12)	(106)	—	—	—	—	(118)	
Issuance of Restricted Stock (128,115 shares)	128	(128)	—	—	—	—	—	
Recognition of Restricted Stock Compensation Expense	—	866	—	—	—	866		
<b>Balance at June 30, 2024</b>	<b>\$ 23,073</b>	<b>\$ 91,274</b>	<b>\$ 319,697</b>	<b>\$ (69,633)</b>	<b>\$ 364,411</b>			

## CARTER BANKSHARES, INC.

### PART 1

#### ITEM 1 – FINANCIAL STATEMENTS (continued)

(Dollars in Thousands)	Six Months Ended June 30, 2023							
	Common Stock		Additional Paid-in Capital		Retained Earnings		Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Stock	Capital	Earnings	Loss				
Balance at December 31, 2022	\$ 23,957	\$ 104,693	\$ 285,593	\$ (85,616)	\$ 328,627			
Cumulative Effect of the Adoption of ASU 2023-02	—	—	106	—	—	106		
<b>Balance at January 1, 2023</b>	<b>23,957</b>	<b>104,693</b>	<b>285,699</b>	<b>(85,616)</b>	<b>328,733</b>			
Net Income	—	—	21,645	—	—	21,645		
Other Comprehensive Income, Net of Tax	—	—	—	—	3,631	3,631		
1% Excise Tax on Stock Buybacks	—	(93)	—	—	—	(93)		
Repurchase of Common Stock (716,056 shares)	(716)	(9,697)	—	—	—	(10,413)		
Forfeiture of Restricted Stock (3,694 shares)	(4)	(38)	—	—	—	(42)		
Issuance of Restricted Stock (134,813 shares)	135	(135)	—	—	—	—		
Recognition of Restricted Stock Compensation Expense	—	776	—	—	—	776		
<b>Balance at June 30, 2023</b>	<b>\$ 23,372</b>	<b>\$ 95,506</b>	<b>\$ 307,344</b>	<b>\$ (81,985)</b>	<b>\$ 344,237</b>			

See accompanying notes to unaudited consolidated financial statements.

## CARTER BANKSHARES, INC.

### PART 1

#### ITEM 1 – FINANCIAL STATEMENTS (continued)

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in Thousands)	Three Months Ended March 31,		Six Months Ended June 30,			
	(Dollars in Thousands)	2024	2023	(Dollars in Thousands)	2024	2023
Net Income						

Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities

Provision for Credit Losses, including (Recovery) Provision for Unfunded Commitments	
Provision for Credit Losses, including (Recovery) Provision for Unfunded Commitments	
Provision for Credit Losses, including (Recovery) Provision for Unfunded Commitments	
Origination of Loans Held-for-Sale	
Origination of Loans Held-for-Sale	
Origination of Loans Held-for-Sale	
Proceeds From Loans Held-for-Sale	
Depreciation/Amortization of Bank Premises and Equipment	
Provision for Deferred Taxes	
(Benefit) Provision for Deferred Taxes	
Net Amortization of Securities	
Unrealized Gain on Equity Securities	
Tax Credit Amortization	
Gains on Sales of Loans Held-for-Sale	
Losses on Sales of Securities, net	
(Gains) Losses on Sales of Securities, net	
Commercial Loan Swap Derivative Income	
Commercial Loan Swap Derivative (Income) Loss	
Commercial Loan Swap Derivative Income	
Commercial Loan Swap Derivative (Income) Loss	
Commercial Loan Swap Derivative Income	
Commercial Loan Swap Derivative (Income) Loss	
Increase in the Value of Life Insurance Contracts	
Increase in the Value of Life Insurance Contracts	
Increase in the Value of Life Insurance Contracts	
Recognition of Restricted Stock Compensation Expense	
Decrease in Other Assets	
Increase (Decrease) in Other Liabilities	
Decrease (Increase) in Other Assets	
(Decrease) Increase in Other Liabilities	
<b>Net Cash Provided By Operating Activities</b>	
<b>INVESTING ACTIVITIES</b>	
Securities Available-for-Sale:	
Securities Available-for-Sale:	
Securities Available-for-Sale:	
Proceeds from Maturities, Redemptions, and Pay-downs	
Proceeds from Maturities, Redemptions, and Pay-downs	
Proceeds from Sales	
Proceeds from Sales	
Proceeds from Sales	
Proceeds from Maturities, Redemptions, and Pay-downs	
Purchases	
Purchase of Equity Securities	
Purchase of Bank Premises and Equipment, Net	
Redemption (Purchase) of Federal Home Loan Bank Stock, net	
Redemption (Purchase) of Federal Home Loan Bank Stock, net	
Redemption (Purchase) of Federal Home Loan Bank Stock, net	
Loan Originations, net	
Payments Received on 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
<b>Net Cash Provided By (Used In) Investing Activities</b>
<b>Net Cash Used In Investing Activities</b>
<b>FINANCING ACTIVITIES</b>
Net Change in Demand, Money Markets and Savings Accounts
Net Change in Demand, Money Markets and Savings Accounts
Net Change in Demand, Money Markets and Savings Accounts
Increase in Certificates of Deposits
(Repayments) Proceeds from Federal Home Loan Bank Borrowings, net
Repayments from Federal Funds Purchased, net
Repurchase of Common Stock
<b>Net Cash Provided By Financing Activities</b>
<b>Net Cash Provided By Financing Activities</b>
<b>Net Cash Provided By Financing Activities</b>
Net Increase in Cash and Cash Equivalents
Cash and Cash Equivalents at Beginning of Period
<b>Cash and Cash Equivalents at End of Period</b>
<b>SUPPLEMENTARY DATA</b>
<b>SUPPLEMENTARY DATA</b>
<b>SUPPLEMENTARY DATA</b>
Cash Interest Paid
Cash Interest Paid
Cash Interest Paid
Cash Paid for Income Taxes
Transfer from Loans to Other Real Estate Owned
Right-of-use Asset Recorded in Exchange for Lease Liabilities
Right-of-use Asset Recorded in Exchange for Lease Liabilities
Right-of-use Asset Recorded in Exchange for Lease Liabilities
Stock Repurchase Excise Tax Settled in Subsequent Period
Stock Repurchases Settled in Subsequent Period

See accompanying notes to unaudited consolidated financial statements.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 – BASIS OF PRESENTATION

**Principles of Consolidation:** The interim Consolidated Financial Statements include the accounts of Carter Bankshares, Inc. (the “Company”) and its wholly owned subsidiary, Carter Bank & Trust (the “Bank”). CB&T Investment Company (the “Investment Company”) is a subsidiary of the Bank. All significant intercompany transactions have been eliminated in consolidation.

**Basis of Presentation:** The accompanying unaudited Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles (“GAAP”) in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the audited Consolidated Financial Statements included in our [Annual Report on Form 10-K](#) for the year ended December 31, 2023, filed with the Securities and Exchange Commission (“SEC”), on March 8, 2024. In management’s opinion, the accompanying interim financial information reflects all adjustments, consisting of normal recurring adjustments, necessary to present fairly our financial position and the results of operations for each of the interim periods presented. Results of operations for interim periods are not necessarily indicative to the results of operations that may be expected for a full year or any future period.

**Reclassification:** Amounts in prior periods financial statements and footnotes are reclassified whenever necessary to conform to the current period presentation. Reclassifications had no material effect on prior periods 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.

#### Accounting Standards Adopted in 2024

On June 30, 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-03, Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions. The FASB issued this ASU to (1) clarify the guidance in Topic 820, Fair Value Measurement, when measuring the fair value of an equity security subject to contractual restrictions that prohibit the sale of an equity security, (2) amend a related illustrative example, and (3) introduce new disclosure requirements for equity securities subject to contractual sale restrictions that are measured at fair value in accordance with Topic 820. The amendments in this ASU clarify that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments in this ASU also require the following disclosures for equity securities subject to contractual sale restrictions: (1) the fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet; (2) the nature and remaining duration of the restriction(s); and (3) the circumstances that could cause a lapse in the restriction(s). For public business entities, the amendments in this ASU are effective for fiscal years beginning after December 15, 2023, and interim periods within those fiscal years. The adoption of this ASU was effective for the Company on March 31, 2024 but was first applied on June 30, 2024, concurrent with the purchase of equity securities, and did not adopt any Accounting Standards Updates ("ASU") during the three months ended March 31, 2024, have a significant impact to our Consolidated Financial Statements.

#### Accounting Standards Issued but Not Yet Adopted

On March 29, 2024 the FASB issued ASU 2024-02, Codification Improvements— Amendments to Remove References to the Concepts Statements, which amends the Codification to remove references to various concepts statements and impacts a variety of topics in the Codification. The amendments apply to all reporting entities within the scope of the affected accounting guidance, but in most instances the references removed are extraneous and not required to understand or apply the guidance. Generally, the amendments in ASU 2024-02 are not intended to result in significant accounting changes for most entities. The ASU is effective January 1, 2025 and is not expected to have a significant impact on the Company's financial statements.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 – BASIS OF PRESENTATION – (continued)

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 income taxes paid, disaggregated by federal, state and foreign taxes. The ASU is effective for annual periods beginning after December 15, 2024, though early adoption is permitted. The Company is currently evaluating the impact of this guidance on its 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 the title and position of the chief operating decision maker and an explanation of how resources are allocated.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 – BASIS OF PRESENTATION – (continued)

#### Recently Issued Disclosure Rules

In March 2024, the U.S. Securities and Exchange Commission ("SEC") adopted final rules under SEC Release No. 33-11275, "The Enhancement and Standardization of Climate-Related Disclosures for Investors". This rule will require registrants to disclose certain climate-related information in registration statements and annual reports. The In April 2024, the SEC issued an order staying this rule pending the outcome of the federal court litigation challenging the rule. Subject to the outcome of this litigation, the disclosure requirements of the final rule will start to phase-in commencing with the Company's fiscal year beginning January 1, 2026.

#### NOTE 2 – EARNINGS PER SHARE

Basic earnings per common share is calculated by dividing net income allocated to common shareholders by the weighted average number of shares of common stock outstanding during the period. Diluted earnings 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 per common share calculations for the periods presented:

Three Months Ended March
31,

		Three Months Ended March 31,	Three Months Ended March 31,	Six Months Ended June	
				Three Months Ended June 30, 2024	2023
(Dollars in Thousands, except share and per share data)	(Dollars in Thousands, except share and per share data)				
(Dollars in Thousands, except share and per share data)					
(Dollars in Thousands, except share and per share data)					
<b>Numerator for Earnings per Common Share – Basic and Diluted</b>					
<b>Numerator for Earnings per Common Share – Basic and Diluted</b>					
<b>Numerator for Earnings per Common Share – Basic and Diluted</b>					
Net Income					
Net Income					
Net Income					
Less: Income allocated to participating shares					
Less: Income allocated to participating shares					
Less: Income allocated to participating shares					
<b>Net Income Allocated to Common Shareholders - Basic &amp; Diluted</b>					
<b>Net Income Allocated to Common Shareholders - Basic &amp; Diluted</b>					
Net Income Allocated to Common Shareholders - Basic & Diluted					
<b>Denominator:</b>					
<b>Denominator:</b>					
<b>Denominator:</b>					
Weighted Average Shares Outstanding, including Shares Considered Participating Securities					
Weighted Average Shares Outstanding, including Shares Considered Participating Securities					
Weighted Average Shares Outstanding, including Shares Considered Participating Securities					
Less: Average Participating Securities					
Less: Average Participating Securities					
Less: Average Participating Securities					
<b>Weighted Average Common Shares Outstanding - Basic &amp; Diluted</b>					
<b>Weighted Average Common Shares Outstanding - Basic &amp; Diluted</b>					
Weighted Average Common Shares Outstanding - Basic & Diluted					
Earnings per Common Share – Basic					
Earnings per Common Share – Basic					
Earnings per Common Share – Basic					
Earnings per Common Share – Diluted					
Earnings per Common Share – Diluted					
Earnings per Common Share – Diluted					

All outstanding unvested restricted stock awards are considered participating securities for the earnings per 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.

**CARTER BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 - INVESTMENT SECURITIES**

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

(Dollars in Thousands)	March 31, 2024			
	Amortized Cost	Gross Gains	Gross Losses	Fair Value
U.S. Government Agency Securities	40,094	97	(819)	39,372
Residential Mortgage-Backed Securities	110,096	1	(10,313)	99,784
Commercial Mortgage-Backed Securities	29,582	293	(755)	29,120
Other Commercial Mortgage-Backed Securities	24,462	—	(2,565)	21,897
Asset Backed Securities	149,844	2	(10,572)	139,274
Collateralized Mortgage Obligations	170,179	1	(11,839)	158,341
States and Political Subdivisions	263,249	—	(42,200)	221,049
Corporate Notes	70,750	—	(10,755)	59,995
<b>Total Debt Securities</b>	<b>\$ 858,256</b>	<b>\$ 394</b>	<b>\$ (89,818)</b>	<b>\$ 768,832</b>

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 3 – INVESTMENT SECURITIES (continued)**

(Dollars in Thousands)	June 30, 2024			
	Amortized Cost	Gross Gains	Gross Losses	Fair Value
U.S. Government Agency Securities	30,288	57	(755)	29,590
Residential Mortgage-Backed Securities	108,898	3	(10,433)	98,468
Commercial Mortgage-Backed Securities	24,679	52	(693)	24,038
Other Commercial Mortgage-Backed Securities	24,287	—	(2,521)	21,766
Asset Backed Securities	143,208	13	(10,415)	132,806
Collateralized Mortgage Obligations	170,291	3	(11,112)	159,182
States and Political Subdivisions	263,134	—	(42,872)	220,262
Corporate Notes	70,750	—	(10,537)	60,213
<b>Total Debt Securities</b>	<b>\$ 835,535</b>	<b>\$ 128</b>	<b>\$ (89,338)</b>	<b>\$ 746,325</b>

(Dollars in Thousands)	December 31, 2023			
	Amortized Cost	Gross Gains	Gross Losses	Fair Value
U.S. Government Agency Securities	44,185	398	(756)	43,827
Residential Mortgage-Backed Securities	110,726	—	(11,576)	99,150
Commercial Mortgage-Backed Securities	31,578	336	(751)	31,163
Other Commercial Mortgage-Backed Securities	24,522	—	(2,666)	21,856
Asset Backed Securities	150,832	—	(10,826)	140,006
Collateralized Mortgage Obligations	174,396	—	(12,863)	161,533
States and Political Subdivisions	263,557	—	(41,449)	222,108
Corporate Notes	70,750	—	(11,390)	59,360
<b>Total Debt Securities</b>	<b>\$ 870,546</b>	<b>\$ 734</b>	<b>\$ (92,277)</b>	<b>\$ 779,003</b>

The Company did not have securities classified as held-to-maturity at **March 31, 2024** June 30, 2024 or December 31, 2023.

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

Three Months Ended March 31,	Three Months Ended June 30,	Six Months Ended June 30,
Three Months Ended March 31,	Three Months Ended June 30,	Six Months Ended June 30,
Three Months Ended March 31,	Three Months Ended June 30,	Six Months Ended June 30,

(Dollars in Thousands)	(Dollars in Thousands)	2024	2023	2024	2023
(Dollars in Thousands)					
(Dollars in Thousands)					
Proceeds from Sales of Securities Available-for-Sale					
Proceeds from Sales of Securities Available-for-Sale	Proceeds from Sales of Securities Available-for-Sale	\$ 10,617	\$ 15,054	\$ 10,617	\$ 15,054
Gross Realized Gains					
Gross Realized Gains					
Gross Realized Gains		\$ 36	\$ 129	\$ 36	\$ 129
Gross Realized Losses	Gross Realized Losses	—	(126)	—	(138)
Gross Realized Losses					
Gross Realized Losses					
Net Realized (Losses) Gains					
Net Realized (Losses) Gains					
Net Realized (Losses) Gains					
Net Realized Gains (Losses)		36	3	36	(9)
Tax Impact	Tax Impact	\$ 8	\$ 1	\$ 8	\$ (2)
Tax Impact					
Tax Impact					

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

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.

(Dollars in Thousands)	March 31, 2024		
	Amortized Cost	Fair Value	
Due in One Year or Less	\$ 73	\$	73
Due after One Year through Five Years		15,806	14,687
Due after Five Years through Ten Years		262,362	227,073
Due after Ten Years		95,852	78,583
Residential Mortgage-Backed Securities		110,096	99,784
Commercial Mortgage-Backed Securities		29,582	29,120
Other Commercial Mortgage-Backed Securities		24,462	21,897
Collateralized Mortgage Obligations		170,179	158,341
Asset Backed Securities		149,844	139,274
<b>Total Debt Securities</b>	<b>\$ 858,256</b>	<b>\$</b>	<b>768,832</b>

**CARTER BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOTE 3 – INVESTMENT SECURITIES (continued)**

(Dollars in Thousands)	June 30, 2024		
	Amortized Cost	Fair Value	
Due in One Year or Less	\$ 49	\$	49
Due after One Year through Five Years		20,516	18,935
Due after Five Years through Ten Years		258,413	221,610
Due after Ten Years		85,194	69,471

Residential Mortgage-Backed Securities	108,898	98,468
Commercial Mortgage-Backed Securities	24,679	24,038
Other Commercial Mortgage-Backed Securities	24,287	21,766
Collateralized Mortgage Obligations	170,291	159,182
Asset Backed Securities	143,208	132,806
<b>Total Debt Securities</b>	<b>\$ 835,535</b>	<b>\$ 746,325</b>

At **March 31, 2024** June 30, 2024 and December 31, 2023, there were no holdings of securities of any one issuer, other than those securities issued 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 **\$303.4 million** **\$308.1 million** at **March 31, 2024** June 30, 2024 and \$215.5 million at December 31, 2023.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 3 – INVESTMENT SECURITIES (continued)

Available-for-sale securities with unrealized losses at **March 31, 2024** June 30, 2024 and December 31, 2023, aggregated by investment category and length of time the individual securities have been in a continuous unrealized loss position, were as follows:

	March 31, 2024						June 30, 2024								
	Less Than 12 Months			12 Months or More			Total			Less Than 12 Months			12 Months or More		
	(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	(Dollars in Thousands)	Number of Securities	Fair Value	Unrealized Losses	(Dollars in Thousands)	Number of Securities	Fair Value
U.S. Government Agency Securities															
U.S. Government Agency Securities															
U.S. Government Agency Securities															
Residential Mortgage-Backed Securities															
Commercial Mortgage-Backed Securities															
Other Commercial Mortgage-Backed Securities															
Asset Backed Securities															
Collateralized Mortgage Obligations															
States and Political Subdivisions															
Corporate Notes															
<b>Total Debt Securities</b>															

December 31, 2023

(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. Government Agency Securities	7	\$ 6,567	\$ (67)	15	\$ 15,848	\$ (689)	22	\$ 22,415	\$ (756)
Residential Mortgage-Backed Securities	—	—	—	43	\$ 99,150	\$ (11,576)	43	\$ 99,150	\$ (11,576)
Commercial Mortgage-Backed Securities	3	\$ 1,073	\$ (3)	50	\$ 18,692	\$ (748)	53	\$ 19,765	\$ (751)
Other Commercial Mortgage-Backed Securities	—	—	—	9	\$ 21,856	\$ (2,666)	9	\$ 21,856	\$ (2,666)
Asset Backed Securities	2	\$ 2,530	\$ (84)	52	\$ 137,476	\$ (10,742)	54	\$ 140,006	\$ (10,826)
Collateralized Mortgage Obligations	—	—	—	85	\$ 161,533	\$ (12,863)	85	\$ 161,533	\$ (12,863)
States and Political Subdivisions	—	—	—	153	\$ 222,108	\$ (41,449)	153	\$ 222,108	\$ (41,449)
Corporate Notes	—	—	—	21	\$ 59,360	\$ (11,390)	21	\$ 59,360	\$ (11,390)
<b>Total Debt Securities</b>	<b>12</b>	<b>\$ 10,170</b>	<b>\$ (154)</b>	<b>428</b>	<b>\$ 736,023</b>	<b>\$ (92,123)</b>	<b>440</b>	<b>\$ 746,193</b>	<b>\$ (92,277)</b>

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 3 – INVESTMENT SECURITIES (continued)

The Company adopted Topic 326, Financial Instruments—Credit Losses (Topic 326) on January 1, 2021 and did not record an allowance for credit losses, ("ACL"), on its investment securities during the quarter ended **March 31, 2024** **June 30, 2024** or the year ended December 31, 2023 as the Company did not have any there was no 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 **March 31, 2024** **June 30, 2024**, 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, general financial market uncertainty and 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. It should be noted that we may occasionally sell securities to take advantage of market opportunities or as part of a strategic initiative.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 3 – INVESTMENT SECURITIES (continued)

As of **March 31, 2024** **June 30, 2024**, the Company determined 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 impairment will be recognized 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, net of applicable taxes. During the three and six months ended **March 31, 2024** **June 30, 2024** and **March 31, 2023** **June 30, 2023**, the Company had no credit related net investment impairment losses.

#### Equity Securities

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.1 million at June 30, 2024. These securities are separately reported as "equity securities" on the Company's consolidated balance sheet. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company's investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

During the three months ended June 30, 2024, we recognized an unrealized fair value gain of \$63.3 thousand on these equity securities. This unrealized fair value gain is recorded in Other Income on the Consolidated Statements of Income.

#### NOTE 4 – LOANS

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

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
<b>Commercial</b>						
Commercial Real Estate						
Commercial Real Estate						
Commercial Real Estate						
Commercial and Industrial						
<b>Total Commercial Loans</b>						

<b>Consumer</b>
Residential Mortgages
Residential Mortgages
Residential Mortgages
Other Consumer
<b>Total Consumer Loans</b>
Construction
Other
<b>Total Loans</b>
<b>Total Loans</b>
<b>Total Loans</b>

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 4 – LOANS (continued)**

#### **Loan Restructurings**

The Company evaluates all loan restructurings according to the accounting guidance in accordance with ASU 2022-02 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 and/or based on management's discretion; otherwise, the restructured loan remains in the appropriate segment in the ACL model. For a discussion with respect to reserve calculations regarding individually evaluated loans refer to the "Nonrecurring Basis" section in Note 6, Fair Value Measurements, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q.

The following table shows the amortized cost basis as of June 30, 2024 for loans restructured during the three and six months ended June 30, 2024 to borrowers experiencing financial difficulty, disaggregated by portfolio segment:

(Dollars in Thousands)	Restructured Loans					
	Three Months Ended June 30, 2024			Six Months Ended June 30, 2024		
	Number of Contracts	Amortized Cost Basis	% of Total Class of Financing Receivable	Number of Contracts	Amortized Cost Basis	% of Total Class of Financing Receivable
<b>Accruing Restructured Loans</b>						
Commercial Real Estate	—	\$ —	— %	—	\$ —	— %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	—	—	— %	—	—	— %
<b>Total Accruing Restructured Loans</b>	<b>—</b>	<b>\$ —</b>	<b>— %</b>	<b>—</b>	<b>\$ —</b>	<b>— %</b>
<b>Nonaccrual Restructured Loans</b>						
Commercial Real Estate	1	\$ 449	0.02 %	1	\$ 449	0.02 %
Commercial and Industrial	—	—	— %	—	—	— %
Residential Mortgages	—	—	— %	—	—	— %
Other Consumer	—	—	— %	—	—	— %
Construction	—	—	— %	—	—	— %
Other	11	294,140	98.90 %	11	294,140	98.90 %
<b>Total Nonaccrual Restructured Loans</b>	<b>12</b>	<b>\$ 294,589</b>	<b>98.75 %</b>	<b>12</b>	<b>\$ 294,589</b>	<b>98.75 %</b>
<b>Total Restructured Loans</b>	<b>12</b>	<b>\$ 294,589</b>	<b>98.75 %</b>	<b>12</b>	<b>\$ 294,589</b>	<b>98.75 %</b>

There were no loans to borrowers experiencing financial difficulty restructured during the three and six months ended March 31, 2024 or March 31, 2023 June 30, 2023.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. During

**CARTER BANKSHARES, INC.**

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 4 – LOANS (continued)**

The following table presents the three months ended March 31, 2024 and March 31, 2023, respectively, the Company had no aging analysis of modifications to borrowers experiencing financial difficulty in the last 12 months as of June 30, 2024:

(Dollars in Thousands)	Payment Status (Amortized Cost Basis)				Total
	Current	30-89 Days Past Due	90+ Days Past Due		
<b>Accruing Restructured Loans</b>					
Commercial Real Estate	\$	—	\$	—	\$
Commercial and Industrial	—	—	—	—	—
Residential Mortgages	—	—	—	—	—
Other Consumer	—	—	—	—	—
Construction	—	—	—	—	—
Other	—	—	—	—	—
<b>Total Accruing Restructured Loans</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>\$</b>
<b>Nonaccrual Restructured Loans</b>					
Commercial Real Estate	\$	—	\$	—	449 \$
Commercial and Industrial	—	—	—	—	—
Residential Mortgages	—	—	—	—	—
Other Consumer	—	—	—	—	—
Construction	—	—	—	—	—
Other	—	—	—	294,140	294,140
<b>Total Nonaccrual Restructured Loans</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>294,589 \$</b>
<b>Total Restructured Loans</b>	<b>\$</b>	<b>—</b>	<b>\$</b>	<b>—</b>	<b>294,589 \$</b>

The following table presents the amortized cost of loans to report, borrowers experiencing financial difficulty by portfolio segment and type of modification during the periods presented.

(Dollars in Thousands)	For the Three and Six Months Ended June 30, 2024				
	Term Extension/Payment Delay	Delay/Interest Rate Reduction	Total	% of Portfolio Segment	
Commercial Real Estate	\$ 449	\$ —	\$ 449	0.02 %	
Commercial and Industrial	—	—	—	— %	
Residential Mortgages	—	—	—	— %	
Other Consumer	—	—	—	— %	
Construction	—	—	—	— %	
Other	—	294,140	294,140	98.90 %	
<b>Total</b>	<b>\$ 449</b>	<b>\$ 294,140</b>	<b>\$ 294,589</b>	<b>98.75 %</b>	

The following table describes the effect of loan modifications made to borrowers experiencing financial difficulty during the periods presented:

	For the Three and Six Months Ended June 30, 2024	
	Weighted-Average Term Extension/Payment Delay	Weighted Average Interest Rate Reduction
Commercial Real Estate	4.9 years	—%
Other	2.6 years	0.63%
<b>Total</b>	<b>7.5 years</b>	<b>0.63%</b>

At March 31, 2024 June 30, 2024 and December 31, 2023, the Bank had no commitments to lend any additional funds on restructured loans. At March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, 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 March 31, 2024 June 30, 2024 and December 31, 2023, the Bank had \$0.9 million \$0.1 million and \$2.0 million, respectively, of residential real estate loans in the process of foreclosure. The Company also had \$37 thousand at March 31, 2024 and \$62 thousand at December 31, 2023 in no residential real estate loans included in other real estate owned

("OREO") at June 30, 2024 and \$62 thousand at December 31, 2023.

#### CARTER BANKSHARES, INC.

#### NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 5 – 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, Commercial Real Estate ("CRE"), 2) Commercial and Industrial, ("C&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 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 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 which includes the Company's largest lending relationship, has 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 acquisition loans without a defined source of amortization, iv) loan structures on operating lines of credit dependent on the value of real estate

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)

credit dependent on the value of real estate rather than trading 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.

#### Current Expected Credit Losses ("CECL") Model

The CECL 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 continuing through 2024, 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 Executive Loan 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 Executive Loan Committee; and
- Focus reviews of various segments to evaluate emerging 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.

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)**

**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.

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)**

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

		March 31, 2024					March 31, 2024					March 31, 2024									
		June 30, 2024					June 30, 2024					June 30, 2024									
		Risk Rating																			
(Dollars in Thousands)	(Dollars in Thousands)	2024	2023	2022	2021	2020	2019 and Prior	2019 and Revolving	Total Portfolio Loans	(Dollars in Thousands)	2024	2023	2022	2021	2020	2019 and Prior	2019 and Revolving	Total Portfolio Loans			
Commercial Real Estate																					
Pass																					
Pass																					
Pass																					
Special Mention																					
Substandard																					
<b>Total Commercial Real Estate</b>																					
<b>Total Commercial Real Estate</b>																					
<b>Total Commercial Real Estate</b>																					
YTD Gross Charge-offs																					
Commercial and Industrial																					
Commercial and Industrial																					
Commercial and Industrial																					
Pass																					
Pass																					
Pass																					
Special Mention																					
Substandard																					
<b>Total Commercial and Industrial</b>																					
<b>Total Commercial and Industrial</b>																					
<b>Total Commercial and Industrial</b>																					
YTD Gross Charge-offs																					
Residential Mortgages																					
Residential Mortgages																					
Residential Mortgages																					
Pass																					
Pass																					
Pass																					
Special Mention																					
Substandard																					
<b>Total Residential Mortgages</b>																					
<b>Total Residential Mortgages</b>																					
<b>Total Residential Mortgages</b>																					
YTD Gross Charge-offs																					
Other Consumer																					
Other Consumer																					
Other Consumer																					
Pass																					
Pass																					
Pass																					

Special Mention
Substandard
<b>Total Other Consumer</b>
<b>Total Other Consumer</b>
<b>Total Other Consumer</b>
YTD Gross Charge-offs
Construction
Construction
Construction
Pass
Pass
Pass
Special Mention
Substandard
<b>Total Construction</b>
<b>Total Construction</b>
<b>Total Construction</b>
YTD Gross Charge-offs
Other
Other
Other
Pass
Pass
Pass
Special Mention
Substandard
<b>Total Other Loans</b>
<b>Total Other Loans</b>
<b>Total Other Loans</b>
YTD Gross Charge-offs
Total Portfolio Loans
Total Portfolio Loans
Total Portfolio Loans
Pass
Pass
Pass
Special Mention
Substandard
<b>Total Portfolio Loans</b>
<b>Total Portfolio Loans</b>
<b>Total Portfolio Loans</b>
Current YTD Period:
<b>YTD Gross Charge-offs</b>
<b>YTD Gross Charge-offs</b>
<b>YTD Gross Charge-offs</b>

**CARTER BANKSHARES, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)**

December 31, 2023

(Dollars in Thousands)	Risk Rating								Total Portfolio	
	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Loans		
<b>Commercial Real Estate</b>										
Pass	\$ 259,171	\$ 434,639	\$ 173,667	\$ 142,494	\$ 124,176	\$ 503,965	\$ 30,917	\$ 1,669,029		
Special Mention	—	—	206	—	—	72	—	—	278	
Substandard	—	—	—	—	101	1,223	—	—	1,324	
<b>Total Commercial Real Estate</b>	<b>\$ 259,171</b>	<b>\$ 434,639</b>	<b>\$ 173,873</b>	<b>\$ 142,494</b>	<b>\$ 124,277</b>	<b>\$ 505,260</b>	<b>\$ 30,917</b>	<b>\$ 1,670,631</b>		
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —
<b>Commercial and Industrial</b>										
Pass	\$ 24,863	\$ 18,061	\$ 37,566	\$ 24,566	\$ 2,636	\$ 137,395	\$ 23,535	\$ 268,622		
Special Mention	—	—	—	2,837	—	—	—	—	2,837	
Substandard	—	—	—	18	14	1	19	52	52	
<b>Total Commercial and Industrial</b>	<b>\$ 24,863</b>	<b>\$ 18,061</b>	<b>\$ 37,566</b>	<b>\$ 27,421</b>	<b>\$ 2,650</b>	<b>\$ 137,396</b>	<b>\$ 23,554</b>	<b>\$ 271,511</b>		
YTD Gross Charge-offs	\$ —	\$ —	\$ 45	\$ —	\$ 16	\$ 2	\$ —	\$ 63	\$ 63	
<b>Residential Mortgages</b>										
Pass	\$ 79,247	\$ 250,603	\$ 194,014	\$ 77,805	\$ 43,633	\$ 96,238	\$ 42,550	\$ 784,090		
Special Mention	—	—	—	—	—	525	—	525	525	
Substandard	—	—	1,142	—	860	1,070	242	3,314	3,314	
<b>Total Residential Mortgages</b>	<b>\$ 79,247</b>	<b>\$ 250,603</b>	<b>\$ 195,156</b>	<b>\$ 77,805</b>	<b>\$ 44,493</b>	<b>\$ 97,833</b>	<b>\$ 42,792</b>	<b>\$ 787,929</b>		
YTD Gross Charge-offs	\$ —	\$ —	\$ 136	\$ —	\$ —	\$ 67	\$ —	\$ 203	\$ 203	
<b>Other Consumer</b>										
Pass	\$ 22,809	\$ 4,494	\$ 2,396	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,202		
Special Mention	—	—	—	—	—	—	—	—	—	
Substandard	14	6	55	—	—	—	—	75	75	
<b>Total Other Consumer</b>	<b>\$ 22,823</b>	<b>\$ 4,500</b>	<b>\$ 2,451</b>	<b>\$ 3,936</b>	<b>\$ 26</b>	<b>\$ 187</b>	<b>\$ 354</b>	<b>\$ 34,277</b>		
YTD Gross Charge-offs	\$ 232	\$ 1,451	\$ 744	\$ 83	\$ 126	\$ 29	\$ —	\$ 2,665	\$ 2,665	
<b>Construction</b>										
Pass	\$ 118,120	\$ 162,794	\$ 122,087	\$ 10,837	\$ 5,155	\$ 6,280	\$ 8,048	\$ 433,321		
Special Mention	—	—	—	—	—	60	—	60	60	
Substandard	—	64	—	2,090	—	814	—	2,968	2,968	
<b>Total Construction</b>	<b>\$ 118,120</b>	<b>\$ 162,858</b>	<b>\$ 122,087</b>	<b>\$ 12,927</b>	<b>\$ 5,155</b>	<b>\$ 7,154</b>	<b>\$ 8,048</b>	<b>\$ 436,349</b>		
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 42	\$ —	\$ 42	\$ 42	
<b>Other</b>										
Pass	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,300	\$ —	\$ 3,300	\$ 3,300	
Special Mention	—	—	—	—	—	—	—	—	—	
Substandard	—	—	—	—	—	301,913	—	301,913	301,913	
<b>Total Other Loans</b>	<b>\$ —</b>	<b>\$ 305,213</b>	<b>\$ —</b>	<b>\$ 305,213</b>	<b>\$ 305,213</b>					
YTD Gross Charge-offs	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
<b>Total Portfolio Loans</b>										
Pass	\$ 504,210	\$ 870,591	\$ 529,730	\$ 259,638	\$ 175,626	\$ 747,365	\$ 105,404	\$ 3,192,564		
Special Mention	—	—	206	2,837	—	657	—	3,700	3,700	
Substandard	14	70	1,197	2,108	975	305,021	261	309,646	309,646	
<b>Total Portfolio Loans</b>	<b>\$ 504,224</b>	<b>\$ 870,661</b>	<b>\$ 531,133</b>	<b>\$ 264,583</b>	<b>\$ 176,601</b>	<b>\$ 1,053,043</b>	<b>\$ 105,665</b>	<b>\$ 3,505,910</b>		

Current YTD Period:

YTD Gross Charge-offs	\$ 232	\$ 1,451	\$ 925	\$ 83	\$ 142	\$ 140	\$ —	\$ 2,973
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**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)**

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

	(Dollars in Thousands)	March 31, 2024					June 30, 2024					Total Portfolio				
		2024	2023	2022	2021	2020	2019 and Prior	Revolving	2024	2023	2022	2021	2020	2019 and Prior	Revolving	2024
Commercial Real Estate																
Performing																
Nonperforming																
<b>Total Commercial Real Estate</b>																
Commercial and Industrial																
Performing																
Nonperforming																
<b>Total Commercial and Industrial</b>																
Residential Mortgages																
Performing																
Nonperforming																
<b>Total Residential Mortgages</b>																
Other Consumer																
Performing																
Nonperforming																
<b>Total Other Consumer</b>																
Construction																
Performing																
Nonperforming																
<b>Total Construction</b>																
Other																
Performing																
Nonperforming																

<b>Total Other Loans</b>
Total Portfolio Loans
Performing
Performing
Performing
Nonperforming
<b>Total Portfolio Loans</b>

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)**

December 31, 2023

(Dollars in Thousands)	2023	2022	2021	2020	2019	2018 and Prior	Revolving	Total Portfolio Loans
<b>Commercial Real Estate</b>								
Performing	\$ 259,171	\$ 434,639	\$ 173,873	\$ 142,494	\$ 124,176	\$ 504,037	\$ 30,917	\$ 1,669,307
Nonperforming	—	—	—	—	101	1,223	—	1,324
<b>Total Commercial Real Estate</b>	<b>\$ 259,171</b>	<b>\$ 434,639</b>	<b>\$ 173,873</b>	<b>\$ 142,494</b>	<b>\$ 124,277</b>	<b>\$ 505,260</b>	<b>\$ 30,917</b>	<b>\$ 1,670,631</b>
<b>Commercial and Industrial</b>								
Performing	\$ 24,863	\$ 18,061	\$ 37,566	\$ 27,403	\$ 2,636	\$ 137,395	\$ 23,535	\$ 271,459
Nonperforming	—	—	—	18	14	1	19	52
<b>Total Commercial and Industrial</b>	<b>\$ 24,863</b>	<b>\$ 18,061</b>	<b>\$ 37,566</b>	<b>\$ 27,421</b>	<b>\$ 2,650</b>	<b>\$ 137,396</b>	<b>\$ 23,554</b>	<b>\$ 271,511</b>
<b>Residential Mortgages</b>								
Performing	\$ 79,247	\$ 250,603	\$ 194,014	\$ 77,805	\$ 43,633	\$ 96,794	\$ 42,550	\$ 784,646
Nonperforming	—	—	1,142	—	860	1,039	242	3,283
<b>Total Residential Mortgages</b>	<b>\$ 79,247</b>	<b>\$ 250,603</b>	<b>\$ 195,156</b>	<b>\$ 77,805</b>	<b>\$ 44,493</b>	<b>\$ 97,833</b>	<b>\$ 42,792</b>	<b>\$ 787,929</b>
<b>Other Consumer</b>								
Performing	\$ 22,809	\$ 4,494	\$ 2,412	\$ 3,936	\$ 26	\$ 187	\$ 354	\$ 34,218
Nonperforming	14	6	39	—	—	—	—	59
<b>Total Other Consumer</b>	<b>\$ 22,823</b>	<b>\$ 4,500</b>	<b>\$ 2,451</b>	<b>\$ 3,936</b>	<b>\$ 26</b>	<b>\$ 187</b>	<b>\$ 354</b>	<b>\$ 34,277</b>
<b>Construction</b>								
Performing	\$ 118,120	\$ 162,858	\$ 122,087	\$ 10,837	\$ 5,155	\$ 6,340	\$ 8,048	\$ 433,445
Nonperforming	—	—	—	2,090	—	814	—	2,904
<b>Total Construction</b>	<b>\$ 118,120</b>	<b>\$ 162,858</b>	<b>\$ 122,087</b>	<b>\$ 12,927</b>	<b>\$ 5,155</b>	<b>\$ 7,154</b>	<b>\$ 8,048</b>	<b>\$ 436,349</b>
<b>Other</b>								
Performing	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 3,300	\$ —	\$ 3,300
Nonperforming	—	—	—	—	—	301,913	—	301,913
<b>Total Other Loans</b>	<b>\$ —</b>	<b>\$ 305,213</b>	<b>\$ —</b>	<b>\$ 305,213</b>				
<b>Total Portfolio Loans</b>								
Performing	\$ 504,210	\$ 870,655	\$ 529,952	\$ 262,475	\$ 175,626	\$ 748,053	\$ 105,404	\$ 3,196,375
Nonperforming	14	6	1,181	2,108	975	304,990	261	309,535
<b>Total Portfolio Loans</b>	<b>\$ 504,224</b>	<b>\$ 870,661</b>	<b>\$ 531,133</b>	<b>\$ 264,583</b>	<b>\$ 176,601</b>	<b>\$ 1,053,043</b>	<b>\$ 105,665</b>	<b>\$ 3,505,910</b>

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

March 31, 2024
March 31, 2024
March 31, 2024
June 30, 2024
June 30, 2024
June 30, 2024

(Dollars in Thousands)	Commercial Real Estate	Commercial Real Estate						Commercial and Industrial						Residential Mortgages						Other Consumer						Construction						Other						Total					
		Commercial Real Estate		Commercial and Industrial		Residential Mortgages		Other Consumer		Construction		Other		Total																													
		Current Loans	Past Due	30-59 Days	60-89 Days	30-89 Days	Total Nonaccrual Loans	Total Portfolio Loans	Current Loans	Past Due	30-59 Days	60-89 Days	30-89 Days	Total Nonaccrual Loans	Total Portfolio Loans	Current Loans	Past Due	30-59 Days	60-89 Days	30-89 Days	Total Nonaccrual Loans	Total Portfolio Loans	Current Loans	Past Due	30-59 Days	60-89 Days	30-89 Days	Total Nonaccrual Loans	Total Portfolio Loans														
Commercial Real Estate	Commercial Real Estate																																										
Commercial and Industrial	Commercial and Industrial																																										
Residential Mortgages	Residential Mortgages																																										
Other Consumer	Other Consumer																																										
Construction	Construction																																										
Other	Other																																										
Total	Total																																										

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)

(Dollars in Thousands)	December 31, 2023																																	
	Commercial Real Estate			Commercial and Industrial			Residential Mortgages			Other Consumer			Construction			Other			Total															
	Current Loans	30-59 Days Past Due	60-89 Days Past Due	30-59 Days Past Due	60-89 Days Past Due	30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans	Current Loans	30-59 Days Past Due	60-89 Days Past Due	30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans	Current Loans	30-59 Days Past Due	60-89 Days Past Due	30-89 Days Past Due	Nonaccrual Loans	Total Portfolio Loans														
Commercial Real Estate	\$ 1,668,988	\$ 125	\$ 194	\$ 319	\$ 1,324	\$ 1,670,631																												
Commercial and Industrial	271,420	5	34	39	52	271,511																												
Residential Mortgages	782,765	1,846	35	1,881	3,283	787,929																												
Other Consumer	33,813	247	158	405	59	34,277																												
Construction	430,057	3,388	—	3,388	2,904	436,349																												
Other	3,300	—	—	—	—	305,213																												
Total	\$ 3,190,343	\$ 5,611	\$ 421	\$ 6,032	\$ 309,535	\$ 3,505,910																												

The Company had no loans past due 90 days or more and still accruing at **March 31, 2024** June 30, 2024 and December 31, 2023. Loans past due 90 days are automatically transferred to nonaccrual status. Loans past due 30 to 89 days and still accruing increased \$2.6 million decreased \$4.3 million to \$8.7 million \$1.7 million at **March 31, 2024** June 30, 2024 compared to December 31, 2023 primarily. Construction past due loans decreased \$3.4 million partly due to one CRE relationship a delinquent construction loan totaling \$3.2 \$1.5 million and one C&I relationship that went delinquent totaling \$0.9 permanent to a residential mortgage and is now current in the second quarter of 2024. In addition, a second construction loan in the amount of \$1.1 million during paid off in the first quarter of 2024, offset by two construction loans, one paid off and one that paid current totaling \$2.6 million. Residential mortgages decreased \$1.0 million during the second quarter of 2024.

The following table presents loans on nonaccrual status and loans past due 90 days or more and still accruing by portfolio segment for the periods presented:

(Dollars in Thousands)	March 31, 2024						June 30, 2024												Total																		
	Commercial Real Estate			Commercial and Industrial			Residential Mortgages			Other Consumer			Construction			Other			Total																		
	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	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	(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	(Dollars in Thousands)	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans																
Commercial Real Estate																																					
Commercial and Industrial																																					
Residential Mortgages																																					
Other Consumer																																					
Construction																																					
Other																																					
Total																																					

(Dollars in Thousands)	December 31, 2023				
	Nonaccrual without an Allowance for Credit Losses	Nonaccrual with an Allowance for Credit Losses	Total Nonaccrual Loans	Past Due 90+ Days	Past Due Still Accruing
Commercial Real Estate	\$ 453	\$ 871	\$ 1,324	\$ —	\$ —
Commercial and Industrial	—	52	52	—	—
Residential Mortgages	1,142	2,141	3,283	—	—
Other Consumer	—	59	59	—	—
Construction	2,898	6	2,904	—	—
Other	—	301,913	301,913	—	—
<b>Total</b>	<b>\$ 4,493</b>	<b>\$ 305,042</b>	<b>\$ 309,535</b>	<b>\$ —</b>	<b>\$ —</b>

Nonperforming loans remained significantly elevated during the three months ended March 31, 2024 at June 30, 2024 and December 31, 2023 due to loans the aggregate nonperforming loan balance that was reduced from \$301.9 million as of \$301.9 million representing March 31, 2024 to \$294.1 million as of June 30, 2024 associated with the Bank's largest lending relationship, that were placed on nonaccrual status during the second quarter of 2023. During the second quarter of 2024, the Bank received payment of \$7.8 million, which reduced the Bank's amortized cost associated with these loans, pursuant to the pathway of curtailment and payoff of the outstanding nonperforming loan agreed between the relevant borrowers and the Bank.

There were no nonaccrual or past due loans related to loans held-for-sale at March 31, 2024 June 30, 2024 or December 31, 2023.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)

A loan is considered nonperforming when we transfer the 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, management believes delinquency to be a leading indicator with respect to the likelihood of collection in full of both principal and interest. Accordingly, management automatically transfers loans to nonaccrual status if they are 90 or more days' delinquent. 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. Nonaccrual loans, and loans 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 is \$1.0 million or greater and/or based on management's discretion; unless we elect to maintain the loan in the general pool. During the three and six months ended March 31, 2024 June 30, 2024 and March 31, 2023 June 30, 2023, 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 individually evaluated loans as of the periods presented. Changes in the fair value of the types of collateral and discounted cash flow modeling for individually evaluated loans are reported as provision for credit loss on loans in the period of change.

(Dollars in Thousands)	March 31, 2024			December 31, 2023			(Dollars in Thousands)	March 31, 2024			December 31, 2023			
	(Dollars in Thousands)	Fair Value - Real Estate	Discounted Cash Flow	Total	Fair Value - Real Estate	Discounted Cash Flow	Total	Fair Value - Real Estate	Discounted Cash Flow	Total	Fair Value - Real Estate	Discounted Cash Flow	Total	
Commercial Real Estate														
Commercial and Industrial														
Residential Mortgages														
Other Consumer														
Construction														
Other														
<b>Total</b>														

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 5 – ALLOWANCE FOR CREDIT LOSSES (continued)

The following tables present activity in the ACL for the periods presented:

Three Months Ended March 31, 2024

Three Months Ended June 30, 2024

(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:																
Balance at Beginning of Period																
Balance at Beginning of Period																
(Recovery)																
Provision for Credit Losses on Loans:																
Provision																
(Recovery) for Credit Losses on Loans:																
Charge-offs																
Recoveries																
<b>Net Charge-offs</b>																
Net Recoveries/(Charge-offs)																
<b>Balance at End of Period</b>																

Three Months Ended March 31, 2023								Six Months Ended June 30, 2024								
(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:																
Balance at Beginning of Period																
Balance at Beginning of Period																
Provision (Recovery) for Credit Losses on Loans:																
(Recovery)																
Provision for Credit Losses on Loans:																
Provision (Recovery) for Credit Losses on Loans:																
Charge-offs																
Recoveries																
<b>Net Charge-offs</b>																
<b>Balance at End of Period</b>																

Three Months Ended June 30, 2023																
(Dollars in Thousands)		Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans
Allowance for Credit Losses on Loans:																
Balance at Beginning of Period		\$ 18,595	\$ 3,531	\$ 10,419	\$ 1,189	\$ 7,506	\$ 53,454	\$ 94,694								
Provision (Recovery) for Credit Losses on Loans		549	(243)	33	401	(861)	206	85								
Charge-offs		—	—	(67)	(651)	(42)	—	(760)								
Recoveries		—	5	1	119	—	—	125								

Net Recoveries / (Charge-offs)	—	5	(66)	(532)	(42)	—	(635)
Balance at End of Period	\$ 19,144	\$ 3,293	\$ 10,386	\$ 1,058	\$ 6,603	\$ 53,660	\$ 94,144

(Dollars in Thousands)	Six Months Ended June 30, 2023							
	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Loans	
<b>Allowance for Credit Losses on Loans:</b>								
Balance at Beginning of Period	\$ 17,992	\$ 3,980	\$ 8,891	\$ 1,329	\$ 6,942	\$ 54,718	\$ 93,852	
Provision (Recovery) for Credit Losses on Loans	1,152	(691)	1,563	831	(297)	(1,058)	1,500	
Charge-offs	—	(1)	(70)	(1,308)	(42)	—	(1,421)	
Recoveries	—	5	2	206	—	—	213	
<b>Net Recoveries / (Charge-offs)</b>	<b>—</b>	<b>4</b>	<b>(68)</b>	<b>(1,102)</b>	<b>(42)</b>	<b>—</b>	<b>(1,208)</b>	
<b>Balance at End of Period</b>	<b>\$ 19,144</b>	<b>\$ 3,293</b>	<b>\$ 10,386</b>	<b>\$ 1,058</b>	<b>\$ 6,603</b>	<b>\$ 53,660</b>	<b>\$ 94,144</b>	

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 6 – FAIR VALUE MEASUREMENTS

The Company uses fair value measurements when recording and disclosing certain financial assets and liabilities. Securities available-for-sale, **equity securities** 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, 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.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 6 – FAIR VALUE MEASUREMENTS (continued)

**Equity Securities:** The fair values of equity securities are determined by obtaining quoted prices on nationally recognized or foreign securities exchanges, if available. This valuation method is classified as Level 1 in the fair value hierarchy. As of June 30, 2024, Level 1 fair values are available for each of the Company's equity securities.

**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

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

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 and/or 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 non-collateral dependent 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

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

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 **March 31, 2024** June 30, 2024 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.

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

Financial assets measured at fair value on a recurring basis are summarized below for the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024				June 30, 2024				
		Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs	Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs	
		Carrying Value	(Level 1)	(Level 2)	(Level 3)	Carrying Value	(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>										
Securities Available-for-Sale:										
U.S. Government Agency Securities										
U.S. Government Agency Securities										
U.S. Government Agency Securities										
Residential Mortgage-Backed Securities										
Commercial Mortgage-Backed Securities										
Other Commercial Mortgage-Backed Securities										
Securities										
Asset Backed Securities										
Collateralized Mortgage Obligations										
States and Political Subdivisions										
Corporate Notes										
<b>Total Securities Available-for-Sale</b>										
<b>Equity Securities</b>										
Derivatives										
<b>Total</b>										
<b>Liabilities</b>										
<b>Liabilities</b>										
<b>Liabilities</b>										
Derivatives										
Derivatives										
Derivatives										
<b>Total</b>										

(Dollars in Thousands)	(Dollars in Thousands)	December 31, 2023				
		Quoted Prices in Active Markets for Identical Assets		Significant Other Observable Inputs	Significant Unobservable Inputs	
		Carrying Value	(Level 1)	(Level 2)	(Level 3)	
<b>Assets</b>						
Securities Available-for-Sale:						
U.S. Government Agency Securities						
Residential Mortgage-Backed Securities						
Commercial Mortgage-Backed Securities						
Other Commercial Mortgage-Backed Securities						
Asset Backed Securities						
Collateralized Mortgage Obligations						
States and Political Subdivisions						
Corporate Notes						

Total Securities Available-for-Sale	779,003	—	771,684	7,319
Derivatives	17,440	—	17,440	—
<b>Total</b>	<b>\$ 796,443</b>	<b>\$ —</b>	<b>\$ 789,124</b>	<b>\$ 7,319</b>
<b>Liabilities</b>				
Derivatives	\$ 17,228	\$ —	\$ 17,228	\$ —
<b>Total</b>	<b>\$ 17,228</b>	<b>\$ —</b>	<b>\$ 17,228</b>	<b>\$ —</b>

We have invested in subordinated debt of other financial institutions. We have two securities totaling \$7.5 million that are considered to be Level 3 securities at **March 31, 2024** **June 30, 2024** and two totaling \$7.3 million at December 31, 2023, attributable to the calculated change in fair value of \$0.2 million. The Level 3 fair value is benchmarked to other securities that have observable

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

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.

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

Financial assets measured at fair value on a nonrecurring basis are summarized below for the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024				June 30, 2024			
		Level 1	Level 2	Level 3	Fair Value	(Dollars in Thousands)	Level 1	Level 2	Level 3
OREO									
Individually Evaluated Loans									
December 31, 2023									
(Dollars in Thousands)		Level 1	Level 2	Level 3			Level 1	Level 2	Fair Value
OREO		\$ —	\$ —	\$ —	\$ 2,463	\$ 2,463			
Individually Evaluated Loans		\$ —	\$ —	\$ —	\$ —	\$ —			

The Company had **no \$0.6 million** in individually evaluated loans measured at fair value on a nonrecurring basis as of **March 31, 2024** **June 30, 2024** and zero at December 31, 2023. The Company's largest lending relationship is classified at **March 31, 2024** **June 30, 2024** as an individually evaluated loan with a net carrying amount totaling **\$247.6 million** **\$241.2 million**. The Company utilized various cash flow and discounting assumptions in the alternative modeling, instead of fair value, which resulted in a valuation allowance of **\$54.3 million** **\$52.9 million** at **March 31, 2024** **June 30, 2024**. When evaluating the net carrying value of this credit relationship at **March 31, 2024** **June 30, 2024**, 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 \$2.5 million as of **March 31, 2024** **June 30, 2024** and at December 31, 2023, primarily due to sales write-downs on offset by transfers to OREO and payments from loans. The Company had no write-downs recorded on OREO for the **three** **six** months ended **March 31, 2024** **June 30, 2024** or for the same period in 2023.

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis for the periods presented:

(Dollars in Thousands)	March 31, 2024					
	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average	
<b>Assets</b>						
OREO	\$ 1,249	Appraisals	Estimated Selling Costs	6.0 %	6.0 %	
OREO	1,137	Discounted Internal Valuations	Management's Subject Discount	0.0% - 24.0%	8.4 %	
OREO	142	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %	
<b>Total OREO</b>	<b>\$ 2,528</b>					

**June 30, 2024**

(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average
<b>Assets</b>					
Individually Evaluated Loans	\$ 579	Appraisal	Estimated Selling Costs	3.5 %	3.5 %
<b>Total Individually Evaluated Loans</b>	<b>\$ 579</b>				
OREO	\$ 1,212	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	1,146	Discounted Internal Valuations	Management's Subject Discount	0.0% - 21.8%	7.6 %
OREO	143	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
<b>Total OREO</b>	<b>\$ 2,501</b>				
<b>December 31, 2023</b>					
(Dollars in Thousands)	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Range	Average
OREO	\$ 130	Appraisals	Estimated Selling Costs	6.0 %	6.0 %
OREO	142	Internal Valuations	Estimated Selling Costs	5.0 %	5.0 %
OREO	2,191	Discounted Internal Valuations	Management's Subject Discount	0.0% - 24.0%	15.6 %
<b>Total OREO</b>	<b>\$ 2,463</b>				

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

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 judgment to adjust the baseline discount rate when appropriate.

The carrying values and estimated fair values of our financial instruments at **March 31, 2024** **June 30, 2024** and December 31, 2023 are presented in the following tables. Fair values for **March 31, 2024** **June 30, 2024** and December 31, 2023 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

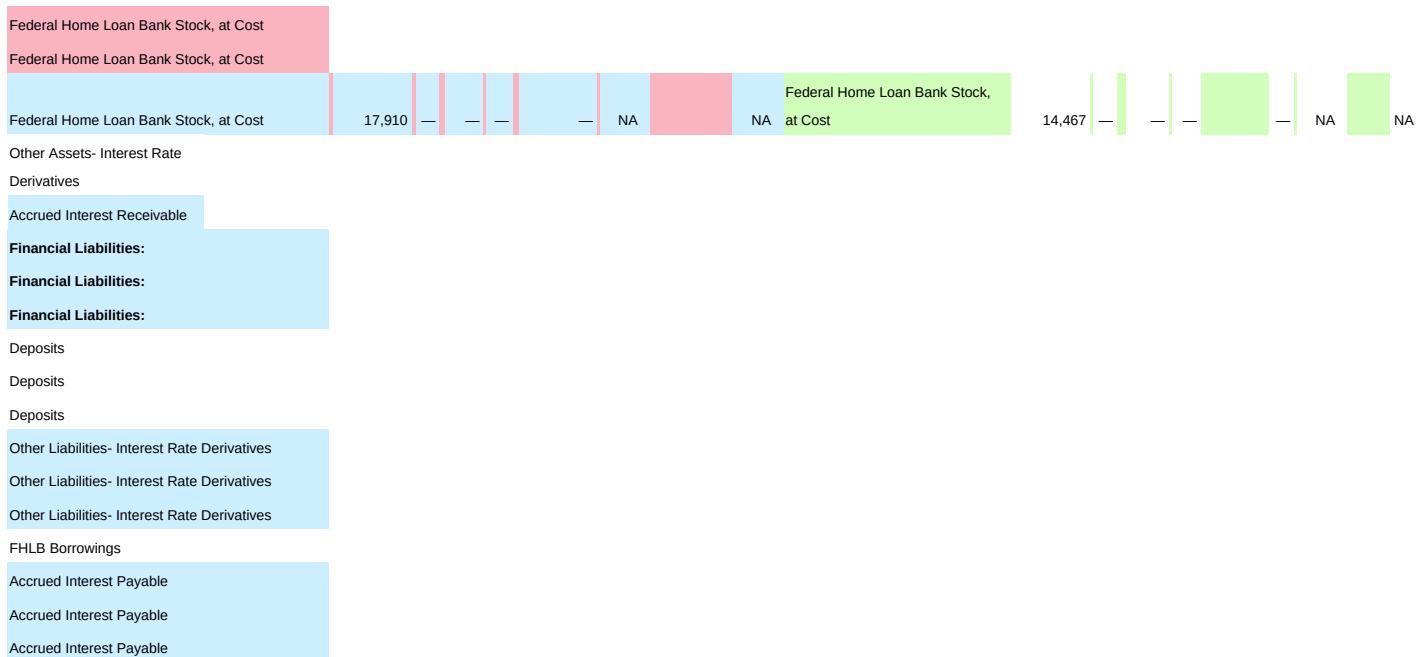
#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 6 – FAIR VALUE MEASUREMENTS (continued)**

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.

(Dollars in Thousands)	(Dollars in Thousands)	Fair Value Measurements at			Fair Value Measurements at				
		Carrying Value	Level 1	Level 2	Level 3	Carrying Value	Level 1	Level 2	Level 3
<b>Financial Assets:</b>									
Cash and Cash Equivalents									
Cash and Cash Equivalents									
Cash and Cash Equivalents									
Securities Available-for-Sale									
Equity Securities									
Portfolio Loans, net									
Portfolio Loans, net									
Portfolio Loans, net									



(Dollars in Thousands)	Carrying Value	Fair Value Measurements at December 31, 2023				
		Level 1	Level 2	Level 3	Total	
<b>Financial Assets:</b>						
Cash and Cash Equivalents	\$ 54,529	\$ 39,676	\$ 14,853	\$ —	\$ 54,529	
Securities Available-for-Sale	779,003	—	771,684	7,319	779,003	
Portfolio Loans, net	3,408,858	—	—	3,177,715	3,177,715	
Federal Home Loan Bank Stock, at Cost	21,626	—	—	NA	NA	
Other Assets- Interest Rate Derivatives	17,440	—	17,440	—	17,440	
Accrued Interest Receivable	18,877	—	5,368	13,509	18,877	
<b>Financial Liabilities:</b>						
Deposits	\$ 3,721,915	\$ 685,218	\$ 1,450,046	\$ 1,599,043	\$ 3,734,307	
Other Liabilities- Interest Rate Derivatives	17,228	—	17,228	—	17,228	
FHLB Borrowings	393,400	—	—	392,696	392,696	
Accrued Interest Payable	7,288	—	—	7,288	7,288	

**CARTER BANKSHARES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## NOTE 7 – 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.

The following table indicates the amounts representing the fair value of derivative assets and derivative liabilities at the dates presented:

Fair Value of Derivative Assets (Included in Other Assets)											
March 31, 2024 December 31, 2023											
June 30, 2024 December 31, 2023											
(Dollars in Thousands)	(Dollars in Thousands)	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value	(Dollars in Thousands)	Number of Transactions	Notional Amount	Fair Value
<b>Derivatives not Designated as Hedging Instruments</b>											
Interest Rate Lock Commitments – Mortgage Loans											
Interest Rate Lock Commitments – Mortgage Loans											
Interest Rate Lock Commitments – Mortgage Loans											
Interest Rate Swap Contracts – Commercial Loans											
<b>Total Derivatives not Designated as Hedging Instruments</b>											
Fair Value of Derivative Liabilities (Included in Other Liabilities)											
March 31, 2024 December 31, 2023											
June 30, 2024 December 31, 2023											
(Dollars in Thousands)	(Dollars in Thousands)	Number of Transactions	Notional Amount	Fair Value	Number of Transactions	Notional Amount	Fair Value	(Dollars in Thousands)	Number of Transactions	Notional Amount	Fair Value
<b>Derivatives not Designated as Hedging Instruments</b>											
Forward Sale Contracts – Mortgage Loans											
Forward Sale Contracts – Mortgage Loans											
Forward Sale Contracts – Mortgage Loans											
Interest Rate Swap Contracts – Commercial Loans											
<b>Total Derivatives not Designated as Hedging Instruments</b>											

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 7 – DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES – (continued)

The following table indicates the income (loss) recognized on derivatives for the periods presented:

		Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,		
(Dollars in Thousands)	(Dollars in Thousands)	2024			2023			2024		
<b>(Dollars in Thousands)</b>	<b>(Dollars in Thousands)</b>									
<b>(Dollars in Thousands)</b>	<b>(Dollars in Thousands)</b>									
<b>Derivatives not Designated as Hedging Instruments</b>										

<b>Derivatives not Designated as Hedging Instruments</b>
<b>Derivatives not Designated as Hedging Instruments</b>
Interest Rate Lock Commitments – Mortgage Loans
Interest Rate Lock Commitments – Mortgage Loans
Interest Rate Lock Commitments – Mortgage Loans
Forward Sale Contracts – Mortgage Loans
Forward Sale Contracts – Mortgage Loans
Forward Sale Contracts – Mortgage Loans
Interest Rate Swap Contracts – Commercial Loans
Interest Rate Swap Contracts – Commercial Loans
Interest Rate Swap Contracts – Commercial Loans
<b>Total Derivative Income (Loss)</b>
<b>Total Derivative Income (Loss)</b>
<b>Total Derivative Income (Loss)</b>

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 in the Consolidated Balance Sheets at the dates presented:

	Derivative Assets (Included in Other Assets)	Derivative Assets (Included in Other Assets)	Derivative Liabilities (Included in Other Liabilities)	Derivative Assets (Included in Other Assets)	Derivative Liabilities (Included in Other Liabilities)
(Dollars in Thousands)	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023	(Dollars in Thousands)
<b>Derivatives not Designated as Hedging Instruments</b>					
Gross Amounts Recognized					
Gross Amounts Recognized					
Gross Amounts Recognized					
Gross Amounts Offset					
Net Amounts Presented in the Consolidated Balance Sheets					
Gross Amounts Not Offset					
<b>Net Amount</b>					

#### NOTE 8 – DEPOSITS

The following table presents the composition of deposits at the dates presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Noninterest-Bearing Demand						
Interest-Bearing Demand						
Money Market						
Savings						
Certificates of Deposits						
<b>Total</b>						

All deposit accounts are insured by the Federal Deposit Insurance Corporation ("FDIC") up to the maximum amount allowed by law. The Dodd-Frank Wall Street Reform and Consumer Protection 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. Certificates of deposits that exceed the FDIC Insurance limit of \$250,000 at **March 31, 2024** **June 30, 2024** and December 31, 2023 were **\$244.5 million** **\$273.1 million** and \$235.0 million, respectively.

At **March 31, 2024** **June 30, 2024** and December 31, 2023, total brokered deposits (excluding the CDARS and ICS two-way) were \$115.6 million and \$70.0 million, respectively.

Certificates of Deposit maturing as of the date presented:

(Dollars in Thousands)	March 31, 2024	June 30, 2024
3 Months or Less	\$ 279,137	417,979
Over 3 Months through 12 Months	1,126,768	1,092,011
Over 1 Year Through 3 Years	194,633	163,754
Over 3 Years	94,142	88,488
<b>Total</b>	<b>\$ 1,694,680</b>	<b>1,762,232</b>

Overdrafts reclassified to loans were \$0.2 million \$0.3 million at March 31, 2024 both June 30, 2024 and \$0.3 million at December 31, 2023.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 9 – FEDERAL HOME LOAN BANK BORROWINGS AND FEDERAL FUNDS PURCHASED

Borrowings serve as an additional source of liquidity for the Company. The Company had \$310.5 million \$238.0 million Federal Home Loan Bank ("FHLB") borrowings at March 31, 2024 June 30, 2024 and \$393.4 million at December 31, 2023. 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. Variable rate FHLB borrowings were 19.5% 7.6% and 5.6% of total borrowings at March 31, 2024 June 30, 2024 and December 31, 2023, respectively. Total loans pledged as collateral were \$1.5 billion \$1.6 billion at March 31, 2024 June 30, 2024 and \$1.5 billion at December 31, 2023, respectively. There were no securities available-for-sale pledged as collateral at both March 31, 2024 June 30, 2024 and December 31, 2023.

At March 31, 2024 June 30, 2024, funding sources accessible to the Company include borrowing availability at the FHLB, equal to 25.0% of the Company's assets or approximately \$1.1 billion, subject to the amount of eligible collateral pledged, of which the Company is eligible to borrow up to an additional \$593.8 million \$669.5 million. The Company has unsecured facilities with three other correspondent financial institutions totaling \$50.0 million at both March 31, 2024 June 30, 2024 and December 31, 2023, respectively, a fully secured facility with one other correspondent financial institution totaling \$45.0 million, and access to the institutional CD certificate of deposit ("CD") and brokered deposit markets. The Company did not have outstanding borrowings on these fed funds lines as of March 31, 2024 June 30, 2024 or December 31, 2023. The Company had the capacity to borrow up to an additional \$480.3 million from the FHLB at December 31, 2023.

The Company had no overnight federal funds purchased in March 31, 2024 and nothing in December 31, 2023.

The following table represents the balance of FHLB borrowings and the weighted average interest rate as of the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
FHLB Borrowings						
Weighted Average Interest Rate	Weighted Average Interest Rate	5.16 %	5.20 %	Weighted Average Interest Rate	5.05 %	5.20 %
FHLB Availability						

The following table represents the balance of federal funds purchased and the weighted average interest rate as of the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Federal Fund Purchased						
Weighted Average Interest Rate	Weighted Average Interest Rate	— %	— %	Weighted Average Interest Rate	— %	— %
Federal Funds Purchased Availability						

Scheduled annual maturities and weighted average interest rates for FHLB borrowings for each of the five years subsequent to March 31, 2024 June 30, 2024 and thereafter are as follows:

(Dollars in Thousands)	(Dollars in Thousands)	Balance	Weighted Average Rate	(Dollars in Thousands)	Balance	Weighted Average Rate
1 year	1 year	\$ 255,500	5.41	5.41 % 1 year	\$ 193,000	5.31 %
2 years	2 years	30,000	4.05	4.05 % 2 years	45,000	3.96 %
3 years	3 years	25,000	3.92	3.92 % 3 years	—	— %
4 years	4 years	—	—	— % 4 years	—	— %
5 years	5 years	—	—	— % 5 years	—	— %
Thereafter	Thereafter	—	—	— % Thereafter	—	— %
<b>Total FHLB Borrowings</b>	<b>Total FHLB Borrowings</b>	<b>\$ 310,500</b>	<b>5.16</b>	<b>5.16 % Total FHLB Borrowings</b>	<b>\$ 238,000</b>	<b>5.05</b>

#### NOTE 10 – COMMITMENTS AND CONTINGENCIES

Commitments to extend credit, which amounted to \$742.7 million \$698.0 million at March 31, 2024 June 30, 2024 and \$702.3 million at December 31, 2023, 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 **\$451.6 million** **\$409.7 million**, or **60.8%** **58.7%** and **\$452.2**

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

million, **\$452.2 million**, or 64.4%, of the commitments to extend credit at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. Standby letters of credit are conditional commitments issued by the Company guaranteeing the performance of a customer to a third-party.

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

Those guarantees are primarily issued to support public and private borrowing arrangements. The Company had outstanding letters of credit totaling **\$18.3 million** **\$17.9 million** at **March 31, 2024** **June 30, 2024** and \$19.6 million at December 31, 2023.

The following table sets forth our commitments and letters of credit as of the dates presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Commitments to Extend Credit						
Standby and Performance Letters of Credit						
<b>Total</b>						

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.

The following table presents activity in the life-of-loss reserve on unfunded loan commitments as of and for the dates presented:

		Three Months Ended March 31,		Three Months Ended June 30,		Six Months Ended June 30,
(Dollars in Thousands)	(Dollars in Thousands)	2024	2023	2024	2023	2024
(Dollars in Thousands)						
(Dollars in Thousands)						
(Dollars in Thousands)						
Life-of-Loss Reserve on Unfunded Loan Commitments						
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						
Balance at Beginning of Period						
(Recovery) Provision for Unfunded Commitments						
(Recovery) Provision for Unfunded Commitments						
(Recovery) Provision for Unfunded Commitments						
<b>Balance at End of Period</b>						
<b>Balance at End of Period</b>						
<b>Balance at End of Period</b>						

Amounts are added or subtracted to the provision for unfunded commitments through a charge or credit to current earnings in the (recovery) provision for unfunded commitments. A recovery of **\$43.0 thousand** **\$0.2 million** was recorded for the three months ended **March 31, 2024** for the provision for unfunded commitments, **June 30, 2024**, which resulted in a

decrease of **\$0.1** **\$0.6** million compared to the provision of **\$0.1** **\$0.4** million for the three months ended **March 31, 2023** **June 30, 2023**. The decrease in the (recovery) provision for unfunded commitments was primarily due to a decline in construction commitments.

#### 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.

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

Other than as set forth below, as of **March 31, 2024** **June 30, 2024**, the Company is not involved in any other material pending legal proceedings other than proceedings occurring in the ordinary course of business.

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

#### ***Settlement of Certain Justice Disputes***

On June 26, 2024, the Bank announced that it had agreed to a pathway of curtailment and payoff of loans outstanding to the Bank owed or guaranteed by James C. Justice, II, Cathy L. Justice and James C. Justice, III, and various entities that are owned or controlled by them (such entities, the "Justice Entities" and collectively, the "Justice Obligors"). In connection with this agreement, several legal proceedings involving the Bank and the Justice Obligors were dismissed, as described below, and the Justice Obligors executed a release that waives all causes of action of any kind that they might claim to have against the Company or the Bank.

#### ***Justice Collection Actions***

The Bank **is has been** 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, various Justice Entities (collectively, 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** **\$301.9** 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. **had filed.** 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.

Under Virginia law, a party seeking to suspend **In connection with** the execution of a confessed judgment during an appeal is required to provide security by filing a suspending bond or irrevocable letter of credit conditioned upon the performance or satisfaction of the judgment and payment of all damages incurred in consequence of such suspension. On March 14, 2024 **settlement** described above, on July 3, 2024, the Collection Defendants **filed** a motion with the Court **withdrew** their notices of Appeals of the Commonwealth of Virginia (the "Virginia Court of Appeals"), seeking to modify the security requirement applicable to appeal, and the Collection Defendants' appeals of the Martinsville Circuit Court's orders described in the paragraph above, and Defendants have agreed not to expedite such appeals. On March 29, 2024, the Virginia Court of Appeals denied the Collection Defendants' request to expedite such appeals, denied the Collection Defendants' request to eliminate any security requirements applicable to such appeals, and directed the Martinsville Circuit Court to first address the Collection Defendants' request to modify the security requirements.

Pursuant to **challenge** further the confessions of judgment that were upheld or the final orders related thereto issued 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 reaffirmation 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 related appeals. 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. Further, the Company and the Bank also vigorously oppose any attempts by the Collection Defendants to reduce or eliminate the security requirements applicable to appeals of the confessions of judgment. 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. Court.

#### **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 have been reduced to judgment in the Martinsville Circuit Court and are the subject of the Collection Actions. Court. 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

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

confessions of judgment, and certain guarantees, be declared void and unenforceable. On December 6, 2023, the Company and the Bank filed a motion to transfer venue of the Justice Federal Court Litigation to the United States District Court for the Western District of Virginia. That motion was granted on April 24, 2024.

The Company and In connection with the Bank deny the allegations contained in settlement described above, on June 26, 2024 the Justice Federal Court Litigation and intend to defend vigorously the matter and the validity and enforceability of the confessions of judgment and 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 was dismissed 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. prejudice.

#### **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 The Greenbrier Sporting Club Development Company, 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 that the Greenbrier Circuit Court to issue declaratory judgments that the Trust Deed is invalid and unenforceable, that the Notice of Sale (defined below) is invalid and of no effect, and that the trustee and the Bank may could not sell the property described in the Notice of Sale. Sporting Club also requests that 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

#### **CARTER BANKSHARES, INC.**

#### **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

#### **NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

adjudication of the Justice Federal Court Litigation before any sale of property by the trustee under the Trust Deed may might 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 voluntarily cancelled the proposed sale by the Trustee of the real estate encumbered by the Trust Deed.

The Bank disputes all allegations contained in In connection with the settlement described above, on June 28, 2024 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 was dismissed with legal counsel, the Company believes that the Bank has meritorious defenses to all allegations contained in the Justice Foreclosure Litigation. prejudice.

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 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

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 10 – COMMITMENTS AND CONTINGENCIES – (continued)**

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. On March 29, 2024, the Bank filed a motion to dismiss the original complaint filed by GLAS due to lack of subject matter jurisdiction and failure to assert facts sufficient to support the claims alleged by GLAS. Subsequently, GLAS filed an amended complaint on April 19, 2024, which contains substantively similar allegations regarding fraudulent and/or voluntary conveyances, and seeks the same relief, in each case as the original complaint. **On May 13, 2024, the Bank filed a motion to dismiss the amended complaint filed by GLAS on similar grounds.**

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 all **Justice Entities Collection Defendants** 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 available to the Bank under the Justice Indemnity Agreement.

**Because the GLAS Federal Court Litigation is in its early stages, the** 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.

**CARTER BANKSHARES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTE 11 – TAX EFFECTS ON OTHER COMPREHENSIVE INCOME (LOSS)**

The following table presents the change in components of other comprehensive income (loss) for the periods presented, net of tax effects:

(Dollars in Thousands)	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Pre-Tax Amount	Tax Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit (Expense)	Net of Tax Amount
Net Unrealized Gains Arising during the period	\$ 2,119	\$ (476)	\$ 1,643	\$ 15,633	\$ (3,390)	\$ 12,243
Reclassification Adjustment for Losses included in Net Income	—	—	—	12	(3)	9
<b>Other Comprehensive Income</b>	<b>\$ 2,119</b>	<b>\$ (476)</b>	<b>\$ 1,643</b>	<b>\$ 15,645</b>	<b>\$ (3,393)</b>	<b>\$ 12,252</b>

(Dollars in Thousands)	Three Months Ended June 30, 2024			Three Months Ended June 30, 2023		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Benefit	Net of Tax Amount
Net Unrealized Gains (Losses) Arising during the period	\$ 250	\$ (59)	\$ 191	\$ (11,036)	\$ 2,417	\$ (8,619)
Reclassification Adjustment for Gains included in Net Income	(36)	8	(28)	(3)	1	(2)
<b>Other Comprehensive Income (Loss)</b>	<b>\$ 214</b>	<b>\$ (51)</b>	<b>\$ 163</b>	<b>\$ (11,039)</b>	<b>\$ 2,418</b>	<b>\$ (8,621)</b>

(Dollars in Thousands)	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	Pre-Tax Amount	Tax (Expense) Benefit	Net of Tax Amount	Pre-Tax Amount	Tax Expense	Net of Tax Amount
Net Unrealized Gains Arising during the period	\$ 2,369	\$ (535)	\$ 1,834	\$ 4,597	\$ (973)	\$ 3,624
Reclassification Adjustment for (Gains) Losses included in Net Income	(36)	8	(28)	9	(2)	7

Other Comprehensive Income	\$ 2,333	\$ (527)	\$ 1,806	\$ 4,606	\$ (975)	\$ 3,631
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#### NOTE 12 – STOCK REPURCHASE PLAN

The Company was active in share repurchase activity and repurchased 1,000,000 shares of its common stock at a total cost of \$14.2 million, or an average price of \$14.16 per share during the year ended December 31, 2023. On March 29, 2023, the Company's Board of Directors authorized a new share repurchase program (the "2023 Program") which took effect starting May 1, 2023, after the expiration of the previous repurchase program (the "2022 Program"), which was originally authorized through August 1, 2023, but was fully exhausted as of March 10, 2023. The Board of Directors authorized the repurchase of 1,000,000 shares of common stock under the 2023 Program and on August 31, 2023 reached the maximum number of shares that could be purchased under the 2023 Program. The Company's Board of Directors ~~have~~ has not authorized a new repurchase program as of **March 31, 2024** ~~June 30, 2024~~.

#### CARTER BANKSHARES, INC.

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 13 – PROVISION FOR INCOME TAXES

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:

(Dollars in Thousands)	Three Months Ended March 31,			
	2024		2023	
	Amount	Percent	Amount	Percent
Federal Income Tax at Statutory Rate	\$ 1,519	21.0	\$ 4,294	21.0
State Income Tax, net of Federal Benefit	210	2.9	365	1.8
Tax-exempt Interest, net of Disallowance	(137)	(1.9)	(195)	(1.0)
Federal Tax Credits, net of Basis Reduction	(155)	(2.1)	(550)	(2.8)
Tax Credit Investment Amortization, net of Federal Benefit	129	1.8	483	2.4
Change in Valuation Allowance	21	0.3	—	—
Income from Bank Owned Life Insurance	(73)	(1.0)	(71)	(0.3)
Interim Period Effective Tax Rate Adjustment	(133)	(1.8)	202	1.0
Other	42	0.5	(24)	(0.1)
<b>Income Tax Provision and Effective Income Tax Rate</b>	<b>\$ 1,423</b>	<b>19.7</b>	<b>\$ 4,504</b>	<b>22.0</b>

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 March 31, 2024, the Company recognized \$1.6 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 March 31, 2024, the Company has not recognized any non-income-tax-related activity from its HTC investments.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") is intended to help ~~the reader~~ **readers** understand Carter Bankshares, Inc., our operations, our present business environment, and our consolidated results of operations and financial condition and highlights material changes in our financial condition and results of operations as of and for the three and six month periods ended **March 31, 2024** ~~June 30, 2024~~ and **March 31, 2023** ~~June 30, 2023~~. 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 1 of this Quarterly Report on Form 10-Q.

Certain reclassifications have been made to prior periods to place them on a basis comparable with the current period presentation. The results of operations reported in the accompanying Consolidated Financial Statements are not necessarily indicative of results to be expected in future periods. The MD&A includes the following sections:

- Important Note Regarding Forward-Looking Statements
- Explanation of Use of Non-GAAP Financial Measures
- Critical Accounting Estimates
- Overview and Strategy
- Results of Operations and Financial Condition
  - Earnings Summary
  - Liquidity and Capital Resources
  - Regulatory Capital Requirements
  - Contractual Obligations
  - Off-Balance Sheet Arrangements

#### **Important Note Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q 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, 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," "continues," "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 that are difficult to predict and often are beyond the 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, FDIC and Treasury Department;
- **cyber-security threats, attacks changes in accounting policies, practices, or events; guidance, for example, our adoption of Current Expected Credit Losses ("CECL") methodology, including potential volatility in the Company's operating results due to application of the CECL methodology;**

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (continued)**

- **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;
- 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, 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 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; largest nonperforming loan ("NPL") relationship;
- 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 large bank failures and their impact on the broader market through other customers, suppliers and partners or broader stability or that the conditions which resulted in the liquidity concerns regarding other financial institutions including but not limited to other regional with those failed 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;

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (continued)**

- 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.

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS – (continued)**

Please also refer to such other factors as discussed throughout Part I, Item 1A, "Risk Factors" in the Company's [Annual Report on Form 10-K for the year ended December 31, 2023](#), 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.

**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 quarterly 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.

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.

## Critical Accounting Estimates

Our critical accounting estimates involving significant judgments and assumptions used in the preparation of the Consolidated Financial Statements as of **March 31, 2024** **June 30, 2024** have remained unchanged from the disclosures presented under the heading "Critical Accounting Estimates" in our [Annual Report on Form 10-K for the year ended December 31, 2023](#) under the section "Management's Discussion and Analysis of Financial Condition and Results of Operations," and are incorporated herein by reference.

## Overview and Strategy

Carter Bankshares, Inc. (the "Company") is a bank holding company headquartered in Martinsville, Virginia with assets of **\$4.6 billion** **\$4.5 billion** at **March 31, 2024** **June 30, 2024**. The Company is the parent company of its wholly owned subsidiary, Carter Bank & Trust (the "Bank"). The Bank is a Federal Deposit Insurance Corporation, ("FDIC") insured, Virginia state-chartered bank, which operates 65 branches in Virginia and North Carolina. The Company provides a full range of financial services with retail, and

### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

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 provision.

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 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

### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

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 shift from restructuring the balance sheet to 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 liquidity positions support this strategy. In addition to loan and deposit growth, the Company will seek to increase fee income while closely monitoring 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 we may enter. As part of executing this strategy, the Company continues to dedicate **and expects to continue to dedicate**, significant resources to **resolving the ultimate resolution** of 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 **dedicating, and expects to continue to dedicate**, significant resources to **resolving pending litigation related to this single large lending relationship in a manner closely monitoring all developments that best protects** may impact collateral values or potential recoveries on its nonperforming loans, including claims that may be asserted by other purported creditors.

During the second quarter of 2024 the federal court lawsuit filed against the Company and the Bank by West Virginia Governor James C. Justice II, his wife Cathy L. Justice, his son James C. Justice, III, and **shareholders** related entities that he and/or they own (collectively, the "Justice Entities") was dismissed with prejudice. In connection with the dismissal of this litigation, the Justice Entities have agreed upon a pathway of curtailment and payoff of the outstanding loans with the Bank. The Justice Entities have already started that process of curtailment, and the aggregate nonperforming loan balance associated with the Justice Entities has been reduced from \$301.9 million as of March 31, 2024 to \$294.1 million as of June 30, 2024.

## Results of Operations and Financial Condition

### Earnings Summary

#### **Highlights for the Three Months Ended **March 31, 2024** **June 30, 2024****

- Net interest income **decreased \$12.4 million** **increased \$1.4 million**, or **30.3% 5.2%** compared to the three months ended **March 31, 2023** **June 30, 2023**, primarily due to **an 84 basis point increase in the yield on earning assets offset by a 155 98 basis point increase in funding costs and a 12 basis point decrease in yield on earning assets**. **Net interest income for the first quarter of 2024 was negatively impacted by \$9.3 million compared to the prior year quarter as a result of the Bank placing its largest lending relationship on nonaccrual status during the second quarter of 2023**; **costs**;
- The provision for credit losses **decreased \$1.4 million** **increased \$0.4 million** for the three months ended **March 31, 2024** **June 30, 2024**, compared to the same period in 2023;
- Total noninterest income increased **\$0.3 million** **\$0.5 million** to **\$5.0 million** **\$5.5 million** for the three months ended **March 31, 2024** **June 30, 2024**, compared to the same period in 2023;

- Total noninterest expense increased \$2.7 million \$1.9 million to \$26.3 million \$27.4 million for the three months ended March 31, 2024 June 30, 2024 compared to the same period in 2023; and
- Provision for income taxes decreased \$3.1 million to \$1.4 million increased \$1.1 million for the three months ended March 31, 2024 June 30, 2024 compared to \$4.5 million for the same period in 2023, which was primarily due 2023.

#### Highlights for the Six Months Ended June 30, 2024

- Net interest income decreased \$11.0 million, or 16.3%, to \$56.5 million for the six months ended June 30, 2024 compared to the decrease same period in pre-tax 2023. The decline in net interest income due to was significantly driven by the Company's Bank's largest lending NPL relationship moving into that was placed on nonaccrual status during the second quarter of 2023. 2023, which negatively impacted interest income by \$18.4 million for the six months ended June 30, 2024 and by \$11.3 million for the same period in

CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

2023. Funding costs increased 127 basis points, offset by an increase of 36 basis points on the yield on earning assets for the six months ended June 30, 2024 compared to the same period in 2023;

- The provision for credit losses decreased \$1.0 million to \$0.5 million for the six months ended June 30, 2024 compared to the same period in 2023;
- Total noninterest income increased \$0.8 million to \$10.6 million for the six months ended June 30, 2024 compared to the same period in 2023;
- Total noninterest expense increased \$4.6 million to \$53.7 million for the six months ended June 30, 2024 compared to the same period in 2023; and
- Provision for income taxes decreased \$2.0 million to \$2.5 million for the six months ended June 30, 2024 compared to the same period in 2023.

#### Balance Sheet Highlights (period-end balances, March 31, 2024 June 30, 2024 compared to December 31, 2023)

- The securities portfolio decreased \$10.2 million \$32.7 million and is currently 16.9% 16.5% of total assets compared to 17.3% of total assets;
- Total portfolio loans increased \$3.2 million \$43.6 million, or 0.4% 2.5%, on an annualized basis, primarily due to loan growth in the commercial real estate ("CRE") and residential mortgage segments segment during the three six months ended March 31, 2024 June 30, 2024 and was muted by \$80.0 million in loan payoffs of two large commercial real estate loans;
- The portfolio loans to deposit ratio was 91.6% 91.5%, compared to 94.2%;
- At June 30, 2024, nonperforming loans declined by \$9.3 million to \$300.2 million since December 31, 2023. Nonperforming loans as a percentage of total portfolio loans were 8.76% 8.46% compared to 8.83%. The significant increase decline is due to \$7.8 million of curtailment payments made by the Banks's largest nonperforming lending relationship that was placed on nonaccrual status during the second quarter of 2023. These loans are contained in the Other segment with an aggregate principal balance of \$301.9 million that were placed into nonaccrual status due to loan maturities \$294.1 million as of June 30, 2024 and failure to pay in full during the second quarter of 2023. These loans comprise 98.2% 98.0% of nonperforming loans at March 31, 2024 June 30, 2024;
- Total deposits increased \$108.6 million, or 11.6% on an annualized basis, compared to December 31, 2023; and
- The Allowance for Credit Losses, ("ACL") to total portfolio loans ratio was 2.75% 2.72% compared to 2.77%. The ACL on portfolio loans totaled \$96.5 million \$96.7 million at March 31, 2024 June 30, 2024, compared to \$97.1 million at December 31, 2023.
- Total deposits increased \$159.4 million, or 8.61% on an annualized basis, compared to December 31, 2023; and
- Federal Home Loan Bank ("FHLB") borrowings decreased \$155.4 million to \$238.0 million at June 30, 2024 compared to \$393.4 million at December 31, 2023 primarily due to liquidity provided by deposit growth.

The Company reported net income of \$5.8 million \$4.8 million or \$0.25 \$0.21 diluted earnings per common share ("EPS") for the three months ended March 31, 2024 June 30, 2024 compared to net income of \$15.9 million \$5.7 million, or \$0.67 \$0.24 diluted EPS for the same period in 2023.

The Company's financial results for the three months ended March 31, 2024, compared continue to the same period in 2023 were be significantly impacted by placing commercial loans with the Bank's largest NPL relationship that was placed on nonaccrual status during the second quarter of 2023, which has an aggregate principal value balance of \$301.9 million \$294.1 million as of June 30, 2024. As a result, interest income was negatively impacted by \$9.1 million and \$11.3 million during the second quarter of 2024 and 2023, respectively. Interest income has been negatively impacted by \$48.4 million in the Other segment aggregate since placement of the Bank's loan portfolio these loans on nonaccrual status due to loan maturities and failure to pay in full. This nonaccrual classification had a \$9.3 million negative impact on interest income recognized by during the Company for the three months ended March 31, 2024, second quarter of 2023.

Three Months Ended March 31,

Three Months Ended March 31,

Three Months Ended March 31,

PERFORMANCE RATIOS

PERFORMANCE RATIOS

PERFORMANCE RATIOS	PERFORMANCE RATIOS	Three Months Ended June 30,		Six Months Ended June 30,	
		2024	2023	2024	2023
Return on Average Assets	Return on Average Assets	0.43	%	0.52 %	1.01 %
Return on Average Assets					
Return on Average Shareholders' Equity					
Return on Average Shareholders' Equity					
Return on Average Shareholders' Equity	Return on Average Shareholders' Equity	5.40	%	6.38 %	12.45 %
Portfolio Loans to Deposit Ratio	Portfolio Loans to Deposit Ratio	91.45	%	93.03 %	93.03 %
Portfolio Loans to Deposit Ratio					
Portfolio Loans to Deposit Ratio					
Allowance for Credit Losses to Total Portfolio Loans	Allowance for Credit Losses to Total Portfolio Loans	2.72	%	2.83 %	2.72 %
Allowance for Credit Losses to Total Portfolio Loans					
Allowance for Credit Losses to Total Portfolio Loans					
Nonperforming Loans to Total Portfolio Loans					
Nonperforming Loans to Total Portfolio Loans					
Nonperforming Loans to Total Portfolio Loans					
Nonperforming Loans to Portfolio Loans		8.46	%	9.33	%
Nonperforming Loans to Portfolio Loans					
Nonperforming Loans to Portfolio Loans					

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

#### 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 Quarterly Report on Form 10-Q.

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 to interest and dividend income on an FTE

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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)	Three Months Ended March 31,		Three Months Ended March 31,		Three Months Ended March 31,	
		Three Months Ended June 30,		Six Months Ended June 30,		Six Months Ended June 30,	
		2024	2023	2024	2023	2024	2023
Interest Income (FTE)(Non-GAAP)							
Interest Income (FTE)(Non-GAAP)							

<b>Interest Income (FTE)(Non-GAAP)</b>							
Interest and Dividend Income (GAAP)							
Interest and Dividend Income (GAAP)							
Interest and Dividend Income (GAAP)							
Tax Equivalent Adjustment							
Tax Equivalent Adjustment							
Tax Equivalent Adjustment							
<b>Interest and Dividend Income (FTE) (Non-GAAP)</b>							
<b>Interest and Dividend Income (FTE) (Non-GAAP)</b>							
<b>Interest and Dividend Income (FTE) (Non-GAAP)</b>							
Average Earning Assets							
Average Earning Assets							
Average Earning Assets							
<b>Yield on Interest-earning Assets (GAAP)</b>	<b>Yield on Interest-earning Assets (GAAP)</b>			4.95	%	4.11 %	
<b>Yield on Interest-earning Assets (GAAP)</b>							
<b>Yield on Interest-earning Assets (GAAP)</b>							
<b>Yield on Interest-earning Assets (FTE) (Non-GAAP)</b>							
<b>Yield on Interest-earning Assets (FTE) (Non-GAAP)</b>							
<b>Yield on Interest-earning Assets (FTE) (Non-GAAP)</b>	<b>Yield on Interest-earning Assets (FTE) (Non-GAAP)</b>			4.97	%	4.14 %	
<b>Yield on Interest-earning Assets (FTE) (Non-GAAP)</b>							
Net Interest Income (GAAP)							
Net Interest Income (GAAP)							
Net Interest Income (GAAP)							
Tax Equivalent Adjustment							
Tax Equivalent Adjustment							
Tax Equivalent Adjustment							
<b>Net Interest Income (FTE) (Non-GAAP)</b>							
<b>Net Interest Income (FTE) (Non-GAAP)</b>							
<b>Net Interest Income (FTE) (Non-GAAP)</b>							
Average Earning Assets							
Average Earning Assets							
Average Earning Assets							
<b>Net Interest Margin (GAAP)</b>							
<b>Net Interest Margin (GAAP)</b>							
<b>Net Interest Margin (GAAP)</b>	<b>Net Interest Margin (GAAP)</b>			2.55	%	2.51 %	
<b>Net Interest Margin (FTE) (Non-GAAP)</b>	<b>Net Interest Margin (FTE) (Non-GAAP)</b>			2.56	%	2.54 %	
<b>Net Interest Margin (FTE) (Non-GAAP)</b>							
<b>Net Interest Margin (FTE) (Non-GAAP)</b>							

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

#### Average Balance Sheet and Net Interest Income Analysis (FTE)

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 periods presented:

		Three Months Ended									
		March 31, 2024		Three Months Ended March 31, 2023							
		Three Months Ended									
		June 30, 2024		Three Months Ended June 30, 2023							
(Dollars Thousands)	in Thousands)	Average Balance	Income/ Expense	Yield/Rate	Average Balance	Income/ Expense	Yield/Rate	(Dollars Thousands)	in Thousands)	Average Balance	Income/ Expense

## ASSETS

Interest-Bearing Deposits with

Banks

Interest-Bearing Deposits with

Banks

Interest-Bearing Deposits with

Banks

Tax-Free Investment Securities<sup>(2)</sup>

Taxable Investment Securities

Total Securities

Tax-Free Loans<sup>(1)(2)</sup>

Taxable Loans<sup>(3)</sup>

Tax-Free Loans<sup>(1)(2)</sup>

Taxable Loans<sup>(1)(2)</sup>

Total Loans

Federal Home Loan Bank Stock

Total Interest-Earning Assets

Noninterest Earning Assets

Total Assets

Total Assets

Total Assets

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES AND SHAREHOLDERS' EQUITY

LIABILITIES AND SHAREHOLDERS' EQUITY

Interest-Bearing Demand

Interest-Bearing Demand

Interest-Bearing Demand

Money Market Savings

Certificates of Deposit

Total Interest-Bearing Deposits

Federal Home Loan Bank Borrowings

Federal Funds Purchased	Federal Funds Purchased	—	—	—	—	— %	14,349	176	176	4.97	%	Federal Funds Purchased
Other Borrowings	Other Borrowings	7,703	94	94	4.91	4.91 %	6,448	80	80	5.03	%	Other Borrowings
<b>Total Borrowings</b>	<b>Total Borrowings</b>	<b>374,485</b>	<b>4,913</b>	<b>4,913</b>	<b>5.28</b>	<b>5.28 %</b>	<b>306,360</b>	<b>3,651</b>	<b>3,651</b>	<b>4.83</b>	<b>%</b>	<b>Total Borrowings</b>
Total Interest- Bearing Liabilities	Total Interest- Bearing Liabilities	3,471,027	25,630	25,630	2.97	2.97 %	3,197,486	11,170	11,170	1.42	%	Total Interest- Bearing Liabilities
Noninterest- Bearing Liabilities												
Shareholders' Equity												
Shareholders' Equity												
Shareholders' Equity												
<b>Total Liabilities and Shareholders' Equity</b>												
<b>Total Liabilities and Shareholders' Equity</b>												
<b>Total Liabilities and Shareholders' Equity</b>												
Net Interest Income <sup>(2)</sup>												
Net Interest Income <sup>(2)</sup>												
Net Interest Income <sup>(2)</sup>												
Net Interest Margin <sup>(2)</sup>												
Net Interest Margin <sup>(2)</sup>												
Net Interest Margin <sup>(2)</sup>												
<i>(a) Nonaccruing loans are included in the daily average loan amounts outstanding.</i>												
<i>(a) Tax-exempt income is on an FTE basis (non-GAAP) using the statutory federal corporate income tax rate of 21 percent.</i>												
<i>(a) Average loan balances include loans held-for-sale.</i>												

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

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

(a) Average loan balances include loans held-for-sale.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

(Dollars in Thousands)	Six Months Ended June 30, 2024			Six Months Ended June 30, 2023		
	Average Balance	Income/ Expense	Rate	Average Balance	Income/ Expense	Rate
<b>ASSETS</b>						
Interest-Bearing Deposits with Banks	\$ 27,606	\$ 755	5.50 %	\$ 17,023	\$ 415	4.92 %
Tax-Free Investment Securities <sup>(2)</sup>	11,799	171	2.91 %	28,491	415	2.94 %
Taxable Investment Securities	847,664	15,464	3.67 %	916,439	15,081	3.32 %
<b>Total Securities</b>	<b>859,463</b>	<b>15,635</b>	<b>3.66 %</b>	<b>944,930</b>	<b>15,496</b>	<b>3.31 %</b>
Tax-Free Loans <sup>(1)(2)</sup>	108,479	1,751	3.25 %	129,580	2,069	3.22 %
Taxable Loans <sup>(1)(3)</sup>	3,418,994	90,212	5.31 %	3,115,799	77,657	5.03 %
<b>Total Loans</b>	<b>3,527,473</b>	<b>91,963</b>	<b>5.24 %</b>	<b>3,245,379</b>	<b>79,726</b>	<b>4.95 %</b>
Federal Home Loan Bank Stock	18,507	682	7.41 %	16,784	555	6.67 %
<b>Total Interest-Earning Assets</b>	<b>4,433,049</b>	<b>\$ 109,035</b>	<b>4.95 %</b>	<b>4,224,116</b>	<b>\$ 96,192</b>	<b>4.59 %</b>
Noninterest Earning Assets	91,409			94,549		
<b>Total Assets</b>	<b>\$ 4,524,458</b>			<b>\$ 4,318,665</b>		

LIABILITIES AND SHAREHOLDERS' EQUITY							
Interest-Bearing Demand	\$ 514,376	\$ 2,801	1.10 %	\$ 490,518	\$ 1,156	0.48 %	
Money Market	517,862	7,922	3.08 %	445,654	3,112	1.41 %	
Savings	425,616	282	0.13 %	604,004	316	0.11 %	
Certificates of Deposit	1,683,589	32,435	3.87 %	1,339,269	14,717	2.22 %	
<b>Total Interest-Bearing Deposits</b>	<b>3,141,443</b>	<b>43,440</b>	<b>2.78 %</b>	<b>2,879,445</b>	<b>19,301</b>	<b>1.35 %</b>	
Federal Home Loan Bank Borrowings	324,968	8,494	5.26 %	345,834	8,475	4.94 %	
Federal Funds Purchased	—	—	— %	9,831	247	5.07 %	
Other Borrowings	8,081	187	4.65 %	6,305	152	4.86 %	
<b>Total Borrowings</b>	<b>333,049</b>	<b>8,681</b>	<b>5.24 %</b>	<b>361,970</b>	<b>8,874</b>	<b>4.94 %</b>	
<b>Total Interest-Bearing Liabilities</b>	<b>3,474,492</b>	<b>52,121</b>	<b>3.02 %</b>	<b>3,241,415</b>	<b>28,175</b>	<b>1.75 %</b>	
Noninterest-Bearing Liabilities	693,814			726,656			
Shareholders' Equity	356,152			350,594			
<b>Total Liabilities and Shareholders' Equity</b>	<b>\$ 4,524,458</b>			<b>\$ 4,318,665</b>			
<b>Net Interest Income<sup>(2)</sup></b>	<b>\$ 56,914</b>			<b>\$ 68,017</b>			
<b>Net Interest Margin<sup>(2)</sup></b>			<b>2.58 %</b>				<b>3.25 %</b>

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

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

(a) Average loan balances include loans held-for-sale.

Net interest income decreased increased to \$28.4 million \$28.1 million for the three months ended March 31, 2024 June 30, 2024 from \$40.8 million \$26.7 million for the same period in 2023. Net interest income, on an FTE basis (non-GAAP), increased \$1.3 million, or 4.9%, to \$28.3 million for the three months ended June 30, 2024 compared to \$27.0 million for the same period in 2023. The increase is primarily a result of an increase in average interest-earning assets of \$175.4 million with the yield on average interest-earning assets increasing 83 basis points as well as a decline in the negative impact of the Bank's largest NPL of \$2.2 million in the second quarter of 2024, offset by an increase of 98 basis points in funding costs. Net interest income decreased to \$56.5 million for the six months ended June 30, 2024 from \$67.5 million for the same period in 2023. Net interest income, on an FTE basis (non-GAAP), decreased \$12.4 million \$11.1 million, or 30.3% 16.3%, to \$28.6 million \$56.9 million for the three six months ended March 31, 2024 June 30, 2024 compared to \$41.0 million \$68.0 million for the same period in 2023. The most significant decrease relates to the \$9.3 million negative impact on interest income due to the \$301.9 million of loans comprising the Bank's largest lending relationship, that were placed on nonaccrual status, during the second quarter of 2023. The Company's decline in net interest income and net interest margin will continue to be were significantly driven by the aforementioned large NPL relationship, which negatively impacted interest income by \$18.4 million for the six months ended June 30, 2024 as compared to \$11.3 million for the same period in future periods 2023. Funding costs increased 127 basis points, partially offset by an increase of 36 basis points on the Bank's largest lending relationship being placed yield on nonaccrual status until it is ultimately resolved, earning assets for the six months ended June 30, 2024 compared to the same period in 2023. During the six months ended June 30, 2024, \$760.6 million of CDs matured and repriced from an average rate of 4.30% to an average rate of 4.41%.

Interest income increased to \$54.0 million \$54.6 million for the three months ended March 31, 2024 June 30, 2024 from \$52.0 million \$43.7 million compared to the same period in 2023. Interest income, on an FTE basis (non-GAAP), increased \$2.1 million \$10.8 million, or 3.9% 24.6%, to \$54.3 million \$54.8 million for the three months ended March 31, 2024 June 30, 2024 compared to \$52.2 million \$44.0 million for the same period in 2023, resulting from an increase in average interest-earning assets of \$242.9 million \$175.4 million, while the yield on average interest-earning assets decreased 13 increased 83 basis points due to the negative impact on interest income related to the Bank's largest lending relationship previously mentioned. points. Average interest-earning assets increased primarily due to average loan growth of \$272.6 million in taxable loans and an increase of \$313.0 million in average loans, an increase of \$8.0 million \$13.2 million in interest-bearing deposits with banks during the second quarter of 2024, and an increase of \$6.2 million in FHLB stock, was partially offset by a decrease of \$84.4 million in average investment securities.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

of \$86.6 million in average investment securities and a decrease of \$2.7 million in FHLB stock. The Bank's largest NPL relationship negatively impacted interest income by \$9.1 million in the second quarter of 2024 and was negatively impacted by \$11.3 million in the second quarter of 2023. Interest income increased to \$108.6 million for the six months ended June 30, 2024 from \$95.7 million compared to the same period in 2023. Interest income, on an FTE basis (non-GAAP), increased \$12.8 million, or 13.4%, to \$109.0 million for the six months ended June 30, 2024 compared to \$96.2 million for the same period in 2023, resulting from average loan growth of \$303.2 million in taxable loans.

The change in average investment securities is the result of active balance sheet management to deploy the proceeds from securities maturities and principal curtailments 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 March 31, 2024 June 30, 2024, the securities portfolio was comprised of 46.9% 46.1% variable rate securities with approximately 99.3% that will reprice at least once over the next 12 months. 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 strategy has limited the impact of rising rates on the Company's unrealized losses on debt securities. With interest rates likely peaking, the bank Bank may alter this interest rate mix strategy going forward.

Interest expense of **\$25.6 million** **\$26.5 million** for the three months ended **March 31, 2024** **June 30, 2024** increased **\$14.5 million** **\$9.5 million**, or **129.5% 55.8%** compared to the same period in 2023, primarily due to **the higher interest rate environment** and an increase in **average-bearing** **average interest-bearing** deposits of **\$205.4 million** **\$318.4 million**. The increase in average-bearing deposits reflected solid growth in average certificates CDs of deposit of **\$354.2 million** **\$335.0 million**, an increase of **\$48.1 million** **\$96.0 million** in average money market accounts and an increase of **\$5.4 million** **\$42.3 million** in interest-bearing demand accounts, offset by a decrease of **\$202.3 million** **\$154.9 million** in savings accounts as customer preferences shifted towards certificates from lower cost non-maturing deposits to higher-yielding money market and CD products. Interest expense of **deposits as interest rates increased** **\$52.1 million** for the six months ended June 30, 2024 increased **\$23.9 million**, or **85.0%** compared to the same period in 2023, primarily due to an average increase in CDs of **\$344.3 million**. During the second quarter of 2024, **\$286.8 million** of CDs matured and repriced from an average rate of **4.32%** to an average rate of **4.39%**. Additionally, FHLB borrowings increased **\$81.2 million** decreased **\$122.3 million** and the cost of these borrowings increased **46** **19** basis points for the three months ended **March 31, 2024** **June 30, 2024** compared to the same period in 2023, largely due to increased balances and the higher interest rate environment **2023**.

The net interest margin **decreased** **137** increased four basis points to **2.58%** **2.55%** for the three months ended **March 31, 2024** **June 30, 2024** compared to **3.95%** **2.51%** for the same period in 2023. Net interest margin, on an FTE basis, increased two basis points to **2.56%** for the three months ended June 30, 2024 compared to **2.54%** for the same period in 2023. The increase in net interest margin continues to be significantly impacted by the Bank's largest lending relationship remaining on nonaccrual status since the second quarter of 2023. The net interest margin decreased 66 basis points to **2.56%** for the six months ended June 30, 2024 compared to **3.22%** for the same period in 2023. Net interest margin, on an FTE basis, decreased **138** **67** basis points to **2.60%** **2.58%** for the **three** **six** months ended **March 31, 2024** **June 30, 2024** compared to **3.98%** **3.25%** for the same period in 2023. The decline in net interest income and net interest margin was significantly driven by the aforementioned nonperforming loan ("NPL") NPL relationship, which negatively impacted interest income by **\$9.3 million** **\$18.4 million** for the **first** **three** **six** months of **2024**, ended June 30, 2024 as compared to **\$11.3 million** for the same period in 2023. Funding costs increased **155** **127** basis points, and offset by an increase of 36 basis points on the yield on earning assets declined **12** basis points for the **three** **six** months ended **March 31, 2024** **June 30, 2024** compared to the same period in 2023. During the six months ended June 30, 2024, **\$760.6 million** of CDs matured and repriced from an average rate of **4.30%** to an average rate of **4.41%**.

Since the **three** **months** **ended** **March 31, 2023**, beginning of 2023, there has been **more** continued pressure on our cost of funds due to the shift from non-maturing deposits to higher yielding certificates of deposits, CDs, money markets and higher-cost borrowings driven by the ongoing inversion of the yield curve, which has negatively impacted our net interest margin. During the three months ended **March 31, 2024** **June 30, 2024**, this trend began to stabilize and we believe it will continue to stabilize in the coming quarters. Our balance sheet is currently exhibiting characteristics of a slightly liability sensitive balance sheet position due to the short-term nature of our deposit portfolio, portfolio and FHLB borrowings. Specifically, **83.0%** **91.70%** of our **time deposit** **CD** portfolio and **81.1%** of our outstanding **FHLB** borrowings will mature and reprice over the next twelve months which months. This strategy gives us flexibility to manage the structure and pricing of our deposit portfolio and borrowing portfolios to reduce future funding costs should the Federal Open Market Committee ("FOMC") begin cutting short-term rates later this year and during the remainder of 2024.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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:

		Three Months Ended March 31, 2024 Compared to March 31, 2023		Three Months Ended March 31, 2024 Compared to March 31, 2023		Three Months Ended June 30, 2024 Compared to June 30, 2023		Six Months Ended June 30, 2024 Compared to June 30, 2023	
(Dollars in Thousands)	(Dollars in Thousands)	Volume <sup>(3)</sup>	Rate <sup>(3)</sup>	Volume <sup>(3)</sup>	Rate <sup>(3)</sup>	Volume <sup>(3)</sup>	Rate <sup>(3)</sup>	Volume <sup>(3)</sup>	Rate <sup>(3)</sup>
(Dollars in Thousands)									
(Dollars in Thousands)									
Interest Earned on:									
Interest Earned on:									
Interest Earned on:									
Interest-Bearing Deposits with Banks									
Interest-Bearing Deposits with Banks									
Interest-Bearing Deposits with Banks									
Tax-free Investment Securities <sup>(2)</sup>									
Tax-free Investment Securities <sup>(2)</sup>									
Tax-free Investment Securities <sup>(2)</sup>									
Taxable Investment Securities									
Taxable Investment Securities									
Taxable Investment Securities									
Total Securities									
Total Securities									
Total Securities									

Tax-free Loans <sup>(1)(2)</sup>
Tax-free Loans <sup>(1)(2)</sup>
Tax-free Loans <sup>(1)(2)</sup>
Taxable Loans <sup>(1)</sup>
Taxable Loans <sup>(1)</sup>
Taxable Loans <sup>(1)</sup>
<b>Total Loans</b>
<b>Total Loans</b>
<b>Total Loans</b>
Federal Home Loan Bank Stock
Federal Home Loan Bank Stock
Federal Home Loan Bank Stock
<b>Total Interest-Earning Assets</b>
<b>Total Interest-Earning Assets</b>
<b>Total Interest-Earning Assets</b>
<b>Interest Paid on:</b>
<b>Interest Paid on:</b>
Interest-Bearing Demand
Interest-Bearing Demand
Interest-Bearing Demand
Money Market
Money Market
Money Market
Savings
Savings
Savings
Certificates of Deposit
Certificates of Deposit
Certificates of Deposit
<b>Total Interest-Bearing Deposits</b>
<b>Total Interest-Bearing Deposits</b>
<b>Total Interest-Bearing Deposits</b>
Federal Home Loan Bank Borrowings
Federal Home Loan Bank Borrowings
Federal Home Loan Bank Borrowings
Federal Funds Purchased
Federal Funds Purchased
Federal Funds Purchased
Other Borrowings
Other Borrowings
Other Borrowings
<b>Total Borrowings</b>
<b>Total Borrowings</b>
<b>Total Borrowings</b>
<b>Total Interest-Bearing Liabilities</b>
<b>Total Interest-Bearing Liabilities</b>
<b>Total Interest-Bearing Liabilities</b>
<b>Change in Net Interest Margin (2)</b>
<b>Change in Net Interest Margin (2)</b>
<b>Change in Net Interest Margin (2)</b>

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

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

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

#### Provision for Credit Losses

Provision for credit losses is determined based on management's estimates of the appropriate level of ACL needed to absorb expected life-of-loan losses in the loan and lease portfolio, after giving consideration to charge-offs and recoveries for the period. The following table presents information regarding the (recovery) provision for credit losses and net charge-offs:

(Dollars in Thousands)	(Dollars in Thousands)	Three Months Ended		\$	%	(Dollars in Thousands)	Three Months	Six Months
		March 31,	2024	2023	Change \$	Change %	Ended June 30,	Ended June 30,
<b>Provision for Credit Losses</b>								
Provision for Credit Losses		\$ 16		\$1,415		\$ (1,399)		(98.9) %
(Recovery) Provision for Unfunded Commitments	(Recovery) Provision for Unfunded Commitments	(43)	84	84	(127)	(127)	(151.2)	(151.2) %
<b>Total (Recovery) Provision for Credit Losses on Loans</b>		<b>(27)</b>		<b>1,499</b>		<b>(1,526)</b>		<b>(101.8) %</b>
<b>Total Provision for Credit Losses on Loans</b>								
Provision for Securities	Provision for Securities	—	—	—	—	—	—	— %
<b>Total (Recovery) Provision for Credit Losses</b>		<b>\$ (27)</b>		<b>\$1,499</b>		<b>\$ (1,526)</b>		<b>(101.8) %</b>
<b>Total Provision for Credit Losses</b>								
Net Loan Charge-offs								
Net Loan Charge-offs								
Net Loan Charge-offs	Net Loan Charge-offs	\$ 532	\$ 573	\$ (41)	(7.2)	(7.2)	(7.2)	(7.2) %
Net Loan Charge-offs (annualized) / Average Portfolio Loans								

The (recovery) provision for credit losses increased \$0.4 million and decreased \$1.5 million \$1.0 million for the three and six months ended June 30, 2024, respectively compared to the same periods in 2023. The increase in the provision for credit losses compared to the three months ended March 31, 2024 compared to the same period in 2023. The decrease for the three months ended March 31, 2024 in the (recovery) provision for credit losses 2023 was primarily driven by lower loan growth, partially, by net charge-offs and a lower average life of the portfolio and the decline \$0.5 million reserve on a new individually evaluated loan in the (recovery) provision for unfunded commitments was the result of decreased commitments in construction loans during the first second quarter of 2024. 2024, offset by \$1.4 million of other segment reserves released related to the \$7.8

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

million of curtailment payments made by the Bank's largest nonperforming lending relationship that was placed on nonaccrual status during the second quarter of 2023. The decrease for the six months ended June 30, 2024 in the provision for credit losses was primarily driven by the aforementioned \$1.4 million of other segment reserves released related to the aforementioned \$7.8 million of curtailment payments made by the Bank's largest NPL relationship during the second quarter of 2024 and lower loan growth in 2024, offset by the \$0.5 million reserve on the new individually evaluated loan.

The (recovery) provision for unfunded commitments for the three and six months ended June 30, 2024 were recoveries of \$0.2 million and \$0.3 million, respectively compared to provisions of \$0.4 million in both the three and six months ended June 30, 2023. The declines in both the three and six months ended June 30, 2024 were due to decreased commitments in construction loans during the periods.

Net charge-offs were \$0.5 million \$0.3 million and \$0.9 million for the three and six months ended March 31, 2024 June 30, 2024 compared to \$0.6 million and \$1.2 million for the same period periods in 2023. During the three and six months ended March 31, 2024 June 30, 2024 and June 30, 2023, net charge-offs were concentrated in the other consumer loan segment. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 0.06% 0.04% and 0.05% for the three and six months ended 2024 and 0.07% 0.08% for both the same period in 2023. three and six months ended June 30, 2023. See the "Allowance for Credit Losses" section of this MD&A for additional details regarding our charge-offs and refer to Note 5, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to our ACL.

#### Noninterest Income

Three Months Ended March 31,
Three Months Ended March 31,
Three Months Ended March 31,



Commercial															
Loan Swap Fee															
Income															
Commercial															
Loan Swap Fee															
Income															
Commercial															
Loan Swap Fee															
Income															
Other	Other	413	483	483	(70)	(70)	(14.5)	(14.5)%	535	660	660	(125)	(125)	(18.9)	(100)
Other															
Total	Total														
Noninterest	Noninterest	\$5,533	\$5,028	\$505	10.0	10.0	\$10,578	\$9,763	\$815	8.3	8.3				
Income	Income														
<b>Total</b>	<b>Total</b>														
<b>Noninterest</b>	<b>Noninterest</b>														
<b>Income</b>	<b>Income</b>														
<b>Total</b>	<b>Total</b>														
<b>Noninterest</b>	<b>Noninterest</b>														
<b>Income</b>	<b>Income</b>														
<i>N/M Not</i>															
<i>Meaningful</i>															

Total noninterest income increased \$0.3 million \$0.5 million, or 10.0%, to \$5.0 million \$5.5 million for the three months ended March 31, 2024 June 30, 2024 and increased \$0.8 million, or 8.3%, to \$10.6 million for the six months ended June 30, 2024 when compared to the same period periods in 2023. The increase for the comparable periods three months ended June 30, 2024 was primarily related due to an increase of \$0.4 million increase in insurance commissions and \$0.1 million increase on service charges, commissions and fees, offset by a decrease of \$0.1 million in other noninterest income. During the three months ended June 30, 2024, we recognized an unrealized fair value gain of \$63.3 thousand on equity securities. This unrealized fair value gain is recorded in other noninterest income.

The most significant increase during the six months ended June 30, 2024 was \$0.9 million higher insurance commissions. Also impacting the year-to-date increase was \$0.1 million higher service charges, commissions and fees, offset by a decrease of \$0.1 million in other noninterest income, as well as a decline of \$0.1 million in commercial loan swap fee income as activity has declined due to the interest rate environment.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

#### Noninterest Expense

		Three Months Ended March 31,			Three Months Ended March 31,			Three Months Ended March 31,						
(Dollars in	Thousands)													
(Dollars in	Thousands)													
		Three Months Ended June 30,			Six Months Ended June 30,									
(Dollars in	Thousands)	(Dollars in	Thousands)		2024	2023	\$	Change	%	Change	2024	2023	\$ Change	% Change
Salaries and	Employee	Salaries and	Employee		\$14,216	\$13,649	\$	567	4.2	4.2%	\$28,416	\$27,301	\$1,115	4.1
Benefits	Benefits													
Salaries and														
Employee														
Benefits														

Salaries and Employee Benefits															
Occupancy Expense, net															
Occupancy Expense, net															
FDIC Insurance Expense	FDIC Insurance Expense														
Other Taxes	Other Taxes														
Advertising Expense	Advertising Expense														
Telephone Expense	Telephone Expense														
Professional and Legal Fees	Professional and Legal Fees														
Data Processing	Data Processing														
Debit Card Expense	Debit Card Expense														
Other	Other														
<b>Total Noninterest Expense</b>	<b>Total Noninterest Expense</b>	<b>\$27,446</b>	<b>\$</b>	<b>25,536</b>	<b>\$</b>	<b>\$1,910</b>	<b>7.5</b>	<b>7.5</b>	<b>%</b>	<b>\$53,703</b>	<b>\$</b>	<b>\$49,112</b>	<b>\$</b>	<b>\$4,591</b>	<b>9.3</b>
															<b>9.3</b>

<b>Total</b>
Noninterest
<b>Expense</b>
<b>Total</b>
Noninterest
<b>Expense</b>

Total noninterest expense increased **\$2.7 million** \$1.9 million to **\$26.3 million** \$27.4 million for the three months ended **March 31, 2024** June 30, 2024 compared to the same period in 2023. The most significant variance for the comparable periods period related to higher FDIC insurance expenses of **\$1.0 million** \$0.9 million due to the deterioration in asset quality as a direct result of the large nonperforming NPL relationship, which is a component used to determine the assessment, and a **\$0.7 million increase in professional and legal fees** also as a result of the large NPL relationship assessment. Other increases to the comparable period was **\$0.5 million** included, a **\$0.6 million increase** in salaries and employee benefits, an increase of **\$0.3 million** \$0.2 million in occupancy expenses, an increase of **\$0.3 million** in debit card expenses and an increase of **\$0.2 million** in data processing expenses offset by and a decrease of **\$0.5 million** \$0.1 million increase in other noninterest expenses taxes. Salaries and employee benefits increased related to higher salary expense due to fewer open positions in retail, job grade assessment increases and normal merit increases and higher restricted stock expense due to new grants awarded increases. The variance in the first quarter of 2024. The occupancy expense variance relates primarily to general inflationary cost increases for existing and new service agreements, as well as lease expense on a newly opened office in the first second quarter of 2024. The increase in data processing related to higher third party costs.

As compared to the six months ended June 30, 2024, the most significant increases in total noninterest expense, and similar variances to the same period in 2023, was an increase of \$1.9 million in FDIC insurance expense, which was a direct result of the aforementioned large NPL relationship, an increase of \$1.1 million in salaries and employee benefits, and an increase of \$0.5 million in occupancy expenses. However, the year-to-date variance was also impacted by a \$0.6 million increase in professional and legal fees as a result of the large NPL relationship and an increase of \$0.3 million in debit card expense. The variance in debit card expenses was primarily related to discounts received in March of 2023. The increase in data processing related to higher third party costs. The decline in other noninterest expenses relates to a net gain of \$0.3 million on two other real estate owned ("OREO") properties of which were

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

sold in the first quarter of 2024 and a \$0.3 million decrease in fair value due to our interest rate swap contracts with commercial customers.

#### **Provision for Income Taxes**

The provision for income taxes increased \$1.1 million and decreased **\$3.1 million** \$2.0 million to **\$1.4 million** \$1.1 million and \$2.5 million for the three and six months ended **March 31, 2024** June 30, 2024, respectively when compared to the same period periods in 2023. Pre-tax income increased \$0.2 million and decreased **\$13.2 million** \$13.0 million for the three and six months ended **March 31, 2024** June 30, 2024, respectively when compared to the same period periods in 2023. The effective tax rate was **19.7%** 18.9% and 19.3% for the three and six months ended **March 31, 2024** June 30, 2024, respectively compared to 22.0% 0.9% and 17.4% for the same period periods in 2023. The decrease increase in the effective tax rate for the three and six months ended **March 31, 2024** June 30, 2024 compared to the same period periods in 2023 was primarily related to changes in pre-tax income, partially offset by higher levels of tax credits in 2023 as a result of updated information from the developer extending the in-service date on a new tax credit from 2022 to 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 ("BOLI").

#### **Financial Condition**

#### **March 31, June 30, 2024**

Total assets increased **\$42.4 million** \$20.0 million, to **\$4.6 billion** at March 31, 2024 compared to \$4.5 billion at **June 30, 2024** compared to December 31, 2023. Cash and due from banks increased **\$53.6 million** \$7.2 million to **\$108.1 million** \$61.7 million at **March 31, 2024** June 30, 2024 compared to \$54.5 million at December 31, 2023 due to a large loan payoff late on the last working day of the quarter. Total portfolio loans increased **\$3.2 million** \$43.6 million, or 2.5% on an annualized basis, to \$3.5 billion at **March 31, 2024** June 30, 2024 compared to December 31, 2023 primarily due to loan growth in the CRE loan and residential mortgage segments segment during the three six months ended **March 31, 2024** June 30, 2024. The variances in loan segments for portfolio loans related to increases of \$58.3 million in CRE loans and \$0.2 million in residential mortgages, offset by decreases of \$39.1 million in construction loans, \$14.3 million in C&I loans, and \$1.8 million in other consumer loans. During the first quarter of 2024, loan growth was muted by \$80.0 million in loan payoffs of two large commercial real estate loans in the first quarter of 2024. The variances in loan segments for portfolio loans related to increases of \$130.7 million in CRE loans, offset by decreases in all the other loan

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

segments, such as a \$41.4 million decrease in construction loans, a \$30.9 million decrease in C&I loans, a \$7.8 million decrease in the other loan segment due to curtailment payments made by the Bank's largest NPL relationship, a \$4.0 million decrease in residential mortgages and a \$3.0 million decrease in other consumer loans.

The securities portfolio decreased **\$10.2 million** \$32.7 million and is currently **16.9%** 16.5% of total assets at **March 31, 2024** June 30, 2024 compared to 17.3% of total assets at December 31, 2023. The decrease is due to ongoing maturities, principal curtailments, sales of available for sale securities and changes in market values driven by fluctuations in intermediate treasury yields. There were no additional purchases of new securities during During the three six months ended **March 31, 2024** June 30, 2024 there was one new

security purchase of \$8.6 million and one sale of two bonds with a book value of 10.6 million. As of **March 31, 2024** **June 30, 2024**, the securities portfolio was comprised of **46.9%** **46.1%** variable rate securities with approximately 99.3% that will reprice at least once over the next 12 months. At **March 31, 2024** **June 30, 2024**, total gross unrealized gains in the available-for-sale portfolio were **\$0.4 million** **\$0.1 million**, offset by **\$89.8 million** **\$89.3 million** of gross unrealized losses. Refer to the "Securities Activity" section below for further discussion of unrealized losses in the available-for-sale securities portfolio.

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.1 million at June 30, 2024. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company's investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

Federal Home Loan Bank ("FHLB") FHLB stock, at cost decreased **\$3.7 million** **\$7.2 million** to **\$17.9 million** **\$14.5 million** at **March 31, 2024** **June 30, 2024** compared to December 31, 2023. The decrease is due to a lower level of FHLB borrowings due to deposit growth that funded paydowns of FHLB borrowings. **OREO increased \$0.1 million** at **March 31, 2024** **June 30, 2024** compared to December 31, 2023 due to the sale of two OREO properties totaling \$1.1 million and moved \$1.2 million of loans at fair value to OREO all during the first quarter of 2024. These properties are currently being marketed for sale. Closed retail bank offices had a book value of \$1.3 million at **March 31, 2024** **June 30, 2024** and \$2.3 million at December 31, 2023, included in OREO on the Consolidated Balance Sheets.

Total deposits increased **\$108.6 million** **\$159.4 million**, or **11.7%** **8.6%** on an annualized basis, to **\$3.8 billion** **\$3.9 billion** at **March 31, 2024** **June 30, 2024** compared to December 31, 2023. The increase in deposits was primarily due to a **\$108.0 million** **\$175.5 million** increase in CDs which included \$45.6 million in brokered CDs, an increase of **\$34.1 million** in **interest-bearing demand accounts** and an increase of **\$7.1 million** **\$84.0 million** in **money market interest-bearing demand accounts**, offset by a decrease of **\$27.4 million** **\$55.0 million** in **savings accounts**, a decrease of \$31.9 million in **noninterest-bearing demand accounts** and a decrease of \$13.2 million in **noninterest-bearing demand money market accounts**. The Company had \$115.6 million brokered CDs at **March 31, 2024** **June 30, 2024**, compared to \$70.0 million at December 31, 2023.

At **March 31, 2024** **June 30, 2024**, noninterest-bearing deposits comprised **17.5%** **16.8%** of total deposits compared to 18.4% at December 31, 2023 and **19.5%** **19.3%** at **March 31, 2023** **June 30, 2023**. CDs comprised **44.2%** **45.4%**, 42.6% and **37.0%** **40.5%** of total deposits at **March 31, 2024** **June 30, 2024**, December 31, 2023 and **March 31, 2023** **June 30, 2023**, respectively. As of **March 31, 2024** **June 30, 2024**, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 82.8% of our total deposits of **\$3.8 billion** **\$3.9 billion** were insured under standard FDIC insurance coverage limits, and approximately 17.2% of our total deposits were uninsured deposits over the standard FDIC insurance coverage limit. The Company's deposit base is diversified and granular and is comprised of approximately **78.8%** **78.4%** of retail deposits.

FHLB borrowings decreased \$155.4 million to \$238.0 million at June 30, 2024 compared to \$393.4 million at December 31, 2023 primarily due to deposit growth that funded paydowns of FHLB borrowings. The Company had no outstanding federal funds purchased at June 30, 2024 and December 31, 2023.

Total capital of **\$359.1 million** **\$364.4 million** at **March 31, 2024** **June 30, 2024**, reflects an increase of **\$7.8 million** **\$13.2 million** compared to December 31, 2023. The increase in total capital from December 31, 2023 is primarily due to net income of **\$5.8 million** **\$10.6 million**, a **\$1.6 million** **\$1.8 million** increase in other

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

comprehensive income (loss) income due to changes in fair value of investment securities, as well as an increase of **\$0.4 million** **\$0.8 million** related to restricted stock activity all during the **three** **six** months ended **March 31, 2024** **June 30, 2024**.

The ACL was **2.75%** **2.72%** of total portfolio loans at **March 31, 2024** **June 30, 2024** compared to 2.77% as of December 31, 2023. General reserves as a percentage of total portfolio loans were **1.20%** **1.22%** at **March 31, 2024** **June 30, 2024** compared to 1.22% at both **June 30, 2024** and **December 31, 2023**. 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. The Tier 1 capital ratio decreased to **10.89%** **10.95%** at **March 31, 2024** **June 30, 2024** compared to 11.08% at December 31, 2023. The leverage ratio was **9.34%** **9.43%** at **March 31, 2024** **June 30, 2024**, compared to 9.48% at December 31, 2023 and the total risk-based capital ratio was **12.15%** **12.22%** at **March 31, 2024** **June 30, 2024** compared to 12.34% at December 31, 2023. The most significant factor driving the ratios downward was the above mentioned large lending relationship movement to nonaccrual status with the \$9.3 million negative impact on interest income recognized by the Company for the three months ended March 31, 2024, combined with the movement of nonaccrual assets to higher risk rating categories.

#### **CARTER BANKSHARES, INC.**

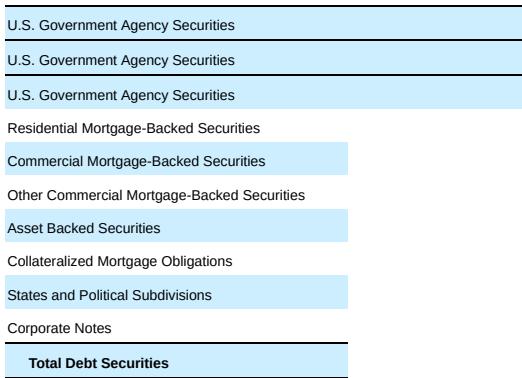
#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

The Bank also remained well capitalized as of **March 31, 2024** **June 30, 2024**. The Bank's Tier 1 Capital ratio was **10.80%** **10.86%** at **March 31, 2024** **June 30, 2024** compared to 10.99% at December 31, 2023. The Bank's leverage ratio was **9.27%** **9.35%** at **March 31, 2024** **June 30, 2024** compared to 9.41% at December 31, 2023. The Bank's Total Risk-Based Capital ratio was **12.07%** **12.13%** at **March 31, 2024** **June 30, 2024** compared to 12.25% at December 31, 2023.

#### **Securities**

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

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	\$ Change (Dollars in Thousands)	June 30, 2024	December 31, 2023	\$ Change
------------------------	------------------------	----------------	-------------------	----------------------------------	---------------	-------------------	-----------



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 us. Security purchases are subject to our investment policy that is approved annually by our Board and administered through ALCO and our treasury function.

The securities portfolio decreased **\$10.2 million** **\$32.7 million** to **\$768.8 million** **\$746.3 million** at **March 31, 2024** **June 30, 2024** compared to **\$779.0 million** at December 31, 2023. Securities comprise **16.9%** **16.5%** of total assets at **March 31, 2024** **June 30, 2024** compared to 17.3% at December 31, 2023. The decrease is due to ongoing maturities, principal curtailments, sales of available for sale securities and changes in market values driven by fluctuations in intermediate treasury yields. There were no additional purchases of new securities during During the **three** **six** months ended **March 31, 2024** **June 30, 2024**, there was one new security purchase of **\$8.6 million** and one sale of two bonds with a book value of **10.6 million** as liquidity generated by the securities portfolio during the first **quarter** **half** of 2024 was primarily deployed into higher yielding loans. As of **March 31, 2024** **June 30, 2024**, the securities portfolio was comprised of **46.9%** **46.1%** variable rate securities with approximately 99.3% that will reprice at least once over the next 12 months.

At **March 31, 2024** **June 30, 2024** total gross unrealized gains in the available-for-sale portfolio were **\$0.4 million** **\$0.1 million**, offset by **\$89.8 million** **\$89.3 million** of gross unrealized losses. 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.

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

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 **48.2%** **46.9%** of securities issued by United States government sponsored entities and carry an implicit government guarantee. States and political subdivisions comprise **28.8%** **29.5%** 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 ability to hold these securities to maturity and expect full recovery of the amortized cost. We may occasionally 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- and 10-year Treasury securities). This portion of the Treasury yield curve has moved higher over the past three months, driving unrealized losses on outstanding securities higher. However, principal reductions outpaced the modest increase in unrealized losses, resulting in a lower net unrealized loss number. Changes in short-term interest rates can affect the yield on floating rate securities. Yields on floating rate securities may begin to fall should the **FRB** **Federal Reserve Board** ("FRB") begin lowering short-term rates. Changes in intermediate and long-term interest rates, which are market driven, affect the

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

market value of fixed rate securities with similar maturities. The Company expects that market values on the Bank's intermediate and long-term maturity holdings will continue to fluctuate in large part driven by treasury yield changes.

At **March 31, 2024** **June 30, 2024** the 5-year and 10-year U.S. Treasury yields were **4.21%** **4.33%** and **4.20%** **4.36%**, respectively. At December 31, 2023, those same bond yields were 3.84% and 3.88%, respectively. Therefore, this increase of **3749** bps and **3248** bps, respectively in the intermediate part of the yield curve largely caused the reduction in bond prices for fixed rate bonds in that maturity range. Note, 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 generally adjust in line with FRB interest rate hikes.

Should the impairment of any of these securities become credit related, the impairment will be recognized 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, net of applicable taxes. At **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company had no credit related 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.

During the second quarter of 2024, the Company purchased \$5.0 million of equity securities with carrying value totaling \$5.1 million at June 30, 2024. The equity securities consist of our investment in a market-rate bond mutual fund that invests in high quality fixed income bonds, mainly government agency securities whose proceeds are designed to positively impact community development throughout the United States. The mutual fund focuses exclusively on providing affordable housing to low- and moderate-income borrowers and renters, including those in Majority Minority Census Tracts. The Company's investment in the mutual fund is eligible for investment credit under the Community Reinvestment Act.

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

**Loan Composition**

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

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
<b>Commercial</b>						
Commercial Real Estate						
Commercial Real Estate						
Commercial Real Estate						
Commercial and Industrial						
<b>Total Commercial Loans</b>						
<b>Consumer</b>						
Residential Mortgages						
Residential Mortgages						
Residential Mortgages						
Other Consumer						
<b>Total Consumer Loans</b>						
Construction						
Other						
<b>Total Portfolio Loans</b>						
Loans Held-for-Sale						
<b>Total Loans</b>						
<b>Total Loans</b>						
<b>Total Loans</b>						

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 our [Annual Report on Form 10-K for the year ended December 31, 2023](#).

Total portfolio loans increased \$43.6 million, or 2.5%, on an annualized basis, and were \$3.5 billion at both **March 31, 2024** June 30, 2024 and December 31, 2023 with production primarily in our CRE portfolio. The CRE portfolio is monitored for potential concentrations of credit risk by market, property type and tenant concentrations. Given the current interest rate environment, our mortgage portfolio experienced more modest paydowns outpaced growth in the three six months ended **March 31, 2024** and the full year ended **December 31, 2023** June 30, 2024. At **March 31, 2024** June 30, 2024, the loan portfolio was comprised of 25.3% 25.8% floating rates which reprice monthly, 40.0% 40.3% variable rates that reprice at least once during the life of

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

the loan and the remaining 34.7% 33.9% are fixed rate loans. The Company continues to carefully monitor the loan portfolio during 2024, including in light of market conditions that impact our borrowers and the interest rate environment.

Total CRE represented 49.3% 50.8% of total portfolio loans at **March 31, 2024** June 30, 2024 compared to 47.7% at December 31, 2023. The collateral for the Company's CRE loans is concentrated predominantly in North Carolina, Virginia, South Carolina, West Virginia and Georgia within the retail/restaurant, warehouse, hospitality, multifamily, and office metrics.

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

The following table presents the Company's loan portfolio breakout by CRE collateral type, loan amounts for each CRE collateral type included in special mention and substandard and the related percentages by segment to the CRE collateral types as of the periods presented:

March 31, 2024													
(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	CRE Collateral Type in Special Mention and Substandard	Risk Rating	Each Segment to Total	CRE Collateral Type	Segment to Total	
Retail/Restaurant	Retail/Restaurant	\$ 395,441	\$ 127	\$ —	\$ 49,040	\$ 3,280	\$ 447,888	\$ 60	18.9				
Warehouse	Warehouse	346,428	509	509	52	55,241	55,241	—	402,230	402,230	70	70	
Hospitality	Hospitality	298,420	—	—	—	4,277	4,277	51,552	354,249	354,249	51,552	51,552	
Multifamily	Multifamily	266,098	—	—	—	74,110	74,110	—	340,208	340,208	—	—	
Office	Office	207,806	—	—	—	6,579	6,579	508	214,893	214,893	973	973	
Land	Land	1,097	—	—	—	119,414	119,414	92,648	213,159	213,159	92,705	92,705	
Single Family	Single Family	5,496	13	13	46,813	16,630	16,630	13,367	82,319	82,319	13,437	13,437	
Country Club	Country Club	—	—	—	—	—	—	45,002	45,002	45,002	45,002	45,002	
Long-term Care	Long-term Care	20,171	—	—	—	9,887	9,887	—	30,058	30,058	—	—	
Other	Other	191,605	437	437	126	30,208	30,208	22,836	245,212	245,212	22,938	22,938	
<b>Total</b>	<b>Total</b>	<b>\$1,732,562</b>	<b>\$ 1,086</b>	<b>\$ 46,991</b>	<b>\$ 365,386</b>	<b>\$ 229,193</b>	<b>\$ 2,375,218</b>	<b>\$ 226,737</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	

December 31, 2023

(Dollars in Thousands)	CRE Collateral Type									
	in Special Mention and Substandard					% of Each Segment to Total CRE Collateral				
	Commercial Real Estate	Commercial & Industrial	Residential Mortgage	Construction	Other	Total	Risk Rating	Type		
Retail/Restaurant	\$ 380,285	\$ 129	\$ —	\$ 46,241	\$ 3,300	\$ 429,955	\$ 62	18.2 %		
Warehouse	324,548	514	53	48,674	—	373,789	72	15.9 %		
Hospitality	288,323	—	—	1,229	51,552	341,104	51,552	14.5 %		
Multifamily	258,676	—	—	127,447	—	386,123	—	16.4 %		
Office	217,228	—	—	4,424	508	222,160	1,857	9.4 %		
Land	1,153	—	—	119,188	92,648	212,989	93,581	9.0 %		
Single Family	5,770	14	47,205	13,194	13,367	79,550	13,439	3.4 %		
Country Club	—	—	—	—	45,002	45,002	45,002	1.9 %		
Long-term Care	20,172	—	—	7,250	—	27,422	—	1.2 %		
Other	201,353	444	127	34,932	—	236,856	22,941	10.1 %		
<b>Total</b>	<b>\$ 1,697,508</b>	<b>\$ 1,101</b>	<b>\$ 47,385</b>	<b>\$ 402,579</b>	<b>\$ 206,377</b>	<b>\$ 2,354,950</b>	<b>\$ 228,506</b>	<b>100.0 %</b>		

CRE loans represent a portfolio concentration risk. The majority of our CRE loans are 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 starts. This data is reviewed frequently by our credit officers and disseminated to our lenders. The Bank's underwriting process includes multiple shock scenarios primarily focused on cash flow and leverage in order to determine a supportable loan amount.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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 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

**CARTER BANKSHARES, INC.**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

management's risk tolerance relative to capital. In addition, there are specific targets for various categories of real estate loans with 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 also focuses on cash flow generation and employs stress testing to calculate a supportable loan amount.

Aggregate commitments to our top 10 credit relationships were **\$632.6 million** **\$700.2 million** at **March 31, 2024** **June 30, 2024**. The Other segment represents **47.7%** **42.0%** of the top 10 credit relationships including the **Company's** **Bank's** largest **lending** **NPL** relationship, the entire balance of which **\$301.9 million** was transferred to nonaccrual status during the second quarter of 2023, as described in more 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 periods presented:

(Dollars in Thousands)	For the Periods Ending			Change	March 31, 2024	March 31, 2024
	March 31, 2024	December 31, 2023			% of Gross Loans	
1. Hospitality, Agriculture & Energy	\$ 301,913	\$ 301,913	\$ —	\$ —	8.60 %	63.07 %
2. Retail Real Estate & Food Services	53,243	53,576	(333)	(333)	1.52 %	11.12 %
3. Retail Real Estate	37,622	38,972	(1,350)	(1,350)	1.07 %	7.86 %
4. Hospitality	37,369	37,502	(133)	(133)	1.06 %	7.81 %
5. Construction / Commercial Property	35,500	—	35,500	35,500	1.01 %	7.42 %
6. Non-Owner Occupied / Commercial Real Estate	35,364	27,834	7,530	7,530	1.01 %	7.39 %
7. Non-Owner Occupied / Commercial Real Estate	33,605	33,752	(147)	(147)	0.96 %	7.02 %
8. Industrial & Retail Real Estate	33,560	33,885	(325)	(325)	0.96 %	7.01 %
9. Multifamily & student housing	32,460	32,747	(287)	(287)	0.93 %	6.78 %
10. Multifamily / Commercial Real Estate	32,000	32,000	—	—	0.91 %	6.67 %
<b>Top Ten (10) Relationships</b>	<b>\$ 632,636</b>	<b>\$ 592,181</b>	<b>\$ 40,455</b>	<b>\$ 40,455</b>	<b>18.03 %</b>	<b>132.15 %</b>
<b>Total Gross Loans</b>	<b>\$ 3,509,071</b>	<b>\$ 3,505,910</b>	<b>\$ 3,161</b>	<b>\$ 3,161</b>		
<b>% of Total Gross Loans</b>	<b>18.03 %</b>	<b>16.89 %</b>	<b>1.14 %</b>	<b>1.14 %</b>		
<b>Concentration (25% of RBC)</b>	<b>\$ 119,681</b>	<b>\$ 121,231</b>				

(Dollars in Thousands)	For the Periods Ending			Change	June 30, 2024	June 30, 2024
	June 30, 2024	December 31, 2023				
1. Hospitality, Agriculture & Energy	\$ 294,140	\$ 301,913	\$ (7,773)	\$ (7,773)	8.29 %	60.75 %
2. Health Care Facility / Long-Term Care	53,297	53,683	(386)	(386)	1.50 %	11.01 %
3. Retail Real Estate & Food Services	52,913	53,576	(663)	(663)	1.49 %	10.93 %
4. Warehouse	50,469	51,185	(716)	(716)	1.42 %	10.42 %
5. Retail	44,851	45,187	(336)	(336)	1.27 %	9.26 %
6. Hospitality	43,612	44,297	(685)	(685)	1.23 %	9.01 %
7. Multifamily	41,834	43,368	37,466	37,466	1.18 %	8.64 %
8. Office	40,529	40,603	(74)	(74)	1.14 %	8.37 %
9. Retail Real Estate	40,476	41,530	(1,054)	(1,054)	1.14 %	8.36 %
10. Multifamily	38,049	43,157	(5,108)	(5,108)	1.07 %	7.85 %
<b>Top Ten (10) Relationships</b>	<b>\$ 700,170</b>	<b>\$ 679,499</b>	<b>\$ 20,671</b>	<b>\$ 20,671</b>	<b>19.73 %</b>	<b>144.60 %</b>
<b>Total Gross Loans</b>	<b>\$ 3,549,521</b>	<b>\$ 3,505,910</b>	<b>\$ 43,611</b>	<b>\$ 43,611</b>		
<b>% of Total Gross Loans</b>	<b>19.73 %</b>	<b>19.38 %</b>	<b>0.35 %</b>	<b>0.35 %</b>		
<b>Concentration (25% of RBC)</b>	<b>\$ 121,050</b>	<b>\$ 121,231</b>				

Unfunded commitments on lines of credit were **\$565.4 million** **\$558.7 million** at **March 31, 2024** **June 30, 2024** compared to \$568.7 million at December 31, 2023. The majority of unused commitments are for construction projects that will be drawn as the construction completes. Total utilization was **49.9%** **53.9%** at **March 31, 2024** **June 30, 2024** and 53.8%

at December 31, 2023. Unfunded commitments on commercial operating lines of credit was **48.7%** **53.8%** at **March 31, 2024** **June 30, 2024** and 53.7% at December 31, 2023.

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 **\$7.5 million** **\$7.6 million** and \$7.2 million at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. Discounts on purchased 1-4 family loans included in the portfolio balances above were **\$125.9** **\$119.7** thousand and \$133.4 thousand at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively.

Refer to Note 4, Loans and Loans Held-for-Sale, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to our loans.

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

#### **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.

#### **CARTER BANKSHARES, INC.**

#### **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

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 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.

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 table summarizes nonperforming assets for the dates presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	\$ Change	(Dollars in Thousands)	June 30, 2024	December 31, 2023	\$ Change
<b>Nonaccrual Loans</b>								
Commercial Real Estate								
Commercial Real Estate								
Commercial Real Estate								
Commercial and Industrial								
Residential Mortgages								
Other Consumer								
Construction								
Other								
<b>Total Nonperforming Loans</b>								

Other Real Estate Owned

Total Nonperforming Assets
----------------------------

Nonperforming assets decreased **\$2.2 million** **\$9.3 million** to **\$309.8 million** **\$302.7 million** at **March 31, 2024** **June 30, 2024** compared to December 31, 2023. The decrease of **\$2.2 million** **\$9.3 million** in nonperforming loans was primarily related to two loans, one **\$7.8 million** of which was a residential mortgage loan in curtailment payments made by the amount of **\$1.1 million** and the other loan was a residential construction loan in the amount of **\$1.1 million**. Both loans were paid in full during the first quarter of 2024. Bank's largest NPL relationship.

During the second quarter of 2023, the Company placed \$301.9 million of commercial loans that reside in the Other segment of the Company's loan portfolio, relating to the Bank's largest lending relationship, on nonaccrual status due to loan maturities and failure to pay in full. These loans remained on nonaccrual status at both **March 31, 2024** **June 30, 2024** and December 31, 2023. These

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

nonperforming loans are **98.2%** **98.0%** of the Company's total nonperforming loans and **97.4%** **97.2%** of the Company's total nonperforming assets at **March 31, 2024** **June 30, 2024**.

During the second quarter of 2024, the federal court lawsuit filed against the Company and the Bank by West Virginia Governor James C. Justice II, his wife Cathy L. Justice, his son James C. Justice, III, and related entities that he and/or they own (collectively, the "Justice Entities") was dismissed and we have agreed upon a pathway of curtailment and payoff of the outstanding loans with the Bank. During the second quarter of 2024, \$7.8 million of curtailment payments made by the Bank's largest NPL relationship have decreased the aggregate nonperforming loan balance outstanding to the Bank to \$294.1 million as of June 30, 2024. The Company believes it is well secured based on the net carrying value of the credit relationship and it has appropriately reserved for expected credit losses with respect to all such loans based on information currently available. However, the Company 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. The Company is closely monitoring all developments that may impact collateral values or potential recoveries on its nonperforming loans, including claims that may be asserted by other purported creditors.

Based on analyses of the credit 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** **\$52.9 million** at **March 31, 2024** **June 30, 2024**, representing 18.0% of these loans aggregate principal amount.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

The Company believes it is well secured based on the net carrying value of the credit relationship and appropriately reserved for expected credit 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, 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 this credit relationship at **March 31, 2024** **June 30, 2024**, the Company 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 by loan portfolio segment for the dates presented, and each segment's relative contribution to total nonperforming loans:

(Dollars in Thousands)	March 31, 2024		December 31, 2023	
	Amount	% of NPLs	Amount	% of NPLs
Commercial Real Estate	\$ 641	0.2 %	\$ 1,324	0.4 %
Commercial & Industrial	109	— %	52	— %
Residential Mortgages	2,491	0.8 %	3,283	1.1 %
Other Consumer	50	— %	59	— %
Construction	2,093	0.7 %	2,904	1.0 %
Other	301,913	98.3 %	301,913	97.5 %
<b>Balance End of Period</b>	<b>307,297</b>	<b>100.0 %</b>	<b>309,535</b>	<b>100.0 %</b>

The Company has initiated collection processes with respect to such loans and intends to explore all alternatives for repayment. However, we cannot give any assurance as to the 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 Part I, Item 1. Notes to Consolidated Financial Statements - Note 10, "Commitments and Contingencies," under the heading "Legal Proceedings" of this Quarterly Report on Form 10-Q.

(Dollars in Thousands)	June 30, 2024		December 31, 2023	
	Amount	% of NPLs	Amount	% of NPLs
Commercial Real Estate	\$ 611	0.2 %	\$ 1,324	0.4 %
Commercial & Industrial	1,084	0.4 %	52	— %

Residential Mortgages	1,951	0.6 %	3,283	1.1 %
Other Consumer	30	— %	59	— %
Construction	2,426	0.8 %	2,904	1.0 %
Other	294,140	98.0 %	301,913	97.5 %
<b>Balance End of Period</b>	<b>300,242</b>	<b>100.0 %</b>	<b>309,535</b>	<b>100.0 %</b>

Closed retail bank offices had a book value of \$1.3 million at **March 31, 2024** **June 30, 2024** and \$2.3 million at December 31, 2023, and are recorded in OREO on the Company's balance sheet. During the **three** **six** months ended **March 31, 2024** **June 30, 2024**, the Bank sold two retail banking offices and moved \$1.2 million of loans at fair value to OREO. These properties are currently being marketed for sale.

Past Company legacy underwriting standards relied heavily on loan to value and did not necessarily consider the income characteristics of the 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, management believes it should reduce the experience of defaults.

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.

## CARTER BANKSHARES, INC.

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)**

### Allowance for Credit Losses

The following is the allocation of the ACL reserves by segment for the periods presented:

		December 31,												
		March 31, 2024			2023			December 31,			2023			
		June 30, 2024			2023									
(Dollars in Thousands)	(Dollars in Thousands)	Amount	% of Loans in each Category to Total Portfolio Loans		Amount	% of Loans in each Category to Total Portfolio Loans		(Dollars in Thousands)	Amount	% of Loans in each Category to Total Portfolio Loans		% of Loans in each Category to Total Portfolio Loans		
Commercial Real Estate	Commercial Real Estate	\$19,162	49.3	49.3 %	\$19,873	47.7	47.7	Commercial % Real Estate	\$ 19,817	50.7	50.7 %	\$19,873	47.7	47.7 %
Commercial & Industrial	Commercial & Industrial	3,061	7.3	7.3 %	3,286	7.7	7.7	Commercial % & Industrial	3,194	6.8	6.8 %	3,286	7.7	7.7 %
Residential Mortgages	Residential Mortgages	11,038	22.5	22.5 %	10,879	22.5	22.5	Residential % Mortgages	10,744	22.1	22.1 %	10,879	22.5	22.5 %
Other Consumer	Other Consumer	783	0.9	0.9 %	868	1.0	1.0	Other % Consumer	760	0.9	0.9 %	868	1.0	1.0 %
Construction	Construction	8,139	11.3	11.3 %	7,792	12.4	12.4	Construction % Other	9,217	11.1	11.1 %	7,792	12.4	12.4 %
Other	Other	54,353	8.7	8.7 %	54,354	8.7	8.7	Other % Other	52,954	8.4	8.4 %	54,354	8.7	8.7 %
<b>Balance End of Period</b>	<b>Balance End of Period</b>	<b>\$96,536</b>	<b>100.0</b>	<b>100.0 %</b>	<b>\$97,052</b>	<b>100.0</b>	<b>100.0</b>	<b>Balance End of Period</b>	<b>\$ 96,686</b>	<b>100.0</b>	<b>100.0 %</b>	<b>\$97,052</b>	<b>100.0</b>	<b>100.0 %</b>

The ACL was \$96.5 million \$96.7 million, or 2.75% 2.72%, of total portfolio loans at March 31, 2024 June 30, 2024 compared to \$97.1 million, or 2.77%, of total portfolio loans at December 31, 2023.

The following table summarizes the credit quality ratios and their components as of **March 31, 2024**, **June 30, 2024** and **December 31, 2023**:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
<b>Allowance for Credit Losses to Total Portfolio</b>						
<b>Loans</b>						
Allowance for Credit Losses						
Allowance for Credit Losses						
Allowance for Credit Losses						
<b>Total Portfolio Loans</b>						
Allowance for Credit Losses to Total Portfolio Loans	Allowance for Credit Losses to Total Portfolio Loans	2.75 %	2.77 %	Allowance for Credit Losses to Total Portfolio Loans	2.72 %	2.77 %
<b>Nonperforming Loans to Total Portfolio</b>						
<b>Nonperforming Loans to Total Portfolio Loans</b>						
<b>Nonperforming Loans to Total Portfolio Loans</b>						
Nonperforming Loans						
Nonperforming Loans						
Nonperforming Loans						
<b>Total Portfolio Loans</b>						
Nonperforming Loans to Total Portfolio Loans	Nonperforming Loans to Total Portfolio Loans	8.76 %	8.83 %	Nonperforming Loans to Total Portfolio Loans	8.46 %	8.83 %
<b>Allowance for Credit Losses to Nonperforming Loans</b>						
<b>Allowance for Credit Losses to Nonperforming Loans</b>						
<b>Allowance for Credit Losses to Nonperforming Loans</b>						
Allowance for Credit Losses						
Allowance for Credit Losses						
Allowance for Credit Losses						
<b>Nonperforming Loans</b>						
Allowance for Credit Losses to Nonperforming Loans	Allowance for Credit Losses to Nonperforming Loans	31.41 %	31.35 %	Allowance for Credit Losses to Nonperforming Loans	32.20 %	31.35 %
<b>Net Charge-offs to Average Portfolio</b>						
<b>Net Charge-offs to Average Portfolio</b>						
<b>Net Charge-offs to Average Portfolio</b>						
Net Charge-offs (annualized)						
Net Charge-offs (annualized)						
Net Charge-offs (annualized)						
<b>Average Total Portfolio Loans</b>						
Net Charge-offs to Average Portfolio Loans	Net Charge-offs to Average Portfolio Loans	0.06 %	0.07 %	Net Charge-offs to Average Portfolio Loans	0.05 %	0.07 %

See the Credit Quality and Allowance for Credit Losses sections within this MD&A for an analysis of the factors that drove the changes in the ACL ratios presented in the previous table.

The provision for credit losses, which includes a provision 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 in the loan portfolio at the balance sheet date. The provision for credit losses increased \$0.4 million and decreased \$1.4 million \$1.0 million for the three and six months ended March 31, 2024 June 30, 2024 when compared to the same periods in 2023. The increase in the provision for credit losses for the quarterly comparison was primarily driven by loan growth, net charge-offs and a \$0.5 million reserve on a new individually evaluated loan in the second quarter of 2024, offset by \$1.4 million of other segment reserves released related to the aforementioned \$7.8 million of curtailment payments made by the Bank's largest NPL relationship. The decrease for the six months ended June 30, 2024 in the provision for credit losses, compared to the same period in 2023, was primarily driven by the aforementioned \$1.4 million of other segment reserves released related to the aforementioned \$7.8 million of curtailment payments, a \$0.5 million reserve on a new individually evaluated loan and lower loan growth in the first quarter of 2024. For more information about the Company's provision for credit losses, see the discussion above under "Provision for Credit Losses" in this MD&A.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

The (recovery) provision for unfunded commitments decreased \$0.1 million \$0.6 million and \$0.7 million for the three and six months ended March 31, 2024 June 30, 2024 compared to the same period periods in 2023. The decline was due to decreased commitments in construction loans during the first second quarter of 2024. The reserve for unfunded commitments is largely comprised of unfunded commitments related to real estate construction 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

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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, Basis of Presentation, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q 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 commercial real estate loans. The proportion of these segments affect the weighting. Third, volume changes impact the total reserve calculation.

Net charge-offs were \$0.5 million \$0.3 million and \$0.9 million for the three and six months ended March 31, 2024 June 30, 2024 compared to \$0.6 million and \$1.2 million for the same period periods in 2023. During the three and six months ended March 31, 2024 June 30, 2024, net charge-offs were primarily recognized in the other consumer segment. During the three months ended March 31, 2023, net charge-offs were primarily included in the other consumer segment. As a percentage of average portfolio loans, on an annualized basis, net charge-offs were 0.06% 0.04% and 0.05% for the three and six months ended 2024 and 0.07% 0.08% for both the same period in 2023, three and six months ended June 30, 2023.

At March 31, 2024 June 30, 2024, nonperforming loans decreased \$2.2 million \$9.3 million to \$307.3 million \$300.2 million since December 31, 2023. Nonperforming loans as a percentage of total portfolio loans were 8.76% 8.46% and 8.83% as of March 31, 2024 June 30, 2024 and December 31, 2023, respectively. Nonperforming loans was primarily related to two loans, one of which was a residential mortgage loan in the amount of \$1.1 million and the other loan was a residential construction loan in the amount of \$1.1 million. Both loans were paid in full during the first quarter of 2024. For more information about the Company's nonperforming loans and about this lending relationship, see the discussion above under "Credit Quality" in this MD&A.

The following tables represent credit exposures by internally assigned risk ratings as of the periods presented:

		March 31, 2024					June 30, 2024									
(Dollars in Thousands)	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Portfolio Loans	(Dollars in Thousands)	Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Portfolio Loans
Pass																
Special Mention																
Substandard																
Doubtful																
Loss																
<b>Total Portfolio Loans</b>																
<b>Total Portfolio Loans</b>																
Total																
Portfolio																
Loans																
Performing																
Performing																
Performing																
<b>Nonperforming</b>																
<b>Total</b>																
<b>Portfolio</b>																
<b>Loans</b>																

		December 31, 2023									
(Dollars in Thousands)		Commercial Real Estate	Commercial and Industrial	Residential Mortgage	Other Consumer	Construction	Other	Total Portfolio Loans			
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	\$ 1,669,307	\$ 271,459	\$ 784,646	\$ 34,218	\$ 433,445	\$ 3,300	\$ 3,196,375
Nonperforming	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

At **March 31, 2024** **June 30, 2024** and December 31, 2023, the Company had no loans that were risk rated as doubtful. Special mention and substandard loans at **March 31, 2024** **June 30, 2024** decreased **\$3.0** **\$2.1** million compared to December 31, 2023, with a decrease of **\$2.3** **\$5.9** million in substandard and **a decrease** **an increase** of **\$0.7** **\$3.8** million in special mention. The decrease of **\$2.3** **\$5.9** million in substandard was primarily related to the aforementioned **\$7.8** million of curtailment payments received in the second quarter of 2024 in the Other segment category, partially offset by two Commercial & Industrial ("C&I") loan relationships and one CRE loan that were downgraded

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

to substandard, during the second quarter of 2024, totaling **\$4.5** million. Also impacting the decrease in substandard loans were two loans, one of which **is** **was** a commercial real estate ("CRE") loan and the other **is** **was** a construction loan, totaling **\$1.3** **\$1.1** million that were moved to OREO and a **\$1.1** million mortgage loan that was resolved during the first quarter of 2024. At both **March 31, 2024** **June 30, 2024** and December 31, 2023 substandard loans were impacted by the above mentioned large nonaccrual

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

lending relationship in the Other loan category, which was placed on nonaccrual status during the second quarter of **2023** and contributed **\$301.9** million to the Company's substandard loan balances as of those dates. **2023**

Additionally, refer to Note 5, Allowance for Credit Losses, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to the ACL.

#### Deposits

The following table presents the composition of deposits for the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	\$ Change	% Change	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Noninterest-Bearing Demand	Noninterest-Bearing Demand	\$ 671,981	\$ 685,218	\$ (13,237)	(1.9)	(1.9)	\$ 653,296	\$ 685,218
Interest-Bearing Demand	Interest-Bearing Demand	515,614	481,506	34,108	7.1	7.1	565,465	481,506
Money Market	Money Market	520,785	513,664	7,121	1.4	1.4	500,475	513,664
Savings	Savings	427,461	454,876	(27,415)	(6.0)	(6.0)	399,833	454,876
Certificates of Deposit	Certificates of Deposit	1,694,680	1,586,651	108,029	6.8	6.8	1,762,232	1,586,651
<hr/>								
<b>Total Deposits</b>								
<hr/>								
<b>Total Deposits</b>								
<hr/>								
<b>Total Deposits</b>		<b>\$3,830,521</b>	<b>\$ 3,721,915</b>	<b>\$ 108,606</b>	<b>2.9</b>	<b>2.9</b>	<b>\$ 3,881,301</b>	<b>\$ 3,721,915</b>

Deposits are the Company's primary source of funds. The Company believes that the deposit base is stable and that the Company has the ability to attract new depositors while diversifying the deposit composition. Total deposits at **March 31, 2024** **June 30, 2024** increased **\$108.6** million **\$159.4** million, or **2.9%** **8.6%** on an annualized basis, from December 31, 2023. The **increase** **variance** related to an increase of **\$108.0** million **\$175.5** million in CDs, which includes an increase of **\$45.6** million in brokered CDs, an increase of **\$34.1** million in interest-bearing demand accounts and an increase of **\$7.1** million **\$84.0** million in **money market** **interest-bearing demand** accounts, offset by a decrease of **\$27.4** million **\$55.0** million in savings accounts, a decrease of **\$31.9** million in noninterest-bearing demand accounts and a decrease of **\$13.2** million in noninterest-bearing demand **money market** accounts. The Company had **\$115.6** million brokered CDs at **March 31, 2024** **June 30, 2024**, compared to **\$70.0** million at December 31, 2023.

At **March 31, 2024** **June 30, 2024**, noninterest-bearing deposits comprised **17.5%** **16.8%** of total deposits compared to **18.4%** at December 31, 2023 and **19.5%** **19.3%** at **March 31, 2023** **June 30, 2023**. CDs comprised **44.2%** **45.4%**, **42.6%** and **37.0%** **40.5%** of total deposits at **March 31, 2024** **June 30, 2024**, December 31, 2023 and **March 31, 2023** **June 30, 2023**.

2023, respectively. As of **March 31, 2024** June 30, 2024, based on assumptions that the Bank uses to prepare its regulatory call report, approximately 82.8% of our total deposits of **\$3.8 billion** \$3.9 billion were insured under standard FDIC insurance coverage limits, and approximately 17.2% of our total deposits were uninsured deposits over the standard FDIC insurance coverage limit. The Company's deposit base is diversified and granular and is comprised of approximately **78.8%** 78.4% of retail deposits.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

The following table presents additional information in relation to deposits:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Deposits from the Certificate of Deposit Account Registry Services ("CDARS")						
Brokered Deposits						
Noninterest-Bearing Public Funds Deposits						
Interest-Bearing Public Funds Deposits						
Total Deposits not Covered by Deposit Insurance <sup>(a)</sup>						
Certificates of Deposits not Covered by Deposit Insurance						
Deposits for Certain Directors, Executive Officers and their Affiliates						

<sup>(a)</sup> 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 not covered by deposit insurance at **March 31, 2024** June 30, 2024 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	\$ 49,814	20.4	20.4 % Three Months or Less	\$ 74,221	27.2
Over Three Months Through Twelve Months	Over Three Months Through Twelve Months	180,758	73.9	73.9 % Over Three Months Through Twelve Months	188,132	68.9
Over Twelve Months Through Three Years	Over Twelve Months Through Three Years	12,390	5.1	5.1 % Over Twelve Months Through Three Years	9,565	3.5
Over Three Years	Over Three Years	1,488	0.6	0.6 % Over Three Years	1,157	0.4
<b>Total</b>	<b>Total</b>	<b>\$ 244,450</b>	<b>100.0</b>	<b>100.0 % Total</b>	<b>\$ 273,075</b>	<b>100.0</b>

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

#### Borrowings and Federal Funds Purchased

Borrowings are an additional source of liquidity for the Company. We had \$310.5 million FHLB borrowings decreased \$155.4 million to \$238.0 million at **March 31, 2024** June 30, 2024 and were \$393.4 million at December 31, 2023. The Company had no overnight federal funds purchased at **March 31, 2024** June 30, 2024 or at December 31, 2023. The level and composition of borrowed funds fluctuates over time based on many factors including market conditions, loan growth, investment securities, deposits growth and capital considerations. We manage our borrowed funds to provide a reliable source of liquidity.

Information pertaining to FHLB borrowings and federal funds purchased is summarized in the following table:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Balance at Period End						
Federal Home Loan Bank Borrowings						
Federal Home Loan Bank Borrowings						
Federal Home Loan Bank Borrowings						
Federal Funds Purchased						
Average Balance during the Period						
Federal Home Loan Bank Borrowings						
Federal Home Loan Bank Borrowings						
Federal Home Loan Bank Borrowings						
Federal Funds Purchased						
Average Interest Rate during the Period						
Federal Home Loan Bank Borrowings						
Federal Home Loan Bank Borrowings						

Federal Home Loan Bank Borrowings	5.28	%	5.17	%	5.26	%	5.17	%	
Federal Funds Purchased	—	%	5.24	%	Federal Funds Purchased	—	%	5.24	%
Maximum Month-end Balance during the Period									
Federal Home Loan Bank Borrowings									
Federal Home Loan Bank Borrowings									
Federal Home Loan Bank Borrowings									
Federal Funds Purchased									
Average Interest Rate at Period End									
Federal Home Loan Bank Borrowings									
Federal Home Loan Bank Borrowings									
Federal Home Loan Bank Borrowings	5.16	%	5.20	%	5.05	%	5.20	%	
Federal Funds Purchased	—	%	—	%	Federal Funds Purchased	—	%	—	%

The Company held FHLB of Atlanta stock of **\$17.9 million** **\$14.5 million** and **\$21.6 million** at **March 31, 2024** **June 30, 2024** and December 31, 2023, respectively. The decrease in FHLB stock was due to **repayments**, a lower required level of stock holdings due to a lower level of FHLB borrowings. Dividends recorded on restricted stock were **\$0.4** **\$0.3 million** and **\$0.7 million** for the three and six months ended **March 31, 2024** **June 30, 2024** compared to **\$0.2** **\$0.3 million** and **\$0.6 million** for the same **period** **periods** in 2023. 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

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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 9, Federal Home Loan Bank Borrowings, in the Notes to Consolidated Financial Statements in Item 1 of this Quarterly Report on Form 10-Q for additional information related to borrowings.

#### Liquidity and Capital Resources

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 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 by reviewing cash flow projections, performing balance sheet stress tests and by maintaining a detailed contingency funding plan that includes specific liquidity measures that are reviewed by the ALCO monthly. Our liquidity policy and contingency funding plan provide graduated risk tolerance 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.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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 25.0% of the Company's assets or approximating \$1.1 billion, subject to the amount of eligible collateral pledged, of which the Company is eligible to borrow up to an additional **\$593.8 million** **\$669.5 million**. The Company has unsecured facilities with three other correspondent financial institutions totaling \$50.0 million, a fully secured facility with one other correspondent financial institution totaling \$45.0 million, and 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 **March 31, 2024** **June 30, 2024**. In addition to the above funding resources, the Company also has **\$465.4 million** **\$438.2 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 **secured** and **unsecured** lines of credit with correspondent banks. As of **March 31, 2024** **June 30, 2024**, approximately 82.8% of our total deposits of **\$3.8 billion** **\$3.9 billion** were insured under standard FDIC insurance coverage limits, and approximately 17.2% of our total deposits were uninsured deposits over the standard FDIC insurance coverage limit.

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 **March 31, 2024** June 30, 2024, the Bank had **\$538.6 million** **\$459.6 million** in highly liquid assets, which consisted of Federal Reserve Board Excess Reserves and interest-bearing deposits in other financial institutions of **\$73.2 million** **\$21.4 million** and **\$465.4 million** **\$438.2 million** in unpledged securities. This resulted in highly liquid assets to total assets ratio of **11.8%** **10.1%** at **March 31, 2024** June 30, 2024. Total available liquidity to uninsured deposits was **199.0%** **195.7%** at **March 31, 2024** June 30, 2024.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

If an extended recession, or significant industry or market volatility, 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 the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Cash and Due From Banks, including Interest-bearing Deposits						
Unpledged Investment Securities						
Unpledged Investment Securities						
Unpledged Investment Securities						
Excess Pledged Securities						
FHLB Borrowing Availability						
Collateralized Lines of Credit						
Unsecured Lines of Credit						
<b>Total Liquidity Sources</b>						

The following table provides total liquidity sources and ratios as of the periods presented:

(Dollars in Thousands)	(Dollars in Thousands)	March 31, 2024	December 31, 2023	(Dollars in Thousands)	June 30, 2024	December 31, 2023
Total Liquidity Sources						
Highly Liquid Assets to Total Assets	Highly Liquid Assets to Total Assets	11.8 %	12.8 %	Highly Liquid Assets to Total Assets	10.1 %	12.8 %
Highly Liquid Assets to Uninsured Deposits	Highly Liquid Assets to Uninsured Deposits	82.0 %	89.4 %	Highly Liquid Assets to Uninsured Deposits	69.0 %	89.4 %
Total Available Liquidity to Uninsured Deposits	Total Available Liquidity to Uninsured Deposits	199.0 %	187.0 %	Total Available Liquidity to Uninsured Deposits	195.7 %	187.0 %

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

#### Regulatory Capital Requirements

Total capital of **\$359.1 million** **\$364.4 million** at **March 31, 2024** June 30, 2024, reflects an increase of **\$7.8 million** **\$13.2 million** compared to December 31, 2023. The increase in total capital from December 31, 2023 is primarily due to net income of **\$5.8 million** **\$10.6 million**, a **\$1.6 million increase** **\$1.8 million decrease** in other comprehensive **(loss)** **income** loss due to changes in fair value of investment securities, as well as an increase of **\$0.4 million** **\$0.8 million** related to restricted stock activity all during the **three** **six** months ended **March 31, 2024** June 30, 2024.

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 **March 31, 2024** June 30, 2024 and December 31, 2023, 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.

At **March 31, 2024** **June 30, 2024**, the Bank continues to maintain its capital position with a leverage ratio of **9.27%** **9.35%** as compared to the regulatory guideline of 5.00% to be well-capitalized and a risk-based Common Equity Tier 1 ratio of **10.80%** **10.86%** compared to the regulatory guideline of 6.50% to be well-capitalized. The Bank's risk-based Tier 1 and Total Capital ratios were **10.80%** **10.86%** and **12.07%** **12.13%**, respectively, which places the Bank 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 (**loss**), which currently does not affect regulatory capital. The Company elected to retain this treatment which reduces the volatility of regulatory capital levels.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

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.

#### CARTER BANKSHARES, INC.

#### ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (continued)

The following table summarizes the actual risk-based capital amounts and ratios for the Company and the Bank for the dates presented:

(Dollars in Thousands)	(Dollars in Thousands)	Minimum Required Basel III	Well Capitalized <sup>(1)</sup>	March 31, 2024		December 31, 2023	(Dollars in Thousands)	Minimum Required Basel III	Well Capitalized <sup>(1)</sup>	June 30, 2024	
<b>Carter Bankshares, Inc.</b>											
<b>Leverage Ratio</b>											
<b>Leverage Ratio</b>											
<b>Common Equity Tier 1 (to Risk-weighted Assets)</b>											
<b>Tier 1 Capital (to Risk-weighted Assets)</b>											
<b>Total Capital (to Risk-weighted Assets)</b>											
<b>Carter Bank &amp; Trust</b>											
<b>Leverage Ratio</b>											
<b>Leverage Ratio</b>											
<b>Leverage Ratio</b>											

Common Equity Tier 1 (to Risk- weighted Assets)	Common Equity Tier 1 (to Risk- weighted Assets)	7.00 %	6.50 %	425,250	10.80	10.80 %	431,550	10.99	10.99 % Assets)	Common Equity Tier 1 (to Risk- weighted Assets)	7.00	%	6.50 %	430,053	10.86
Tier 1 Capital (to Risk- weighted Assets)	Tier 1 Capital (to Risk- weighted Assets)	8.50 %	8.00 %	425,250	10.80	10.80 %	431,550	10.99	10.99 % Assets)	Tier 1 Capital (to Risk- weighted Assets)	8.50	%	8.00 %	430,053	10.86
Total Capital (to Risk- weighted Assets)	Total Capital (to Risk- weighted Assets)	10.50 %	10.00 %	475,071	12.07	12.07 %	481,070	12.25	12.25 % Assets)	Total Capital (to Risk- weighted Assets)	10.50	%	10.00 %	480,161	12.13

<sup>(a)</sup>To be "well capitalized" under the prompt corrective action framework applies to the Bank only.

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.

#### Contractual Obligations

As of **March 31, 2024** **June 30, 2024**, there have been no material changes outside the ordinary course of business to the information about the Company's contractual obligations and cash commitments disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Contractual Obligations" in the Company's [Annual Report on Form 10-K](#) for the year ended December 31, 2023 ( the "2023 Annual Report").

#### Off-Balance Sheet Arrangements

As of **March 31, 2024** **June 30, 2024**, there have been no material changes to the off-balance sheet arrangements disclosed in Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," under the heading "Off-Balance Sheet Arrangements" in the Company's 2023 Annual Report.

#### ITEM 3. 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 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

##### CARTER BANKSHARES, INC.

shape of the yield curve, where interest 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

##### CARTER BANKSHARES, INC.

profitability and enhancement of shareholder value. However, excessive interest rate risk can threaten a financial institution's earnings, capital, liquidity, and solvency. The Company's ALCO is responsible for the reviewing the interest rate 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 ALCO.

#### Earnings Simulation Modeling

The ALCO uses an asset liability model ("ALM") to forecast earning simulations that measure the sensitivity of net interest income to changes in interest rates. The ALM calculates an earnings estimate based on current and projected balances and rates. This method is subject to the accuracy of the assumptions that support the ALM process. The ALCO derives the assumptions used in the ALM 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 to measure the sensitivity of earnings to 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 the different rate scenarios utilized by the ALM. For earning simulations, our policy guidelines limit the change in net interest income over a 12-month and 24-month horizon using rate shocks of +/- 100, 200, 300, 400 basis 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 current pause in overnight rate increase projections coupled with current rate forecasts that imply that the FOMC will likely begin reducing the Fed Funds Target Rate before the end of the year, 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.

The following tables reflect the 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 ALCO.

Change in Interest Rate (basis points)	March 31, 2024		December 31, 2023		% Change in Pretax Net Interest Income	Change in Interest Rate (basis points)		% Change in Pretax Net Interest Income
	June 30, 2024	December 31, 2023	Change in Interest Rate (basis points)	Change in Interest Rate (basis points)		Change in Interest Rate (basis points)	Change in Interest Rate (basis points)	
200	200	1.5%			(1.1)%	200	(0.9)%	(1.1)%
100	100	1.1%			(0.3)%	100	(0.1)%	(0.3)%
-100	-100	1.3%			2.4%	-100	2.9 %	2.4 %
-200	-200	2.2%			4.4%	-200	5.5 %	4.4 %
-300	-300	3.0%			5.6%	-300	8.2 %	5.6 %
-400	-400	4.0%			6.7%	-400	11.0 %	6.7 %

The results from the earnings simulation imply that the Company's balance sheet is slightly liability sensitive balance sheet at March 31, 2024 June 30, 2024 and December 31, 2023. The above table indicates that, in a rising interest rate environment, the Company is positioned to have a minimum increase small decrease in net interest income for the same asset and liability mix due to the balance sheet composition, related maturity structures, and repricing correlations to market interest rates for assets and liabilities. However, in a declining interest rate environment, we are positioned to have a slightly more advantageous increase in net interest income for

#### CARTER BANKSHARES, INC.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (continued)

the same reasons discussed above. The liability sensitivity is due to a variety of factors which include 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 variable rate securities and portfolio loans that are less sensitive to future market interest rate changes, 2) shortening maturities of the time deposit portfolio due to shorter term time deposit promotional campaigns related to the inverted yield curve, and 3) the recent shifts in the shape of the yield curve between the two periods presented above.

#### CARTER BANKSHARES, INC.

#### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK (continued)

#### 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 for non-parallel yield curve shift scenarios. We have temporarily suspended the + 300 and + 400 basis point rate shock analyses. Due to FOMC's current pause in overnight rate increase projections coupled with current rate forecasts that imply that the FOMC will likely begin reducing the Fed Funds Target Rate before the end of the year, 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 driven primarily by the shape of the underlying yield curves and option-adjusted spreads used to discount the projected cash flows of assets and liabilities, and the assumed life span of the assets and liabilities being discounted.

The following tables reflect the economic value of equity analyses results for the periods presented. All percentage changes presented are within prescribed ranges set by management.

		March 31, 2024		December 31, 2023	
		June 30, 2024		December 31, 2023	
Change in Interest Rate (basis points)	Change in Interest Rate (basis points)	% Change in Economic Value of Equity	Change in Interest Rate (basis points)	% Change in Economic Value of Equity	
200	200	(5.7)%	(4.7)%	200	(6.8)%
100	100	(2.1)%	(1.8)%	100	(2.6)%
-100	-100	1.0%	0.9%	-100	1.7 %
-200	-200	0.6%	0.5%	-200	2.0 %
-300	-300	(1.3)%	(2.7)%	-300	1.1 %
-400	-400	(6.9)%	(10.9)%	-400	(3.3)%

#### ITEM 4 - CONTROLS AND PROCEDURES

##### Evaluation of 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 defined in Rule 13a-15(e) of the Exchange Act of 1934, as amended) as of **March 31, 2024** **June 30, 2024**. 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 (the "Exchange Act"), 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.

##### CARTER BANKSHARES, INC.

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.

##### CARTER BANKSHARES, INC.

##### Changes in Internal Control Over Financial Reporting

No 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 **March 31, 2024** **June 30, 2024** that materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### PART II – OTHER INFORMATION

##### ITEM 1- LEGAL PROCEEDINGS

The information contained in Part I, Item 1. Financial Statements and Supplementary Data – Note 10, "Commitments and Contingencies," under the heading "Legal Proceedings," is incorporated by reference into this Item 1.

#### ITEM 1A – RISK FACTORS

There have been no material changes in the risk factors faced by the Company from those disclosed in our 2023 [Annual Report on Form 10-K](#).

#### ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

As of **March 31, 2024** **June 30, 2024**, the Company did not have a common share repurchase program. The Company did not repurchase any of its common stock during the quarter ended **March 31, 2024** **June 30, 2024**.

#### ITEM 3 - DEFAULTS UPON SENIOR SECURITIES

None.

#### ITEM 4 – MINE SAFETY DISCLOSURES

None.

#### ITEM 5 - OTHER INFORMATION

During the three months ended **March 31, 2024** **June 30, 2024**, 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).

#### CARTER BANKSHARES, INC.

#### PART II – OTHER INFORMATION (continued)

#### ITEM 6 - EXHIBITS

Exhibits:

<a href="#">3.1</a>	<a href="#">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)</a>
<a href="#">3.2</a>	<a href="#">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)</a>
<a href="#">31.1</a>	<a href="#">Certification by principal executive officer pursuant to Rule 13a-14(a) (filed herewith)</a>
<a href="#">31.2</a>	<a href="#">Certification by principal financial officer pursuant to Rule 13a-14(a) (filed herewith)</a>
<a href="#">32</a>	<a href="#">Certification by principal executive officer and principal financial officer pursuant to 18 U.S.C. §1350 (filed herewith)</a>
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)

## SIGNATURES

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

### CARTER BANKSHARES, INC. (Registrant)

Date: **May 3, 2024** August 1, 2024

/s/ Litz H. Van Dyke

Litz H. Van Dyke  
Chief Executive Officer  
(Principal Executive Officer)

Date: **May 3, 2024** August 1, 2024

/s/ Wendy S Bell

Wendy S. Bell  
Chief Financial Officer  
(Principal Financial Officer)

**64 68**

**Exhibit 31.1**

### CERTIFICATIONS

I, Litz H. Van Dyke, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

Dated: May 3, 2024 August 1, 2024

/s/ Litz H. Van Dyke

Litz H. Van Dyke  
Chief Executive Officer  
(Principal Executive Officer)

%">

Exhibit 31.2

I, Wendy Bell, certify that:

1. I have reviewed this quarterly report on Form 10-Q 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.

Dated: May 3, 2024 August 1, 2024

/s/ Wendy S. Bell

Wendy S. Bell  
Chief Financial Officer  
(Principal Financial Officer)

**CERTIFICATION OF  
PRINCIPAL EXECUTIVE OFFICER AND PRINCIPAL FINANCIAL OFFICER**

Pursuant to § 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. § 1350)

The undersigned, as the principal executive officer and principal financial officer of Carter Bankshares, Inc., respectively, certify that, to the best of their knowledge and belief, the Quarterly Report on Form 10-Q for the period ended **March 31, 2024** **June 30, 2024**, which accompanies this certification fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and the information contained in the 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 disclaim any obligation to update the foregoing certification except as required by law.

Dated: **May 3, 2024** August 1, 2024

/s/ Litz H. Van Dyke

Litz H. Van Dyke  
Chief Executive Officer  
(Principal Executive Officer)

Dated: **May 3, 2024** August 1, 2024

/s/ Wendy S. Bell

Wendy S. Bell  
Chief Financial Officer  
(Principal Financial Officer)

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